DMG MORI

AKTIENGESELLSCHAFT

TURNING

MILLING

ULTRASONIC

LASERTEC

ADDITIVE MANUFACTURING

AUTOMATION

TECHNOLOGY EXCELLENCE

DIGITIZATION

CELOS

ADAMOS

SERVICES

DMG MORI QUALIFIED PRODUCTS

ANNUAL REPORT 2017

Key Figures

The Consolidated Annual Financial Statements of DMG MORI AKTIENGESELLSCHAFT as at 31 December 2017 were prepared in accordance with the International Financial Reporting Standards (IFRS), as they have to be applied in the European Union. This financial report refers exclusively to DMG MORI AKTIENGESELLSCHAFT and its subsidiaries (in the following DMG MORI).

01 | KEY FIGURES

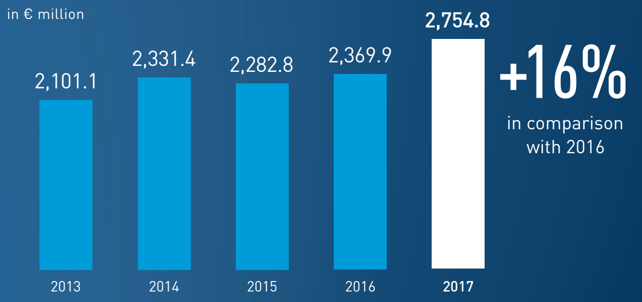
in € million	2017	2016	Changes 2017 against 2016	
Order Intake				
Total	2,754.8	2,369.9	384.9	16%
Domestic	825.7	763.0	62.7	8%
International	1,929.1	1,606.9	322.2	20%
% International	70	68		
Sales Revenues				
Total	2,348.5	2,265.7	82.8	4%
Domestic	712.1	737.1	-25.0	-3%
International	1,636.4	1,528.6	107.8	7%
% International	70	67		
Order Backlog *				
Total	1,309.1	937.5	371.6	40%
Domestic	454.6	361.2	93.4	26%
International	854.5	576.3	278.2	48%
% International	65	61		
EBITDA	252.9	169.7	83.2	49%
EBIT	180.1	104.0	76.1	73%
EBT	176.4	94.1	82.3	87%
EAT	118.4	47.5	70.9	149%
Free Cash flow	142.4	42.5	99.9	235%

	2017	2016	Changes 2017 against 2016	
Employees *	7,101	7,282	-181	-2%
incl. trainees	359	318	41	13%

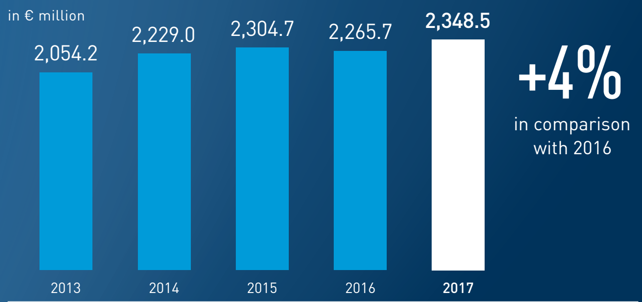
* Reporting Date 31 December

Earnings performance 2016 was significantly marked by effects of € 77.8 million in particular for the measures of implementing the realignment.

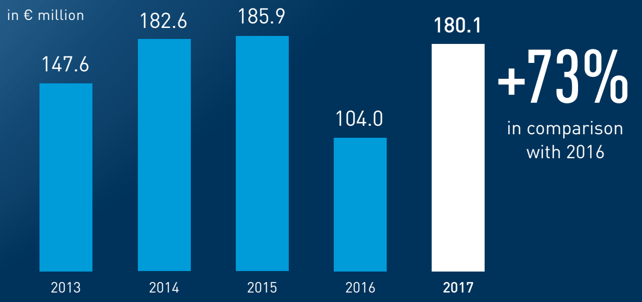
02 | ORDER INTAKE



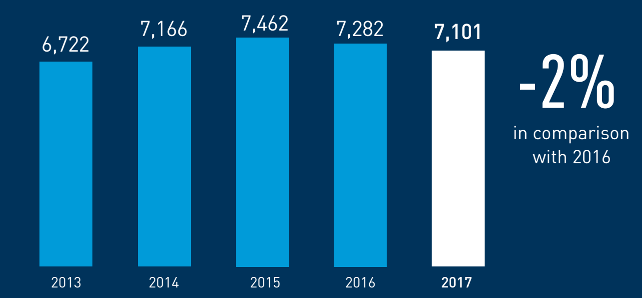
03 | SALES REVENUES



04 | EBIT



05 | EMPLOYEES incl. trainees



GROUP STRUCTURE →
SUSTAINABILITY REPORT →

Financial Calendar

13 March 2018	Balance Sheet press conference Publication of the Annual Report 2017 Analysts´Conference
26 April 2018	Release for the 1st Quarter 2018 (1 January to 31 March)
04 May 2018	116th Annual General Meeting
26 July 2018	Report for the 2nd Quarter 2018 (1 January to 30 June)
25 Oct. 2018	Release for the 3rd Quarter 2018 (1 January to 30 September)
10 May 2019	117th Annual General Meeting

Subject to alteration

Dynamic . Excellence – worldwide

As a "Global One Company", we are present worldwide at **157** sales and service locations – thereof **14** production plants – and supply customers from **42** different industries in **79** countries.

GROUP STRUCTURE // DMG MORI AKTIENGESELLSCHAFT
(as part of the "Global One Company")

CORPORATE SERVICES
DMG MORI AKTIENGESELLSCHAFT, Bielefeld

MACHINE TOOLS
GILDEMEISTER Beteiligungen GmbH, Bielefeld; Research and Development

TURNING	MILLING	ADVANCED TECHNOLOGIES	DIGITAL SOLUTIONS
GILDEMEISTER Drehmaschinen GmbH Bielefeld GRAZIANO Tortona S.r.l. Tortona / Italy GILDEMEISTER Italiana S.p.A. Bergamo / Italy	DECKEL MAHO Pfronten GmbH Pfronten DECKEL MAHO Seebach GmbH Seebach	SAUER GmbH Idar-Oberstein, Pfronten REALIZER GmbH Borchen, Bielefeld	DMG MORI Software Solutions GmbH Pfronten ISTOS GmbH Düsseldorf WERKBLiQ GmbH Bielefeld
FAMOT Pleszew Sp. z o.o. Pleszew / Poland	Ulyanovsk Machine Tools ooo Ulyanovsk / Russia		

INDUSTRIAL SERVICES
DMG MORI Management GmbH, Bielefeld; Sales and Services

SALES AND SERVICES

DMG MORI Germany	DMG MORI EMEA	DMG MORI China	DMG MORI India	DMG MORI Services

ENERGY SOLUTIONS
GILDEMEISTER energy solutions GmbH Würzburg

Markets of DMG MORI COMPANY LIMITED

DMG MORI Japan*	DMG MORI Asia*	DMG MORI USA*	DMG MORI Americas*

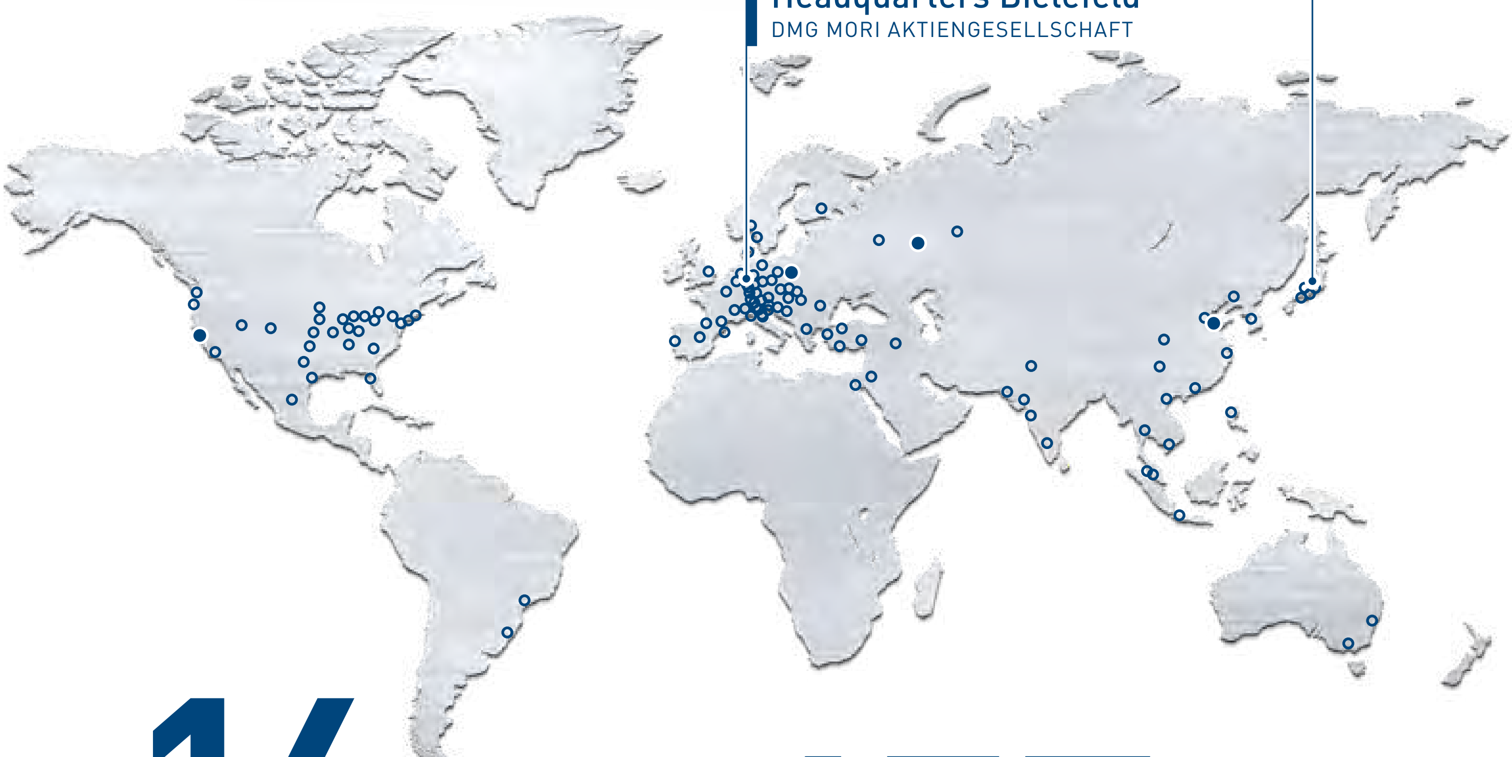
* These markets are consolidated by DMG MORI COMPANY LIMITED.

Simplified organisational structure according to management criteria. The legal structure is presented in the notes to the Financial Statements 2017 on pages 155 et seq. As at 12 March 2018.

PRODUCTION PLANTS →
SALES AND SERVICE LOCATIONS

Headquarters Tokyo
DMG MORI COMPANY LIMITED

Headquarters Bielefeld
DMG MORI AKTIENGESELLSCHAFT



14
PRODUCTION PLANTS

157
SALES AND SERVICE LOCATIONS

○ Sales and Service Locations ● Production Plants

DMG MORI in brief

DMG MORI AKTIENGESELLSCHAFT is a worldwide leading manufacturer of machine tools with sales revenues of more than € 2.3 billion and more than 7,000 employees. As "Global One Company" – together with DMG MORI COMPANY LIMITED – we reach sales revenues of more than € 3.3 billion.

The range of products includes turning and milling machines as well as Advanced Technologies, such as ULTRASONIC, LASERTEC and ADDITIVE MANUFACTURING, plus automation and integrated technology solutions. Our technology excellence is bundled within the main sectors of "Aerospace", "Automotive", "Die & Mold", and "Medical".

With our APP-based control and operating environment CELOS as well as exclusive Technology Cycles and Powertools, we are actively shaping Industrie 4.0. More than 10,000 DMG MORI machines fitted with CELOS have been supplied so far. In addition, DMG MORI is offering its customers and suppliers an integrated digitization strategy with the open, digital platform ADAMOS.

Our customer-focused services covering the entire life cycle of a machine tool include training, repair, maintenance and a replacement parts service. Our partner program "DMG MORI Qualified Products" (DMQP) allows us to offer perfectly matched peripheral products from one source. With more than 12,000 employees the "Global One Company" is present worldwide at 157 sales and service locations – thereof 14 production plants. DMG MORI supplies customers from 42 different industries in 79 countries.

5 STRATEGIC FUTURE TOPICS

TO OUR SHAREHOLDERS

BUSINESS REPORT OF DMG MORI AKTIENGESELLSCHAFT

CONSOLIDATED FINANCIAL STATEMENTS OF DMG MORI AKTIENGESELLSCHAFT

Annual Review 2017

January

2017 is the year of innovations. With a total of 15 world premieres, as a "Global One Company", DMG MORI strengthens its product portfolio with a total of 15 world premieres and presents innovations from the five strategic, future topics: Automation, Digitization, ADDITIVE MANUFACTURING and Technology Excellence in the Aerospace, Automotive, Die & Mold and Medical industries as well as DMG MORI Qualified Products (DMQP).

DMG MORI realigns its global sales and services structures. Since January, DMG MORI AKTIENGESELLSCHAFT has been managing the home market, Germany, the EMEA region (Europe, Middle East and Africa) and the Chinese and Indian markets. DMG MORI COMPANY LIMITED is responsible for its home market, Japan, the USA and the remaining regions of Asia and America.

February

ISTOS

DMG MORI expands its digitization competence with the start-up ISTOS.

REALIZER

DMG MORI strengthens its ADDITIVE MANUFACTURING portfolio with a majority holding of 50.1% in REALIZER GmbH. With the "Selective Laser Melting" (SLM) technology, DMG MORI offers its customers entirely new areas of application.

March

Automation is becoming one of the key development priorities at the production sites. Our goal is that all DMG MORI machines can optionally be fully automated in the future.

The realignment measures are successful: DMG MORI achieves the highest ever values for order intake and results in a first quarter.

April

As a "Global One Company", DMG MORI increasingly focuses on its customers in 2017. The "First Quality" campaign and the "Customer First" program ensure high service quality at fair prices.

May

At the Open House exhibition in Bielefeld, DMG MORI presents 34 innovative high-tech machines – 15 of which are manufactured in Bielefeld. DMG MORI starts installing the ADDITIVE MANUFACTURING machine LASERTEC 30 SLM – a new machine for the powder bed process – right in time for the Open House exhibition.

DMG MORI emphasizes the importance of education in the era of Industrie 4.0 with the newly opened "Smart Education Center" at its headquarters in Bielefeld. Apprentices are prepared for the challenges of the modern working world from the outset and given training to improve their digital skills.

The 115th Annual General Meeting is held at Bielefeld City Hall on 5 May 2017. All agenda items are approved with an overwhelming majority.

With the breaking of ground for the construction of a 7,000 m² assembly hall at FAMOT in Pleszew (Poland) on 30 May, DMG MORI sets a further milestone in its site expansion and modernization totaling more than 22,000 m².

June

DMG MORI continues its growth course: New half-year records follow the strong first quarter. DMG MORI announces the best half year in its 147-year company history in terms of incoming orders, revenues and results.

July

DMG MORI celebrates the 5th anniversary of founding Ulyanovsk Machine Tools. To date, more than 6,000 machines have already been installed on the Russian market. The state-of-the-art plant in Ulyanovsk is deemed to be a showcase project for the strategically important Russian machine tool industry.

August

At the start of the new training year, DMG MORI hires 93 apprentices. The group now employs a total of 359 apprentices and thus states the importance of on-the-job training.

October

The open digital platform ADAMOS (ADAptive Manufacturing Open Solutions), which DMG MORI founded with Dürr, Software AG, ZEISS and ASM PT, is now available worldwide with 200 experts. ADAMOS is a major part of DMG MORI's "Path of Digitization". Together with CELOS and ADAMOS, DMG MORI now has an integrated digitization strategy.

ADAMOS

September

More than 200 research and development employees meet at DECKEL MAHO in Seebach at the fourth "Global Development Summit", thereby laying the foundation for future innovations.

EMO, the world's leading trade fair for manufacturing technologies, is the most successful trade fair of all time for DMG MORI with record incoming orders valued at around € 300 million and more than 20,000 visitors. As the largest exhibitor, we showcased the future of manufacturing technologies in a "digital factory" as well as 8 world premieres on an area of 10,000 m^2.

In the age of digitization, strong partners are the key to success: DMG MORI highlights this at EMO Hanover. Five delivery partners receive the 2017 Partner Award for outstanding service.

DMG MORI continues its successful business development in the third quarter, achieving record figures for order intake, sales revenues and results. For the first time, DMG MORI records orders in excess of € 700 million in one quarter.

November

DMG MORI receives the "Germany's best Training Company" award from the trade magazine "Capital". "Focus Money" also honors DMG MORI by ranking it 1st for its commitment in the areas of development opportunities, employee loyalty and sustainability.

As a highlight at the Open House exhibition in Seebach, DMG MORI presents the "Medical Excellence Center". DMG MORI is bundling its group know-how here in the growth industry of medical technology.

DMG MORI again receives an award for the best Annual Report for 2016 in the SDAX. The trade magazine "BILANZ" highlights the exemplary reporting.

DMG MORI opens the Technology and Solution Center at a Grand Opening in Shanghai, also shifting the focus to Technology Excellence in the key industries of "Aerospace" and "Automotive" in China.

DMG MORI strengthens its automation expertise in a joint venture with HEITEC. In future, every DMG MORI machine should have the capacity to be fully automated if required. The basis for this is a building kit approach with modular, compatible solutions.

DMG MORI
HEITEC

December

DMG MORI AKTIENGESELLSCHAFT achieves record figures in financial year 2017: order intake increases by 16% to € 2,754.8 million, sales revenues reach € 2,348.5 million and free cashflow rises by 235% to a record € 142.4 million.

Report of the Supervisory Board

Prof. Dr.-Ing. Raimund Klinkner (53)
has been the chairman of the Supervisory Board since 17 May 2013. After graduating in mechanical engineering from Technische Universität München (Technical University of Munich), Klinkner initially worked in the automotive industry. From 1998 to 2006 he was a member of the Executive Board of GILDEMEISTER Aktiengesellschaft – and from 2003 deputy chairman of the Executive Board; he was responsible for production, logistics and IT. From 2007 to 2011 he was the chairman of the Executive Board of Knorr-Bremse AG in Munich. Since 2012, Klinkner has been a managing partner of the "Institute for Manufacturing Excellence" (IMX). He is a lecturer at the Technical University of Berlin for Production Logistics and honorary chairman of the board of "Bundesvereinigung Logistik e.V." (BVL – the German Logistics Association).

In financial year 2017, the Supervisory Board focused on strategic issues such as Automation and Digitization. It also delved into business and earnings performance and Executive Board matters, and discussed issues such as business policy, risk management, compliance, group development and investments until financial year 2020. Moreover, the further integration with DMG MORI COMPANY LIMITED was discussed. Moreover, the further integration with DMG MORI COMPANY LIMITED to become a "Global One Company" was discussed.

During the reporting year, the Supervisory Board also received prompt, regular and comprehensive updates from the Executive Board on all processes and events essential to the company, not only at meetings, but also by telephone and in writing. Moreover, the Supervisory Board was regularly notified about the progress of key company performance indicators.

The Supervisory Board performed its duties with care and diligence in accordance with the Articles of Association and statutory requirements. It met a total of seven times in financial year 2017. The chairpersons of the Supervisory Board committees, who regularly prepared the Supervisory Board meetings at a number of meetings, reported to the plenum on the issues and recommendations discussed at the committee meetings. In the past financial year, there were also no conflicts of interest to report amongst members of the Supervisory Board or they were resolved through non-participation in the decision-making process.

During the reporting year, the following **personnel changes** were made to the Executive Board and the Supervisory Board:

On 7 March 2017, the Supervisory Board re-appointed Christian Thönes as Chairman of the Executive Board. On 29 June 2017, Michael Horn was appointed as member of the Executive Board responsible for production, logistics and quality. He will start this role with effect from 15 May 2018. On 30 November 2017, the Supervisory Board decided to re-appoint Björn Biermann as CFO.

Prof. Dr. Edgar Ernst resigned from the Supervisory Board on 5 May 2017. He was succeeded by Prof. Dr. Annette Köhler as member of the Supervisory Board, who was also appointed as the Chairperson of the Finance and Audit Committee. Dr. Constanze Kurz resigned from the Supervisory Board on 30 November 2017. On 23 January 2018, Tanja Fondel was appointed as her successor by court order.

No member of the Supervisory Board attended less than half of all the Supervisory Board or committee meetings held.

The annual auditors also attended the **balance sheet meeting on 7 March 2017**. The Supervisory Board approved the Group Business Report and Consolidated Financial Statements as well as the Business Report and Annual Financial Statements of DMG MORI AKTIENGESELLSCHAFT as of 31 December 2016.

The plenary meeting discussed the business development and also the agenda for the 115th Annual General Meeting planned for 5 May 2017, including the recommendation for the appointment of the annual auditor. In addition, the chairpersons reported on the previous meetings of the Personnel, Nomination and Remuneration Committee, the Finance and Audit Committee and the Technology and Development Committee.

The Supervisory Board meeting on **4 May 2017** focused on preparations for the Annual General Meeting on the following day. The Supervisory Board also discussed current business performance.

Following the 115th Annual General Meeting, the Supervisory Board met on **5 May 2017,** and appointed Prof. Dr. Annette Köhler as a new Supervisory Board member and the Chairperson of the Finance and Audit Committee.

An extraordinary Supervisory Board meeting on the strategic and personnel focus of the Executive Board took place on **29 June 2017.** Michael Horn was appointed as member of the Executive Board responsible for production, logistics and quality.

In its extraordinary meeting on **1 September 2017**, the Supervisory Board discussed and approved the digitization strategy, particularly ADAMOS, in depth and approved it unanimously. It also debated on expanding the automation strategy.

An important item on the agenda for the Supervisory Board meeting on **27 September 2017** was business performance. It discussed the future automation and digitization strategy in depth, along with the results of the EMO, the world's leading trade fair for manufacturing technologies. The plenary session also discussed the reports from the Finance and Audit Committee and the Technology and Development Committee.

The meeting on **30 November 2017** focused on the current business trend, corporate planning from 2018 to 2020 and investment planning for 2018. The Supervisory Board approved corporate planning for 2018, mid-term planning for 2019/2020 and investment planning for 2018. Moreover, a resolution was passed on how to set the variable Executive Board remuneration. In addition, the results of the efficiency testing for the Supervisory Board were evaluated and discussed in depth, and a target value for the percentage of women on the Executive Board was agreed.

As recommended by the Finance and Audit Committee, the Supervisory Board also defined the main focus areas for the statutory audit as of 31 December 2017. This includes details about the expected effects of introducing important new standards in the reporting period in which they are first applied (IFRS 9 Financial Instruments, IFRS 15 Revenue from Contracts with Customers, and IFRS 16 Leases), the recognition and valuation of inventories, regular inventory counts and the recognition and valuation of trade debtors (IAS 39) and the information to be provided in the Notes in templates in accordance with IFRS 7. The declaration of conformity in accordance with Section 161 AktG (German Stock Corporation Act) was agreed as recommended by the Finance and Audit Committee.

A large proportion of the Supervisory Board's work is carried out by different committees: The **Finance and Audit Committee** held six meetings in financial year 2017. At its meetings, the committee discussed the current status of the finances and taxes as well as the ongoing audits. The audits and analyzes also focused on the Interim Report for the 1st quarter, the Half-Year Report and the Quarterly Release for the 3rd quarter. With the Transparency Guideline amended in November 2015, the duty to publish a comprehensive Quarterly Report ceases to apply. DMG MORI implemented this for the first time for the 3rd quarter of 2017.

Moreover, the Finance and Audit Committee dealt with the risk management, the audit report as well as the compliance report. The committee reviewed the Individual and Consolidated Financial Statements, prepared the approval and adoption of the annual financial statements and assessed the proposal on appointing the annual auditor. It monitored the independence of the annual auditor and obtained the auditor's independence declaration pursuant to Section 7.2.1 of the German Corporate Governance Code.

Further topics covered by the committee included the results from the Compliance effectivity check provided by KPMG and the process presented by the Executive Board for accepting non-audit services provided by the annual auditor that, after in-depth review and discussion, was adopted. It also prepared resolution proposals on the declaration of conformity in accordance with Section 161 AktG and audit focus areas for 2017.

The **Personnel, Nomination and Remuneration Committee** held three meetings. The committee prepared resolutions on Executive Board remuneration and discussed Executive Board issues, including the question of Executive Board remuneration.

The **Nomination Committee** held one meeting. It approved the suggested nomination of Prof. Dr. Annette Köhler as the successor of Prof. Dr. Edgar Ernst at the 115th Annual General Meeting to represent the shareholders on the Supervisory Board. She has extensive knowledge of the areas of accounting, audit and internal control systems.

The **Technology and Development Committee** held three meetings. Its discussions focused on the strategic, future topics of Automation, Digitization and ADDITIVE MANUFACTURING. The committee's discussions and analyzes also dealt with both general technological topics and universal trends in the machine tool building industry, the focus of the product portfolio and the investment budget.

The **"Corporate Governance"** section on page 24 of the Annual Report describes the activities of the Supervisory Board with regard to the declaration of conformity in accordance with Section 161 AktG. Since the last declaration of conformity in November 2016, DMG MORI AKTIENGESELLSCHAFT has complied with the recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated 5 May 2015, as published in the Federal Gazette on 12 June 2015. DMG MORI AKTIENGESELLSCHAFT has complied with the recommendations of the "Government Commission on the German Corporate Governance Code" in the version dated 7 February 2017, as published in the Federal Gazette on 24 April 2017, and will comply with them in the future as well.

After consulting the annual auditor and following its own review and discussion, the Supervisory Board approved the Annual Financial Statements and Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT for financial year 2017 at the **balance sheet meeting on 12 March 2018**. Thus, the Annual Financial Statements of DMG MORI AKTIENGESELLSCHAFT were adopted pursuant to Section 172 AktG. The separate non-financial group report, which is a key component of our first ever Sustainability Report and which meets the legal requirements according to the new CSR Guideline Implementation Act to implement Directive 2014/95/EU (Section 289 HGB (German Commercial Code)) dated 11 April 2017, was discussed extensively. After its audit, the Supervisory Board had no objections. The decisions were prepared by the Finance and Audit Committee.

The Executive Board prepared the Business Report and Annual Financial Statements for 2017, as well as the Group Business Report 2017 of DMG MORI AKTIENGESELLSCHAFT in accordance with the provisions of the German Commercial Code (HGB). The Consolidated Financial Statements 2017 of DMG MORI AKTIENGESELLSCHAFT were prepared in accordance with International Financial Reporting Standards (IFRS), as applicable within the European Union. Pursuant to the exemption provision in Section 315a HGB, Consolidated Financial Statements in accordance with the German Commercial Code (HGB) were not prepared. The annual auditors provided detailed reports on their audit procedures and findings and were available for any further queries. In each case, KPMG AG Wirtschaftsprüfungsgesellschaft, Bielefeld, issued an unqualified auditor's report for both financial statements and business reports.

The annual auditor also stated that the Executive Board has taken all the reasonable steps required under Section 91(2) AktG (German Stock Corporation Act). The design and application of the appropriate information and monitoring system in line with company requirements appears suited to its purpose of providing early warning of decisions posing a threat to the continued existence of the company. No major weaknesses in the Internal Control System and Risk Management System were reported.

The Chairperson of the Finance and Audit Committee provided the Supervisory Board with a detailed report on the findings of the committee as well as on the discussions held with the annual auditors and the Executive Board. The Supervisory Board and the Finance and Audit Committee conducted a detailed discussion and review of the Annual Financial Statements and Consolidated Financial Statements, as well as the Business Report. The Supervisory Board approved the results of the audit based on its own review – as did the Finance and Audit Committee. Objections were raised neither by the Supervisory Board nor by the Finance and Audit Committee.

DMG MORI successfully closed financial year 2017. The Supervisory Board wishes to thank the members of the Executive Board for their exceptional commitment and outstanding strategic work, which is also reflected in the good key figures achieved. Our special thanks goes to all employees for their dedication and hard work throughout the past financial year.

Prof. Dr.-Ing. Raimund Klinkner
Chairman of the Supervisory Board
Bielefeld, 12 March 2018

Dr. Maurice Eschweiler (43)

*Industrial Services,
personnel, legal and information
technologies*

has been member of the Executive Board since 1 April 2013. He received a doctorate in economics from the University of Münster and joined the group in 2007. Among others he was managing director of DMG Vertriebs und Service GmbH.

Christian Thönes (45),
Chairman of the Executive Board

*Product development,
production, sales, procurement,
corporate communications, audit*

has been Chairman of the Executive Board since 15 April 2016. The business graduate has been a member of the Executive Board since January 2012 and headed the product development, production and technology areas. He joined the group in 1998 and built up Advanced Technologies (ULTRASONIC and LASERTEC). From 2009 to 2011, Christian Thönes was managing director of DECKEL MAHO Pfronten GmbH.

Björn Biermann (38)

*Controlling, finance, accounting, taxes
and risk management, investor relations,
compliance*

has been member of the Executive Board since 27 November 2015. In 2008 the business graduate joined the group. He was head of controlling and corporate planning and of the transparency department for assessment of transactions with major shareholders.

Dear shareholders,

DMG MORI has the power to dynamically shape the future. That is what we showed in financial year 2017. The high demand for our innovative machines and technology solutions continued. Order intake, sales revenues and free cash flow achieved record levels. Earnings also increased significantly. This development shows: DMG MORI is on target and well-positioned for the future. We decided on and successfully implemented the right measures by focusing on our core business and expanding strategic future topics.

A brief comment about the business figures: After a strong first quarter in 2017, we achieved new half-year records. For the first time ever, orders in one quarter exceeded € 700 million in the third quarter. In the year as a whole, the order intake increased by +16% to € 2,754.8 million (previous year: € 2,369.9 million). We thus achieved the highest order intake in the company's 147-year history to date. Adjusted for the effects of the realignment in 2016 – such as, among other things, the changed sales and service structure in Asia and America – our order intake even increased by +23%. The global consumption of machine tools rose by +4.5%. Sales revenues during the year also developed very positively and reached a new record high: Over the whole year, sales revenues went up by +4% to € 2,348.5 million (previous year: € 2,265.7 million). Adjusted for the effects of the realignment, sales revenues increased even by +9% compared to the previous year. We also further improved on our results: EBITDA increased by +49% to € 252.9 million (previous year: € 169.7 million). EBIT increased by +73% to € 180.1 million (previous year: € 104.0 million) and EBT rose by +87% to € 176.4 million (previous year: € 94.1 million). As of 31 December 2017, the group reported EAT of € 118.4 million – a growth of +149% (previous year: € 47.5 million). In addition to the good results of operations, our financial situation also developed positively: Free cash flow rose by € 99.9 million to a record high of € 142.4 million (+235%; previous year: € 42.5 million).

We structurally realigned our global sales and services to be in an ideal position for the individual markets and to meet the corresponding challenges. Since January 2017, DMG MORI AKTIENGESELLSCHAFT has been managing the home market, Germany, the EMEA region (Europe, Middle East and Africa) and the Chinese and Indian markets. DMG MORI COMPANY LIMITED is responsible for its home market, Japan, the USA and the remaining regions of Asia and America. This new geographical split of the regions and responsibilities ensures fast decision-making tailored to the markets for our customers.

Dear shareholders, in financial year 2017, DMG MORI grew stronger than the global market. That is a good sign! Contrary to the forecasts of VDW and Oxford Economics, we also recorded significant growth in Germany. These framework conditions and the sustainably good order situation allowed us to raise our targets during the year – and to even exceed all our forecasts. We worked hard to achieve this.

On the one hand, we achieve record figures for significant performance indicators. On the other hand, we actively pushed forward important future topics.

For us, 2017 was the "year of innovations". It was significantly impacted by the EMO, the world's largest machine tool trade fair. As the largest exhibitor, DMG MORI showed the future of manufacturing technologies on an area of 10,000 m^2, exhibiting a "Digital Factory" as well as the latest trends from our five strategic future topics: **Automation, Digitization, ADDITIVE MANUFACTURING, Technology Excellence** as well as **DMG MORI Qualified Products (DMQP).**

Automation is an important pillar for our future strategy which has high growth potential. Every fourth new machine by DMG MORI already uses an automation solution. In November 2017 we strengthened our automation expertise in a joint venture with HEITEC. Customers receive automation solutions from a single source which are optimally tailored to their machines. In future, every machine is to be equipped with automation if required. This will be based on the building kit approach. In future, DMG MORI HEITEC will use modular, compatible solutions to provide a consistent automation concept, especially for small to medium-sized companies. Automation is a key element of digital production.

Therefore, the development of the “Digital Twin” is of key importance. We use this to accelerate and stabilize all customer processes – from development to installation through to services – and to ensure flexible and stable processes.

Dear shareholders, we are currently in the middle of a profound industrial change. **Digitization** is changing our world both quickly and radically. The switch to digitization requires fundamental further development which can only be achieved globally and jointly - in strong partnerships and on an equal footing. Digital products and technologies are increasingly becoming a differentiating factor for competition. In addition, the performance of machines and systems depends increasingly on software.

At the start of the year, DMG MORI expanded its digitization expertise with the start-up ISTOS. The presentation of the open digital platform ADAMOS (ADAptive Manufacturing Open Solutions) in September was a special milestone. Together with the world market leaders Dürr, Software AG, ZEISS and ASM PT, we founded a strategic alliance for the future topic of the Industrial Internet of Things (IIoT). ADAMOS is a major part of our **“Path of Digitization”.** The merging of machine construction and information technology is opening up new business models which we are realizing together with CELOS and ADAMOS. We offer a comprehensive simple digitization solution – from machine tool builders for machine tool builders, their suppliers, and customers. In 2018, DMG MORI will also devote all of its energies to pioneering work in this area.

Digitization can only be successful if digital products and solutions offer the customer added value. Our 26 exclusive DMG MORI Technology Cycles allow for quick and simple shop floor programming. Our customers are already purchasing technological cycles in a double-digit million range.

The ever more complex technical and commercial demands as well as more sophisticated materials require innovative solutions. That is precisely where DMG MORI positions itself with its product lines ULTRASONIC, LASERTEC and ADDITIVE MANUFACTURING. We see enormous potential in the manufacture of complex 3D components using powder nozzle and powder bed technology.

For this reason, we strengthened our **ADDITIVE MANUFACTURING** portfolio with a majority holding in REALIZER GmbH in February 2017. Our holding is currently 75.1%. With the “Selective Laser Melting” (SLM) technology, which applies layer upon layer of powdery material and melts it using a laser, we offer our customers entirely new areas of application. DMG MORI consistently covers the process chain and bundles the most important generative manufacturing processes under one roof. This makes us a full-service provider – both in the additive manufacturing of metal components and in the subsequent machining.

We are addressing growth markets strategically with our **technology excellence**. In the “Technology Excellence Centers” for the key industries of Aerospace, Automotive, Die & Mold and Medical, experts become involved in the customer’s development processes early on. The objective: cross-process, integrated turnkey solutions. Therefore, we are working on improvements in the areas of precision, quality and efficiency – for the benefit of our customers.

An integrated manufacturing solution from a single source at reasonable prices – this is exactly what DMG MORI offers its customers with the DMQP initiative. DMQP stands for **DMG MORI Qualified Products**. The global concept and the close collaboration with certified DMQP partners promises a perfect synergy of machine and accessory for the highest technological expertise.

After the realignment in 2016 and the innovation offensive in 2017, our focus in 2018 is more strongly on the optimization of **quality** and **service**, along with the five strategic future topics. Now more than ever, DMG MORI aims at quality without compromise. To this end, we are driving our "First Quality" offensive forward with numerous measures. For example, since January 2018 we have been offering a 36-month warranty period for all motor spindles of the "MASTER" series, without any restriction on hours.

Within the context of our "Customer First" program we are striving for an increase of service satisfaction of our customers in the Services division. As leading manufacturer of machine tools, we also want to become the service champion par excellence for our customers in the future.

The current financial year will be marked by dynamics and excellence in technology, services and quality. We intend to dynamically promote our future topics and sustainably optimize our existing achievements. **Therefore, our motto for 2018 is "Dynamic . Excellence".**

All our dynamic excellence would be impossible without DMG MORI's most important pillar: our employees. They are the face of DMG MORI and the interface to our customers. Only thanks to their engagement, expertise and strengths are we able to implement our objective to provide premium products and our ambitious goals. On behalf of my Executive Board colleagues, I would therefore like to thank our team in particular.

Innovative power, dynamics and excellence: That is the DNA of DMG MORI. Our highly qualified employees and strong partnerships keep us firmly on our success course. We are therefore delighted about the strengthening of our Executive Board team by Michael Horn.

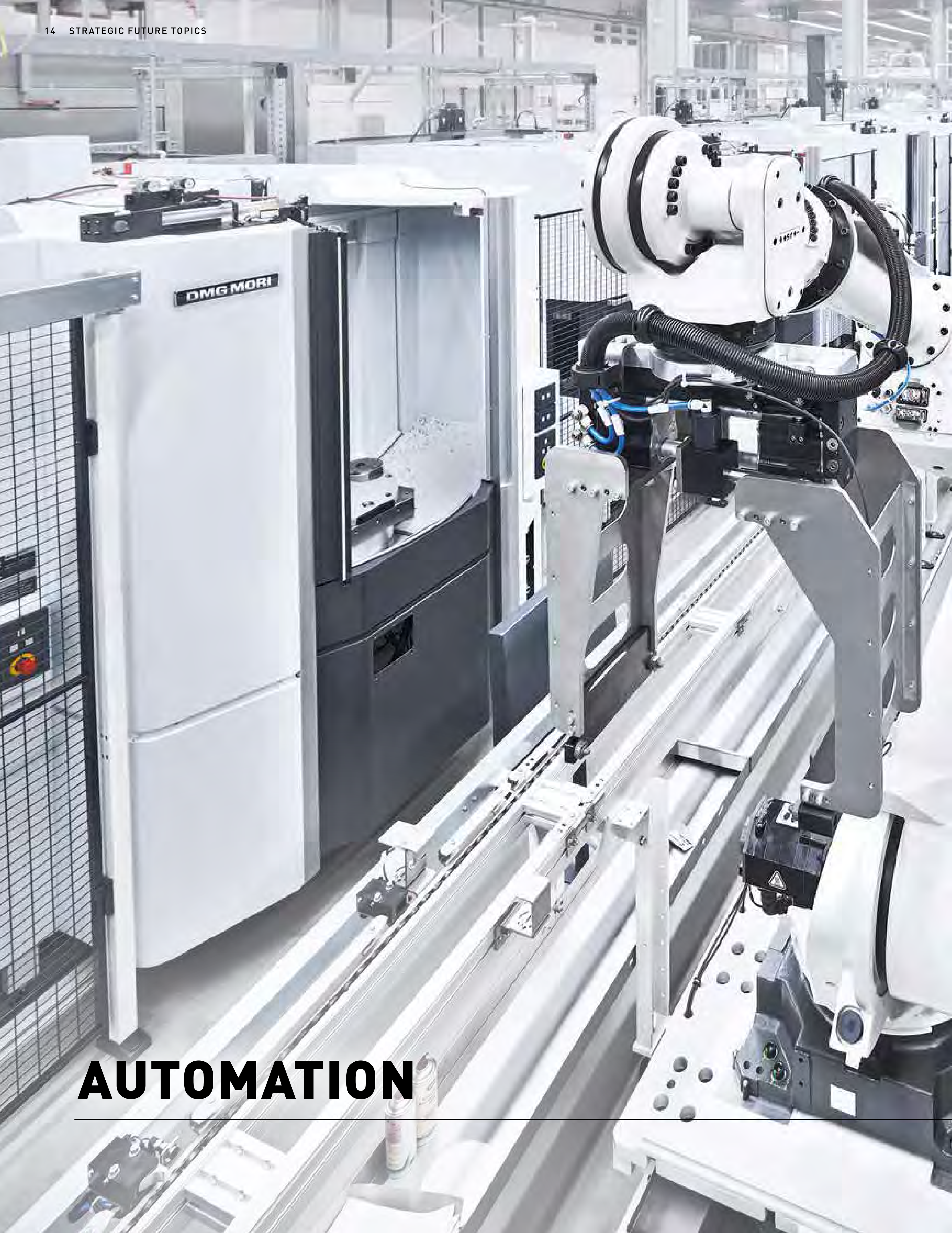
Dear shareholders, the world economy continues to be marked by global uncertainties. According to forecasts from the German Machine Tool Builders' Association (VDW) and the British economic research institute, Oxford Economics, world machine tool consumption should see slower growth of +3.6% in 2018 (previous year: +4.5%). However, due to the persisting global uncertainties it remains difficult to make a reliable forecast.

For financial year 2018, we are planning around € 2.5 billion in order intake and around € 2.45 billion in sales revenues. EBIT is expected to amount to around € 180 million and free cash flow to around € 100 million.

DMG MORI is in an excellent position. We are proactively shaping the future together with our customers and partners. We are passing on our knowledge, benefiting from mutual strengths and creating the factory of the future. Real and digital. Global and together. Strong partners are the key to success. Therefore, we would also like to extend our thanks to our customers, business partners and suppliers. On behalf of my Executive Board colleagues, I would like to thank you once more, our shareholders, for the trust you have placed in us and our strategic decisions. It is important to us and strengthens our commitment. We are looking forward with confidence and would be glad if you joined us on this way.

Best regards

Christian Thönes
Chairman of the Executive Board
Bielefeld, 12 March 2018



AUTOMATION


DMG MORI

AUTOMATIO

AUTOMATION EXPERTISE FOR THE FUTURE

Automation is a key element of digital production and as such has been a key strategic issue for DMG MORI for a long time. Currently, we install 3,000 automated machines per year. This means that every fourth new DMG MORI machine already uses an automation solution. In future, every machine is to be optionally equipped with automation.

This will be based on the building kit approach by DMG MORI HEITEC, which uses modular, compatible solutions to provide a consistent automation concept for small to medium-sized companies in particular. Since November 2017, DMG MORI and HEITEC have been bundling their expertise as two strong partners to speed up the development of innovative automation solutions. The joint targets include the development of the "Digital Twin": This accelerates and stabilizes all customer processes – from development to installation through to services – and ensures flexible and stable processes.

DMG MORI HEITEC

Fast and simple programming: Like all automation solutions, the GX 6 portal loader has the new VERTICO design. The Gantry system uses a fast, precise linear robot. Automation control is integrated into machine control to guarantee user-friendly programming.

Maximum efficiency in production:
The "Digital Twin" enables a full digital display of products, objects, systems and processes. A link between the real and virtual world is of key importance for the manufacturing cell of the future.

- **Automation solutions are an option for all DMG MORI machines**
- Production plants supply **machines and automation from a single source**
- Machine and automation solution for hardware and software are **attuned perfectly**
- Range of services from **standard automation** to **customer-specific automation solutions as turnkey solutions**

The Basis of the Group

Corporate Strategy and Key Financial and Performance Indicators

DMG MORI AKTIENGESELLSCHAFT and its subsidiaries form the group (hereinafter DMG MORI). The operating activities of DMG MORI are split into the "Machine Tools" and the "Industrial Services" segments. "Corporate Services" essentially comprises DMG MORI AKTIENGESELLSCHAFT with its group-wide holding functions.

The global manufacturing industry is a highly dynamic, constantly changing market environment driven by innovation. The increasing trend towards automation and progressive digitization are redefining the future of manufacturing – machines and processes must be agile and dynamic, flexible and lean as well as digital and connected. New manufacturing processes such as ADDITIVE MANUFACTURING complement existing technologies.

Technological innovations are fundamentally changing markets and business models. The increasing importance of electromobility and the large investments in regenerative energies are also impacting on the machine tool industry. New competitors from other industries and Asia are pushing into the market. At the same time, innovation cycles are getting ever shorter while machine complexity is increasing.

Changing customer needs require comprehensive solutions for machines, processes, software, periphery and service. Industrie 4.0 – the digital networking of automated production – is to enable process transparency and cost efficiency along the entire value-added chain and throughout the entire product lifecycle.

DMG MORI sees these challenges as an opportunity and is responding to them with its "Global One 2020" strategy for the future. Our corporate strategy aims to further consolidate DMG MORI's current market position as one of the world's leading suppliers of premium solutions for the manufacturing industry. Together with our Japanese parent company, DMG MORI COMPANY LIMITED, we act as a "Global One Company" in accordance with the motto "Dynamic . Excellence". This means that we have agilely and diligently pushed forward important strategic future topics with our strong innovative power and strive to achieve excellence in our products and processes as well as in quality and service.

Our "Global One 2020" strategy comprises four main cornerstones (Innovations & Solutions, Focus & Excellence, Integration and Finance) to which we have assigned a total of 15 strategic initiatives.

I. Innovations & Solutions

DMG MORI's goal is to further promote innovations in the manufacturing industry and to increasingly become a one-stop solution provider. We want to be number 1 for our customers worldwide in every respect – with our machine tools, automation and digitization solutions as well as our DMQPs.

A.01 | SEGMENTS OF DMG MORI

DMG MORI AKTIENGESELLSCHAFT		
MACHINE TOOLS	**INDUSTRIAL SERVICES**	**CORPORATE SERVICES**
› Turning › Milling › Advanced Technologies › Digital Solutions	› Sales › Services › Energy Solutions	› Group-wide holding functions

We are striving to expand our technology and innovation leadership through the use of ongoing product and technology innovations. We plan to further develop our automation portfolio so that every DMG MORI machine can optionally be equipped with automation solutions. DMG MORI offers its customers turnkey solutions, from the full digital mapping of products, objects, systems and processes via a "Digital Twin" to the individualized and flexible interconnection of machines. By 2020, we intend to sell every second machine with automation.

DMG MORI is actively shaping the digitization of the manufacturing industry. Together with our partners, we are setting the standard for the Industrial Internet of Things (IIoT) using our open digital platform ADAMOS. CELOS and ADAMOS are key components of our "Path of Digitization". Thanks to our consistent digitization strategy, we are able to access new business models. Our customers have the option of digitally networking their machines and achieving the highest possible transparency with regard to processes and costs as a result of data-based analyzes.

We have successfully taken possession of the future market of ADDITIVE MANUFACTURING thanks to our expertise in the two most important generative manufacturing processes. With "Selective Laser Melting" (SLM) and the powder nozzle process, DMG MORI has positioned itself as a full-liner both in the additive manufacturing of metal components as well as in the subsequent machining. We will continuously broaden our product portfolio and expand this business division further. Our objective is to participate in this future-oriented field with above-average increasing sales revenues.

Our customers already integrate the experts in our Technology Excellence Center early on into their development processes in key industries, such as Aerospace, Automotive, Die & Mold und Medical, who then provide individualized advice and offer perfectly customized turnkey solutions. In view of growing customer requirements, we are planning a targeted expansion of our expertise in our Technology Excellence Centers worldwide.

DMG MORI's expertise goes far beyond the networking of machines: With the DMG MORI Qualified Products (DMQP), we offer peripherals and accessories perfectly aligned with the machines from a single source. Our goal is that every DMG MORI machine will be sold with several DMQP products in the future, and thus as a complete system from a single source. For this, we plan to harmonize and optimize the DMQP portfolio.

II. Focus & Excellence

We focus on our core business with premium solutions for the manufacturing industry and continue to be geared towards sustainable, organic growth. Our customers expect accuracy, reliability and durability. We therefore emphasize our "First Quality" strategy along the entire value-added chain. For example, we achieve maximum transparency with regard to problem-solving with Product Problem Reports (PPR) and can also optimize our expertise in the area of "Predictive Maintenance". Our goal: We want our customers to be 100% satisfied.

The "Industrial Services" segment makes a significant contribution towards group sales and profitability. We assist our customers throughout the entire lifecycle of our products by providing services during commissioning, training, maintenance, spare parts services and repairs. We are striving for excellence in all areas of our service performance with an ongoing improvement process. With an increase in the number of our service employees, structural measures and digital service concepts, we will continuously improve our service quality and efficiency to become a true service champion for our customers.

III. Integration

A key component of our strategy is the further integration with DMG MORI COMPANY LIMITED. We can achieve efficiency advantages and enhance our strengths by identifying and standardizing the "best from two worlds". A reorganization of our global sales and service structures and optimization of our global production network allowed us to reduce complexity and establish lean structures, which means we are able to react flexibly to changes.

At the same time, we are continuing with the harmonization of systems and processes together with DMG MORI COMPANY LIMITED. Our activities are focused around building a global IT infrastructure.

We are strengthening our core competences with our own development and production of DMG MORI components, avoiding dependencies and ensuring the best possible quality at the same time. Furthermore, DMG MORI components contribute to the cost optimization and sustainability of products and processes with a large number of additional measures, including the standardization of construction components and interfaces, further streamlining of our product portfolio, consistent supplier management, efficient internal value-added chains as well as our sustainability strategy.

All this dynamic excellence would be impossible without DMG MORI's most important pillar of support: our employees. Only thanks to their engagement, expertise and strengths are we able to implement our objective to provide premium products and our ambitious goals. DMG MORI offers an attractive work environment and is synonymous with a corporate culture that is based on diversity, openness and transparency. We support entrepreneurial spirit and develop talent through our group-wide management training concept as well as our "High Potential Program". We check the effectiveness of our various measures to increase employee satisfaction and retention with a satisfaction survey and strategic key figures such as dysfunctional fluctuation.

IV. Finance

It goes without saying that our strategic innovations must impact positively on our main financial target and control variables. DMG MORI has set itself the goal of growing faster than the competition and increasing its global market shares in the process. We are striving for a continuous and sustainable increase in sales revenues while improving profitability at the same time. An increasing free cash flow is our goal alongside future-oriented, strategic investment management and the sustainable and efficient use of our capital.

A.02 | KEY FINANCIAL AND PERFORMANCE INDICATORS: TARGETS AND RESULTS 2017

	Results 2016	Targets 2017 [1]	Targets 2017 [2]	Results 2017
Order intake	€ 2,369.9 million	around € 2.3 billion	around € 2.6 billion	€ 2,754.8 million
Sales revenues	€ 2,265.7 million	around € 2.25 billion	around € 2.3 billion	€ 2,348.5 million
EBIT	€ 104.0 million			€ 180.1 million
EBT	€ 94.1 million	around € 130 million	around € 160 million	€ 176.4 million
Free cash flow	€ 42.5 million	around € 40 million	around € 60 million	€ 142.4 million
Investments (tangible fixed assets / intangible assets)	€ 88.1 million	around € 45 million	around € 45 million	€ 39.7 million
Research and Development expenses	€ 46.8 million	around € 50 million	around € 50 million	€ 50.4 million
New developments / world premieres [3]	8	13	15	15

1) As at 9 March 2017
2) As at most recently published target values 26 October 2017
3) The total of all world premieres of DMG MORI AKTIENGESELLSCHAFT and DMG MORI COMPANY LIMITED

MANAGEMENT SYSTEM OF DMG MORI

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. In particular, key internal target and control variables are order intake, sales revenues, earnings before interest and taxes (EBIT), free cash flow and investments. In future, the net working capital will no longer form part of this. 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.

Overall, DMG MORI successfully completed financial year 2017. With € 2,754.8 million, order intake reached a new record (previous year: € 2,369.9 million) and thus exceeded the forecast. While the global consumption of machine tools increased by +4.5%, DMG MORI was able to increase order intake by +16% or € 384.9 million. At € 2,348.5 million, sales revenues were +4% or € 82.8 million above the previous year's figure (previous year: € 2,265.7 million). Order intake and sales revenues thus achieved records in the company's history.

EBIT increased by +73% to € 180.1 million (previous year: € 104.0 million). Free cash flow was significantly above the previous year at € 142.4 million (+235%; previous year: € 42.5 million) and thus exceeded the forecast. The noticeable increase in prepayments received (€ +132.1 million) in particular led to this improvement. Investments in property, plant and equipment and intangible assets amounted to € 39.7 million. Expenditure for research and development amounted to € 50.4 million. In financial year 2017, we introduced a total of 15 new developments together with DMG MORI COMPANY LIMITED.

Organization and Legal Corporate Structure

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. DMG MORI Management GmbH, Bielefeld, is the operating management company of the group's sales and service locations. DMG MORI AKTIENGESELLSCHAFT manages the company's home market in Germany, the EMEA region (Europe, Middle East, Africa) as well as the markets in China and India. As the parent company of the group's production sites, GILDEMEISTER Beteiligungen GmbH is responsible for further holding functions. Together with DMG MORI COMPANY LIMITED, we are present worldwide at 157 sales and service locations – thereof 14 production plants.

All companies of the group are managed as profit centers and follow clear guidelines to achieve the best possible performance and results. A group-wide uniform IT infrastructure standardizes the main work processes and workflows, and thus forms an integrative link for the group. The organizational costs of DMG MORI AKTIENGESELLSCHAFT amounted to € 23.8 million (previous year: € 31.9 million). The ultimate parent company of DMG MORI AKTIENGESELLSCHAFT is DMG MORI COMPANY LIMITED, which has its headquarters in Tokyo, Japan.

The following changes were made to the group's legal corporate structure:

› With effect from 1 January 2017, the shares held in the following American and Asian subsidiaries were sold to DMG MORI COMPANY LIMITED as part of the realignment:

  · DMG MORI SEIKI CANADA INC. (including DMG MORI CANADA INC.),
  · DMG MORI BRASIL Comercio de Equipamentos Industriais Ltda.,
  · DMG MORI Korea Co. Ltd.,
  · DMG MORI Australia Pty. Ltd.,
  · DMG MORI Taiwan Co. Ltd.,
  · DMG MORI Singapore Pte. Ltd.,
  · DMG MORI MALAYSIA SDN. BHD.,
  · DMG MORI Vietnam Co. Ltd.,
  · DMG MORI Mexico S.A. de C.V.

- In February 2017, 100% of the interest in DMG MORI Systems GmbH was sold to an external investor.

- With effect from 6 February 2017, GILDEMEISTER Beteiligungen GmbH acquired a 50.1% interest in REALIZER GmbH, Borchen. The purchase of these shares is a strategic acquisition which specifically strengthens DMG MORI's future technologies in the ADDITIVE MANUFACTURING sector and is an ideal addition to our Advanced Technologies.

- In April 2017, DMG MORI Sales and Service Holding AG, Winterthur (Switzerland) acquired a 100% interest in DMG MORI ECOLINE Holding AG, Winterthur (Switzerland). Both of these entities were subsequently merged. TECNO CONTROL S.R.L. was also merged with DMG MORI Italia S.r.l. in the same month.

- In May 2017, DMG MORI Europe AG, Winterthur (Switzerland) acquired a 100% interest in both DMG MORI Management AG, Winterthur (Switzerland) and DMG MORI ECOLINE AG, Winterthur (Switzerland). Both companies were then merged with DMG MORI Europe AG, Winterthur (Switzerland).

- In June 2017, DMG MORI Austria GmbH, Klaus (Austria) acquired a 100% interest in DMG ECOLINE GmbH, Klaus (Austria). Both companies were then merged.

- In August 2017, GILDEMEISTER energy solutions GmbH sold its 100% interest in the project companies, Cucinella S.r.l., Winch Puglia Foggia S.r.l. and Rena Energy S.r.l. to a strategic investor.

- In September 2017, GILDEMEISTER Beteiligungen GmbH acquired a 20% interest in ADAMOS GmbH, Darmstadt. Together with Dürr, Software AG, ZEISS and ASM PT, DMG MORI founded a strategic alliance for the themes of the future, Industrie 4.0 and the Industrial Internet of Things. There is now a further partner in this alliance, which means that DMG MORI's interest is currently 16.7%.

- GILDEMEISTER Beteiligungen GmbH also acquired a 100% interest in WERKBLiQ GmbH, Bielefeld, in September.

- With effect from 1 October 2017, GILDEMEISTER energy solutions GmbH sold 100% of its interest in GILDEMEISTER a+f components GmbH to a strategic investor.

- Since November 2017, GILDEMEISTER Beteiligungen GmbH has had a 50% interest in DMG MORI HEITEC GmbH, Erlangen.

- In December 2017, DMG MORI AKTIENGESELLSCHAFT sold its 19% interest in DMG MORI Manufacturing USA Inc. in Davis (USA) to DMG MORI COMPANY LIMITED.

The structure of the group is oriented towards all companies making their contribution to further expand its position as a global market and innovation leader. The group is depicted in a matrix organization with the production plants on the one side and the sales and service companies on the other side. The supply plants are specialized according to business fields and production lines.

The DMG MORI sales and service companies are responsible for the direct sales and servicing of our products and those of DMG MORI COMPANY LIMITED. In addition, our key account management serves large international customers. GILDEMEISTER energy solutions GmbH, Würzburg operates in the field of regenerative energies.

According to 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. Furthermore, Elliott International Limited and affiliated companies held 5.07% of the share capital as at their last notification of voting rights on 13 September 2016. According to the notification of voting rights as at 31 December 2017, the Bank of America Corporation and affiliated companies communicated a voting right share of less than 3% of voting rights and held 0.04% pursuant to Section 25 para. 1 no. 2 WpHG (German Securities Trading Act).

DMG MORI does not hold any significant financial investments.

Takeover Directive Implementation Act

(Section 315a para. 1 HGB (German Commercial Code))

The following mandatory disclosures apply to the group:

- 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.

- Pursuant to Section 84 AktG (German Stock Corporation Act), 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.

- 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.

- 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.

- 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 defined cases according to the Articles of Association (authorized capital).

- 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 315a para. 1 HGB, the Executive Board provides the following explanatory notes:

- As at 31 December 2017, 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.

- The last amendment of the Articles of Association was made in May 2017; in this process, Section 1 para. 1 and Section 12 para. 1 – 7 of the Articles of Association were rephrased.

- 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.

Share

Stock Market Listing

The shares of DMG MORI AKTIENGESELLSCHAFT are listed on the SDAX and quoted on the official market on the stock exchanges in Frankfurt / Main, Berlin and Düsseldorf, as well as on the open market stock exchanges in Hamburg, Hanover, Munich and Stuttgart.

DMG MORI AKTIENGESELLSCHAFT continues to meet the transparency requirements of the German Stock Exchange's "Prime Standard".

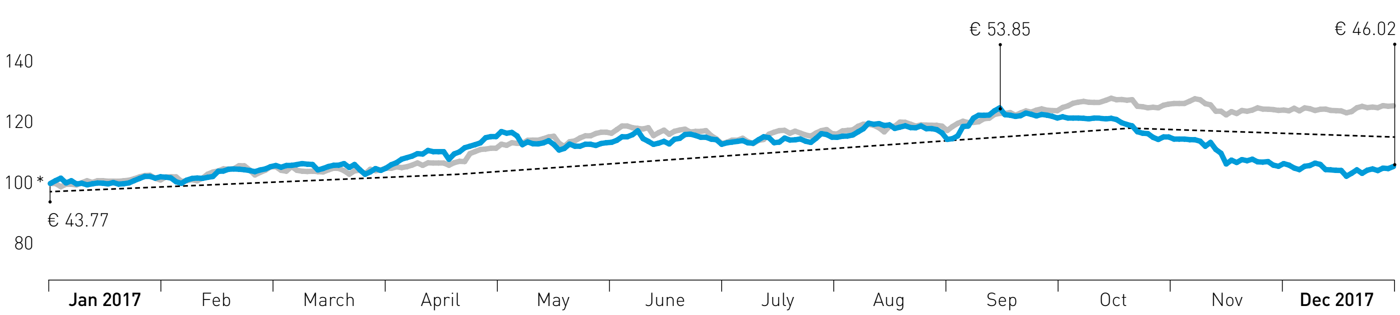
Share Performance

The DMG MORI share slightly gained in value in the reporting year (+5%). In the stock market year 2017, it was initially quoted at € 43.77 (02 Jan 2017) and closed at a price of € 46.02 as at 29 December 2017. Market capitalization rose by 7% to € 3.63 billion.

Cycle-timed spindle assembly: DMG MORI employees assemble more than 4,000 speedMaster spindles per year on modern high-tech workstations. As the centerpiece of every machine tool, motor spindles have an enormous impact on the precision and surface quality of the workpieces. Their sturdiness and long-term precision directly impacts the reliability and utilization ratio of machine tools.

A.03 | DMG MORI AKTIENGESELLSCHAFT-SHARE IN COMPARISON WITH THE SDAX® – JANUARY TO DECEMBER 2017

in %



* 2 January 2017 = 100, stock performances indexed, XETRA; Source: Deutsche Börse Group

A.04 | KEY FIGURES OF THE SHARE OF DMG MORI AKTIENGESELLSCHAFT | ISIN: DE0005878003

		2017	2016	2015	2014	2013	2012
Registered capital	€ million	204.9	204.9	204.9	204.9	204.9	156.4
Number of shares	million shares	78.8	78.8	78.8	78.8	78.8	60.2
Closing price [1]	€	46.02	43.16	38.08	23.50	23.15	15.25
Annual high [1]	€	53.85	44.76	38.90	26.82	24.53	16.11
Annual low [1]	€	42.95	35.02	23.28	18.85	15.00	9.74
Market capitalization	€ million	3,627.2	3,401.8	3,001.4	1,852.2	1,824.6	917.6
Dividend *	€	–	–	0.60	0.55	0.50	0.35
Dividend total *	€ million	–	–	47.3	43.4	39.4	20.4
Dividend yield *	%	–	–	1.6	2.3	2.2	2.3
Earnings per share [2]	€	1.49	0.57	1.90	1.41	1.33	1.32
Price-to-earnings ratio [3]		29.9	75.7	20.0	16.7	17.4	11.6

1) XETRA-based closing price
2) Pursuant to IAS 33
3) Closing price / earnings per share

* Due to the control and profit transfer agreement, DMG MORI AKTIENGESELLSCHAFT will cease paying dividends as of financial year 2016. Instead, DMG MORI GmbH has undertaken to pay external shareholders a compensation amount ("guaranteed dividend") of € 1.17 gross per share for each full financial year.

Guaranteed Dividend

Due to the domination and profit transfer agreement with DMG MORI GmbH – a 100% subsidiary of DMG MORI COMPANY LIMITED – DMG MORI AKTIENGESELLSCHAFT has stopped distributing dividends since the financial year 2016. Instead, DMG MORI GmbH has undertaken to pay minority shareholders of DMG MORI AKTIENGESELLSCHAFT compensation ("guaranteed dividend") amounting to € 1.17 gross or € 1.03 net per share – after corporation tax and before personal income tax – for each complete financial year for the term of the agreement.

Corporate Communications // Investor Relations

Our Corporate Communications // Investor Relations departments aim to provide an open and ongoing exchange of information with the capital market. Our objective is to create transparency and to enable others to gain a better understanding of our business model. Our work substantially contributes towards cultivating and enhancing DMG MORI's positive public image. We maintain constant communication with the national and international business press and all associations, bodies and decision makers relevant to the group. The business magazine "BILANZ" again lauded DMG MORI for its exemplary and transparent reporting in the Annual Report 2016.

Corporate Governance Report // Group Declaration on Corporate Management

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 2017, the Executive Board and Supervisory Board once again issued a compliance statement that confirmed without reservation the group's 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, as well as in the version of 7 February 2017 and its publication in the electronic Federal Gazette (Bundesanzeiger) on 24 April 2017. 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 compliance statement and the group declaration on corporate management, which is combined with the corporate govenance report, are permanently accessible on our website, as are the compliance statements of previous years.

→ corporate-governance-en.dmgmori.com

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 actually been provided.

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. For detailed information on the opportunities and risk management system of the group, please see page 64 et seq. of the Annual Report.

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 reports and quarterly releases to the Finance and Audit Committee and discusses these reports and releases in detail 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 both the members of the Supervisory Board and of the Executive Board is presented in detail in the remuneration report on page 28 et seq. 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 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 limited 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 appointment of Prof. Dr. Annette Köhler as a member of the Supervisory Board meant that the Supervisory Board complied with its voluntary obligation of setting a gender quota for the shareholders' representatives in financial year 2017. It also 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. 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 22 September 2015 specifying that a quota of 20% of the Executive Board of DMG MORI AKTIENGESELLSCHAFT was to be occupied by female members of staff by 30 June 2017. This goal was not achieved by this deadline as there was no executive department with effect on 30 June 2017. On 30 November 2017, the Supervisory Board confirmed a 20% target and also passed a resolution that this should be achieved 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 9 September 2015 for this management level was 6% for women and was to be achieved by 30 June 2017. At 7%, the company slightly exceeded this target as at 30 June 2017. On 18 October 2017, the Executive Board of DMG MORI AKTIENGESELLSCHAFT decided that a 10% female quota needed to be achieved for this management level by 30 June 2022.

With regard to the Supervisory Board, the statutory 30% quota has so far not been met, as there have been no suitable vacancies. The shareholders' and employees' representatives have decided to meet these legal requirements separately from each other. During the reporting period, there were two female

Supervisory Board members among the shareholders. With the resignation of Dr. Constanze Kurz on 30 November 2017, there were no longer any female Supervisory Board members among the employee 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 2017 and on our website.

Maximum customer satisfaction: More than 3,500 DMG MORI service employees are focused on providing timely assistance to every customer worldwide. They ensure the lowest possible downtimes and a high level of productivity. Their main goal: "We want to be number 1 for our customers worldwide!"

Financial Accounting and Annual Audit

We have again agreed with the annual auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Bielefeld, 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.

Insurance for Members of the Supervisory Board and the Executive Board of 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 the managing directors at DMG MORI. The D&O insurance contains the deductible provided for in the Code and in the pertinent statutory provisions, respectively.

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. Eng. Masahiko Mori holds shares in DMG MORI COMPANY LIMITED (Nara, Japan). According to its last notification of voting rights, DMG MORI COMPANY LIMITED, indirectly held 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.

Pursuant to Section 15a WpHG (German Securities Trading Act), 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.

Suggestions of the German Corporate Governance Code

DMG MORI also complies with the suggestions of the German Corporate Governance Code to a large extent. There are currently deviations 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 organizational reasons, no provision has been made to livestream the entire Annual General Meeting.

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 2017, the fixed remuneration for each individual member of the Supervisory Board was € 60,000; the Chairman received 2.5 times that amount (€ 150,000) and the Deputy Chairman 1.5 times that amount (€ 90,000). The fixed remuneration therefore totaled € 894,905 (previous year: € 893,361).

Remuneration for committee work totaled € 373,413 (previous year: € 480,884) and included the work carried out by the Finance and Audit Committee, the Personnel, Nominations and Remuneration Committee as well as the Technology and Development Committee. The individual committee members each received € 18,000. The chairperson of a committee also received an additional fixed remuneration of a further € 18,000 and the deputy chairperson a further € 6,000.

The members of the Supervisory Board and its committees receive an attendance fee of € 1,500 for each Supervisory Board and committee meeting that they participate in as a member. In total, attendance fees for financial year 2017 amounted to € 229,500 (previous year: € 255,000).

In financial year 2017, total remuneration for the Supervisory Board amounted to € 1,497,818 (previous year: € 1,629,245).

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, the LTI 2017–2019 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 € 8,659 K (previous year: € 10,498 K). Of this sum, fixed salaries accounted for € 2,100 K (previous year: € 2,134 K), and STI accounted for € 2,880 K (previous year: € 4,638 K). The individual remuneration amounted to € 1,750 K (previous year: € 371 K). The value of the LTI totaled € 1,272 K (previous year: € 2,665 K). Benefits in kind amounted to € 57 K (previous year: € 65 K). The pension plan expense amounted to € 600 K (previous year: € 625 K).

In financial year 2017, the former Executive Board member André Danks received a payment of € 118 K as direct remuneration until contract expiration on 10 March 2017.

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.

A.05 | REMUNERATION OF THE SUPERVISORY BOARD OF DMG MORI AKTIENGESELLSCHAFT

in €	Fixed remuneration	Committee remuneration: Finance and Audit Committee (F&A)	Committee remuneration: Personnel, Nominations and Remuneration Committee (PNR)	Committee remuneration: Technology and Development Committee (T&D)	Meeting attendance fees	Total
Prof. Dr.-Ing. Raimund Klinkner Chairman SB Chairman T&D Chairman PNR	150,000	18,000	36,000	36,000	30,000	270,000
Irene Bader	60,000	0	18,000	0	16,500	94,500
Ulrich Hocker Deputy chairman SB	90,000	0	18,000	0	16,500	124,500
Prof. Dr. Edgar Ernst Chairman F&A until 5 May 2017 (SB member until 5 May 2017)	20,548	12,329	0	0	6,000	38,877
Prof. Dr. Annette Köhler Chairman F&A since 5 May 2017 (SB member since 5 May 2017)	39,452	23,671	0	0	13,500	76,623
Dr. Eng. Masahiko Mori	60,000	18,000	0	18,000	18,000	114,000
Prof. Dr.-Ing. Berend Denkena	60,000	0	0	18,000	15,000	93,000
Dr. Constanze Kurz * (SB member until 30 November 2017)	54,905	16,471	16,471	16,471	27,000	131,318
Dietmar Jansen *	60,000	0	0	0	10,500	70,500
Mario Krainhöfner * Deputy chairman SB	90,000	0	18,000	0	15,000	123,000
Matthias Pfuhl	60,000	18,000	0	18,000	22,500	118,500
Peter Reinoss *	60,000	0	0	0	10,500	70,500
Hermann Lochbihler Deputy chairman SB	90,000	18,000	18,000	18,000	28,500	172,500
Total	**894,905**	**124,471**	**124,471**	**124,471**	**229,500**	**1,497,818**

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

A.06 | EXECUTIVE BOARD DIRECT REMUNERATION

	Fixum		STI		LTI		Performance remuneration		Perquisite		Pension Plan		Total	
in € K	2016	2017	2016	2017	2016 *	2017 *	2016	2017	2016	2017	2016	2017	2016	2017
Christian Thönes Chairman as of 15 April 2016	759	900	2,138	1,380	636	636	171	750	21	21	210	300	3,935	3,987
Dr. Maurice Eschweiler	547	600	1,250	750	429	636	100	500	18	18	150	150	2,494	2,654
Björn Biermann Executive Board member since 27 November 2015	503	600	1,250	750	–	–	100	500	17	18	100	150	1,970	2,018
Dr. Rüdiger Kapitza Chairman until 6 April 2016	325	–	–	–	1,600	–	–	–	9	–	165	–	2,099	–
Total	**2,134**	**2,100**	**4,638**	**2,880**	**2,665**	**1,272**	**371**	**1,750**	**65**	**57**	**625**	**600**	**10,498**	**8,659**

* Value of the LTI-Tranche 2013 – 2016 and 2014 – 2017

A.07 | ALLOCATED GRANTS

in € K				2016	2017	2017 (Min)	2017 (Max)
Christian Thönes	Chairman	since	Fixum	759	900	900	900
		15 April 2016	Perquisite	21	21	21	21
	Executive Board member	since	**Sum**	**780**	**921**	**921**	**921**
		1 Jan 2012	STI	855	690	0	1,380
			Performance remuneration	171	690	0	750
			LTI 2016 – 2019	517	–	–	–
			LTI 2017 – 2019	–	300	0	360
			Sum	**1,543**	**1,680**	**0**	**2,490**
			Pension 1)	210	300	300	300
			Total	**2,533**	**2,901**	**1,221**	**3,711**
Dr. Maurice Eschweiler	Executive Board	since	Fixum	547	600	600	600
	Industrial Services	1 April 2013	Perquisite	18	18	18	18
			Sum	**565**	**618**	**618**	**618**
			STI	500	375	0	750
			Performance remuneration	100	377	0	500
			LTI 2016 – 2019	517	–	–	–
			LTI 2017 – 2019	–	200	0	240
			Sum	**1,117**	**952**	**0**	**1,490**
			Pension 1)	150	150	150	150
			Total	**1,832**	**1,720**	**768**	**2,258**
Björn Biermann	Executive Board	since	Fixum	503	600	600	600
	Finance	27 Nov 2015	Perquisite	17	18	18	18
			Sum	**520**	**618**	**618**	**618**
			STI	500	375	0	750
			Performance remuneration	100	377	0	500
			LTI 2016 – 2019	517	–	–	–
			LTI 2017 – 2019	–	200	0	240
			Sum	**1,117**	**952**	**0**	**1,490**
			Pension 1)	100	150	150	150
			Total	**1,737**	**1,720**	**768**	**2,258**
Dr. Rüdiger Kapitza	Chairman	until	Fixum	325			
		6 April 2016	Perquisite	9			
	Executive Board member	from	**Sum**	**334**			
		1 Jan 1992	STI	–			
		to	Performance remuneration	–			
		6 April 2016	LTI 2016 – 2019	–			
			LTI 2017 – 2019	–			
			Sum	–			
			Pension 2)	165			
			Total	**499**			
Total			Fixum	2,134	2,100	2,100	2,100
			Perquisite	65	57	57	57
			Sum	**2,199**	**2,157**	**2,157**	**2,157**
			STI	1,855	1,440	0	2,880
			Performance remuneration	371	1,444	0	1,750
			LTI 2016 – 2019	1,551	–	–	–
			LTI 2017 – 2019	–	700	0	840
			Sum	**3,777**	**3,584**	**0**	**5,470**
			Pension	625	600	600	600
			Total	**6,601**	**6,341**	**2,757**	**8,227**

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

A.08 | INFLOW FOR THE FINANCIAL YEAR

in € K				2016	2017
Christian Thönes	Chairman	since	Fixum	759	900
		15 April 2016	Perquisite	21	21
	Executive Board member	since	**Sum**	**780**	**921**
		1 Jan 2012	STI	2,138	1,380
			Performance remuneration	171	750
			LTI 2013 – 2016	636	–
			LTI 2014 – 2017	–	636
			Sum	**2,945**	**2,766**
			Pension [1]	210	300
			Total	**3,935**	**3,987**
Dr. Maurice Eschweiler	Executive Board	since	Fixum	547	600
	Industrial Services	1 April 2013	Perquisite	18	18
			Sum	**565**	**618**
			STI	1,250	750
			Performance remuneration	100	500
			LTI 2013 – 2016	429	–
			LTI 2014 – 2017	–	636
			Sum	**1,779**	**1,886**
			Pension [1]	150	150
			Total	**2,494**	**2,654**
Björn Biermann	Executive Board	since	Fixum	503	600
	Finance	27 Nov 2015	Perquisite	17	18
			Sum	**520**	**618**
			STI	1,250	750
			Performance remuneration	100	500
			LTI 2013 – 2016	–	–
			LTI 2014 – 2017	–	–
			Sum	**1,350**	**1,250**
			Pension [1]	100	150
			Total	**1,970**	**2,018**
Dr. Rüdiger Kapitza	Chairman	until	Fixum	325	–
		6 April 2016	Perquisite	9	–
	Executive Board member	from	**Sum**	**334**	**–**
		1 Jan 1992	STI	–	–
		to	Performance remuneration	–	–
		6 April 2016	LTI 2013 – 2016	1,600	–
			LTI 2014 – 2017	–	1,216
			Sum	**1,600**	**1,216**
			Pension [2]	165	–
			Total	**2,099**	**1,216**

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

A.08 | INFLOW FOR THE FINANCIAL YEAR

in € K				2016	2017
Dr. Thorsten Schmidt	Deputy chairman	until	Fixum	–	–
		31 Dec 2015	Perquisite	–	–
	Executive Board member	from	**Sum**	**–**	**–**
		1 Oct 2006	STI	–	–
		to	Performance remuneration	–	–
		31 Dec 2015	LTI 2013 – 2016	1,000	–
			LTI 2014 – 2017	–	903
			Sum	**1,000**	**903**
			Pension [1]	–	–
			Total	**1,000**	**903**
André Danks	Executive Board	Since	Fixum	–	–
	Finance	11 March 2014	Perquisite	–	–
		Revocation of	**Sum**	**–**	**–**
		the appointment	STI	–	–
		to the	Performance remuneration	–	–
		Executive	LTI 2013 – 2016	–	–
		Board on	LTI 2014 – 2017	–	515
		26 Nov 2015	**Sum**	**–**	**515**
			Pension [1]	–	–
			Total	–	515
Günter Bachmann	Executive Board	until	Fixum	–	–
	production and	31 Dec 2013	Perquisite	–	–
	technology		**Sum**	–	–
			STI	–	–
			Performance remuneration	–	–
			LTI 2013 – 2016	900	–
			LTI 2014 – 2017	–	–
			Sum	**900**	**–**
			Pension [1]	–	–
			Total	**900**	**–**
Total			Fixum	2,134	2,100
			Perquisite	65	57
			Sum	**2,199**	**2,157**
			STI	4,638	2,880
			Performance remuneration	371	1,750
			LTI 2013 – 2016	4,565	–
			LTI 2014 – 2017	–	3,906
			Sum	**9,574**	**8,536**
			Pension	625	600
			Total	**12,398**	**11,293**

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 2017, 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 vocational and 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 2014 – 2017, 2015 – 2018 and 2016 – 2019 represent a performance units plan 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 2014 – 2017, which was awarded on 31 December 2017 and will be paid out in 2018, the resulting payment totals € 3,906 K (previous year's tranche 2013 – 2016: € 4,565 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 2014 – 2017, 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 € 600 K (previous year: € 625 K).

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 € 1,339 K in pensions (previous year: € 1,088 K). The pension obligations for former members of the Executive Board and their surviving dependents amounted to € 34,829 K (previous year: € 35,330 K).

Research and Development

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

In addition to developing innovative machines, we focus especially on:

- intelligent automation of machines and plants,
- end-to-end digital processes with DMG MORI Software Solutions (CELOS, DMG MORI Technology Cycles, DMG MORI Powertools) ADAMOS, ISTOS and WERKBLiQ,
- 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 at our cross-plant Technology Excellence Centers (Aerospace, Die & Mold and Medical),
- consolidation of our product portfolio (streamlining),
- standardization of components (SCOPE) and increase in value-added depth for core components (DMG MORI COMPONENTS).

At € 50.4 million, expenses for research and development were around 7.7% above the previous year's figure (€ 46.8 million). A total of 525 employees worked on developing our products (previous year: 502 employees); this corresponds to 15% of the total workforce at the plants (previous year: 15%).

Most successful EMO of all time: The leading trade fair worldwide for manufacturing technologies was the most successful trade fair for DMG MORI in the company's entire history. As a "Global One Company", we achieved a record order intake of about € 300 million. As the largest exhibitor, DMG MORI presented the future of manufacturing technologies on 10,000 m^2, exhibiting a "Digital Factory" as well as the latest trends and innovations from the areas of Automation, Digitization, ADDITIVE MANUFACTURING and Technology Excellence.

The innovation ratio in the "Machine Tools" segment was 3.9% (previous year: 3.8%). Investments in new products are listed in the segment reports as capitalized development costs.

In the reporting year, machines launched onto the market within the last three years accounted for around 30% of all orders (previous year: 31%). Together with DMG MORI COMPANY LIMITED, we as a "Global One Company" presented 15 world premieres at 42 national and international trade fairs, as well as at Open House exhibitions in the reporting year, thus demonstrating our innovative capacity. This included nine internal developments, two joint development and four developments of DMG MORI COMPANY LIMITED. In total, the value of our industrial property rights, defined by the market value method, amounts to around € 571 million in total (previous year: € 535 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 (Global Development Summit). In September 2017, 200 international development experts met at our plant in Seebach to develop and promote new ideas.

A.09 | RESEARCH AND DEVELOPMEMT AT DMG MORI IN A YEAR BY YEAR VIEW

		2017	2016	2015	2014	2013	2012
R&D employees	number	525	502	510	501	504	502
Proportion of R&D employees [1]	in %	15	15	14	14	15	15
R&D expense [2]	€ million	50.4	46.8	45.9	44.1	42.5	45.3
Innovation ratio [3]	in %	3.9	3.8	3.6	3.5	3.5	3.9
Capitalization ratio [4]	in %	13	18	18	18	26	20
New developments [5]	number	11 [7]	8 [6]	13	16	20	17

1) R&D employees in relation to the number of employees in the "Machine Tools" segment.
2) R&D expenses exclusive expense for special constructions.
3) R&D expenses in relation to sales revenues in the "Machine Tools" segment.
4) Capitalized development costs in relation to R&D expense.
5) Developments of DMG MORI AKTIENGESELLSCHAFT including cooperation developments with DMG MORI COMPANY LIMITED.
6) Reduced number of new developments due to our strategic realignment.
7) Includes nine new internal developments and two cooperation developments with DMG MORI COMPANY LIMITED, excluding four developments by DMG MORI COMPANY LIMITED.

We demonstrated our varied innovative solutions at the EMO in Hanover, for example. We presented the future of manufacturing technologies on 10,000 m^2. 40 of the 75 machines exhibited were connected to the IIoT platform ADAMOS, while 35 were equipped with automation solutions in the new VERTICO design. Special highlights included the 8 world premieres, our "Path of Digitization" and the "Digital Factory". Our innovation strengths were also apparent at the many other international trade fairs and local exhibitions.

In the turning division, our multi-spindle automatic lathes MULTISPRINT 25 and 36 were introduced. These machines can be used extremely flexibly primarily due to power-driven tools and Y axes in all tool positions. The universal lathes CLX 350 and CLX 550 were further world premieres in the reporting year. These machines stand out due to their impressive rigidity and the large number of options that they offer. The new CTX 2500 700|1250 shows excellent performance data in universal spinning, and offers flexible automation options and smart control technology. Presented for the first time at the EMO, the second generation of the Turn & Mill Centers NTX 2500|1500 provides high precision and efficiency by complete machining of workpieces.

In the milling division, the third generation of the successful DMU 50 model was presented. We have incorporated our experience with more than 10,000 predecessor machines sold into this universal milling machine. Among other features, it offers a 78% larger workspace and 40% faster motion. Our newly presented milling machines DMU 200 Gantry and DMU 340 Gantry enable highly dynamic 5-axle processing of large components due to a new, highly dynamic machine concept.

In the Advanced Technologies division, REALIZER GmbH from Borchen is adding the powder bed process to our portfolio. Thanks to this technology, which we are offering under the name SLM (Selective Laser Melting), we have become the first global full-liner for the additive manufacture of metal components. The LASERTEC 30 SLM was presented as a first world premiere in SLM technology. This machine is particularly impressive due to its powder module, which has been registered for a patent and which allows the material to be changed in only two hours. In the area of 5-axle laser texturing, we presented a further world premiere with the LASERTEC 75 Shape. This machine has a large work area with good accessibility while only taking up limited space and enabling fast laser processing.

In the field of automation, we founded the joint venture "DMG MORI HEITEC GmbH" in November, which will provide flexible and consistent automation using modular solutions for small to medium-sized companies in particular in the future. A construction kit approach is used to offer the intelligent manufacturing cell of the future, allowing for tailored settings and adjustment. A virtual image of machines, plants, robot applications and process flows – "Digital Twin" for short – is of key importance for the manufacturing cell of the future. An exact virtual simulation can enable the real equipment to start operations quickly and highly efficiently. Customers obtain a highly economic solution which offers high productivity and variability.

In the field of digitization, we were again able to demonstrate our role as innovation and technology leader. By initiating the ADAMOS (ADAptive Manufacturing Open Solutions) joint venture, we together with our partners Dürr, Software AG, ZEISS and ASM PT are establishing a strategic alliance for the future topic of the Industrial Internet of Things (IIoT). With ADAMOS, we offer an open digital platform with leading machine manufacturing, production and software / IT expertise from one source – by machine manufacturers for machine manufacturers, their suppliers and clients. ADAMOS will set new standards for Industrie 4.0 globally and as such is a key component of our "Path of Digitization". CELOS and ADAMOS will actively shape digitization: We have re-designed CELOS as a modular 360° solution portfolio for consistent digitization of the factory. To this end, we presented CELOS Version 5.0 with 10 new APPs in the reporting year. The

APP PRODUCTION PLANNING, for example, simplifies planning and management of manufacturing orders. It links the office and shop floor. Our new DIGITAL TOOLING APPs offer our customers the opportunity to manage their tool data digitally and across different equipment. We have expanded CELOS further to create an open system. In this context, the new CELOS NET*box* plays a key role as an open IIoT connector, including for third-party equipment. Thanks to this new "Open Connectivity", it is now also possible to integrate third-party products, machines from complementary technology areas and manual workplaces into the CELOS alliance. Furthermore, the CELOS PRO*tab* can support our customers as a "mobile assistant", which makes it possible to consistently use the CELOS functionality across the entire shop floor. The CELOS Cockpit, another new feature, visualizes an intelligent manufacturing control panel. Combined with the CELOS machines, we thus provide comprehensive digital production solutions which our customers can use to design their individual Digital Factory either in steps or as a whole. The takeover of WERKBLiQ GmbH is a further element in our digitization strategy. WERKBLiQ offers a cross-manufacturer platform where all those involved in the maintenance process can be linked to one another. Machine operators can see all important information and key figures on their individual dashboards. The entire maintenance and servicing process is digitized and accelerated.

Our DMG MORI Technology Cycles – the digital assistant for programming the machine – support handling, measurement, metal cutting and monitoring, while taking up to 60% less time. They increase quality, productivity, transparency and process safety during manufacture. We have added four new digital assistants for metal cutting to our offer. The technology cycle "polygon/oval turning" facilitates processing of non-circular parts. The cycles "Dynamic Tool Scanning – Dyna Line" and "W-Setter" enable simplified tool measures in the machine, while the "MVC – Machine Vibration Control" permanently monitors for potential machine vibrations, ensuring a stable process and more efficient processing.

Within the field of work preparation, our customers benefit from the new DMG MORI power tools for automatic program creation. The power tool "Technology Library", for example, achieves greater process safety and shorter processing periods by using semi-skilled tools and technology parameters for known processing steps. The digital assistant "Adaptive Machining" ensures standardized measurement and as such constant, logged component quality.

In the DMG MORI COMPONENTS area, the new speedMASTER spindle achieves revolution speeds of up to 30,000 r.p.m., creating a higher material removal rate, particularly for the aerospace and medical industries. The inlineMASTER and further variants of our high-performance turnMASTER spindles were also presented.

ADAMOS One highlight at the EMO was the presentation of the open digital platform ADAMOS (ADAptive Manufacturing Open Solutions). Together with Dürr, Software AG, ZEISS and ASM PT, DMG MORI founded a strategic alliance for the future topic of the Industrial Internet of Things (IIoT).

www.adamos.com

Purchasing

Financial year 2017 was marked by a continuous rise in commodity and material prices. DMG MORI was able to generate significant material cost savings with its sustainable cost management and an internationally focused purchasing strategy – contrary to the market trend. This was helped by early consultation with our suppliers so that we were able to secure the material supply. We monitor our suppliers' creditworthiness on an ongoing basis to identify and counteract any negative developments early on. Moreover, we initiated the necessary measures to prevent potential dependencies on individual suppliers.

Supplier know-how is extremely important for our technological edge and customer-focused, competitive products. As such, we also focus on expanding and intensifying our strategy partnerships with our suppliers. Our proven program of technology partnership in the areas of digitization and DMG MORI Qualified Products (DMQP), was further developed in the reporting year. A "Partner Summit" was held at the EMO to underscore the performance of our partners and the importance of their work. DMG MORI again invited a total of around 100 strategic partners who have stood out due to their excellent performance over the last years. The five best suppliers received the DMG MORI Partner Award based on the criteria of "First Quality", supplier flexibility, competitive cost structures, service, First-to-Market innovations and global presence.

Already in 2016 the global material groups management was introduced and implemented together with DMG MORI COMPANY LIMITED. Also in the reporting year we managed to realize the goals set jointly regarding material costs, quality and deliverability by intensifying this cooperation.

In the reporting year, purchasing contributed in this way to driving technologies and further developing the methods to involve suppliers in the innovation process on an ongoing basis. This included the "DMG MORI Innovation Campaign", which was held for the first time in 2017. Selected suppliers were given the opportunity to present their forward-looking ideas on a web-based platform in digital form. This enabled us to identify innovations early on, evaluate them and integrate them into DMG MORI technology planning.

At DMG MORI, "First Quality" stands for highly reliable products with a long service life. That is why we only cooperate with partners who have this holistic view of quality. In supplier management, our demanding "First Quality" standards were integrated into our suppliers' quality management. With its globally consistent standards and targeted measures, DMG MORI guarantees maximum quality for all customers in the long term.

At the Ulyanovsk production site, we were able to further reduce costs in the reporting year by increasing the localization proportion while at the same time significantly raising the value added through locally purchased components.

An important measure for sustainable value creation at DMG MORI is the company's supply chain management. We thus pay attention to compliance with environmental standards and social requirements in our supplier relationships. For further details, see the chapter entitled "Partner and Supplier Management" in our Sustainability Report 2017, on page 24 et seq. In accordance with DMG MORI's consistent digitization strategy, purchasing will continue to use the digital developments to sustainably optimize its own processes and structures.

DMG MORI Partner Award 2017:
DMG MORI recognized five of its supplier partners with the "Partner Award 2017" at the EMO Hanover – the leading trade fair worldwide for manufacturing technologies – on 19 September 2017.

Production and Logistics

Maximum customer satisfaction is the main theme of our "First Quality" strategy. We focus on holistic optimization of the product and process quality to be able to meet this demand in full. As part of the ongoing "TAKT" project, the group-wide standardization has been further advanced to raise efficiency in production and logistics as well as in the production-related areas. In addition to measures for sustainable productivity and inventory management, we initiated a company-wide logistics project to standardize and optimize logistics processes.

During the digitization of the production and logistics processes, we introduced shop floor tablets at all production sites. As a result, we have real-time, mobile production-relevant data available on assembly progress, output quantity and productivity at all times.

With the "DMG MORI Improve Together" initiative, we standardized and digitized all processes, such as the "operational suggestions system" (BVW), the "continuous improvement process" (KVP) and the performance of related workshops and projects across the entire company. The newly introduced "DMG MORI Improve" software makes it possible to quickly look at ideas and improvements across the plants, to evaluate them and to implement them quickly and easily on an independent basis. In this way, "best practices" can be transferred across the entire company even more quickly.

Through to the close cooperation with DMG MORI COMPANY LIMITED, we benefit from the reciprocal use of our global production capacities. As part of the ongoing improvement process, our production plants continuously exchange ideas and expertise to further optimize processes, increase efficiency and guarantee the highest quality. Due to our global network, we are able to increase our flexibility, optimally use our capacities and reduce the distance to our customers by using local production capacities. We started establishing training centers in our production plants – known as DOJOs – based on the Japanese principle. We provide needs-based training and continuous education at our machines there, along with information on production and occupational safety topics.

In the Milling division, we fundamentally overhauled basic machine assembly in the duoBLOCK series and horizontal machining centers, and completed the expansion and optimization of the wheel magazine assembly at DECKEL MAHO Pfronten GmbH. This permitted us to significantly increase flexibility and output quantity and reduce throughput times.

We generally expanded and optimized shipping logistics at DECKEL MAHO Seebach GmbH. The additional logistics space enabled us to double our shipping volume and improve our capacity balancing. Spatial separation prevents temperature fluctuations in the assembly area and creates additional assembly spaces. In addition, we have reorganized preparatory table installation for the DMU assembly, which enabled us to reduce processing times by more than 10% thanks to a parallel primary processing time installation of the wheelsets and gear cases.

In the Turning segment, GILDEMEISTER Drehmaschinen GmbH presented the new "Smart Education Center" training concept at the Open House. The focus is fully on comprehensive education in the Industrie 4.0 era. New teaching content, such as "First Quality", "Digitization" and "TAKT", prepares apprentices for Industrie 4.0 from the outset and strengthens their digital competences.

GILDEMEISTER Italiana S.p.A. (Italy) in Bergamo was able to improve the assembly times of the SPRINT 32 series by 15% and of the NLX 2500|700 by 8%, and significantly improve the material flow in the incoming goods department. At GRAZIANO Tortona S.r.l. (Italy), we started production of the new universal turning machines CLX 350 and CLX 550.

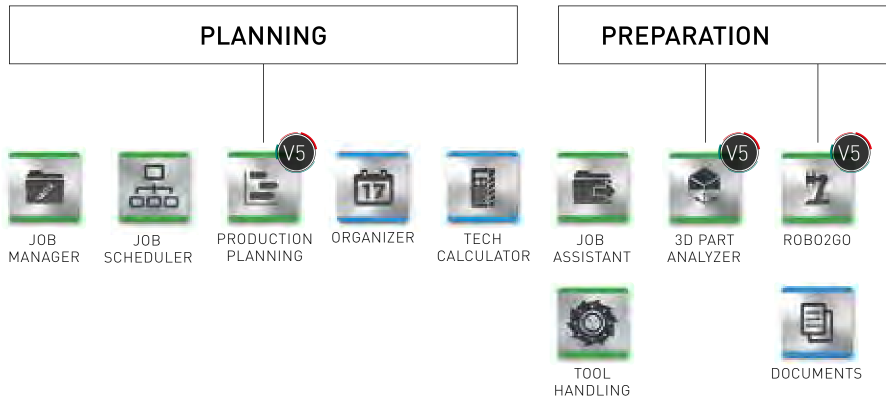
In FAMOT in Pleszew Sp.z o.o. (Poland), we continued to expand and modernize the site, started constructing a new assembly hall and put a state-of-the-art induction hardening shop into operation. We also started to overhaul the production of our spindles, inlineMASTER and powerMASTER. We plan to double our spindle assembly capacity by 2020.

In our plant in Ulyanovsk Machine Tools ooo (Russia), we put a cutting-edge spindle assembly into operation. This measure enables us to continuously increase the proportion of our localization efforts.

The Advanced Technologies division of SAUER GmbH in Idar-Oberstein comprises extensive know-how in the ULTRASONIC and LASERTEC production processes. The integration of the REALIZER products permits DMG MORI to strengthen its groundbreaking technologies in ADDITIVE MANUFACTURING around the SLM process (powder bed). At our site in Bielefeld, we started with the development and assembly of these cutting-edge machines.


CELOS
PATH OF DIGITIZATION
CELOS Manufacturing
CELOS Machine
DIGITAL FACTO

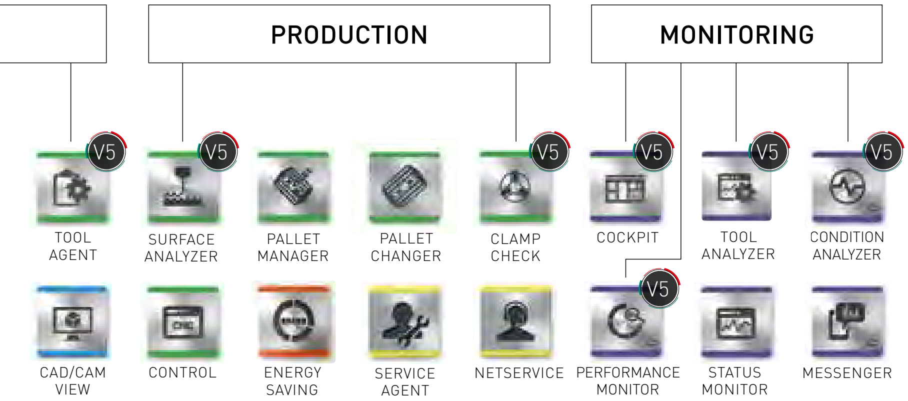

ADAMOS



DMG MORI
PATH OF DIGITIZATION

Increasing digitization is redefining the future of production: Material supply, machine operation and process control are increasingly linked – from individual machines to production lines, through to entire factories. DMG MORI is consistently driving its “Path of Digitization”. ADAMOS – a strategic alliance of partners in the mechanical engineering and software areas – was founded in 2017. The objective: joint global industry standards for the “Digital Factory”.

Forward-looking machine 4.0:
Sensors and the CELOS APP “Performance Monitor” record and analyze the data and status of machine tools during the process. For example, this technology can be used to determine OEE ratios to describe the effectiveness of the facility as a whole. The monitoring option of Predictive Maintenance also helps.



Digitized consistently:
Ten new APPS will become available with CELOS Version 5.0 from April 2018. They will ensure consistent digital workflows from planning via preparation through to production through to monitoring.

- PRODUCTION
- UTILITIES
- MACHINE VIEW
- CONFIGURATION
- SUPPORT

CELOS: 26 APPs to make digital workflows fully consistent – from planning to preparation through to production and monitoring.

SIMPLE AND INTEGRATED DIGITIZATION

DMG MORI offers a 360° solution portfolio to achieve integrated digitization of the factory – machines, processes and services. With CELOS and ADAMOS, DMG MORI now has a consistent digitization strategy.

As an open IIOT connector for third-party machines as well, the CELOS NET*box* enables DMG MORI to provide "Open Connectivity" and hence transparency in all processes. The open digital solution ensures that not just DMG MORI's high-tech machines but also those of other manufacturers can be connected to CELOS, along with complementary technology areas and manual workspaces.

The entire manufacturing process at a glance: DMG MORI's monitoring and service products increase transparency during production. All the relevant process and machine data in the digital factory is visualized and analyzed. This provides customers with a holistic overview of the status on the shop floor – for maximum productivity, greater efficiency and maximum reliability.

INDIVIDUAL END-TO-END SOLUTIONS

CELOS PRO*tab*

With the **CELOS PRO*tab*,** DMG MORI is adding a mobile assistant to networked production. The industry-compatible tablet allows DMG MORI's customers to also use CELOS functions on existing machines and third-party products in the future.

CELOS COCKPIT

The **CELOS COCKPIT** is the bridge between all machines in the production environment. This is where all workshop-related information on DMG MORI machines and third-party products meets. The CELOS COCKPIT is thus the basis for all digital monitoring functionalities.

NETSERVICE 4.0

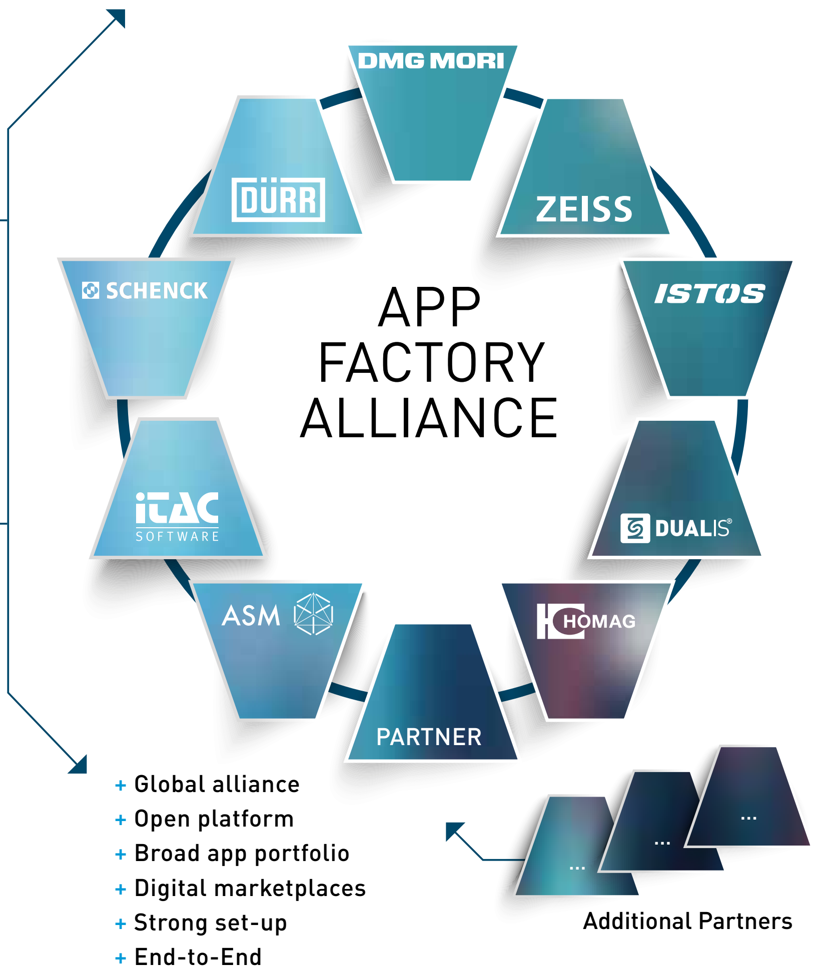
Optimum service processes increase production plant availability and minimize the risk of costly production downtime. With these ambitions in mind, DMG MORI presents its **NETSERVICE 4.0** as the new benchmark for remote services in machine tool building.

ADAMOS IIOT PLATFORM FOR MECHANICAL ENGINEERING

“With digitization the machine and plant building industry has to set its own standards and drive development forward. From machine tool builders for machine tool builders, their suppliers and customers!”

Christian Thönes
Chairman of the Executive Board of DMG MORI AKTIENGESELLSCHAFT

ADAMOS



About ADAMOS

DMG MORI has established a global and cross-industry alliance with the world market leaders Dürr, Software AG, ZEISS and ASM PT to expand the "Path of Digitization". The companies have been bundling their strengths with ADAMOS (**Ada**ptive **M**anufacturing **O**pen **S**olutions) since October 2017 to build an open, digital platform for Industrie 4.0 together. The partners not only contribute their in-depth industry knowledge and innovative IT expertise but also add their present solutions. This includes the partners' digital marketplaces and a broad APP portfolio. DMG MORI already has a consistent digitization strategy to lead its customers around the world to the digital production of the future and to further develop existing potentials.

Report on Economic Position

Business Environment

OVERALL ECONOMIC DEVELOPMENT

After a slow start to 2017, world production accelerated in almost all relevant economies throughout the year. According to preliminary calculations of the Institute for World Economics (IfW) at Kiel University, the global economy grew by +3.8% in 2017 (previous year: +3.1%).

In Germany, gross domestic product (GDP) grew at +2.6%, which was more than in the previous year (+1.9%). Economic development in the Eurozone was also positive at +2.4% (previous year: +1.8%). Among the larger economies, only the UK recorded slower economic growth with +1.5% (previous year: +1.8%). The Russian economy recovered and grew by +1.7% (previous year: -0.2%).

In Asia, economic development was robust overall at +6.4% (previous year: +6.8%). In China, GDP growth of +6.8% was largely similar to the previous year (+6.9%). India grew by +6.4% and recorded a slight slowdown in growth (previous year: +7.8%). In Japan, economic growth accelerated throughout the year. GDP rose by +1.8% (previous year: +0.9%).

In the USA, the economy accelerated significantly in the second half of the year. GDP grew by +2.3% over the whole year (previous year: +1.5%). Latin America seems to have overcome the recession trends of the past few years. GDP rose by +1.4% (previous year: -1.2%).

The international business of DMG MORI AKTIENGESELLSCHAFT is being impacted by the euro exchange rates. The U.S. dollar, the Chinese renminbi, the Russian ruble and the Japanese yen are thereby of particular importance. The euro appreciated against these currencies in 2017. Customers in U.S. dollar-dependent markets as well as in China, Japan and Russia therefore had to pay increased prices for products from our European manufacturing sites.

DEVELOPMENT OF THE MACHINE TOOL BUILDING INDUSTRY

International Development

According to the information of the German Machine Tool Builders' Association (VDW), the global machine tool market developed positively as a whole in 2017. World consumption increased by +4.5% to € 70.7 billion (previous year: € 67.6 billion). In Europe, demand for machine tools rose moderately by +2.6% (previous year: +3.7%). Asia recorded a significant increase of +5.7% (previous year: +2.2%). In North and South America, the development returned to positive territory at +1.4% (previous year: -6.7%).

In China, the worldwide largest market, the consumption of machine tools increased by +5.1% to € 22.7 billion (previous year: € 21.6 billion). As the second most important market for machine tools with € 8.9 billion, the USA recorded significant growth of +12.2% (previous year: € 8.0 billion). In the third largest market, Germany, consumption fell by 0.5% to € 5.8 billion (previous year: € 5.9 billion). With a decline of -4.3%, Japan also recorded a slowdown in consumption and came in fourth globally at € 4.9 billion (previous year: € 5.1 billion). Italy recorded strong growth of +14.4% to € 3.6 billion (previous year: € 3.2 billion) and came in fifth ahead of South Korea with € 3.5 billion (previous year: € 3.2 billion). The ten most important consumption markets accounted in total for 80% of the machine tool consumption worldwide.

The VDW calculated a volume of € 70.7 billion (previous year: € 67.6 billion) for global production. According to preliminary estimates, China was again the worldwide largest producer of machine tools with a volume of € 17.7 billion (previous year: € 17.1 billion) in 2017. Germany and Japan follow in second and third place with € 11.5 billion (previous year: € 11.1 billion) and € 11.4 billion (previous year: € 10.9 billion), respectively. Altogether, the ten key production countries account for 91% of all machine tools worldwide.

German Machine Tool Industry

The ifo business climate index for trade and industry is the leading indicator for economic development in Germany. The survey shows that the majority of index values are above the previous year's level in the manufacturing sector (mechanical engineering, manufacturing of metal products and electrical equipment) and in November 2017 reached its highest level since the German reunification.

In 2017, the German machine tool industry recorded growing order intake, increasing production and increasing sales revenues. At € 17.2 billion, the order intake of plants in Germany was significantly above the level of the previous year (previous year: € 16.0 billion). This corresponds to an increase of +8.0%. Domestic demand improved significantly by +10.1% (previous year: 0.0%). Demand from abroad rose by +7.0% (previous year: +10.0%). The VDW reports that order intake for cutting machines increased by +9.0% (previous year: +8.0%). Machining orders in the domestic market increased by +14.0%. In the forming machines area, order intake increased by +6.0% (previous year: +4.0%). Order intake at foreign plants of German manufacturers is not included in these figures.

Sales revenues of German machine tool manufacturers rose by +5% year-on-year (previous year: 0.0%).

Production once again reached a volume of € 14.3 billion and was thus +4.5% above the previous year's level.

Machines with a value of € 10.1 billion were exported (previous year: € 9.4 billion); exports thus increased by +7.6% compared to the previous year; the export ratio rose by two percentage points to 70.8%. The most important export market for German machine tools was once again China with € 2.2 billion (previous year: € 1.9 billion); this represents 22% of German machine tool exports (previous year: 20%). As in the previous year, the USA took second place with a constant export volume of € 1.2 billion (export share: 12.5%). France was the third most important export market with € 0.5 billion and an export share of 5% before Italy. The import of machine tools rose by +1.8% to € 3.5 billion (previous year: € 3.4 billion). Accounting for an import share of 29%, almost every third imported machine tool came from Switzerland. This was followed by Japan (11%) and Italy (8%) also ranking among the TOP 3 of import countries.

Domestic consumption of machines, parts and equipment remained stable at the previous year's level with € 7.7 billion. Over the course of the year, the capacity utilization of German machine tool producers increased by +3.6%. The capacity utilization of producers of cutting machines was 91.6% (previous year: 88.0%).

Averaged across the year, the number of employees in German machine tool companies rose to a total of 70,900 (previous year: 68,985).

Results of Operations, Financial Position and Net Worth

ORDER INTAKE

Order intake rose to € 2,754.8 million and, after the previous year's record number (€ 2,369.9 million), we were able to once again significantly increase it by +16%. This made financial year 2017 our best year to date with regard to order intake. Adjusted for the effects from the realignment – such as, among other things, the changed sales and service structure in Asia and America – order intake even increased by 23%. Orders reached € 666.2 million in the fourth quarter (previous year's quarter: € 610.3 million).

In the "Machine Tools" segment, orders rose by 24% or € 306.6 million to € 1,575.9 million (previous year: € 1,269.3 million). The "Industrial Services" segment recorded an order intake of € 1,178.6 million (previous year: € 1,100.4 million), of which € 1,078.8 million were accounted for in the Services division (previous year: € 1,032.8 million). This figure includes orders for machines by DMG MORI COMPANY LIMITED in the amount of € 442.8 million (previous year: € 386.9 million). The Energy Solutions division accounted for € 99.8 million (previous year: € 67.6 million).

Domestic orders increased by 8% to € 825.7 million (previous year: € 763.0 million). International orders amounted to € 1,929.1 million (+20%; previous year: € 1,606.9 million). Thus, the proportion of international business was 70% (previous year: 68%).

SALES REVENUES

Sales revenues increased to € 2,348.5 million and thus reached a new record high. They increased by € 82.8 million or 4% compared to the previous year (€ 2,265.7 million). Adjusted for the effects of the realignment, sales revenues for the full year even increased by +9% compared to the previous year. In the fourth quarter, sales revenues increased by € 55.7 million or 9% to € 692.3 million (previous year: € 636.6 million).

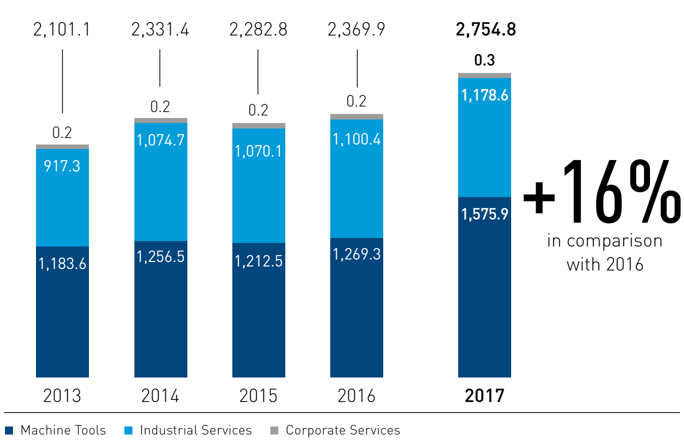
In the "Machine Tools" segment, sales revenues rose to € 1,289.4 million (previous year: € 1,244.3 million). Sales revenues reached € 376.7 million in the fourth quarter (previous year's quarter: € 347.5 million).

The "Industrial Services" segment achieved sales revenues of € 1,058.8 million (previous year: € 1,021.2 million). Sales revenues in the Services division amounted to € 1,007.6 million (previous year: € 970.7 million), of which € 487.2 million accounted for sales revenues from trade with products of DMG MORI COMPANY LIMITED (previous year: € 433.9 million). The Energy Solutions division accounted for € 51.2 million (previous year: € 50.5 million). In the fourth quarter, sales revenues in the "Industrial Services" segment amounted to € 315.5 million (previous year's quarter: € 289.1 million).

International sales revenues rose by 7% to € 1,636.4 million. Domestic sales revenues were € 712.1 million. The export ratio rose to 70% (previous year: 67%).

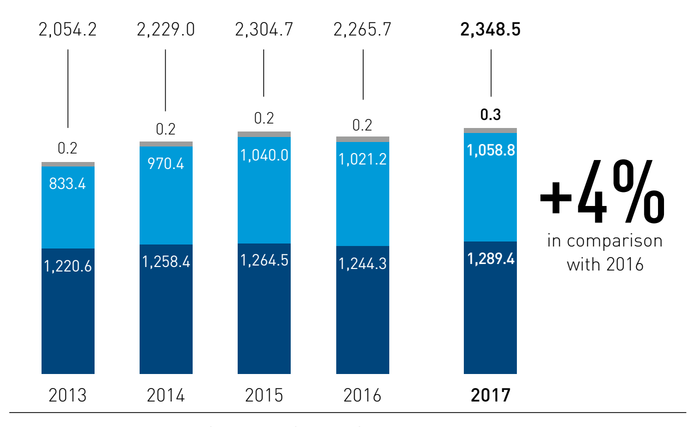
B.01 | ORDER INTAKE

in € million



B.02 | SALES REVENUES

in € million



ORDER BACKLOG

On 31 December 2017, the group's order backlog was € 1,309.1 million (31 Dec 2016: € 937.5 million). The domestic order backlog increased to € 454.6 million (31 Dec 2016: € 361.2 million). The international order backlog increased by € 278.2 million to € 854.5 million (31 Dec 2016: € 576.3 million). International orders accounted for 65% of the present order backlog (corresponding date of the previous year: 61%).

The order backlog varied in the individual segments: In "Machine Tools", it amounted to € 773.2 million (31 Dec 2016: € 503.1 million). "Industrial Services" had an order backlog totaling € 535.9 million as of 31 December 2017 (31 Dec 2016: € 434.4 million), of which € 473.6 million were accounted for by the Services division (previous year: € 414.7 million). The Energy Solutions order backlog amounted to € 62.3 million (31 Dec 2016: € 19.7 million).

Based on the order backlog, this mathematically results in a time period of 6 months on average in "Machine Tools" (previous year: around 5 months) – a good general capacity utilization for the current financial year. However, the individual production companies have different capacity utilizations.

RESULTS OF OPERATIONS

In financial year 2017, the results of operations of DMG MORI developed positively: EBITDA increased by 49% to € 252.9 million (previous year: € 169.7 million). EBIT increased by 73% to € 180.1 million (previous year: € 104.0 million) and EBT rose by 87% to € 176.4 million (previous year: € 94.1 million). In the previous year, EBT was negatively impacted by the effects of the implemented realignment measures in particular in the amount of € 77.8 million. The group reported EAT of € 118.4 million as of 31 December 2017 (previous year: € 47.5 million).

The individual income statement items are discussed in more detail below.

Overall performance increased to € 2,367.9 million; it thus exceeded the previous year's value by € 105.5 million or 4.7% (€ 2,262.4 million). The increase was primarily the result of an increase in sales revenues by € 82.8 million or 3.7% (previous year: € 2,265.7 million) and a change in inventory of € +11.7 million (previous year: € -16.9 million), which is particularly due to an increase in unfinished goods. Adjusted for the effects from the realignment – such as, among other things, the changed

B.03 | INCOME STATEMENT DMG MORI

in € million	2017		2016		Changes against previous year	
Sales revenues	**2,348.5**	**99.2%**	**2,265.7**	**100.1%**	**82.8**	**3.7%**
Changes in finished goods and work in progress	11.7	0.5%	-16.9	-0.7%	28.6	169.2%
Own work capitalized	7.7	0.3%	13.6	0.6%	-5.9	43.4%
Total work done	**2,367.9**	**100.0%**	**2,262.4**	**100.0%**	**105.5**	**4.7%**
Cost of materials	-1,263.6	-53.4%	-1,157.5	-51.2%	-106.1	9.2%
Gross profit	**1,104.3**	**46.6%**	**1,104.9**	**48.8%**	**-0.6**	**0.1%**
Personnel costs	-550.7	-23.3%	-572.0	-25.3%	21.3	3.7%
Other expenses and income	-300.7	-12.6%	-363.2	-16.0%	62.5	17.2%
EBITDA	**252.9**	**10.7%**	**169.7**	**7.5%**	**83.2**	**49.0%**
Depreciation	-72.8	-3.1%	-65.7	-2.9%	-7.1	10.8%
EBIT	**180.1**	**7.6%**	**104.0**	**4.6%**	**76.1**	**73.2%**
Financial result	-5.2	-0.2%	-10.6	-0.4%	5.4	50.9%
Share of profits and losses of at equity-accounted investments	1.5	0.1%	0,7	0.0%	0.8	114.3%
EBT	**176.4**	**7.5%**	**94.1**	**4.2%**	**82.3**	**87.5%**
Income taxes	-58.0	-2.5%	-46.6	-2.1%	-11.4	24.5%
EAT	**118.4**	**5.0%**	**47.5**	**2.1%**	**70.9**	**149.3%**

sales and service structure in Asia and America as well as the "Smart Pricing" concept that we implemented – the company even recorded an increase in sales revenues of 9% compared to the previous year.

The cost of materials increased by € 106.1 million to € 1,263.6 million (previous year: € 1,157.5 million). The materials ratio amounted to 53.4% (previous year: 51.2%). The changes compared to the previous year resulted primarily from the effects of the "Smart Pricing" concept that we implemented in the Services division. The gross profit amounted to € 1,104.3 million (previous year: € 1,104.9 million).

The personnel quota decreased to 23.3% (previous year: 25.3%). Personnel expenses decreased by € 21.3 million to € 550.7 million (previous year: € 572.0 million). The decrease is primarily the result of reduced employee numbers, among other things due to the sale of the shares in the sales and service companies in Asia (except China and India) and America, and includes the effects from realignment in the amount of € 17.2 million which were recognized in the previous year.

The balance of other income and expenses amounted to € -300.7 million (previous year: € -363.2 million). Other operating income decreased to € 81.1 million (previous year: € 96.7 million); as in the previous year, it includes mainly exchange rate gains in the amount of € 30.4 million (previous year: € 39.2 million), which should be seen in connection with the exchange rate losses in other operating expenses. In financial year 2017, an exchange rate loss in the amount of € 0.7 million resulted on balance (previous year exchange rate gain: € 0.5 million). Other operating expenses decreased by € 78.1 million to € 381.8 million (previous year: € 459.9 million) in the reporting period. This was mainly due to a reduction in other external services by € 14.3 million to € 32.4 million (previous year: € 46.7 million) and to travel and representation expenses by € 7.6 million to € 37.8 million (previous year: € 45.4 million). Furthermore, the exchange rate loss of € 38.7 million in the previous year decreased to € 31.1 million and trade fair costs decreased from € 48.8 million to € 45.2 million. In the previous year, other operating expenses were impacted by effects from the realignment in the amount of € 32.8 million.

Depreciation amounted to € 72.8 million (previous year: € 65.7 million). This includes write-downs due to impairment in value in the amount of € 14.6 million, which primarily occurred in connection with buildings. In the previous year, depreciation was impacted by the realignment in the amount of € 8.4 million.

The financial result improved to € -5.2 million (previous year: € -10.6 million). This was, among other things, the result of increased financial income (€ 3.8 million; previous year: € 2.8 million) and lower interest payable (€ 7.4 million; previous year: € 8.1 million). Moreover, the previous year's financial result contained effects from the write-down due to impairment of value of financial assets in the amount of € 3.5 million.

The income taxes was € 58.0 million (previous year: € 46.6 million). The tax ratio improved to 32.9% (previous year: 49.5%). In the previous year, the tax ratio was influenced by the effects on the result from the implemented realignment measures, which are largely not tax-deductible. The resulting tax effects did not affect the cash flow for the most part. More details on the tax ratio can be found in the Notes on page 120 et seq.

FINANCIAL POSITION

The financial position developed positively in the reporting year: **Free cash flow** increased to € 142.4 million (previous year: € 42.5 million) and thus reached the highest value in company history to date.

Cash flow from operating activity (cash inflow) increased to € 171.7 million (previous year: € 124.0 million). Substantial contributions to this cash flow came from earnings before taxes (EBT) in the amount of € 176.4 million (previous year: € 94.1 million) and depreciation of € 72.8 million (previous year: € 65.7 million). The significant rise in received prepayments by € 132.1 million (previous year: € 25.2 million) led to an improved cash flow. The rise in trade debtors by € 57.7 million and in inventories by € 52.3 million led to a cash flow reduction. In addition, the planned reduction in trade creditors by € 5.0 million as well as the payments for income taxes (€ 55.5 million) and interest (€ 7.4 million) lowered the cash flow.

B.04 | CASH FLOW

in € million	2017	2016
Cash flow from operating activity	171.7	124.0
Cash flow from investment activity	-9.7	-198.3
Cash flow from financing activity	-190.7	-52.5
Changes in cash and cash equivalents	-33.3	-124.8
Liquid funds at the start of the reporting period	396.7	552.1
Liquid funds of assets held for sale	0	-30.6
Liquid funds at the end of the reporting period	363.4	396.7

The **cash flow from investment activity (cash outflow)** amounted to € -9.7 million (previous year: € -198.3 million). Payments made for investments in property, plant and equipment were € 29.7 million (previous year: € 74.3 million) and for intangible assets were € 10.0 million (previous year: € 13.8 million). The sale and purchase of subsidiaries resulted in total incoming payments of € 21.4 million (previous year: € 3.2 million). The cash flow from investment activity recognized the disbursement for the loan of € 120.0 million to DMG MORI GmbH.

At € 142.4 million, the **free cash flow** was clearly above the previous year's value of € 42.5 million. The free cash flow is defined as the balance of the cash flow from operating activity and the cash flow from investment activity, whereas the outflows and inflows relating to the sale and acquisition of subsidiaries (€ 21.4 million; previous year: € 3.2 million), and the financial assets (€ -1.8 million; previous year: € 0.0 million), and disbursement of the loan to DMG MORI GmbH (€ 0.0 million; previous year: € 120.0 million) remain outside of consideration.

B.05 | FREE CASH FLOW

in € million	2017	2016
Free cash flow from operating activity	171.7	124.0
Free cash flow from investing activity	-29.3	-81.5
Free cash flow	142.4	42.5

The **cash flow from financing activity (cash outflow)** amounted to € -190.7 million (previous year: € -52.5 million). Cash flow resulted primarily from purchase price payments in 2017 for the purchase of shares in DMG MORI Europe AG in 2016 in the amount of € 140.4 million and the transfer of profits to DMG MORI GmbH for the year 2016 amounting to € 41.1 million; on 31 December 2016, these liabilities were recognized in the balance sheet under liabilities to other related parties.

The change in cash flow as of 31 December 2017 resulted in a decrease of liquid funds by € 33.3 million to € 363.4 million (previous year: € 396.7 million). DMG MORI was therefore in a good liquidity position at the end of the year. As of 31 December 2017, surplus funds were recorded in the amount of € 316.9 million (previous year: € 342.1 million).

DMG MORI covers its capital requirements from the operating cash flow, the stock of liquid funds and from taking out short- and long-term financing. The amount of the agreed financing lines totaled € 849.2 million in financial year 2017. Its material components are a syndicated credit facility in the amount of € 500.0 million concluded in February 2016 at improved conditions and with a maturity date of February 2021, which consists of a cash tranche in the amount of € 200.0 million and an aval tranche in the amount of € 300.0 million, additional aval lines of € 138.7 million and factoring agreements of € 167.5 million. In January 2018, the maturity of the syndicated credit line was extended until February 2022. As of 31 December 2017, the cash tranche was unused.

Factoring remains an important component of our financing mix. In addition to the financing effect, we can also optimize our debtor management process. Aside from this, we also have a few long-term loans and short-term bilateral loan commitments to individual subsidiaries with a total volume of € 43.1 million (previous year: € 52.3 million). DMG MORI requires aval lines for its operating activities in order to have guarantees for prepayments and warranties issued.

Thanks to this financing mix, we have sufficient financing lines which allow us to make the necessary liquidity available for our business.

Our syndicated credit agreement obliges us to observe a covenant in line with the market. As of 31 December 2017, the covenant has been complied with. The financing is supplemented by off-balance-sheet operating lease agreements. The sum of future obligations from the operating lease agreements amounts to € 53.0 million (previous year: € 58.3 million).

NET WORTH

As of 31 December 2017, the balance sheet total decreased by € 97.9 million to € 2,241.3 million (previous year: € 2,339.2 million). The equity quota improved to 52.0% (previous year: 50.8%).

On the asset side, fixed assets increased by € 71.5 million or 9.5% to € 678.0 million (previous year: € 749.5 million). Due to the scheduled lower investment volume, tangible assets decreased by € 46.3 million to € 440.0 million (previous year: € 486.3 million). Intangible assets decreased by € 4.6 million to € 190.7 million (previous year: € 195.3 million). Financial assets decreased in particular due to the sale of shares in DMG MORI Manufacturing USA, Inc. in Davis (USA) to DMG MORI COMPANY LIMITED to € 47.3 million (previous year: € 67.9 million).

Long-term receivables and other assets declined by € 25.0 million to € 59.0 million (previous year: € 84.0 million). Deferred tax assets decreased to € 49.9 million (previous year: € 58.3 million).

Inventories increased by 8.4% or € 42.6 million to € 547.7 million (previous year: € 505.1 million). Work in progress increased by € 33.4 million to € 145.0 million (previous year: € 111.6 million). The increase resulted in particular from advance payments for the scheduled sales revenues in the first quarter 2018. Stocks of raw materials and consumables amounted to € 207.8 million (previous year: € 202.1 million) and the stocks of finished goods totaled € 181.9 million (previous year: € 178.0 million). The inventory turnover ratio was 4.3 (previous year: 4.5). The percentage of inventories in the balance sheet total amounted to 24.4% (previous year: 21.6%).

Short-term receivables and other assets increased by 21.7% or € 105.8 million to € 593.2 million compared to the previous year (previous year: € 487.4 million). Trade debtors increased by € 43.4 million to € 237.8 million (previous year: € 194.4 million) due to the increase in sales revenue in the fourth quarter 2017 and a lower factoring volume. Receivables from related parties rose by € 40.6 million to € 207.0 million (previous year: € 166.4 million); the increase results from the sale of shares in DMG MORI Manufacturing USA, Inc. in Davis (USA). Other assets amounted to € 132.4 million (previous year: € 122.1 million).

The decrease in non-current assets held for sale by € 116.5 million was due to the sale of the shares in the sales and service companies in Asia and America (except China and India) as of 1 January 2017.

On the balance sheet date, liquid funds were € 363.4 million (previous year: € 396.7 million); this equates to 16.2% of the balance sheet total (previous year: 17.0%).

On the equity and liabilities side, the equity quota increased by 1.2 percentage points to 52.0% (previous year: 50.8%). Equity decreased by € 23.1 million to € 1,164.6 million (previous year: € 1,187.7 million). The decrease is primarily due to the sale of the shares in the sales and service companies in Asia (except China and India) and America, which led to a decrease in minority shares in equity. As on the same date in the previous year, we have surplus funds and thus no gearing.

B.06 | BALANCE SHEET OF DMG MORI

in € million	31 Dec 2017		31 Dec 2016		Changes against previous year	
Assets						
Long-term assets						
Fixed assets	678.0	30.3%	749.5	32.0%	-71.5	-9.5%
Long-term receivables and other assets	59.0	2.6%	84.0	3.6%	-25.0	-29.8%
	737.0	32.9%	833.5	35.6%	-96.5	-11.6%
Short-term assets						
Inventories	547.7	24.4%	505.1	21.6%	42.6	8.4%
Short-term receivables and other assets	593.2	26.5%	487.4	20.8%	105.8	21.7%
Assets held for sale	0	0%	116.5	5.0%	-116.5	-100.0%
Liquid funds	363.4	16.2%	396.7	17.0%	-33.3	-8.4%
	1,504.3	**67.1%**	**1,505.7**	**64.4%**	**-1.4**	**-0.1%**
Balance Sheet total	**2,241.3**	**100.0%**	**2,339.2**	**100.0%**	**-97.9**	**-4.2%**
Equity and liabilities						
Long-term financing resources						
Equity	1,164.6	52.0%	1,187.7	50.8%	-23.1	-1.9%
Outside capital						
Long-term provisions	87.8	3.9%	80.4	3.4%	7.4	9.2%
Long-term liabilities	50.2	2.2%	48.8	2.1%	1.4	2.9%
	138.0	**6.1%**	**129.2**	**5.5%**	**8.8**	**6.8%**
	1,302.6	**58.1%**	**1,316.9**	**56.3%**	**-14.3**	**-1.1%**
Short-term financing resources						
Short-term provisions	198.4	8.9%	224.7	9.6%	-26.3	-11.7%
Short-term liabilities	740.3	33.0%	761.0	32.5%	-20.7	-2.7%
Liabilities in connection with assets held for sale	0	0%	36.6	1.6%	-36.6	-100.0%
	938.7	**41.9%**	**1,022.3**	**43.7%**	**-83.6**	**-8.2%**
Balance Sheet total	**2,241.3**	**100.0%**	**2,339.2**	**100.0%**	**-97.9**	**-4.2%**

Long-term debts rose by € 8.8 million to € 138.0 million (previous year: € 129.2 million). Their share of the balance sheet total amounted to 6.1% (previous year: 5.5%). The increase is due to an increase in long-term provisions by € 7.4 million to € 87.8 million and long-term liabilities by € 1.4 million to € 50.2 million. Liabilities of € 1.8 million (previous year: € 3.0 million) related to deferred tax liabilities.

Long-term financing resources, comprising equity and long-term debts, decreased by € 14.3 million or 1.1% to € 1,302.6 million in the reporting period.

Short-term financing resources decreased to € 938.7 million (previous year: € 1,022.3 million). Short-term provisions amounted to € 198.4 million (previous year: € 224.7 million). Trade creditors decreased as planned by € 66.2 million to € 169.8 million (previous year: € 236.0 million). The proportion of prepayments significantly improved by 5.3 percentage points to 22.2% (previous year: 16.9%). Prepayments received rose by € 132.1 million to € 290.2 million (previous year: € 158.1 million). Liabilities to other related parties decreased by € 66.2 million to € 207.1 million (previous year: € 273.3 million). The reduction resulted primarily from the payments for the purchase of shares in DMG MORI Europe AG in 2016 and the transfer of profits to DMG MORI GmbH for the year 2016. The liabilities from the transfer of profits for 2017 to DMG MORI GmbH had the opposite effect in the amount of € 89.9 million. These matters as part of the liabilities to other related parties are recognized in cash flow from financing activity when payments are made.

In addition to the assets recognized in the group balance sheet, DMG MORI also uses off-balance-sheet assets. These primarily relate to specific leased or rented goods (operating lease). The group makes use of factoring programs as part of the off-balance-sheet financial instrument options. Our excellent long-term relationships of trust with our customers and suppliers are also of particular importance; they make it possible for us to have direct access to the relevant markets and render us independent of short-term market fluctuations.

INVESTMENTS

Investments in property, plant and equipment and in intangible assets amounted to € 39.7 million (previous year: € 88.1 million). Thus, we were able to reduce investments as scheduled. Depreciations of fixed assets taking into account capitalized development costs and finance leases amounted to € 72.8 million (previous year: € 65.7 million). Depreciation of capitalized development costs amounted to € 8.1 million (previous year: € 10.6 million).

One highlight was reached with the groundbreaking at FAMOT in Pleszew (Poland) on 30 May, when we started the construction of a 7,000 m^2 assembly hall. By 2019, we plan to expand the production site by more than 22,000 m^2 particularly in the assembly, production and logistics areas. At DECKEL MAHO in Seebach, we were able to complete the expansion and optimization of the logistics area. At our Shanghai site, we celebrated the grand opening of the new Technology Center on 8 November. On an area of around 1,700 m^2, we present more than 20 demo machines and focus on digitization and automation solutions in the process. In addition, we continued to invest in the provision of tools, models and equipment necessary for production, the equipment of our service employees, as well as in the development of innovative products.

The additions to financial assets amounted to € 2.1 million and resulted primarily from the investment in ADAMOS GmbH. Investments amounted to € 41.8 million (previous year: € 88.1 million).

Attractive employer: DMG MORI sets standards with modern high-tech work stations in the semi-automated pre-assembly process. The swivel rotary table for the DMU eVo series is being assembled at DECKEL MAHO's module assembly in Seebach.

ANNUAL FINANCIAL STATEMENTS OF DMG MORI AKTIENGESELLSCHAFT (SUMMARY)

The following tables summarize the Annual Financial Statements of DMG MORI AKTIENGESELLSCHAFT. The complete Annual Financial Statements and Business Report are set out in a separate report.

Essentially, DMG MORI AKTIENGESELLSCHAFT's income was the result of the income from domestic subsidiaries amounting to € 152.9 million (previous year: € 115.0 million), resulting from the profit and loss transfer.

Other expenses decreased to € 69.1 million (previous year: € 83.1 million) and primarily resulted from personnel expenses in the amount of € 21.7 million (previous year: € 34.8 million) and other operating expenses in the amount of € 41.1 million (previous year: € 43.5 million). The decrease in personnel expenses results from lower employee numbers, on the one hand, and from a settlement and severance payment in the amount of € 7.9 million, which was recognized in the previous year, on the other.

The financial result was € 4.6 million (previous year: € 4.8 million). The income taxes amounted to € 35.2 million (previous year: € 38.2 million). Income taxes include the charged taxes of DMG MORI GmbH, Bielefeld, as a result of the tax group.

High-precision work at DMG MORI: Employees at DECKEL MAHO in Pfronten adjust the modular, patented wheel magazine with space for over 450 tools for the duoBLOCK series. In the pre-assembly, DMG MORI already lays the foundation to ensure that our core components are absolutely precise and extremely robust.

B.07 | INCOME STATEMENT OF DMG MORI AKTIENGESELLSCHAFT (GERMAN COMMERCIAL CODE – HGB)

in € million	2017	2016
Sales revenues	16.0	21.6
Other operating income	20.7	21.0
Other expenses	-69.1	-83.1
Income from financial assets	152.9	115.0
Financial result	4.6	4.8
Income taxes	-35.2	-38.2
Earnings after taxes	89.9	41.1
Transfer of profits to DMG MORI GmbH	-89.9	-41.1
Net income	0	0
Retained profits brought forward	**1.5**	**1.5**
Posting to profit reserves	**1.5**	**0**
Net profit	**0**	**1.5**

Due to the domination and profit transfer agreement, EAT in the amount of € 89.9 million (previous year: € 41.1 million) will be transferred to DMG MORI GmbH. A net profit of € 0.0 million (previous year: € 1.5 million) results after allocation of € 1.5 million to retained earnings.

The DMG MORI AKTIENGESELLSCHAFT balance sheet total increased by € 238.0 million to € 1,769.2 million (previous year: € 1,531.2 million). Fixed assets increased to € 758.7 million (previous year: € 697.8 million). Loans to affiliated parties in the amount of € 79.0 million contributed to this increase (previous year: € 0.0 million). Shares in affiliated parties as part of fixed assets decreased to € 638.2 million (previous year: € 653.2 million). This decrease in the amount of € 21.4 million resulted from the sale of the shares in DMG MORI Manufacturing USA, Inc. in Davis (USA).

Current assets and other assets increased to € 1,010.5 million (previous year: € 833.4 million). The increase resulted primarily from receivables from affiliated parties, which increased primarily due to income from transfer of profit agreements (€ 152.9 million) to € 714.1 million (previous year: € 573.4 million). Cash and cash equivalents increased to € 273.1 million (previous year: € 231.9 million).

On the liabilities side, equity remained the same as in the previous year at € 921.2 million. With a higher balance sheet total, the equity ratio amounted to 52.1% (previous year: 60.2%). Liabilities to affiliated parties increased to € 805.0 million (previous year: € 539.8 million). These include the transfer of profits to DMG MORI GmbH for financial year 2017 in the amount of € 89.9 million, income taxes of € 30.0 million which are charged by DMG MORI GmbH as a result of fiscal unity, as well as finance and cost allocations with affiliated parties.

B.08 | BALANCE SHEET OF DMG MORI AKTIENGESELLSCHAFT (GERMAN COMMERCIAL CODE – HGB)

in € million	2017	2016
Assets		
Fixed assets		
Shares in affiliated companies	638.2	653.1
Loans to related companies	79.0	0
Equity investments	6.7	6.7
Other fixed assets	34.8	38.0
	758.7	**697.8**
Current and other assets		
Receivables from affiliated companies	714.1	573.4
Other current assets and other assets	296.4	260.0
	1,010.5	**833.4**
Balance Sheet total	**1,769.2**	**1,531.2**
Equity and liabilities		
Equity	**921.2**	**921.2**
Provisions	**37.8**	**61.3**
Liabilities		
Liabilities to affiliated companies	805.0	539.8
Other liabilities	5.2	8.9
	810.2	**548.7**
Balance Sheet total	**1,769.2**	**1,531.2**

Segment Report

Our business activities comprise the "Machine Tools" and "Industrial Services" segments. "Corporate Services" essentially comprises DMG MORI AKTIENGESELLSCHAFT with its group-wide holding functions. The selected machines from DMG MORI COMPANY LIMITED, which we produce under licence, are included in "Machine Tools". The trade in and services for those machines are recognized under "Industrial Services".

MACHINE TOOLS

The "Machine Tools" segment is our core segment and includes the new machines business of the group with the divisions Turning and Milling, Advanced Technologies (ULTRASONIC/LASERTEC/ADDITIVE MANUFACTURING) and Digital Solutions (previously: Software Solutions). The increased importance and the expansion of our digital expertise is reflected in the renaming of this business division. In September 2017, GILDEMEISTER Beteiligungen GmbH acquired 100% of WERKBLiQ GmbH, which is part of the "Machine Tools" segment. DMG MORI Systems GmbH is no longer included since it was deconsolidated in February. The respective details can be found on page 112 et seq.

The Turning division comprises GILDEMEISTER Drehmaschinen GmbH, GRAZIANO Tortona S.r.l. and GILDEMEISTER Italiana S.p.A. Our range of turning machines covers the full range from universal turning machines to turn-mill centers, through to vertical and horizontal production turning and multispindle machining centers.

DECKEL MAHO Pfronten GmbH and DECKEL MAHO Seebach GmbH are part of the Milling division. Our range includes horizontal and vertical processing centers and 5-axis milling. The plants FAMOT Pleszew Sp. z o.o. and Ulyanovsk Machine Tools ooo produce both milling and turning machines.

SAUER GmbH and REALIZER GmbH form the Advanced Technologies business division. Besides the ultrasound-supported milling and grinding process ULTRASONIC, the division comprises the laser processing technology LASERTEC and ADDITIVE MANUFACTURING. REALIZER GmbH, which was included in the consolidation scope in financial year 2017, complements the ADDITIVE MANUFACTURING portfolio. In addition to laser deposit welding using a powder nozzle, we also now offer selective laser melting in a powder bed technology.

DMG MORI Software Solutions GmbH bundles our expertise in control and software development in the Digital Solutions division across the entire group. ISTOS GmbH is the link between machine and production processes for open, cross-machine networking to the digital factory. It develops specific applications such as PRODUCTION PLANNING for extended planning and scheduling of manufacturing orders for a consistently digitized value-added chain network. Together with DMG MORI Software Solutions GmbH, ISTOS GmbH shall sustainably shape the digitization in the field of machining. WERKBLiQ GmbH offers a cross-manufacturer platform where all those involved in the maintenance process can be linked to one another. Machine operators can see all important information and key figures on their individual dashboards.

B.09 | SEGMENT KEY INDICATORS DMG MORI

in € million	2017	2016	Changes 2017 against 2016	
Order intake	**2,754.8**	**2,369.9**	**384.9**	**16%**
Machine Tools	1,575.9	1,269.3	306.6	24%
Industrial Services	1,178.6	1,100.4	78.2	7%
Corporate Services	0.3	0.2	0.1	50%
Sales revenues	**2,348.5**	**2,265.7**	**82.8**	**4%**
Machine Tools	1,289.4	1,244.3	45.1	4%
Industrial Services	1,058.8	1,021.2	37.6	4%
Corporate Services	0.3	0.2	0.1	50%
EBIT	**180.1**	**104.0**	**76.1**	**73%**
Machine Tools	114.9	79.6	35.3	44%
Industrial Services	95.2	64.0	31.2	49%
Corporate Services	-30.6	-40.0	9.4	24%

The entire maintenance and servicing process is digitized and accelerated. ADAMOS GmbH's goal is to bundle expertise from mechanical engineering, production and information technology and establish a global industry standard in the form of an open, digital platform.

Integrated solutions are in demand in the automation industry. As part of the strategic realignment, we have transferred the responsibility for automation solutions to the production plants. This facilitates better coordination of the interfaces between machines, automation and control, and helps to create consistent automation solutions from a single source. We plan to accelerate the development of innovative automation solutions using the joint venture company DMG MORI HEITEC GmbH, which was established in November. The company's objective is to provide a consistent automation concept, especially for small to medium-sized companies using modular, mutually compatible solutions.

The order intake in the fourth quarter was € 332.0 million (previous year: € 328.1 million). Over the whole year, order intake was very successful and increased by € 306.6 million or 24% compared to the previous year's value to € 1,575.9 million (€ 1,269.3 million). Domestic order intake increased by 14% or € 54.7 million to € 450.2 million (previous year: € 395.5 million). International orders were € 1,125.7 million. Compared to the previous year, when they amounted to € 873.8 million, they rose by 29% or € 251.9 million. The share of international business was 71% (previous year: 69%). 57% of all orders were for "Machine Tools" (previous year: 54%).

In the fourth quarter, sales revenues in the "Machine Tools" segment increased by € 29.2 million or 8% to € 376.7 million (previous year: € 347.5 million). Overall, sales revenues developed positively in the financial year under review. "Machine Tools" increased sales revenues by € 45.1 million or 4% to € 1,289.4 million. While it was possible to increase international sales revenues by € 80.6 million or 10% to € 919.4 million (previous year: € 838.8 million), domestic sales revenues were € 370.0 million (previous year: € 405.5 million). The export ratio amounted to 71% (previous year: 67%). Similar to the previous year, the "Machine Tools" segment accounted for a share of 55% of sales revenues.

On 31 December 2017, the order backlog amounted to € 773.2 million (previous year: € 503.1 million). The domestic order backlog amounted to € 193.4 million (previous year: € 127.3 million). As in the previous year, international orders amounted to 75% or € 579.8 million (previous year: € 375.8 million).

EBITDA reached € 158.6 million (previous year: € 119.0 million). EBIT was € 114.9 million (previous year: € 79.6 million). The EBIT margin improved from 6.4% to 8.9%. EBT was € 112.1 million (previous year: € 70.3 million).

B.10 | KEY FIGURES "MACHINE TOOLS" SEGMENT

in € million	2017	2016	Changes 2017 against 2016	
Order intake				
Total	1,575.9	1,269.3	306.6	24%
Domestic	450.2	395.5	54.7	14%
International	1,125.7	873.8	251.9	29%
% International	71	69		
Sales revenues				
Total	1,289.4	1,244.3	45.1	4%
Domestic	370.0	405.5	-35.5	-9%
International	919.4	838.8	80.6	10%
% International	71	67		
Order backlog *				
Total	773.2	503.1	270.1	54%
Domestic	193.4	127.3	66.1	52%
International	579.8	375.8	204.0	54%
% International	75	75		
Investments	35.5	48.8	-13.3	-27%
EBITDA	158.6	119.0	39.6	33%
EBIT	114.9	79.6	35.3	44%
EBT	112.1	70.3	41.8	59%

	2017	2016	Changes 2017 against 2016	
Employees *	3,875	3,680	195	5%
including trainees	276	267	9	3%

* Reporting date 31 December

Investments in property, plant and equipment and in intangible assets amounted to € 33.4 million (previous year: € 48.8 million). Emphasis was placed on the targeted expansion and modernization of our production sites in Pleszew (Poland) and Seebach. On 30 May, we started construction of an around 7,000 m^2 assembly hall in Pleszew. Overall, we plan to expand the production site FAMOT by more than 22,000 m^2 particularly in the assembly, production and logistics areas by 2019. We have already managed to complete the logistics area expansion and put a state-of-the-art induction hardening shop into operation. In Seebach, we further optimized the logistics area and expanded it by constructing a new shipping facility. The capitalized development costs amounted to € 6.4 million (previous year: € 6.9 million).

The additions to financial assets amounted to € 2.1 million and were primarily caused by the investment in ADAMOS. Investments totaled € 35.5 million (previous year: € 48.8 million).

The "Machine Tools" segment had 3,875 employees at year-end (previous year: 3,680 employees). The percentage of employees in this segment accounted for 55% (previous year: 51%). The increased employee numbers were mainly the result of new hires in our production sites in Seebach, Pleszew (Poland), Pfronten and Ulyanovsk (Russia). The personnel quota was 19.8% (previous year: 20.1%). Employee expenses totaled € 255.1 million (previous year: € 250.3 million).

INDUSTRIAL SERVICES

The "Industrial Services" segment comprises the business activities of the Services and Energy Solutions divisions.

In the Services division, we combine the marketing activities and the LifeCycle Services for both our machines and those of DMG MORI COMPANY LIMITED. With the help of the DMG MORI LifeCycle Services, our customers maximize the productivity of their machine tools over their entire life cycle – from commissioning until their trade-in as a used machine. The wide range of service contracts, repair and training services offered to our customers ensures that their machine tools are extremely cost-efficient.

The shares in the subsidiary companies in the regions Asia (with the exception of China and India) and America were sold to DMG MORI COMPANY LIMITED and deconsolidated with effect from 1 January 2017. Further details are described in the section "Organization and Legal Corporate Structure" on page 19 et seq.

In the fourth quarter, order intake in the "Industrial Services" segment increased by € 51.9 million to € 334.1 million (previous year: € 282.2 million). Over the whole year, order intake amounted to € 1,178.6 million and was thus € 78.2 million or 7% above the previous year's figure (€ 1,100.4 million). At the same time, the contribution of Services accounted for € 1,078.8

B.11 | KEY FIGURES "INDUSTRIAL SERVICES" SEGMENT

in € million	2017	2016	Changes 2017 against 2016	
Order Intake				
Total	1,178.6	1,100.4	78.2	7%
Domestic	375.2	367.3	7.9	2%
International	803.4	733.1	70.3	10%
% International	68	67		
Sales revenues				
Total	1,058.8	1,021.2	37.6	4%
Domestic	341.8	331.4	10.4	3%
International	717.0	689.8	27.2	4%
% International	68	68		
Order backlog *				
Total	535.9	434.4	101.5	23%
Domestic	261.2	233.9	27.3	12%
International	274.7	200.5	74.2	37%
% International	51	46		
Investments	5.3	35.8	-30.5	-85%
EBITDA	120.9	87.1	33.8	39%
EBIT	95.2	64.0	31.2	49%
EBT	89.8	55.6	34.2	62%

	2017	2016	Changes 2017 against 2016	
Employees *	3,142	3,503	-361	-10%
including trainees	83	51	32	63%

* Reporting date 31 December

million (previous year: € 1,032.8 million). The order intake in our original business, LifeCycle Services (e.g. spare parts, maintenance and repair) and sales commissions contributed € 636.0 million (previous year: € 645.9 million) to this result. Orders for machines of DMG MORI COMPANY LIMITED increased to € 442.8 million (previous year: € 386.9 million). The Energy Solutions division achieved an order intake of € 99.8 million (previous year: € 67.6 million). International orders in "Industrial Services" rose by 10% or € 70.3 million to € 803.4 million (previous year: € 733.1 million). International orders accounted for 68% of all orders (previous year: 67%). Domestic orders amounted to € 375.2 million (previous year: € 367.3 million). 43% of all orders were for "Industrial Services" (previous year: 46%).

In the fourth quarter, sales revenues amounted to € 315.5 million (previous year: € 289.1 million). Over the year as a whole, sales revenues increased by 4% to € 1,058.8 million (previous year: € 1,021.2 million). Domestic orders reached € 341.8 million (previous year: € 331.4 million). International sales revenues amounted to € 717.0 million (previous year: € 689.8 million). As in the previous year, the percentage was 68%. In the Services division, sales revenues increased by € 36.9 million or 4% to € 1,007.6 million (previous year: € 970.7 million). Sales revenues in our original service business decreased – due to the impact from the implementation of the "Smart-Pricing" concept – to € 520.4 million (previous year: € 537.0 million). Sales revenues from trade with products of DMG MORI COMPANY LIMITED increased to € 487.2 million (previous year: € 433.9 million). Sales revenues in the Energy Solutions division amounted to € 51.2 million (previous year: € 50.5 million). As in the previous year, "Industrial Services" were attributed a share of 45% in sales revenues. As of 31 December, the order backlog amounted to € 535.9 million (previous year: € 434.4 million). In the reporting year, EBITDA in the "Industrial Services" segment amounted to € 120.9 million (previous year: € 87.1 million). EBIT amounted to € 95.2 million (previous year: € 64.0 million), EBT was € 89.8 million (previous year: € 55.6 million). This includes impairments in the amount of € 11.7 million which largely relate to real estate.

Investments in property, plant and equipment and in intangible assets amounted to € 5.3 million (previous year: € 35.8 million). The focus was thereby on the Grand Opening of our new Technology Center in Shanghai on 8 November. On an area of around 1,700 m^2, we present more than 20 demo machines and focus on digitization and automation solutions in the process. Additional emphasis was put on equipping our service employees with modern tools and electronic measuring instruments. No development costs were capitalized in the financial year (previous year: € 1.3 million).

There were 3,142 employees in the "Industrial Services" segment at the end of the financial year (previous year: 3,503 employees). The percentage of employees in this segment accounted for 44% (previous year: 48%). The main reason for this reduction was the sale of the shares in sales and service companies in Asia (with the exception of China and India) and America to DMG MORI COMPANY LIMITED with effect from 1 January 2017. The personnel quota in the "Industrial Services" segment was 25.8% (previous year: 28.2%); the personnel expenses were € 273.3 million (previous year: € 288.0 million).

CORPORATE SERVICES

The "Corporate Services" segment essentially comprises DMG MORI AKTIENGESELLSCHAFT with its group-wide holding functions.

B.12 | KEY FIGURES "CORPORATE SERVICES" SEGMENT

in € million	2017	2016	Changes 2017 against 2016
Order intake	0.3	0.2	0.1
Sales revenues	0.3	0.2	0.1
Investments	1.0	3.5	-2.5
EBITDA	-27.2	-36.8	9.6
EBIT	-30.6	-40.0	9.4
EBT	-26.2	-32.2	6.0
Employees*	84	99	-15

* reporting date 31 December

In the "Corporate Services" segment, both order intake as well as sales revenues in the amount of € 0.3 million (previous year: € 0.2 million), respectively, primarily consisted of rental income. The "Corporate Services" segment in turn accounted for less than 0.1% of sales revenues in the group (previous year: <0.1%). EBIT amounted to € -30.6 million (previous year: € -40.0 million). The financial result amounted to € 4.4 million (previous year: € 7.8 million). EBT was at € -26.2 million (previous year: € -32.2 million).

Investments in property, plant and equipment and in intangible assets in the "Corporate Services" segment amounted to € 1.0 million (previous year: € 3.5 million). Aside from the continuation of targeted modernization measures, we established our own assembly and development area for REALIZER GmbH at our site in Bielefeld.

As of 31 December 2017, the "Corporate Services" segment had 84 employees (previous year: 99 employees). As in the previous year, this represents 1% of the group's workforce.

Non-Financial Key Performance Indicators

COMPREHENSIVE SUSTAINABILITY REPORTING

DMG MORI is committed to sustainable action in relation to its employees, society and the environment. We act responsibly and in conformity with all applicable laws at all times. We expect the same from our business partners. We offer our employees the opportunity to advance themselves professionally with individualized development programs. We seek active dialogue with customers, employees and business partners and are constantly developing our strategy.

The DMG MORI Sustainability Report 2017, which was compiled for the first time, is attached to this Annual Report as a separate prospectus and can be accessed via the DMG MORI website at any time. It provides a detailed and comprehensive sustainability balance. → **corporate-responsibility-en.dmgmori.com**

With the Sustainability Report, which also contains the Separate Non-Financial Group Report 2017, we are complying with the statutory provisions as per the new CSR Directive Implementation Act for the implementation of Directive 2014/95/EU (Section 289 HGB (German Commercial Code)) of 11 April 2017. This seperate non-financial group report is thereby not part of the Business Report. Moreover, DMG MORI compiled the Sustainability Report in accordance with the international reporting guidelines, "GRI Standards 2016: Core Option" of the Global Reporting Initiative (GRI). The Sustainability Report describes important sustainability concerns of the company. Environmental and employee concerns as well as compliance are matters that we consider to be particularly important for DMG MORI based on a materiality analysis.

DMG MORI is aware of its responsibility to the environment. Our intention is to use renewable, recyclable and recycled materials to a large extent in our products and services. We make a further contribution to enabling our customers to use resources efficiently with our digitization competence. Moreover, our products are especially energy-efficient and hence achieve energy savings for our customers. We summarize our machine- and product-specific measures to increase the energy efficiency of our machine tools under the term "GREENMODE". Our 'First Quality' strategy ensures a long service life of more than 20 years, thereby contributing to saving resources and avoiding waste.

We summarize all corporate and conduct-related measures to save energy in our company under the term "ENERGYSAVING". Our energy management system is certified according to EN ISO 50001. We are committed to treating energy and resources responsibly and reducing CO_2 emissions accordingly. This is one of our energy management targets.

These are reviewed by management each year in management evaluations and checked by the Executive Board in a central management review. Absolute energy consumption went up by only 2% from 121 GWh to 123 GWh – in spite of higher sales revenues and a greater area.

EMPLOYEES

On 31 December 2017, the group had 7,101 employees, including 359 apprentices (previous year: 7,282 employees, including 318 apprentices). The number of employees decreased by 181. The decrease is primarily due to the sale of the shares in the sales and service companies in Asia (except China and India) and America to DMG MORI COMPANY LIMITED with effect from 1 January 2017. The number of agency workers employed throughout the group was 436 at the end of financial year 2017 (previous year: 438).

Employee expenses decreased by € 21.3 million to € 550.7 million (previous year: € 572.0 million). Wages and salaries thereby accounted for € 467.5 million (previous year: € 485.7 million), social insurance contributions for € 79.0 million (previous year: € 78.9 million) and the costs of retirement pensions for € 4.2 million (previous year: € 7.4 million). The personnel quota decreased to 23.3% (previous year: 25.3%).

In the area of human capital, we have been placing a high value on the qualifications of our employees for years. Our qualification structure continues to be high: Like last year, 97% of the workforce has a professional qualification or is currently receiving professional qualification. In total, expenses for vocational and further training amounted to € 16.2 million (previous year: € 16.4 million). Our employees' age structure is balanced.

The employee sickness rate was 3.8% (previous year: 4.0%), again falling below the most recent industry average of 5.2%. The employee fluctuation rate amounted to 8.3% (previous year: 8.6%). At the same time, the proportion of employees in key positions or of high potentials, who left our company (dysfunctional fluctuation) was 2.9%.

Overall Statement of the Executive Board on Financial Year 2017

Overall, DMG MORI successfully completed financial year 2017 and reached record figures for order intake, sales revenues and free cash flow. Earnings also increased significantly. High demand for our innovative machines and technology solutions continued. Order intake rose by 16% to € 2,754.8 million (previous year: € 2,369.9 million). We thus achieved the highest order intake in the company's 147-year history. Adjusted for the effects from the realignment in 2016 – such as, among other things, the changed sales and service structure in Asia and America – the company even recorded an increase in order intake of 23%. Global machine tool consumption rose by +4.5%. Thus, DMG MORI grew at a stronger rate than the global market in financial year 2017.

Sales revenues increased to € 2,348.5 million and thus also reached a new record high (+4%; previous year: € 2,265.7 million). Adjusted for the effects of the realignment, sales revenues even increased by +9% in comparison to the previous year. EBITDA increased to € 252.9 million (+49%; previous year: € 169.7 million). EBIT increased to € 180.1 million (+73%;

Innovative technology and solution center: At DECKEL MAHO in Pfronten, you will find more than 20 DMG MORI high-tech machines in state-of-the-art halls measuring more than 1,600 m^2. The comprehensive solutions that facilitate entry into the automation and digitization fields as well as the Technology Excellence Center for the key industries of "Aerospace" and "Die & Mold" are a particular highlight.

previous year: € 104.0 million) and EBT rose to € 176.4 million (+87%; previous year: € 94.1 million). As of 31 December 2017, the group reported € 118.4 million in EAT (+149%; previous year: € 47.5 million). Free cash flow rose by € 99.9 million to a record high of € 142.4 million (+235%; previous year: € 42.5 million).

In the financial year 2017, we achieved – on the one hand – record figures for significant performance indicators. One the other hand, we actively pushed forward important future topics. Automation, Digitization, ADDITIVE MANUFACTURING, Technology Excellence and DMG MORI Qualified Products are DMG MORI's strategic areas of innovation. Moreover, we also put the highest priority on excellence in quality and service. We intend to further expand our global market shares and sustainably strengthen our strong innovation power as a "Global One Company".

Supplementary Report

ECONOMIC DEVELOPMENT 2018

The overall economic development in the first two months of 2018 was positive. All large industrial economies expect growth for the year. Despite the optimism, the economic impact of the upcoming UK exit from the EU, the U.S. government's protectionist politics and the slowing growth trends in China should not be disregarded.

In Germany, the economic situation remained stable. However, the most recent business climate index published by the Munich ifo Institute for Economic Research fell significantly in February 2018 – after the record high the previous month. The estimate for the first six months of 2018 is moderately optimistic.

The global machine tool market is expected to show a slower growth in 2018 at +3.6% (previous year: +4.5%). The German machine tool industry started 2018 positively. The VDW and Oxford Economics are forecasting an increase in consumption for the whole year by +5.1%.

Industry highlight at the beginning of the year: At our traditional Open House at DECKEL MAHO Pfronten, DMG MORI once more achieved record figures.

CORPORATE SITUATION AFTER THE END OF THE REPORTING YEAR

DMG MORI had a successful start to financial year 2018: Order intake in January and February was € 523.8 million (previous year: € 435.2 million). Sales revenues amounted to € 357.2 million (previous year: € 308.3 million). Earnings (EBIT) were above the previous year's figure in the first two months of 2018. Our traditional Open House exhibition in Pfronten was a particular success: At this industry highlight at the beginning of the year we once more achieved record figures.

The following changes were made to the legal corporate structure in the first two months of 2018. In January 2018, we increased our holding in REALIZER GmbH from 50.1% to 75.1%. In addition, the ADAMOS GmbH shareholding structure has changed as a further partner has now bought into the company. DMG MORI's share is currently 16.7%. No other changes were made to the legal corporate structure in the first two months of financial year 2018.

POWDER BED

ADDITIVE MANUFACTURING


LASERTEC
3D
POWDER NOZZLE
LASERTEC 65 3D

POWDER BED

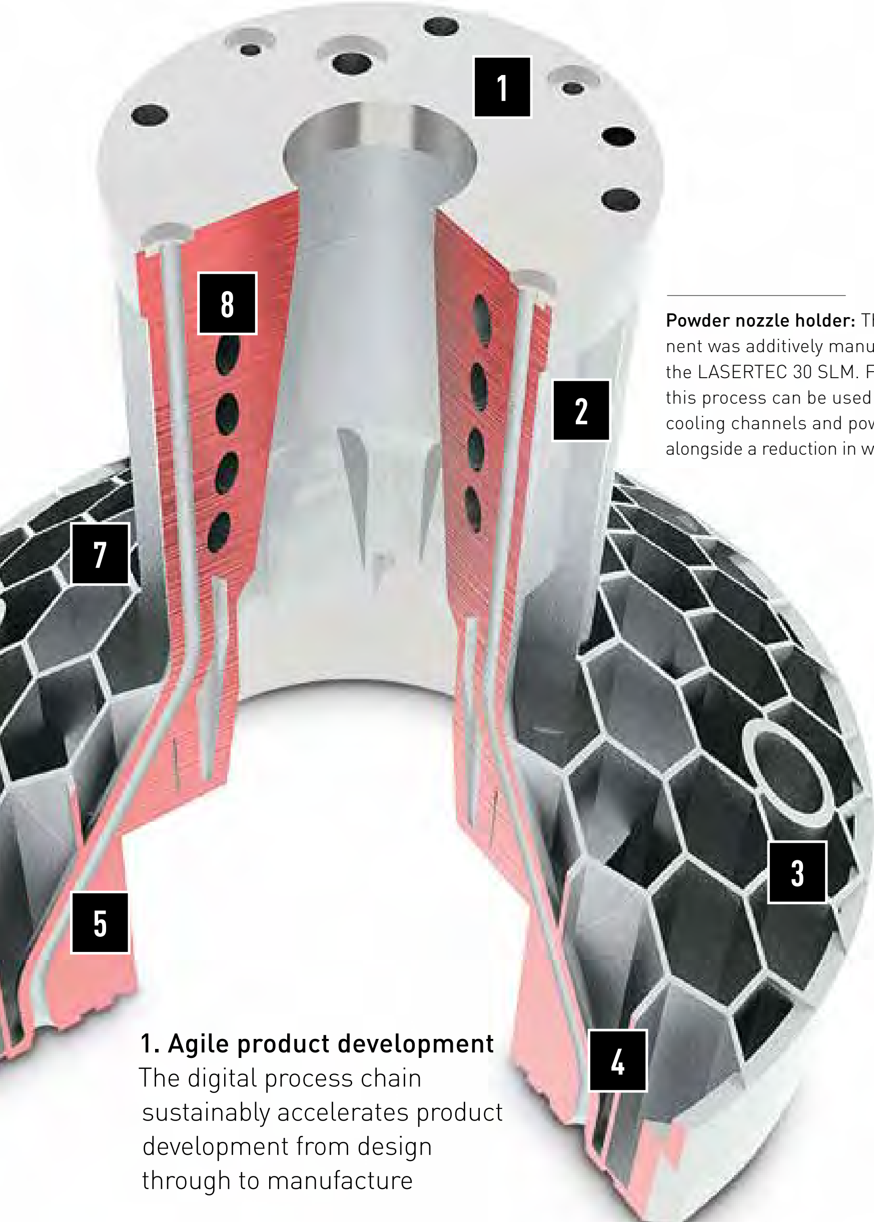
ADDITIVE MANUFACTU

GLOBAL FULL-LINER FOR ADDITIVE MANUFACTURING

DMG MORI provides consistent cover for the process chain in ADDITIVE MANUFACTURING, and bundles the most important generative manufacturing processes under one roof. This makes us a full-service provider – both in the additive manufacturing of metal components as well as in the subsequent machining.

- The company has been successful in selling its **laser deposit welding with powder nozzle** since 2013.
- By the acquisition of REALIZER GmbH in early 2017, DMG MORI extended its portfolio with the **powder bed process,** which holds a worldwide market share of 80% in the metals sector.
- **DMG MORI is a full-liner** in the field of ADDITIVE MANUFACTURING of metal materials which offers the powder bed and powder nozzle processes.
- The entire **process chain** from the CAD component to the finished product is depicted.
- **Globally,** DMG MORI has set up ADDITIVE MANUFACTURING Excellence Centers in the most important markets.

ADDITIVE MANUFACTURING builds a component layer by layer by melting powdery materials with a laser to shape them into fixed materials. The process saves material and energy and makes production extremely flexible: It creates components which are extremely versatile in terms of their construction.



Powder nozzle holder: This component was additively manufactured on the LASERTEC 30 SLM. For example, this process can be used to integrate cooling channels and powder ducts – alongside a reduction in weight of 70%.

1. Agile product development
The digital process chain sustainably accelerates product development from design through to manufacture

2. Tool-free manufacture
This manufacturing process enables us to significantly reduce the manufacturing costs and production time

3. Functional integration
The enlarged surface improves the component's cooling performance

4. Complex geometries
It is almost impossible to manufacture sharp transitions, angular dimensions and negative angles in any other way

5. Work preparation
Optimum interplay of parameter optimization and machine thanks to the in-house developed RDesigner

6. Integral construction
The new design merges 22 conventional components, sealing and joining elements

7. Light-weight construction
Integrated honeycomb structures allow us to significantly reduce component mass while maintaining nearly constant component rigidity

8. Functional integration
Complex internal channels can be realized and, for example, conduct cooling media or process gases

Opportunities and Risk Report

Opportunities Management System (CMS)

Opportunities are systematically identified, analyzed and managed within the Opportunities and Risk Management System. Our Customer Relationship Management System (CRM) analyzes and documents our sales development for machine tools and services to identify key sales opportunities. Moreover, we continuously monitor our markets and can thereby identify any broader economic and industry-specific opportunities early on.

General economic opportunities for DMG MORI arise from extensive servicing of established market territories and existing growth markets through the company's own sales activities and those of DMG MORI COMPANY LIMITED.

The global economic development in 2017 and expectations for 2018 constitute sustainable opportunities for DMG MORI to continue the successful strategic and operative expansion of its business volume in the future as well.

In 2017, the global economy was robust. This development is expected to continue generally in 2018. DMG MORI will see concrete positive impulses in Europe – primarily in the Eurozone –, the USA and a significantly improved growth dynamic in China, as well as continued positive development in India and other emerging economies.

The German economic upswing gained in intensity and breadth in the reporting year. The current favorable economic development is also set to continue unchanged in 2018. This development is supported by an expansion of investment activities and the continuing favorable financing conditions resulting from the low interest rates. While the European Central Bank is expected to implement moderate increases in the base rate in the euro area, these are unlikely to have a significant dampening effect.

All key states in the Eurozone are experiencing identifiable positive growth tendencies. This also includes the former crisis economies of France, Spain, Portugal and Ireland in Europe. In the USA, growth development has been stable in spite of potential political uncertainties. Further opportunities stem from the expansive effects of extensive corporate tax reforms and significantly lower taxes. Comprehensive economic policy measures in China have enabled the economy to overcome the crisis of previous years and to enter a phase of increasing expansion in the future. In 2018, the general economic development in India will see a significant rise again after overcoming several dampening political factors. The renewed increase in commodity prices further supports the expansive trend of the economy in other emerging economies.

We are able to participate quickly in the resulting general economic opportunities, as soon as potentials are presented.

Our extensive innovative product portfolio and our consistent digitization strategy, which we continuously developed in financial year 2017, make use of industry-specific opportunities. We offer different types of machinery at different price levels to meet the technological requirements.

Overall, DMG MORI continues to record a high level of interest in its products in the turning and milling sector. We are focusing on further development in the dynamically developing area of our Advanced Technologies with the product series ULTRASONIC, LASERTEC and ADDITIVE MANUFACTURING as well as in the automation and integrated technology solutions. We actively develop new integrated solutions to meet the ever-increasing requirements and changing framework conditions.

Corporate strategic opportunities for DMG MORI also exist through sustained leadership in the areas of innovation and technology, as well as through the highest quality of our products. We apply this consistently in our entire value-added chain from research and development to production, through to sales and service on the customer's premises. This provides us with the opportunity of further consolidating our position as one of the world's leading machine tool manufacturers in numerous markets.

As part of the ongoing business integration with DMG MORI COMPANY LIMITED to become a "Global One Company" with clearly aligned sales and service structures across the world, we are able to directly participate on the German home market, in the EMEA region (Europe, Middle East, Africa) as well as on the Chinese and Indian markets. We are also able to enjoy the positive development of the DMG MORI COMPANY LIMITED markets in Japan, North and South America and other parts of Asia. Together we support our customers in direct sales and services in 42 different industries in 79 countries across the world.

By offering joint development, purchasing, production and administrative activities, we manage to lower costs and increase efficiency, which enables us to benefit from our close cooperation with DMG MORI COMPANY LIMITED.

In the area of innovative manufacturing technologies, we are continuously expanding our current expertise in ADDITIVE MANUFACTURING at SAUER GmbH and REALIZER GmbH. In financial year 2017, REALIZER GmbH in Bielefeld opened its installation of SLM machines. This makes DMG MORI the world's first full-service provider in the additive manufacture of metal components, offering the two most important generative manufacturing processes from a single source.

We continuously expand our app-based control and operating environment CELOS with new applications (APPs) and more features. CELOS enables seamless and complete networking with the company organization. CELOS and ISTOS form the basis for the next step in digitization. ISTOS GmbH realizes customer-specific digitization solutions for fully networked production processes for the entire group. This activity offers significant future and growth potential.

Together with Dürr, Software AG, ZEISS and ASM PT, DMG MORI also founded the strategic alliance ADAMOS as a key component of our "Path of Digitization". This enables us to add an open, digital platform for machine manufacturers, their suppliers and customers to our offer.

In financial year 2017, we took over WERKBLiQ GmbH with the aim of further expanding our services and driving our digitization strategy. Its core competence is in the digital networking of service and maintenance processes. This enables us to offer our customers a forward-looking, consistent and open maintenance solution for their entire fleet of machinery and equipment.

We also restructured DMG MORI's key service segment to become even more customer-oriented. With our global service and spare parts supply, we provide comprehensive services to our customers around the world. By launching a SMART pricing concept in the area of services and spare parts, we are specifically focusing on our customers' needs. We provide extensive global customer support by using flexible, highly qualified service technicians and by providing spare parts across the world at all times.

We are bundling our expertise with HEITEC AG to accelerate the development of innovative automation solutions. Our joint venture company DMG MORI HEITEC GmbH, which we established at the end of 2017, allows us to offer our customers a consistent automation concept. Automated machine tools are an integral part of future-oriented manufacture. Therefore, the development of "Digital Twin" is of key importance. We use this to accelerate and stabilize all customer processes – from development to installation through to services – and to ensure flexible and stable processes, cost reductions and productivity increases.

Based on numerous early operating indicators, such as market potential, order intake or trade fair evaluations identified by our Customer Relationship System (CRM), we implement flexible sales control; this allows us to systematically exploit our opportunities.

With DMG MORI Finance GmbH, we offer our customers nationally and internationally customized finance solutions.

Performance-related opportunities arise from the ongoing enhancement of our processes in the areas of production, technology, quality and logistics. For this purpose, we are currently carrying out a number of projects. Moreover, we are making sure that we provide services which are sustainable both for the environment and for society. For details, see our Sustainability Report 2017.

Further opportunities arise through the active inclusion of our suppliers in the value-added chain to strengthen their delivery reliability.

Risk Management System (RMS)

The Risk Management System is comprised of the early risk identification system, the Internal Control System (ICS) and the central insurance management.

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

Our early risk identification system consists of five elements:

1. the company-specific Risk Management Manual that defines the system,
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 any group company, who are responsible for the decentralized recording, analysis and communication of existing risks,
4. area-specific, quarterly risk assessments based on predefined risk areas and an inventory of related measures for risk reduction or elimination with a quantitative assessment which takes into account the risk-bearing capacity of the group and individual companies,
5. risk reporting at group level and the individual companies with ad-hoc reporting of relevant risks.

The early risk identification system within the group is based on the generally accepted COSO framework. The objectives of the Risk Management System are the complete and reliable groupwide recording of existing potential risks within the following 12 months, a risk summary and evaluation, the retrieval and setting up of measures to reduce risk, continuous risk monitoring and comprehensive risk reporting across all business activity segments.

The strategy of the existing early risk identification system therefore comprises a group-wide systematic identification, assessment, aggregation, monitoring and notification of existing risks, and the related measures for risk reduction or rather elimination. These risks are identified in a standardized, periodic process in the individual business units every quarter. The identified risk potentials are analyzed and assessed in a gross approach and in consideration of the maximum risks and probabilities of occurrence to then coordinate the measures for risk reduction or risk elimination. Based on the existing net risks after measures were taken, reporting is provided by the affiliates of the group to the group risk management department.

We rate the probability of the identified risks occurring according to the following criteria:

- low (0 – 20%)
- heightened (20 – 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 could endanger the future of the company as a going concern are also immediately reported outside the regular reporting.

The structure of the early risk identification system is designed in such a way that we determine the individual local and central risks, as well as the 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.

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.

The Executive Board and the Supervisory Board are informed regularly about the current risk situation of the group and that of the individual business units. Supervisory reports are made twice a year – for 30 June and 31 December – in the form of a comprehensive risk report. The Executive Board is sent a specific quarterly risk report.

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

The Internal Control System (ICS) of DMG MORI is an additional key component of the group-wide risk management system. Here, the ICS complies with the German statutory requirements of the German Stock Corporation Act, as well as the necessary Japanese legal requirements of the "Japanese Financial Instruments and Exchange Act" in the form of documentation in accordance with the J-SOX/Naibutousei.

The group's existing Internal Control System serves to minimize or eliminate the controllable risks in daily operational business processes. The aim of our ICS is to ensure the consistent implementation of strategic and operative directives from the Executive Board within DMG MORI AKTIENGESELLSCHAFT and at all affiliates of the group, the achievement of operative efficiency targets, and compliance with all legal requirements, standards and values at our group.

In addition, the accounting-related ICS ensures the completeness, correctness and reliability of our Consolidated Financial Statements according to IFRS and the local financial statements, as well as the books underlying them. It covers all organizational, control and monitoring structures to ensure the legally compliant recording, processing and consideration of business matters, and their subsequent adoption in the relevant financial statements.

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 definition of the structural and procedural organization, as well as suitable control activities, or the risks are reduced to an appropriate level. For example, our ICS now includes both preventive as well as detecting control activities, which are also made up of authorizations and releases, plausibility checks, reviews and the four-eye principle in different variations. In addition, a suitable design of the structural and procedural organization of business processes ensures an appropriate separation of functions. This is supported by the existing internal guidelines and instructions as a part of the ICS.

Furthermore, the accounting-related Internal Control System comprises the principles, procedures and measures for ensuring the propriety of the group reporting. We standardize relevant regulations throughout the group in accounting-related guidelines; for example, those contained in the accounting manual. These accounting-related guidelines and the financial statements calendar, which apply throughout the group, form the basis for the preparation of the financial statements. The local companies are responsible for compliance with the relevant regulations and are supported by the group accounting department in this respect. In addition, there are local regulations which stipulate that each has to be harmonized with the group accounting. This also includes compliance with local accounting regulations. Consolidation is carried out centrally by the group accounting department. DMG MORI engages external service providers, for example, for the valuation of pension obligations. Employees who are entrusted with the financial reporting receive regular internal and external training.

The appropriateness and effectiveness of the ICS are evaluated based on an annual management testing at the group affiliates and central departments of DMG MORI AKTIENGESELLSCHAFT. This is done by means of random tests to verify the appropriateness of the control design and the effectiveness of the existing controls. Management testing is conducted by the external audit firm, PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, and the internal audit department. The results of the management review and its audit are reported to the Executive Board and the Supervisory Board.

The appropriateness and effectiveness of the ICS are also reviewed and analyzed in random tests by the internal audit department as part of scheduled and unscheduled audits, and are reported to the Executive Board and the Supervisory Board.

As a further component of the risk management, DMG MORI has a central insurance management in place. The group-wide insurance strategy is determined for economically appropriate and insurable risks, while this strategy is implemented at the operating level. In financial year 2017, insurance management at DMG MORI AKTIENGESELLSCHAFT was jointly harmonized with the newly introduced central insurance management at DMG MORI COMPANY LIMITED on a global level.

General economic risks arise for DMG MORI, particularly from cyclical trends and current uncertainties in the markets, and affect every segment.

Globally, risks result from a possible escalation of the North Korea conflict as a key international political risk. It is not currently possible to foresee the probability and the political or economic consequences.

A slight reduction in private consumption is expected in Germany in 2018, which might have negative impulses. Rising net salaries could also have a dampening effect. Furthermore, inflation and fees could increase. Overall, disposable income is likely to increase but at a slightly reduced speed. The current burnout of the real estate market might pose another risk. A sudden drop in real estate prices might have a sustainable impact on consumer and investment behavior, and as such on economic development as a whole. Secure political framework conditions are a key foundation for a country's economic development.

In Europe, there are noticeable risks in the Eurozone arising from the lack of implementation of necessary structural reforms in several euro countries. While the situation in France is improving thanks to several reforms by the new president, the situation in Italy continues to be tense. Even though several euro-critical parties have suffered election defeats within the European Union, there continues to be a general risk of a destabilization of the European Union at the political level. The effects of Great Britain's planned exit from the European Union may negatively impact our local business in Great Britain in the future. Furthermore, the consequences of the expansive monetary policy planned for a longer period continue to apply and are an unpredictable risk. On the one hand, the monetary stimulus might promote systematic risks. On the other hand, banks awarding long-term loans at low interest rates might suffer from increased adjustment pressure if short-term interest rates rise quickly. Further risks result from the political stance currently taken by Turkey and its future relationship with the European Union. The resulting consequences are currently unforeseeable.

The Russian economy has been slow to recover from its economic setbacks and sanctions of the last few years. Overall, economic development remains well below original expectations and growth forecasts. This is largely due to the continuing economic sanctions.

In the USA, it has become apparent that the President's plans to revise the existing free-trade agreement and return to protectionism can be pursued generally, but can only be implemented within limits. Nevertheless, significant risks might result from the future political, fiscal and trade-political focus of the USA.

A worldwide cyclical downturn could have a major impact on the global machine tool market and result in a significant drop in order intake. We counteract these risks by continuously monitoring cyclical trends and where applicable, taking the measures required.

Moreover, changes in exchange rates resulting from political or economic crises may also impact our future competitive position (economic currency risk). In particular, a potential devaluation of the US dollar, Chinese renminbi, Russian ruble and British pound could lead to an increase in the price of our products in the affected countries, as well as in markets which are dependent on the dollar, thus adversely affecting our competitive position. We counteract this risk through global sourcing and by increasing regional production. We presently consider the probability of losses occurring due to general economic risks to be low.

Industry-specific and sales-related risks exist – in spite of good demand – in the form of continued intense competition and increased pressure on prices in the markets for machine tools. We counteract these with the technological lead afforded by our products and by focusing strongly on our customers and markets. All market players are also currently under pressure due to the extremely high utilization of their production capacities. Consequently, this could result in extended delivery times. These increased delivery times may negatively impact the scope of the expected new order intake in financial year 2018. We counteract this high capacity utilization with our production planning and management in our manufacturing plants. Risks for the group might arise from matters relating to export control regulations in the Services business division. Overall, we consider the probability of losses occurring from industry-specific and sales-related risks to be low.

Cumulative expected risks of around € 18.0 million result from the general economic, industry-specific and sales-related risks.

Corporate strategic risks lie mainly in false estimations of future market development and in possible misjudgments in technological developments in all segments. We counteract these risks through intensive monitoring of the market and competition, regular strategy discussions with customers and suppliers, a comprehensive trade fair presence in all of the important markets and a company strategy focused on innovation. As a result of the dominant and profit transfer agreement, risks for the future economic development of the company result from potential instructions given by DMG MORI GmbH. These instructions do not necessarily have to be in the sole interest of DMG MORI AKTIENGESELLSCHAFT, but they are issued in the interest of the group. We estimate potential losses arising out of corporate strategic risks at around € 14.6 million with a low probability of occurrence.

We are exposed to procurement and purchasing risks regarding machine tools especially in the area of central goods due to price increases for materials. We are particularly exposed to procurement and purchasing risks due to price increases for materials in the central goods business. The high workload experienced by suppliers bears the risk of additional cost increases. Further risks exist in 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. We estimate potential losses from the procurement and purchasing risk at around € 14.8 million with a low probability of occurrence.

Production risks such as production ineffectiveness, poor utilization rate and potential quality-related risks are subject to permanent control by means of key performance indicators for order intake and backlog, assembly and manufacturing progress, throughput times and throughput continuity, contribution margin per machine type, the turnover rate of raw materials and consumables as well as of other inventories. In principle, we avoid incalculable production projects so that we consider these risks to be manageable and controllable. We strive to counteract plagiarism with our innovation-focused product strategy, which safeguards our technological lead.

We counteract technical work safety risks with a consistent application and implementation of statutory work safety regulations and the highest certified technical standards at all sites. Regarding the implementation, we conduct all legally mandated reviews and voluntary audits.

We counteract environmental risks with a complete implementation of statutory environmental standards, appropriate and safe storage of hazardous goods as well as environmentally conscious disposal of hazardous goods and other wastes. Furthermore, we aim to ensure an efficient use of resources to spare scarce environmental resources in our internal business processes. For further details, see our Sustainability Report 2017. Potential risks arising from the production risk field in the "Machine Tools" segment are estimated at a value of € 14.0 million with a low probability of occurrence.

In the area of research and development, there are risks due to possible budget exceedances, failed developments, increased start-up costs for new products, and delayed market launch of innovations. We counteract this risk through a closely coordinated development cooperation with DMG MORI COMPANY LIMITED, customers, suppliers and universities. We avoid incalculable research and development projects so that we consider these risks to be manageable and controllable. We estimate any possible losses arising from research and development risks in the "Machine Tools" segment at € 3.4 million with a low probability of occurrence.

Personnel risks: Due to our continuous need for highly qualified management staff and employees, risks may arise in all segments through not being able to attract and retain these employees in sufficient numbers and this may have a sustainable impact on the group's development. We counteract these risks through intensive programs to offer vocational training, attract new employees, increase the qualifications of existing employees and through performance-related remuneration with a profit-based incentive scheme, as well as through deputizing arrangements that cushion the loss of specialists and managers, and through early successor planning. The necessary availability at any one time of highly qualified managers and staff could also be negatively affected by higher rate of illness. We counteract this risk in particular through a preventive occupational healthcare scheme. Potential losses are estimated at around € 8.0 million with a low probability of occurrence.

IT risks occur due to the increasing networking of our internal systems, parts of which are highly complex. IT risks may arise from network failure or from data being falsified or destroyed through user and program errors, or through external influences. In addition, we are subject to the risks of organized data espionage, blackmail, cybercrime and fraudulent scamming. We counteract these information technology risks through optimum security arrangements for our IT environment, regular investment in our hardware and software, by the use of virus scanning programs, firewall systems and by controlling access and authorizations. In addition, we create appropriate awareness among our staff by regularly training and updating them on the relevant risks and existing threats in notifications. Possible losses across all segments arising out of this area amount to € 2.5 million at the current time and are manageable. We estimate the probability of such losses occurring as heightened.

Financial risks across all segments result, inter alia, from our international activities in the form of currency-related risks that we assess and hedge by means of our currency strategy. At the present time, we expect currency-related risks amounting to around € 2.7 million. The essential components of DMG MORI financing are a syndicated loan, which comprises a cash and an aval tranche and is firmly agreed until February 2022, and a factoring program. All financing agreements include an agreement on compliance with a standard covenant. The liquidity of the group is considered sufficient. In principle, we bear the risk of bad debt, which may result in value adjustments or in individual cases even in default. Possible losses from financial risks, including currency-related risks, amount in total to around € 9.0 million. The probability of any loss occurring is estimated as low. Find out more about the risks according to IFRS 7 in the Notes on page 141 et seq.

Legal risks stem in particular from legal disputes with former employees, suppliers or the authorities, and from possible warranty claims due to customer complaints from the sale of machine tools and services, which cannot always be completely prevented by our efficient quality management. To maintain the existing risks at a manageable and calculable level, the group limits warranty and liability obligations both in terms of scope and in time. The Executive Board must separately approve any deviations from these procedures. Possible losses arising out of this area across all segments amount to € 26.0 million at the current time and are manageable. We estimate the probability of such losses occurring as low.

Other risks arise out of operating activities. Insofar as deferred tax assets have not been impaired on loss carryforwards or interest carryforwards, we assume the usability of this potential tax reduction on taxable income. We assume that the tax and social insurance declarations submitted by us are complete and correct. Nevertheless, due to differing assessments of the facts, additional charges may arise within the scope of an audit. If it is not possible to use loss and interest carryforwards, this could adversely impact the net assets, financial position and results of operations of DMG MORI. Overall, we estimate any possible losses arising from tax risks and any other risks at € 8.9 million or € 2.8 million with low probability of occurrence.

Machines for processing large-size workpieces: In the XXL machine assembly hall, DMG MORI produces, among others, the DMU 600 Gantry. The 5-axis universal processing center is comparable to a two-story detached house in size and is the largest machine in DMG MORI's portfolio. The machine provides highest precision despite a maximum table load of 150 tons. The machine uses a linear motor for quick and accurate positioning and achieves a precision of 25 µm.

Overall Statement of the Executive Board to the Risk Situation

The Executive Board rates the existing risks as controllable and does not consider the continuation of business at the group to be threatened from today's perspective. Compared to the reporting in Annual Report 2016, the risks have slightly increased overall. The Executive Board counteracts the risk development by means of a continuously updated business development supervision and holding Executive Board meetings as well as status meetings at regular intervals.

The risk-bearing capacity of equity capital was calculated based on the determined accumulated overall expected risk value. The group's equity capital significantly exceeds the determined expected total risk value.

Forecast Report

Future Business Environment

The Kieler Institut for the World Economy (IfW) forecasts global economic growth of +3.9% for 2018.

GDP growth of +2.6% is forecast for Germany for the current year. Europe will continue its course of moderate growth in 2018. Economic researchers anticipate that the GDP of the euro countries will grow by +2.3%. Asia will be the strongest growth region again in the current year with likely growth of +6.4%. Growth of +6.4% is forecast for China as well. Growth of the Japanese economy will amount to +1.5% in 2018 according to preliminary calculations. In the USA, the economy is expected to continue its stable growth at +2.5% according to IfW estimates.

The global machine tool market is expected to grow again in 2018. The VDW and Oxford Economics believe that global consumption is expected to show a slower growth at +3.6% as in the previous year (+4.5%).

While overall growth in consumption of +4.1% is expected in Europe, the forecast for the UK expects a Brexit-related decline of -3.1%. It is expected that consumption in Asia will increase by +3.5%; the Chinese market is also expected to grow by +3.5%. The development of the Japanese machine tool consumption is expected to grow by +3.4%. VDW and Oxford Economics expect solid growth of +3.1% in the USA. The German machine tool industry started 2018 with optimistic expectations of the sector's economic activity. VDW and Oxford Economics are anticipating a rise in consumption of +5.1% in Germany.

Risk factors that might adversely impact this positive global trend are price developments of raw materials and energy, exchange rate changes, a possible trend reversal of low-interest policies, an increasingly tight job market, global political uncertainties and the difficult to gauge Brexit consequences. However, due to the persisting global uncertainties, it remains difficult to make a reliable forecast.

Future Development of DMG MORI

We intend to further expand our market position as a globally leading supplier of comprehensive technological solutions for the manufacturing industry. Together with DMG MORI COMPANY LIMITED, we focus on our core business with machine tools and services as a "Global One Company". In this respect, we plan to optimize our product portfolio. Automation, Digitization, ADDITIVE MANUFACTURING, Technology Excellence and DMG MORI Qualified Products are DMG MORI's strategic areas of innovation. In financial year 2018, we will focus more strongly on quality and service. Automation is an important pillar of our future strategy. In the future, every DMG MORI machine is to be optionally equipped with automation. Furthermore, we will expand our "Path of Digitization" together with CELOS and ADAMOS and promote the digital transformation in machine building around the world on this basis.

At the beginning of 2018, order intake remained at the high level of the previous year. In the first quarter 2018, we are expecting an order intake of around € 700 million (previous year: € 693.9 million) due to the successful Open House exhibition in Pfronten. We are planning an order intake of around € 2.5 billion for the year as a whole.

At around € 580 million, sales revenues in the first quarter should be above the previous year's level (€ 533.9 million). For the whole year we are planning sales revenues of around € 2.45 billion. EBIT should be slightly above the previous year's level (€ 34.3 million). EBIT should reach around € 180 million for the whole year. We are expecting a free cash flow of around € 100 million for financial year 2018.

In financial year 2018, our agreed financing framework will cover the necessary liquidity. We therefore have sufficient financial leeway within the group. By the end of the year, we expect a moderate increase in the market interest rates.

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

For financial year 2018, we are planning investments of around € 65 million in property, plant and equipment and in intangible assets. The volume of investments will be at the level of depreciation.

In the **"Machine Tools"** segment, we have planned for investments of around € 58 million. The main focus is thereby on the expansion of our production plant in Pleszew (Poland) in particular. In addition to the completion of the new, around 7,000 m^2 assembly hall, we are planning to expand our spindle manufacturing capacities and will start constructing a state-of-the-art XXL production hall. We plan to manufacture XXL components for the group of companies in the more than 6,000 m^2 production hall. In the future, around 2,000 machine tools a year are to be produced in Pleszew. We will continue to modernize our production sites in a target-oriented manner and provide tools, models and equipment required for production in the future. The development of innovative products will be a major part of our investment activity in the future as well.

In the **"Industrial Services"** segment, investments of around € 5 million are planned. We will continue to focus on the target-oriented modernization of our sales locations and on equipping our service technicians with state-of-the-art tools and measuring instruments in the future.

We are planning to invest around € 2 million in the **"Corporate Services"** segment. The main focus is thereby on modernization measures at our Bielefeld site.

In the area of research and development, we will continue promoting our innovation strategy as a "Global One Company". Together with DMG MORI COMPANY LIMITED, we are planning 12 world premieres for the current financial year, which we will use to continue developing our portfolio. At the same time, we are working on innovations in the areas of Automation, Digitization, ADDITIVE MANUFACTURING, Technology Excellence and remain focused on our "First Quality" strategy.

The expenses for research and development will be around € 60 million. The increase of around € 10 million compared to last year again shows the increased dynamic with which we are driving our future-oriented topics - particularly digitization. Overall, around 15% of the staff at the plants will continue working on the expansion of our technological lead in the research and development area.

Overall Statement of the Executive Board on Future Business Development 2018

The world economy continues to be marked by global uncertainties. According to forecasts of the German Machine Tool Builders' Association (VDW) and the British economic research institute, Oxford Economics, world machine tool consumption should see less growth of +3.6% in 2018 (previous year: +4.5%). Given the continuing global uncertainties, it remains difficult to make reliable forecasts.

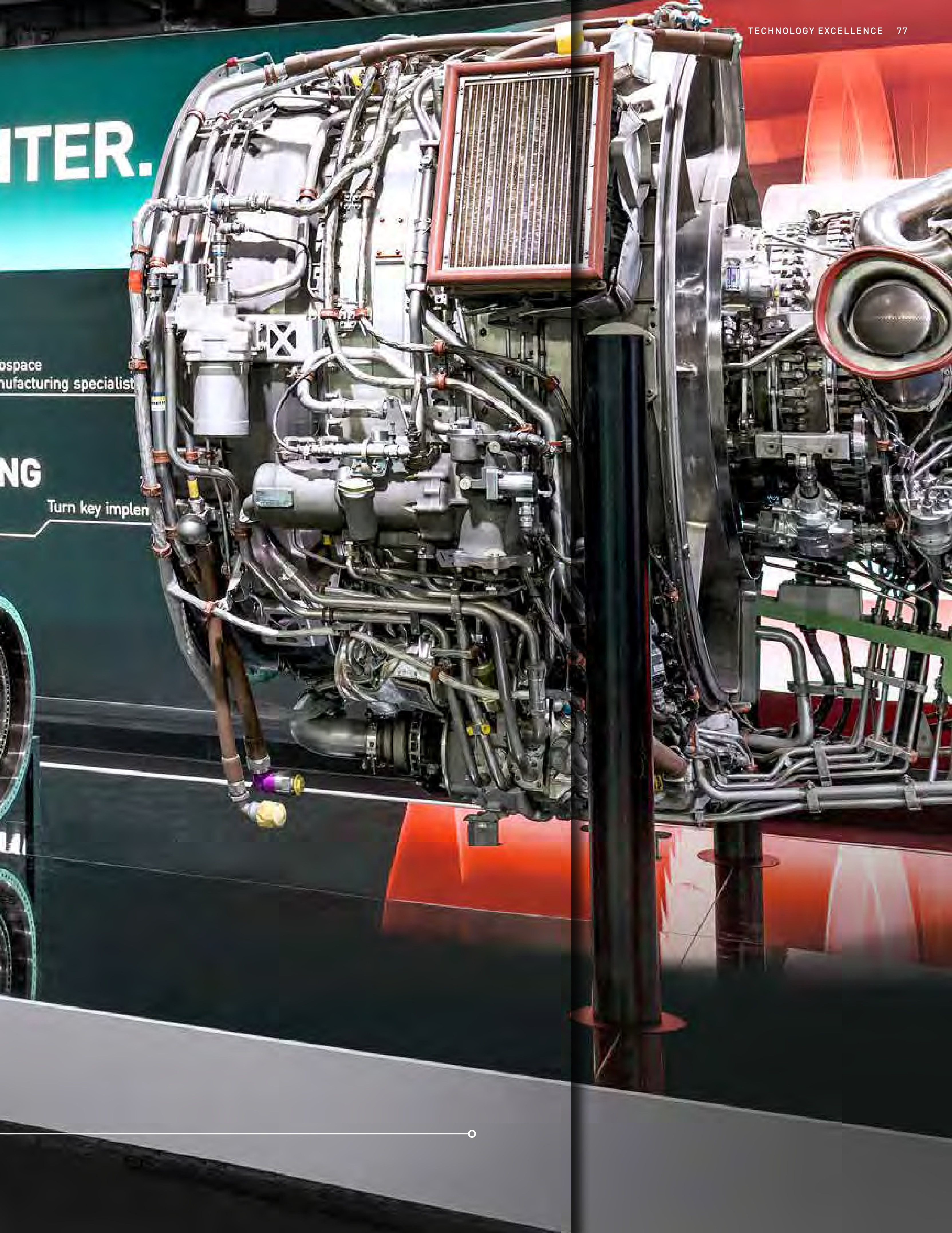
For the 2018 financial year, we are planning around € 2.5 billion in order intake and around € 2.45 billion in sales revenues. EBIT is expected to amount to around € 180 million and free cash flow to around € 100 million. Investments in property, plant and equipment and in intangible assets should amount to around € 65 million and are to be largely financed from our own funds.

We intend to sustainably strengthen our strong innovation power as a "Global One Company". Dynamics and excellence in technology, services and quality will shape the current financial year. We intend to dynamically promote our strategic future-oriented focus areas and sustainably optimize our existing achievements. **Therefore, our motto for 2018 is "Dynamic . Excellence".**

Highly-qualified apprentices: DMG MORI has kept the training standard at a very high level for many years to be able to recruit specialists and managerial staff from its own ranks. We train 359 apprentices on high-tech machine tools in our production plants. The business magazine "Capital" awarded our training and study opportunities the maximum number of points available and the quality seal of "Germany's Best Training Institution" (Deutschlands bester Ausbilder).


DMC 100 U duoBLOCK®

TECHNOLOGY EXCELLENCE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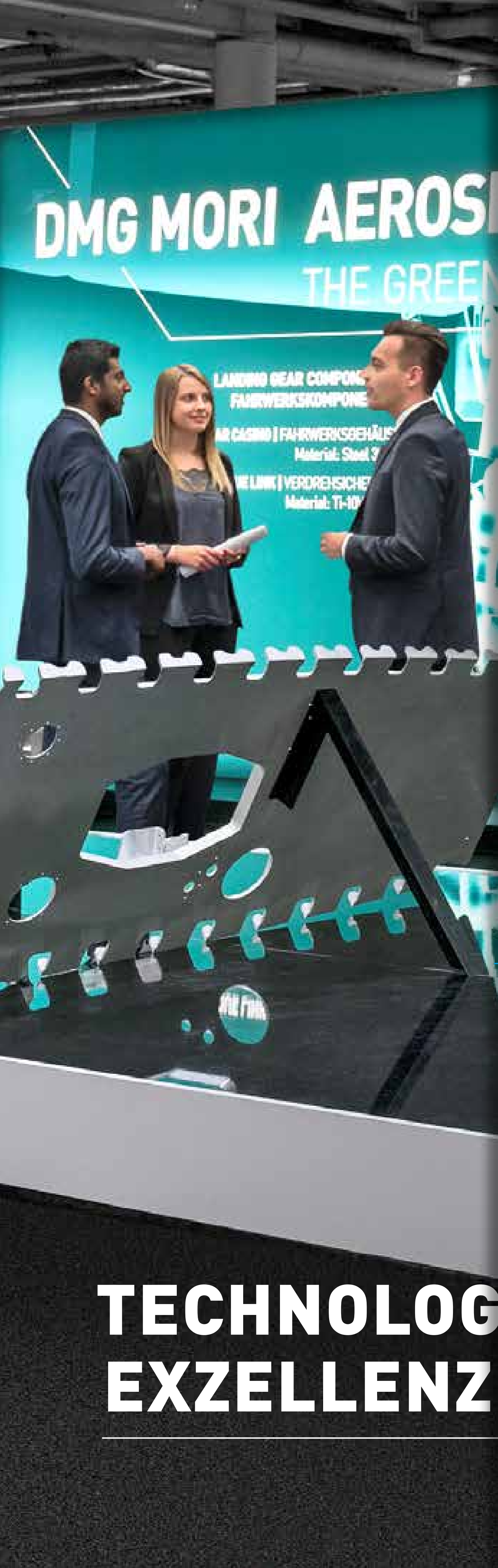

TECHNOLOGY EXCELLENCE FOR GROWTH MARKETS

DMG MORI has set up its own Technology Excellence Center across the world for the key industries of Aerospace, Automotive, Die & Mold and Medical. The experts at these centers are involved in the customer's development processes at an early stage. The objective: tailored complete technology solutions.

The "Technology Excellence Center" are integrated into DMG MORI's production plants. This has many benefits for the customers: They profit from the vast know-how that has been gathered there for decades – and which continues to grow steadily. This creates a wide range of productions: from new components to machine concepts, through to turnkey production solutions.

BLISK FOR AN AIRCRAFT ENGINE
Machine
DMU monoBLOCK series
Measurements
ø 450 × 120 mm
Material
Ti6Al4V

FAN DISC
Machine
DMC 125 FD duoBLOCK
Measurements
ø 950 × 400 mm
Material Ti6Al4V

Individual solutions: The "Technology Excellence Center" are integrated into DMG MORI's plants. Customers benefit from the vast know-how of around 1,000 application technicians. Close cooperation creates a wide range of products: from new components to machine concepts, through to turnkey production solutions.

AEROSPACE	Pfronten
AUTOMOTIVE	Nara
DIE & MOLD	Pfronten | Iga
MEDICAL	Seebach

Highest quality standards for medical technology: The "Medical Excellence Center" is a special highlight at DECKEL MAHO in Seebach, in which DMG MORI presents the entire product range of medical technology and bundles its know-how across the entire group.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT OF DMG MORI AKTIENGESELLSCHAFT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2017

C.01	Notes	2017 € K	2016 € K
Sales revenues	6	2,348,451	2,265,709
Changes in finished goods and work in progress		11,687	-16,909
Own work capitalised	7	7,743	13,552
Total work done		**2,367,881**	**2,262,352**
Other operating income	8	81,164	96,752
Operating performance		**2,449,045**	**2,359,104**
Cost of materials	9		
Cost of raw materials, consumables and goods for resale		1,108,137	1,018,061
Cost of purchased services		155,439	139,437
		1,263,576	1,157,498
Personnel costs	10		
Wages and salaries		467,492	485,668
Social security contributions, pensions and other benefits		83,163	86,303
		550,655	571,971
Depreciation	11	72,833	65,720
Other operating expenses	12	381,836	459,969
Operating result		**180,145**	**103,946**
Financial income	13		
Interest income		3,597	1,488
Other income		170	1,358
		3,767	2,846
Financial expenses	14		
Interest payable		7,381	8,051
Interest expense from pension provisions		508	814
Other financial expenses		1,126	4,488
		9,015	13,353
Financial result		-5,248	-10,507
Share of profits and losses of at equity-accounted investments	15	1,485	681
Earnings before taxes		176,382	94,120
Income taxes	16	58,019	46,636
Annual profit		**118,363**	**47,484**
Of which attributed to the shareholders of DMG MORI AKTIENGESELLSCHAFT		117,442	44,820
Of which attributed to non-controlling interests	17	921	2,664
Earnings per share pursuant to IAS 33 in €	**18**	1.49	0.57

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF DMG MORI AKTIENGESELLSCHAFT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2017

C.02		2017	2016
	Notes	€ K	€ K
Annual profit		**118,363**	**47,484**
Other comprehensive income			
Remeasurement of benefit-oriented pension plans		1,267	-7,117
Income taxes		-445	2,340
Sum of items never reclassified to income statement		**822**	**-4,777**
Differences from currency translation		7,281	17,628
Net investments		-7,550	2,055
Changes in market value of hedging instruments	38	-233	-991
Market value of hedging instruments – reclassification to the income statement		991	197
Reclassification of differences from currency translation upon loss of significant influence		-2,649	0
Income taxes	29	-226	237
Sum of items which are reclassified to the income statement		**-2,386**	**19,126**
Other comprehensive income for the period after taxes		**-1,564**	**14,349**
Total comprehensive income for the period		**116,799**	**61,833**
Of which attributed to the shareholders of DMG MORI AKTIENGESELLSCHAFT		115,590	58,409
Of which attributed to non-controlling interests		1,209	3,424

CONSOLIDATED CASH FLOW STATEMENT OF DMG MORI AKTIENGESELLSCHAFT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2017

C.03

CASH FLOW FROM OPERATING ACTIVITY	Notes	2017 € K	2016 € K
Earnings before taxes (EBT)		176,382	94,120
Depreciation		72,833	65,720
Financial result	13, 14	5,248	10,507
Other income and expense not affecting payments		-2,056	-487
Change in provisions	31, 32	-26,283	3,687
Loss on the disposal of fixed assets		-1,371	-362
Income tax refunds		5,779	3,352
Income taxes paid		-55,502	-49,475
Interest received		3,713	1,716
Interest paid		-7,382	-7,481
Changes in asset and liabilities items			
Inventories	24	-52,361	-6,271
Trade debtors	23, 25	-57,757	-8,282
Other assets not from investments or financing activity		1,740	24,084
Trade creditors	35	-4,974	-44,712
Other liabilities not from investments or financing activity		113,711	37,908
	41	**171,720**	**124,024**
CASH FLOW FROM INVESTMENT ACTIVITY			
Amounts received from the disposal of tangible assets and intangible assets		10,358	6,568
Amounts paid out for investments in tangible assets		-29,711	-74,277
Amounts paid out for investments in intangible assets		-10,013	-13,829
Cashflow from the takeover of control over subsidiaries	41	-23,798	3,570
Cash flow from the loss of control over subsidiaries	41	45,197	-330
Amounts paid out for investments in financial assets	41	-2,050	0
Amounts paid out for loans to other related parties	25	0	-120,000
Amounts received from disposal in financial assets		268	0
		-9,749	**-198,298**
CASH FLOW FROM FINANCING ACTIVITY			
Amounts paid out for transaction costs for raising financial debt		0	-3,163
Payments for repayment of financial debts	41	-6,132	-2,039
Payments from changes in interests in subsidiaries	41	-143,426	0
Profit transfer to DMG MORI GmbH	41	-41,097	0
Dividends paid		0	-47,291
	41	**-190,655**	**-52,493**
Changes affecting payments		-28,684	-126,767
Reclassification of funds for assets held for sale		0	-30,597
Effect of exchange rate on financial securities		-4,636	1,962
Cash and cash equivalents as at 1 January	27	396,725	552,127
Cash and cash equivalents as at 31 December	**27**	**363,405**	**396,725**

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2017 OF DMG MORI AKTIENGESELLSCHAFT

C.04

ASSETS	Notes	31 Dec 2017 € K	31 Dec 2016 € K
Long-term assets			
Goodwill	19	139,419	135,417
Other intangible assets	19	51,262	59,859
Tangible assets	20	440,005	486,370
Equity-accounted investments	22	45,153	46,088
Other equity investments	21	2,109	21,792
Trade debtors	23	849	978
Other long-term financial assets	23	5,906	7,673
Other long-term assets	23	2,426	17,076
Deferred tax assets	29	49,931	58,264
		737,060	**833,517**
Short-term assets			
Inventories	24	547,662	505,041
Trade debtors	25	237,796	194,394
Receivables from at equity accounted companies	25	15,970	4,276
Receivables from other related companies	25	206,972	166,448
Receivables from associated companies	25	28	188
Other short-term financial assets	26	72,764	63,353
Other short-term assets	26	58,050	51,472
Income tax receivables		1,591	7,177
Cash and cash equivalents	27	363,405	396,725
Assets held for sale	28	0	116,587
		1,504,238	**1,505,661**
BALANCE SHEET TOTAL		**2,241,298**	**2,339,178**

C.04

EQUITY AND LIABILITIES

	Notes	31 Dec 2017 € K	31 Dec 2016 € K
Equity			
Subscribed capital	30	204,927	204,927
Capital reserve	30	498,485	498,485
Retained earnings and other reserves	30	458,095	444,346
Total equity of shareholders of DMG MORI AKTIENGESELLSCHAFT		**1,161,507**	**1,147,758**
Non-controlling equity interests	30	3,111	39,905
Total equity		**1,164,618**	**1,187,663**
Long-term debts			
Long-term financial debts	33	35,037	40,244
Provisions for pensions	31	44,580	47,574
Other long-term provisions	32	43,246	32,794
Other long-term financial liabilities	34	9,505	1,590
Other long-term liabilities	34	3,856	4,012
Deferred tax liabilities	29	1,787	2,975
		138,011	**129,189**
Short-term debts			
Short-term financial debts	33	11,453	14,374
Tax provisions	32	15,174	49,889
Other short-term provisions	32	183,199	174,865
Payments received on account		290,181	158,094
Trade creditors	35	169,759	236,024
Liabilities to at equity accounted companies	35	2,310	2,003
Liabilities to other related companies	35	207,132	273,326
Liabilities to associated companies	35	0	6
Other short-term financial liabilities	35	10,722	34,365
Other short-term liabilities	35	48,739	42,769
Liabilities in relation to assets held for sale	36	0	36,611
		938,669	**1,022,326**
BALANCE SHEET TOTAL		**2,241,298**	**2,339,178**

DEVELOPMENT OF GROUP EQUITY OF DMG MORI AKTIENGESELLSCHAFT FOR THE PERIOD 1 JANUARY 2016 TO 31 DECEMBER 2017

C.05

in € K	Subscribed capital	Capital reserve	Retained earnings and other reserves: Revenue reserves	Retained earnings and other reserves: Difference from currency translation	Retained earnings and other reserves: Market valuation of financial derivatives	Total equity of shareholders of DMG MORI AKTIEN-GESELLSCHAFT	Non-controlling equity interests	Total
As at 1 Jan 2017	204,927	498,485	447,635	-2,593	-696	1,147,758	39,905	1,187,663
Total comprehensive income								
Annual profit			117,442			117,442	921	118,363
Other comprehensive income								
Differences from currency translation				4,344		4,344	288	4,632
Net investments				-7,550		-7,550		-7,550
Change in fair value of derivative financial instruments (after taxes)					532	532		532
Remeasurement of benefit-oriented plans (after taxes)			822			822		822
Other comprehensive income for the period after taxes			**822**	**-3,206**	**532**	**-1,852**	**288**	**-1,564**
Total comprehensive income for the period			**118,264**	**-3,206**	**532**	**115,590**	**1,209**	**116,799**
Transactions with owners								
Total capital contribution to owners								0
Purchase / sale of non-controlling interests without / with change of control			2,501			2,501	-38,003	-35,502
Tax compensation payment acc. to § 16 Corporation Tax Act (KStG)			-14,477			-14,477		-14,477
Profit transfer to DMG MORI GmbH for 2017			-89,865			-89,865		-89,865
Sum of transactions with owners			**-101,841**			**-101,841**	**-38,003**	**-139,844**
As at 31 Dec 2017	**204,927**	**498,485**	**464,058**	**-5,799**	**-164**	**1,161,507**	**3,111**	**1,164,618**

See accompanying explanations regarding equity and non-controlling equity interests in the Consolidated Financial Statements page 129 et seq.

in € K	Subscribed capital	Capital reserve	Retained earnings and other reserves: Revenue reserves	Retained earnings and other reserves: Difference from currency translation	Retained earnings and other reserves: Market valuation of financial derivatives	Total equity of shareholders of DMG MORI AKTIEN-GESELLSCHAFT	Non-controlling equity interests	Total
As at 1 Jan 2016	204,927	498,485	529,142	-21,516	-139	1,210,899	146,575	1,357,474
Total comprehensive income								
Annual profit			44,820			44,820	2,664	47,484
Other comprehensive income								
Differences from currency translation				16,868		16,868	760	17,628
Net investments				2,055		2,055		2,055
Change in fair value of derivative financial instruments (after taxes)					-557	-557		-557
Remeasurement of benefit-oriented plans (after taxes)			-4,777			-4,777		-4,777
Other comprehensive income for the period after taxes			**-4,777**	**18,923**	**-557**	**13,589**	**760**	**14,349**
Total comprehensive income for the period			**40,043**	**18,923**	**-557**	**58,409**	**3,424**	**61,833**
Transactions with owners								
Total capital contribution to owners							1,446	1,446
Changes in capital interest of subsidiaries			-33,162			-33,162	-111,540	-144,702
Dividend payment for financial year 2015			-47,291			-47,291		-47,291
Profit transfer to DMG MORI GmbH for 2016			-41,097			-41,097		-41,097
Sum of transactions with owners			**-121,550**			**-121,550**	**-110,094**	**-231,644**
As at 31 Dec 2016	**204,927**	**498,485**	**447,635**	**-2,593**	**-696**	**1,147,758**	**39,905**	**1,187,663**

See accompanying explanations regarding equity and non-controlling equity interests in the Consolidated Financial Statements page 129 et seq.

CONSOLIDATED FIXED ASSET MOVEMENT SCHEDULE AS AT 31 DECEMBER 2017 OF DMG MORI AKTIENGESELLSCHAFT

(Part of the notes)

C.06

ACQUISITION AND PRODUCTION COSTS

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

DEPRECIATION

in € K	As at 1 Jan 2017	Difference from currency translation	Other changes
Intangible assets			
Goodwill	0	0	0
Assets arising from development	102,624	5	-2,259
Industrial property and similar rights	74,075	0	450
	176,699	**5**	**-1,809**
Tangible assets			
Land and buildings	139,088	-1,555	1
Technical equipment and machinery	61,648	-286	-237
Other equipment, factory and office equipment	159,120	-1,284	-14
Construction in progress	229	13	0
	360,085	**-3,112**	**-250**
Financial assets			
Equity accounted investments	-3,763	0	-1,485
Other equity investments	7,384	0	0
Securities	6	0	0
	3,627	**0**	**-1,485**
Total fixed assets	**540,411**	**-3,107**	**-3,544**

As at 1 Jan 2017	Difference from currency translation	Other changes	Change in the group of consolidated companies	Additions	Disposals	Book transfers	As at 31 Dec 2017
135,417	-12	1	4,013	0	0	0	139,419
127,091	5	-2,259	0	6,430	0	849	132,116
109,467	6	450	927	3,584	-440	-577	113,417
371,975	**-1**	**-1,808**	**4,940**	**10,014**	**-440**	**272**	**384,952**
424,123	-10,395	1,462	-1,041	8,774	-33,196	49,355	439,082
115,836	-721	2,101	45	4,692	-3,072	1,913	120,794
237,091	-1,701	89	-960	10,071	-8,620	6,735	242,705
69,405	-1,423	-4,066	0	6,174	-2,428	-58,275	9,387
846,455	**-14,240**	**-414**	**-1,956**	**29,711**	**-47,316**	**-272**	**811,968**
42,325	-2,470	0	0	50	0	0	39,905
29,174	0	0	0	2,000	-21,683	0	9,491
8	0	0	0	0	0	0	8
71,507	**-2,470**	**0**	**0**	**2,050**	**-21,683**	**0**	**49,404**
1,289,937	**-16,711**	**-2,222**	**2,984**	**41,775**	**-69,439**	**0**	**1,246,324**

					Net book Value	
Change in the group of consolidated companies	Additions	Disposals	Book transfers	As at 31 Dec 2017	As at 31 Dec 2017	As at 31 Dec 2016
0	0	0	0	0	139,419	135,417
0	8,141	0	0	108,511	23,605	24,467
-276	11,976	-414	-51	85,760	27,657	35,392
-276	**20,117**	**-414**	**-51**	**194,271**	**190,681**	**195,276**
-308	16,259	-26,269	-2	127,214	311,868	285,035
-17	16,121	-3,047	-15	74,167	46,627	54,188
-574	20,336	-7,312	68	170,340	72,365	77,971
0	0	0	0	242	9,145	69,176
-899	**52,716**	**-36,628**	**51**	**371,963**	**440,005**	**486,370**
0	0	0	0	-5,248	45,153	46,088
0	0	0	0	7,384	2,107	21,790
0	0	0	0	6	2	2
0	**0**	**0**	**0**	**2,142**	**47,262**	**67,880**
-1,175	**72,833**	**-37,042**	**0**	**568,376**	**677,948**	**749,526**

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

(Part of the notes)

C.06

ACQUISITION AND PRODUCTION COSTS

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

DEPRECIATION

in € K	As at 1 Jan 2016	Difference from currency translation	Other changes
Intangible assets			
Goodwill	0	0	0
Assets arising from development	98,627	-16	1
Industrial property and similar rights	66,973	-70	-2,365
	165,600	**-86**	**-2,364**
Tangible assets			
Land and buildings	130,985	-60	-1,776
Technical equipment and machinery	53,856	55	216
Other equipment, factory and office equipment	153,864	61	-5,312
Construction in progress	238	-8	-1
	338,943	**48**	**-6,873**
Financial assets			
Equity accounted investments	-3,071	-11	-681
Other equity investments	7,384	0	0
Securities	6	0	0
	4,319	**-11**	**-681**
Total fixed assets	**508,862**	**-49**	**-9,918**

As at 1 Jan 2016	Difference from currency translation	Other changes	Change in the group of consolidated companies	Additions	Disposals	Book transfers	As at 31 Dec 2016
134,335	343	0	739	0	0	0	135,417
127,848	-30	0	-8,031	8,245	-941	0	127,091
113,328	-108	-6,908	-1,859	5,584	-854	284	109,467
375,511	**205**	**-6,908**	**-9,151**	**13,829**	**-1,795**	**284**	**371,975**
382,757	5,646	-24,587	5,273	12,512	-5,901	48,423	424,123
100,661	1,735	-39	-2,634	6,002	-2,372	12,483	115,836
230,280	820	-7,053	-920	17,176	-9,693	6,481	237,091
88,978	11,546	-894	-69	38,588	-1,073	-67,671	69,405
802,676	**19,747**	**-32,573**	**1,650**	**74,278**	**-19,039**	**-284**	**846,455**
44,266	0	-1,941	0	0	0	0	42,325
29,174	0	0	0	0	0	0	29,174
8	0	0	0	0	0	0	8
73,448	**0**	**-1,941**	**0**	**0**	**0**	**0**	**71,507**
1,251,635	**19,952**	**-41,422**	**-7,501**	**88,107**	**-20,834**	**0**	**1,289,937**

Change in the group of consolidated companies	Additions	Disposals	Book transfers	As at 31 Dec 2016	Net book Value As at 31 Dec 2016	Net book Value As at 31 Dec 2015
0	0	0	0	0	135,417	134,335
-6,009	10,630	-609	0	102,624	24,467	29,221
-942	11,182	-703	0	74,075	35,392	46,355
-6,951	**21,812**	**-1,312**	**0**	**176,699**	**195,276**	**209,911**
-148	12,644	-2,557	0	139,088	285,035	251,772
-1,826	11,464	-2,117	0	61,648	54,188	46,805
-651	19,800	-8,642	0	159,120	77,971	76,416
0	0	0	0	229	69,176	88,740
-2,625	**43,908**	**-13,316**	**0**	**360,085**	**486,370**	**463,733**
0	0	0	0	-3,763	46,088	47,337
0	0	0	0	7,384	21,790	21,790
0	0	0	0	6	2	2
0	**0**	**0**	**0**	**3,627**	**67,880**	**69,129**
-9,576	**65,720**	**-14,628**	**0**	**540,411**	**749,526**	**742,773**

SEGMENTAL REPORTING IN THE CONSOLIDATED FINANCIAL STATEMENTS 2017 OF DMG MORI AKTIENGESELLSCHAFT

(Part of the notes)

C.07

SEGMENTATION BY BUSINESS SEGMENTS

in € K	"Machine Tools" 2017	2016	Changes against previous year		"Industrial Services" 2017	2016	Changes against previous year	
Sales revenues with other segments	984,603	924,219	60,384	6.5%	65,146	98,669	-33,523	-34.0%
Sales revenues with third parties	1,289,425	1,244,311	45,114	3.6%	1,058,757	1,021,178	37,579	3.7%
EBIT	114,873	79,648	35,225	44.2%	95,244	63,951	31,293	48.9%
Financial result	-2,776	-9,311	6,535	70.2%	-5,377	-8,256	2,879	34.9%
thereof interest income	2,243	705	1,538	218.2%	2,740	3,412	-672	-19.7%
thereof interest expense	-4,785	-9,695	4,910	50.6%	-7,027	-8,330	1,303	15.6%
Share of profit for the period of at equity accounted investments	0	0	0	0	0	-64	64	100.0%
EBT	112,097	70,337	41,760	59.4%	89,867	55,631	34,236	61.5%
Carrying amount of at equity accounted investments	50	0	50	0	0	0	0	0
Segment assets	1,150,796	1,122,919	27,877	2.5%	1,817,770	2,008,522	-190,752	-9.5%
Investments	35,499	48,829	-13,330	-27.3%	5,294	35,795	-30,501	-85.2%
Depreciation	43,810	39,365	4,445	11.3%	25,666	23,098	2,568	11.1%
Employees	3,875	3,680	195	5.3%	3,142	3,503	-361	-10.3%

See accompanying explanations in notes under segmental reporting page 150 et seq.

INFORMATIONS ON GEOGRAPHICAL AREAS

in € K	Germany 2017	2016	Changes against previous year		Rest of Europe 2017	2016	Changes against previous year		North America 2017	2016	Changes against previous year	
Sales revenues with third parties	942,285	839,863	102,422	12.2%	1,115,813	924,012	191,801	20.8%	78,599	134,776	-56,177	-41.7%
Long-term assets	277,993	280,536	-2,543	-0.9%	347,045	381,571	-34,526	-9.0%	0	12,083	-12,083	-100.0%

"Corporate Services"		Changes against previous year		Transition		Group		Changes against previous year	
2017	2016			2017	2016	2017	2016		
16,323	21,847	-5,524	-25.3%	-1,066,072	-1,044,735	0	0	0	0%
269	220	49	22.3%	0	0	2,348,451	2,265,709	82,742	3.7%
-30,578	-40,003	9,425	23.6%	606	350	180,145	103,946	76,199	73.3%
2,905	7,060	-4,155	-58.9%	0	0	-5,248	-10,507	5,259	50.1%
6,217	11,676	-5,459	-46.8%	-7,603	-14,305	3,597	1,488	2,109	141.7%
-3,271	-4,727	1,456	30.8%	6,715	13,787	-8,368	-8,965	597	6.7%
1,485	745	740	99.3%	0	0	1,485	681	804	118.1%
-26,188	-32,198	6,010	18.7%	606	350	176,382	94,120	82,262	87.4%
45,103	46,088	-985	-2.1%	0	0	45,153	46,088	-935	-2.0%
1,763,717	1,520,809	242,908	16.0%	-2,553,736	2,388,653	2,178,547	2,263,597	-85,050	-3.8%
982	3,483	-2,501	-71.8%	0	0	41,775	88,107	-46,332	-52.6%
3,357	3,257	100	3.1%	0	0	72,833	65,720	7,113	10.8%
84	99	-15	-15.2%	0	0	7,101	7,282	-181	-2.5%

Asia		Changes against previous year		Other		Changes against previous year		Transition		Group		Changes against previous year	
2017	2016			2017	2016			2017	2016	2017	2016		
211,754	334,451	-122,697	-36.7%	0	32,607	-32,607	-100.0%	0	0	2,348,451	2,265,709	82,742	3.7%
10,240	9,934	306	3.1%	0	657	-657	-100.0%	-4,592	-3,135	630,686	681,646	-50,960	-7.5%


DMG
DMQP
DMG MORI QUALIFIED PRODUCTS
Perfectly aligned peripherals and
accessories from a single source.
SANDVIK


MORI

DMQP – FOR INNOVATION AND QUALITY

DMG MORI offers a wide range of peripherals and accessories for its machines. With DMG MORI Qualified Products (DMQP), the company has created a program which certifies the partners and their products. In this way, the customers enjoy greater innovation, even higher quality, and only one competent partner.

Under the label DMQP, DMG MORI sells products from the four key areas of Shaping, Handling, Measuring and Monitoring. This covers all fields, from oil mist separators to bar loaders, through to standard automation solutions and tool and workpiece measurement systems. Customers benefit from the high quality and reliability of the peripherals – and of course also from the fact that DMG MORI handles the whole process.

Accessories from a single source: Measurement technology, tool holders and handling systems are just three examples of peripheral products and devices which DMG MORI uses to complement its manufacturing solutions.

Anyone who purchases a DMG MORI machine knows what they are getting: quality, maximum precision, durability and efficiency. In addition to machine tools from the areas of Turning, Milling and Advanced Technologies, DMG MORI also offers innovative accessories and peripherals. This includes, for example, cooling aggregates, oil mist separators, tools, bar loaders, standard automation solutions, tool and workpiece measurement systems or transformers. To achieve this, DMG MORI has been cooperating with selected suppliers for a long time. This also guarantees the quality of these products.

To ensure that quality levels remain high, DMG MORI puts new technologies to the acid test together with the suppliers. Products are only included in the DMG MORI program if they pass these tests and products provide added value for the customers.

Notes to the Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT for the Financial Year 2017

Accounting principles applied in the Consolidated Financial Statements

1. APPLICATION OF REGULATIONS

The Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT for the financial year 1 January 2017 to 31 December 2017 were prepared at the end of the reporting period with mandatory use of the International Financial Reporting Standards (IFRS) as adopted by the European Union and their interpretation by the International Accounting Standards Board (IASB), London, Great Britain, as applicable on the reporting date. The Notes to the Consolidated Financial Statement include further explanations pursuant to Section 315e of the German Commercial Code (HGB).

The following disclosures include statements and comments that, pursuant to the IFRS, must be included in the notes to the Consolidated Financial Statements along with the consolidated income statement, the consolidated statement of other comprehensive income for the reporting period, the consolidated balance sheet, the consolidated development of the group's equity and the consolidated cash flow statement.

To allow for a better presentation, individual items have been combined in the income statement and in the balance sheet; these are shown separately in the notes to the financial statements with further disclosures.

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

DMG MORI AKTIENGESELLSCHAFT with its registered office in Bielefeld, Gildemeisterstrasse 60, is listed at the Bielefeld District Court, section B, under the number 7144 and is the parent company of DMG MORI group and is a listed company under German law. As a leading manufacturer of cutting machine tools worldwide, DMG MORI group offers innovative machine technologies, expert services, needs-based software products and energy solutions. The Consolidated Financial Statements and the Group Management Report of DMG MORI AKTIENGESELLSCHAFT for the reporting period as at 31 December 2017 will be available through the electronic Federal Gazette (Bundesanzeiger), the Commercial Register as well as from our website → **www.dmgmori.com.** DMG MORI COMPANY LIMITED, Nara (Japan), is the ultimate parent company of DMG MORI group. The Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT are included in the Consolidated Financial Statements of DMG MORI COMPANY LIMITED, Nara (Japan). These Consolidated Financial Statements can be found online at → **www.dmgmori.co.jp.**

DMG MORI GmbH, a wholly owned subsidiary of DMG MORI COMPANY LIMITED, concluded a domination and profit transfer agreement with DMG MORI AKTIENGESELLSCHAFT pursuant to Sections 291 et seq. AktG (Stock Corporation Act), which entered into force following entry into the commercial register on 24 August 2016. With effect from 1 January 2017, a tax allocation agreement was concluded between DMG MORI GmbH and DMG MORI AKTIENGESELLSCHAFT.

The Executive Board of DMG MORI AKTIENGESELLSCHAFT released the Consolidated Financial Statements and the Group Management Report for publication on 12 March 2018.

2. CONSOLIDATION PRINCIPLES

The accounting for acquired subsidiaries applies the acquisition method, provided the group has obtained a controlling interest. Transactions under joint control are also accounted for as purchases.

The consideration transferred for the acquisition of such interests corresponds to the fair value of the exchanged assets and the liabilities incurred or assumed at the date of the acquisition. Furthermore, they include the fair value of any assets or liabilities recognised arising from a contingent consideration agreement. Subsequent adjustments to the fair value of the contingent consideration are recognised through profit or loss. Costs related to the acquisition are recognised as an expense at the time of their accrual. At the time of their initial consolidation, assets, liabilities and contingent liabilities that can be identified in the context of a merger will be measured at their fair values at the time of acquisition.

Subsidiaries are companies controlled by the group. The group controls a company, if it is subject to fluctuating rates of return from its involvement with the company or holds a right to such rates of return and is able to influence them utilising its control over the company.

If the group loses control over a subsidiary, it derecognises the subsidiary's assets and liabilities and all related non-controlling interest and other components of equity. Any profit or loss generated is recognised through profit or loss.

The group decides on an individual basis with respect to the question if the non-controlling interests in the company acquired are to be recognised at their fair value or in the pro-rata amount of the net assets.

Goodwill is recognised at the value that arises from the surplus of the acquisition costs, from the amount of the non-controlling interests in the company acquired as well as from the fair value of any previously held equity interests as of the acquisition date above the net assets measured at fair value. Should the acquisition costs be less than the acquired subsidiary's net asset value measured at fair value, the difference shall be re-evaluated and subsequently recognised in the income statement.

IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets" eliminate the schedule amortisation of goodwill and instead prescribe goodwill to be written-off only in the event of an impairment. Any equity interest in the subsidiaries, that the parent company is not entitled to, are recognised as non-controlling interests as part of equity.

Any reciprocal receivables and payables between the companies included in the Consolidated Financial Statements are offset from each other. Interim results from intragroup deliveries and services are eliminated; deferred tax assets and deferred tax liabilities from consolidation transactions affecting net income are recognised in the income statement. Intragroup sales revenues and other intragroup income is offset against the corresponding expenses not affecting income.

The applied consolidation methods remained unchanged from the previous year.

3. ACCOUNTING AND VALUATION PRINCIPLES

All annual financial statements of the companies that were included in the Consolidated Financial Statements have the same balance sheet dates as the Consolidated Financial Statements and are prepared in accordance with the uniform group accounting and valuation principles. For this purpose, those accounts that were prepared in accordance with local regulations were adjusted to the uniform group accounting and valuation principles of DMG MORI AKTIENGESELLSCHAFT. The Consolidated Financial Statements have been prepared on the basis of the historical cost of acquisition and production, with the exception that certain financial instruments have been accounted for at market value and pension obligations have been accounted for using the projected-unit-credit method.

The applied accounting and valuation methods are the same as those applied in the previous year.

Changes in accounting and valuation methods due to new standards

In the financial year 2017, the following new and revised standards, as well as IASB / IFRIC interpretations, were obligated to be applied for the first time. [→ C.08]

On 1 January 2017, DMG MORI group commenced application of the following new and revised IFRS standards bearing relevance for the Consolidated Financial Statements.

Amendments to IAS 7 – Disclosure Initiative

The amendment aims at improving the information about changes in the indebtedness of the company. The company discloses information about changes in financial liabilities, whose deposits and withdrawals are reported in the cash flow statement item "cash flow from financing activities". Associated financial assets are also included in the disclosed information (e. g. assets from hedging transactions).

Changes affecting payments, changes from the acquisition or sale of companies, foreign currency exchange rate-related changes, changes in the accounted fair values and other changes are disclosed.

The information is disclosed in the form of a reconciliation statement showing changes between the opening and closing balances on the balance sheet.

The DMG MORI group uses a reconciliation statement to show the changes between the opening and closing balances of the financial liabilities.

Amendments to IAS 12 – Recognition of deferred tax assets for unrealised losses

The amendments clarify the accounting of deferred tax assets for unrealised losses of debt instruments valued at their fair value.

The amendments do not result in significant ramifications for the Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT.

Improvements to IFRS 2014 – 2016

The Annual Improvements to IFRSs (2014 – 2016) contain amendments to three IFRSs. Of these, only the standards shown below had to be applied in 2017.

IFRS 12 clarifies that the information prescribed by IFRS 12 also applies in principle for such interest held in subsidiaries, joint ventures or associated companies, which is classified as held for sale in the meaning of IFRS 5; the information pursuant to IFRS 12.B10 – B16 (financial information) is however exempt from this rule.

The amendments do not result in significant ramifications for the Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT.

NEW ACCOUNTING REGULATIONS

A number of new standards and interpretations must be applied from the first reporting period of a financial year beginning on or after 1 January 2018, although early application is permitted. However, DMG MORI AKTIENGESELLSCHAFT did not opt for early adoption of the new or amended standards when preparing these Consolidated Financial Statements. Unless otherwise specified, the effects on the Consolidated Financial Statements are currently being reviewed.

C.08

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses
Improvements to IFRS 2014 – 2016	Amendments to IFRS 12

Over the last two years, the company has conducted a detailed analysis of the effects of the new IFRS 9 and IFRS 15 regulations. The analysis has been completed as of the reporting date and the company does not expect these new standards at DMG MORI to have any significant effects on the Consolidated Financial Statements in the reporting period of initial application. The expected changes incurred by these standards are explained below:

a) These have already received EU endorsement.

C.09

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leasing Agreements
Amendments to IFRS 4	Application of IFRS 9 Financial Instruments in conjunction with IFRS 4 Insurance Contracts
Amendments to IFRS 15	Clarification concerning IFRS 15
Improvements to IFRS 2014 – 2016	Amendments to IFRS 1 and IAS 28

IFRS 9 – Financial Instruments

IFRS 9 must initially be applied from the first reporting period of a financial year beginning on or after the 1 January 2018, although early application is permitted. The DMG MORI group will apply IFRS 9 for the first time as of 1 January 2018 and has decided against early application.

IFRS 9 "Financial Instruments" defines the requirements for the recognition and measurement of financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 "Financial instruments: Recognition and Measurement".

Classification – Financial assets

IFRS 9 contains a new classification and valuation approach for financial assets, which reflects the business model employed for holding such assets as well as the characteristics of their cash flows.

IFRS 9 contains important classification categories for financial assets: valued at amortised cost, at fair value through profit or loss (FVTPL) and at fair value through other comprehensive income (FVOCI). The standard eliminates the existing categories of IAS 39: to hold to maturity, loans and receivables as well as available for sale.

Based on its own assessment, DMG MORI does not believe that the new classification requirements will have a significant impact on the recognition of trade debtors and other receivables.

Impairment – Financial assets and contractual assets

IFRS 9 replaces the model of the "incurred losses" prescribed by IAS 39 with a future-oriented model of "expected credit losses". This requires considerable judgment as to how changes in economic factors will affect expected credit losses. This assessment will be made on the basis of weighted probabilities.

The new impairment model is applicable to financial assets valued at amortised cost or at FVOCI – with the exception of equity securities held as financial investments – as well as to contractual assets.

Pursuant to IFRS 9, impairments are valued on one of the following bases:

- 12-month expected credit losses: These are expected credit losses due to possible loss events within a period of twelve months after the balance sheet date.
- Lifetime expected credit losses: These are expected credit losses as a result of all possible loss events during the expected term of a financial instrument.

The valuation concept based on expected credit losses over the entire contractual term must be applied if the credit risk of a financial asset has increased significantly between the initial journal entry and the balance sheet date; in all other scenarios, the evaluation concept using 12-month credit losses must be used. A company may determine that the credit risk of a financial asset has not increased significantly if the asset's credit risk is classified as low on the balance sheet date. The evaluation concept based on expected credit losses over the entire contractual term must however always be applied to trade debtors and contract assets lacking a major financing component; a company may elect to also apply this method for trade debtors and contractual assets that do incorporate a substantial financing component.

DMG MORI has decided to use the expected credit loss model over the entire contractual term, also for trade debtors and contract assets with a substantial financing component.

DMG MORI holds that the impairment expenses for assets falling within the scope of application of the IFRS 9 impairment model are likely to increase in their amount and volatility. Based on the impairment model described below, the group expects the application of IFRS 9 impairment requirements to result in other impairments. The actual impact from application of IFRS 9 as of 1 January 2018 may vary from this figure:

C.10

In € K	Additional expected impairment as at 1 January 2018
Trade debtors and other receivables as at 31 Dec 2017	480
Cash and cash equivalents	2
	482

C.11

In € K	Estimated adjustment in equity as at 1 January 2018
Retained earnings and other reserves	-482
Non-controlling interests	0
Decrease in equity	-482

The following analysis shows further details regarding the expected effects as at 1 January 2018.

Trade debtors and other receivables, including contract assets

An estimation of expected credit losses for trade debtors was calculated based on experiences with actual credit losses over the last three years.

Credit risks within each group were broken down based on common default risk characteristics, which for the company, are credit risk assessment e.g. because of overdues and geographical location.

The group's experiences with actual credit losses were analysed using scaling factors to reflect the differences between economic conditions on the date historical data was collected, current conditions and the group's view of economic conditions over the expected term of the receivables. The scaling factors are based on observed historical trends and Gross Domestic Product (GDP) projections, country risks and the long-term interest level/base rate trend.

DMG MORI expects the application of IFRS 9 impairment requirements as at 1 January 2018 to result in a rise in impairments recognised for trade debtors of around € 440 K, compared to the impairment recognised under IAS 39. There is no impairment for other receivables recognised due to application of IFRS 15. The default risk of the additionally recorded receivables from downpayment invoices from the application of IFRS 15 is considered to be of minor importance. DMG MORI assumed, that the application of the impairment regulations of IFRS 9 for receivables from downpayment invoices as at 1 January 2018 would not result in an increase in the recognised impairments compared to the impairments recognised under IAS 39.

According to current analyses and measurements, the expected default rates for DMG MORI relating to the maturity (not past due and past due) and regional assignment of trade debtors will be between 0.01% and 1.24%.

The expected allowance for other receivables was calculated using a general approach based on assumed ratings and credit loss probability over a six-month period and reflects short-term maturities. The default risk of other receivables is immaterial and is expected to be low.

DMG MORI expects the application of IFRS 9 impairment regulations as at 1 January 2018 to result in a rise in impairments recognised for other receivables of around € 40 K, compared to the impairment recognised under IAS 39. All amounts shown are gross amounts, for which deferred taxes must be taken into account.

The actual impact from application of this standard as of 1 January 2018 may vary from this figure.

Cash and cash equivalents

Cash and cash equivalents are deposited at banks or financial institutions and in 2017, are assigned ratings from A-1 to A-2 by the rating agency, S&P.

The expected adjustment to cash and cash equivalents was calculated on the basis of expected losses within a twelve-month period and reflects the short-term maturities. Based on the external ratings of the banks and financial institutions, DMG MORI expects its cash and cash equivalents to have a low default risk.

DMG MORI expects the application of IFRS 9 impairment requirements as at 1 January 2018 to result in a € 2 K rise in impairment recognised, compared to the impairment recognised under IAS 39.

The actual impact from application of this standard as of 1 January 2018 may vary from this figure.

Classification – Financial debts

IFRS 9 retains most of the existing requirements of IAS 39 for the classification of financial debt.

DMG MORI's assessment has not show any significant impact on the classification of financial debt as of 1 January 2018.

Accounting of hedging transactions

At the time of commencing application of IFRS 9, there is the option of continuing to apply the IAS 39 accounting provisions for hedging transactions rather than applying the requirements stipulated by IFRS 9.

DMG MORI group has decided to apply the new requirements set out in IFRS 9.

Pursuant to IFRS 9, the group must ensure that the accounting of hedging relationships is aligned with the objectives and strategy of the group risk management and that a rather qualitative and future-oriented approach is taken in the assessment of the effectiveness of such hedging transactions. IFRS 9 also introduces new requirements in respect of the reweighting of hedging relationships and prohibits the voluntary termination of accounting for hedging transactions. According to the new model, it is possible that more risk management strategies are likely to meet the requirements for recognising hedging transactions. This mainly applies to transactions containing a risk component (excluding foreign currency risk) of a non-financial item. The group does not currently hedge against such risk components.

DMG MORI group uses forward exchange transactions to hedge against fluctuations of the cash flows caused by changes in the exchange rates for borrowings, receivables, sales as well as inventory purchases denominated in foreign currency.

The group recognises forward exchange transactions at fair value pursuant to IAS 39. Any changes in value are immediately recognised in profit or loss, if no hedge accounting exists or in the case of effective cash flow hedges, in other comprehensive income.

With regard to cash flow hedges, IAS 39 stipulates that the amounts reported in the cash flow hedge reserve must be reclassified in profit or loss as reclassification amounts in the same period in which the expected hedged cash flows affect profit or loss. With regard to cash flow hedges (for the foreign currency risk associated with the expected purchases of non-financial assets), IFRS 9 stipulates that the amounts accounted for in the cash flow hedge reserve and hedging cost reserve must be directly recognised in the acquisition costs of the non-financial assets at the time of the initial journal entry.

In the present situation, the current hedging relationships in hedge accounting may remain in place.

As of 1 January 2018, the DMG MORI group will use the spot-to-spot-method and effects from the forward component will be recognised in profit or loss. Based on its current assessment, DMG MORI expects the application of IFRS 9 amendments to hedge accounting to only have a minor impact on recognition.

Disclosures

IFRS 9 requires extensive new information, in particular with regard to the recognition of hedging transactions, credit risk and expected credit losses.

The group's assessment included an analysis aimed at clarifying whether there are any data gaps in comparison to current procedures. The group will audit the internal control system and where appropriate, will adjust the procedures necessary for entering the required data.

Transition

Changes to the accounting methods resulting from the application of IFRS 9 will categorically be applied retroactively.

DMG MORI will make use of the exemption to abstain from adjusting comparative information with respect to the changes to the classification and valuation (including impairment) for prior periods. Differences between the book values of financial assets and financial liabilities caused by the application of IFRS 9 will categorically be accounted for as retained earnings and other reserves as of 1 January 2018.

New accounting rules for hedging transactions must categorically be applied prospectively.

The assessments set out below are to be made based on the facts and circumstances existing on the date of initial application.

- Determination of business model as a framework for holding a financial asset.
- Determination and revocation of previous regulations relating to specific financial assets and financial debts recognised as FVTPL.
- Determination of specific equities held as financial assets, but not held for trading, as FVOCI.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether to recognise revenue, when to recognise it and how much revenue to recognise. It replaces existing guidelines to recognise revenue, including IAS 18 "Revenue", IAS 11 "Construction contracts" and IFRIC 13 "Customer loyalty programmes".

The group must apply IFRS 15 "Revenue from Contracts with Customers" as of 1 January 2018. DMG MORI estimates the amendments would result in the following adjustments to book values as at 31 Dec 2017.

C.12

in € K	Expected effects from appliacation of IFRS 15
Contract liability	25,500
Of which, down payment invoices	20,000
Accounts receivables from down payment invoices	20,000
Other provisions	-4,600
Retained earnings	-900

All amounts shown are gross amounts, for which deferred taxes must be taken into account.

The actual impact from application of this standard as of 1 January 2018 may vary from these figures.

Sale of goods

Sales revenues from the sale of tool machines are accounted for in accordance with the criteria of IAS 18 at the time of passing of the relevant risks and opportunities. This is usually the time when the delivery takes place and the property passes to the customer. Sales revenues are recognised on this date, if sales revenues and costs can be reliably measured, collectability is probable and no other right of disposal of the goods exists, preventing revenue recognition. Sales revenues from the sale of machine tools normally include supplementary works. According to IFRS 15, revenues are recognised, once a customer obtains control of the goods. The company must also identify its performance obligations in accordance with IFRS 15. The following applies: A contract or the total of the aggregate contracts may include multiple performance obligations, each of them subject to individual rules in relation to the time of realisation.

The DMG MORI group is of the view that several performance obligations (sale of machine tools, transport, machine commissioning and training) are attributable to contracts from the sale of machine tools and that these obligations have their own rules regarding the realisation principle. This means that the sales revenues from the sale of machine tools are allocated to individual performance obligations. The sales revenues for these performance obligations and related costs will be recognised when the service has been rendered. By applying the amendment to the recognition of these performance obligations, the group expects around € 5.5 million in sales revenue and around € 4.6 million in related expenses to be recognised at a later date than in the past.

With respect to conclusions of contract, any commission due is recognised as an expense at the time it is incurred, as the depreciation period which would have been set by DMG MORI would not exceed a year.

Based on the group's assessment, the fair values and retail prices of individual performance obligations from the sale of goods are largely comparable.

The impact of this amendment on other items in the Consolidated Financial Statements comprise disclosure of a contract liability for the performance obligations and a decrease in other provisions, which were made for obligations for future services as at 31 December 2017, but were already realised as sales revenue when the machine tool was sold.

Changes also relate to the presentation of down payments. Previously, customer down payments were normally presented as a liability on the payment receipt date. In the future, IFRS 15.105 et seq. stipulates that the down payment must be presented as a liability on the date the unconditional right to the down payment originates.

As at 1 January 2018, the company expects this to result in the recognition of a contract liability of around € 20 million and of account receivables from down payment invoices for the same amount.

Rendering of services

Sales revenues for service performances which are not included in machine sales, for example, service agreements, maintenance, repair and training services are recognised according to IAS 18 and subject to such services having been rendered. In accordance with IFRS 15, total revenue for service contracts is distributed to all services based on their stand-alone selling price. The retail prices are determined based on the prices at which the group offers the services in separate transactions. Based on the group's assessment, the fair values and retail prices of services are largely comparable.

Thus, the group is not expecting any substantial differences regarding the date of recognition of sales revenue for these services.

Transition

During the transition to IFRS 15, in its Consolidated Financial Statements, the group intends to apply the modified retrospective approach used to recognise cumulative adjustments as at 1 January 2018. As a result, the group will not apply IFRS 15 requirements to every comparison period.

IFRS 16 – Leases

IFRS 16 introduces a uniform accounting model that prescribes the accounting of leasing relationships in the balance sheet of the lessee. A lessee recognises a right-of-use asset representing its right to the use of the underlying asset and a liability from the lease representing its liability to make lease payments. There are special provisions for short-term leases and leases for low-value assets. The lessor's accounting is comparable with the current standard – meaning that the lessor continues to classify leases as either finance leases or operating leases.

IFRS 16 replaces the existing guidelines on leases, including IAS 17 "Leases", IFRIC 4 "Determining whether an agreement contains a lease", SIC-15 "Operating leases – incentives" and SIC-27 "Evaluating the substance of transactions involving the legal form of a lease".

The standard is initially applicable in the first reporting period of a financial year commencing on or after 1 January 2019. Early application is permissible for companies applying IFRS 15 "Revenue from contracts with customers" at the time of or prior to the initial application of IFRS 16.

The DMG MORI group will initially apply IFRS 16 as of 1 January 2019 and has decided against early application of this standard.

The group has started assessing the potential effects of application of IFRS 16 on its Consolidated Financial Statements, although it is unable to quantify these effects at present. A detailed assessment has not yet been completed. No decision has been made on the transition method to be used.

The actual impact on the Consolidated Financial Statements from application of IFRS 16 on the date of initial application will depend on future economic conditions, such as the group's interest rate as at 1 January 2019, the structure of the lease portfolio on this date, the group's view on exercising renewal options and the extent to which the group makes use of exceptions to the rule and recognition exemptions.

The main implication identified thus far, is the group's future recognition of right-of-use assets for its operating lease arrangements. As at 31 December 2017, future minimum lease payments for non-cancellable operating lease arrangements (on a non-discounted basis) amount to € 54,531 K (see Note 37).

Furthermore, the nature of expenses associated with these lease arrangements will change, as IFRS 16 replaces straight-line expenses for operating lease arrangements with a depreciation expense for right-of-use assets and interest expenses for liabilities from the lease arrangement.

Another change will be in disclosures in the statement of cash flows. Cash flows for operating lease arrangements are currently recognised in cash flow from operating activities. In the future, these cash flows will be recognised in cash flow from financing activities.

No significant effects are expected on the group's finance lease arrangements.

Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments concern the initial application of IFRS 9 for insurance companies. Without these adjustments, the circumstance that IFRS 9 and the new standard for insurance contracts (IFRS 17) enter into force at different dates would result in increased volatility for a transition period as well as duplicate conversion efforts.

The adjustments provide for two solutions:

› Deferral of the initial application of IFRS 9: Companies whose main activity is insurance and who apply IFRS 4 to existing insurance contracts will continue to apply IAS 39 instead of IFRS 9 for financial years beginning before 1 January 2021. This only applies if IFRS 9 has not been applied previously. As of financial year 2018, selected disclosures must be included in the Notes, enabling a certain measure of comparability with companies already using IFRS 9. In its endorsement, under certain conditions, the EU broadened the application area of this option to include insurance companies within financial conglomerates.
› Transition procedure: Companies that apply IFRS 4 on existing insurance contracts may reclassify a certain amount from "through profit or loss" to "other comprehensive income"- for certain financial assets, so that the result affecting net income pursuant to IFRS 9 is equal to that pursuant to IAS 39.

Amendments to IFRS 15 – Clarifications concerning IFRS 15

The amendments include a clarification of various provisions of IFRS 15 on the one hand and relief regarding the transition to the new standard on the other hand.

In addition to these clarifications, the amendment standard also contains two relief measures aimed at reducing complexity and costs associated with the transition to the new standard. These concern options available for the representation of contracts that are either settled at the commencement of the earliest period or that have been changed prior to the commencement of the earliest represented period.

These amendments must be initially applied as of 1 January 2018.

Improvements to IFRS 2014 – 2016

The annual improvements to IFRSs (2014 – 2016) contain three amendments to IFRSs. Of these, the two amendments shown below must be initially applied in 2018:

IAS 28 clarifies that the option available for the evaluation of an interest in an associated company or a joint venture, which is held by a venture capital company or other qualifying company, can be exercised differently for each respective interest.

Furthermore, short-term exemptions in IFRS 1 Appendix E (IFRS 1.E3 – E7) were deleted for first-time adopters.

The amendments do not result in significant ramifications for the Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT.

b) EU Endorsements are still pending

Furthermore, the following standards and interpretations were issued by IASB and not yet recognised by the European Union. [→ C.13]

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

The amendments concern the consideration of vesting conditions in the context of the valuation of share-based payments with cash compensation, the classification of share-based payments that provide for a net compensation for taxes to be withheld as well as the accounting in the event of a change in the classification of the remuneration from "cash compensation" to "with compensation by equity instruments".

The amendments must – subject to adoption into EU law – be applied to remunerations granted or modified in financial years commencing on or after 1 January 2018. Earlier application is permissible. A retrospective application is only possible without the utilisation of future better knowledge.

DMG MORI group does currently not expect any material ramifications for the Consolidated Financial Statements.

Amendments to IFRS 9 – Prepayment Feature with Negative Compensation

The adjustments relate to a narrow-scope amendment to the evaluation criteria regarding the classification of financial assets. Under certain conditions, financial assets with a negative prepayment feature with negative compensation may be directly recognised in equity at amortised cost or fair value through other comprehensive income instead of at fair value in profit or loss.

The amendments are – subject to adoption into EU law – applicable from 1 January 2019 onwards.

DMG MORI group does not currently expect any material ramifications for the Consolidated Financial Statements.

Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

These amendments address a known inconsistency between the regulations of IFRS 10 and those of IAS 28 (2011) when selling assets to an associated company or a joint venture and / or when contributing assets to an associated company or joint venture.

According to IFRS 10, a parent company is to recognise the full amount of the profit or loss from the sale of a subsidiary in the income statement. In contrast, the IAS 28.28 in current use demands that the disposal profit during sales transactions between an investor and an equity accounted shareholding – whether it be an associated company or joint venture – only be recognised in the amount of the investor's stake of this company.

In future, the entire profit or loss arising from a transaction is only to be recognised if the sold or contributed assets constitute business operations as defined by IFRS 3. This is regardless of

C.13

IFRS 14	Regulatory Deferral Accounts
IFRS 17	Insurance Contracts (not applicable to DMG MORI)
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 9	Prepayment Feature with Negative Compensation
Amendments IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IAS 40	Transfers of Investment Property
IFRIC 22	Foreign Currency Transactions and Advance Consideration
IFRIC 23	Uncertainty over Income Tax Treatments
Improvements to IFRS 2015 – 2017	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

whether the transaction is arranged as a share or an asset deal. In contrast, if the assets do not constitute business operations, then only a partial income recognition is allowed.

The IASB has indefinitely postponed the first application of the amendments.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures

These amendments contain a clarification that IFRS 9 must be applied to long-term interests in associates and joint ventures that are not accounted for using the equity method.

The amendments are – subject to adoption into EU law – applicable from 1 January 2019 onwards.

DMG MORI group does currently not expect any material ramifications for the Consolidated Financial Statements.

Amendments to IAS 40 – Transfers of Investment Property

The amendment to IAS 40 is intended to clarify the cases in which the classification of real property as "real property held as a financial investment" begins and ends in the case of such real property still being under construction or in development. The previously conclusive list contained in IAS 40.57 meant that the classification of unfinished real property was hitherto not set out unambiguously. The list is now explicitly deemed to be non-exclusive, with the result that unfinished real property can now also be subsumed under that provision.

The amendment is – subject to adoption into EU law – initially applicable in the first reporting period of a financial year commencing on or after 1 January 2018. Earlier application is permissible.

DMG MORI group does currently not expect any material ramifications for the Consolidated Financial Statements.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses a question concerning application of IAS 21 Effects of changes in foreign exchange rates. It is being clarified which date is to be used for the exchange rate to be applied to the conversion of transactions in foreign currencies containing prepayments received or made. The exchange rate to be applied to the underlying asset, income or expense is determined by the point in time at which the asset for liability resulting from such prepayment is being recognised for the first time.

This interpretation is – subject to adoption into EU law – initially applicable in the first reporting period of a financial year commencing on or after 1 January 2018. Earlier application is permissible.

DMG MORI group does currently not expect any material ramifications for the Consolidated Financial Statements.

IFRIC 23 – Uncertainty over Income Tax Treatments

The tax treatment of specific tax matters and transactions may depend on future recognition by the tax authorities or jurisdiction of the tax courts. IAS 12 Income Taxes regulates accounting for actual and deferred taxes. IFRIC 23 is a supplement to the regulations in IAS 12 regarding the accounting of uncertainties over income tax treatments of matters and transactions.

This interpretation is – subject to adoption into EU law – initially applicable in the first reporting period of a financial year commencing on or after 1 January 2019. Earlier application is permissible.

DMG MORI group does currently not expect any material ramifications for the Consolidated Financial Statements.

Improvements to IFRS 2015 – 2017

The annual improvements to IFRSs (2015 – 2017) amended four IFRSs.

IFRS 3 clarifies that if an entity obtains domination of a business, where it previously held an interest in a joint operation, the principles for successive business combinations must be applied. The interest previously held by the acquirer must be remeasured.

IFRS 11 stipulated that if a party obtains joint control of a business, where it previously held an interest in a joint operation, the interest previously held should not be remeasured.

The amendment to IAS 12 stipulates that all income tax consequences of dividends should be accounted for in the same way as the income on which the dividends are based.

IAS 23 also stipulates that when determining the borrowing cost method, if an entity has used general borrowings to acquire qualifying assets, the borrowing costs that are directly attributable to the acquisition of qualifying assets should not be recognised until the acquisition is completed.

The amendments are – subject to adoption into EU law – initially applicable in the first reporting period of a financial year commencing on or after 1 January 2019. Early application is permitted.

DMG MORI group does not currently expect any material ramifications for the Consolidated Financial Statements.

USE OF DISCRETIONARY DECISIONS AND ESTIMATES

The preparation of the Consolidated Financial Statements in accordance with IFRS necessitates discretionary decisions, estimates and assumptions concerning the application of accounting methods and the reported amounts of assets, debts, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions of estimates are recorded prospectively.

When using the accounting and valuation methods, the Executive Board is required to make the following discretionary decisions and estimates, which significantly influence the amounts in the financial statements.

Impairment of goodwill

The group reviews goodwill at least once a year for impairment and whenever there is an indication to do so. This requires the creation of cash-generating units and an allocation of goodwill to the cash-generating units as well as the higher of the two values of fair value less purchase costs and the value in use of the cash-generating units, to which the goodwill is allocated. To assess the value in use, the company management must assess the foreseeable future cash flow of the cash generating unit and, moreover, select an appropriate discount rate in order to determine the cash value of this cash flow. As of 31 December 2017, the carrying amount of goodwill totalled € 139,419 K (previous year: € 135,417 K). The change from the previous year is attributable to additions and disposal of subsidiaries during 2017, as well as currency effects. More information about this can be found on page 105 et seq.

Pension provisions

The amount of the provisions and the expenses from benefit-based plans are determined on the basis of actuarial calculations. The actuarial calculations take place on the basis of assumptions with respect to discount interest rates, future wage and salary increases, the mortality rate and future pension increases. Corresponding to the long-term focus of these plans, such assessments are subject to significant uncertainties. As of 31 December 2017, provisions for pension obligations amounted to € 44,580 K (previous year: € 47,574 K). More information about this can be found on page 131 et seq.

Intangible assets arising from development

Intangible assets arising from development are capitalised according to the accounting and valuation methods presented on page 104 et seq. To determine the amounts to be capitalised, the company management must make assumptions as to the amount of expected future cash flow from intangible assets, the interest rates to be applied, and the period of accrual of expected future cash flow that the intangible assets generate. As of 31 December 2017, the carrying amount of intangible assets arising from development amounted to € 23,605 K according to the best possible assessment (previous year: € 24,467 K).

Discretionary decisions and estimations are additionally required for leases (see Notes Disclosure 37), value adjustments for doubtful debts (see Notes Disclosure 25) as well as for contingent liabilities (see Notes Disclosure 37) and other provisions (see Notes Disclosure 32); moreover, they are required for determining the fair value of long-lasting fixed assets (see Notes Disclosure 20) and intangible assets (see Notes Disclosure 19), determining the net disposal value of inventories (see Notes Disclosure 24), as well as for the assessment of deferred taxes on tax losses carried forward (see Notes Disclosure 29).

The main assumptions on which the respective estimates are based are commented upon for the individual items in the income statement and balance sheet.

In individual cases the actual values may differ from the assumptions and estimates made, requiring a significant adjustment in the book value of the assets or liabilities concerned. Pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", changes in estimates are recognised in the income statement from the date on which more reliable information becomes available. The previous year's amounts need not be adjusted and are comparable.

ACCOUNTING AND VALUATION METHODS

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

Intangible and tangible assets

C.14 | USEFUL ECONOMIC LIFE OF ASSETS

Software and other intangible assets	1 to 5 years
Intangible assets arising from development	2 to 10 years
Office and factory buildings	10 to 50 years
Technical equipment and machinery	2 to 30 years
Other fixed assets, factory and office equipment	1 to 23 years

There are no intangible assets with an indefinite useful life, except for the goodwill.

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

Pursuant to IFRS 3 "Business Combinations", scheduled depreciation is not applied to goodwill, but is tested for impairment annually and whenever there is any indication to test for impairment. If an impairment requirement is determined, goodwill is depreciated.

Tangible assets were evaluated at acquisition or production costs, reduced by scheduled depreciation as well as accumulated impairment. Borrowing costs are recognised as part of the acquisition or production costs, if the requirements of IAS 23 are fulfilled (see page 110 "Borrowing costs"). Depreciation was carried out using the straight-line method in accordance with useful life. A re-evaluation of tangible assets pursuant to IAS 16 "Property, Plant and Equipment" was not carried out. No property was held as a financial investment pursuant to IAS 40 "Investment Property".

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

Leases

Leases, for which a significant share of the risks and opportunities that are associated with the lease asset remain with the lessor, are classified as operating leases. In connection with an operating lease, payments are recognised on a straight-line basis for the period of the lease agreement in the income statement.

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

Impairment

Pursuant to IAS 36 "Impairment of Assets", the assets of the DMG MORI group, with the exception of assets as defined by IAS 36.2, are tested for signs of impairment at every balance sheet day. If such signs exist, the fair value of the assets will be estimated and, if required, depreciated accordingly in profit or loss. An impairment test for individual assets is only possible if recoverable amounts can be allocated to the individual asset. If this is not possible, the recoverable amount of the cash-generating unit pertaining to the asset must be determined (asset's cash-generating unit).

Pursuant to IAS 36 "Impairment of Assets", goodwill has to be tested for impairment at least once a year and whenever criteria are met for an impairment test. DMG MORI AKTIENGESELLSCHAFT carried out an impairment test on 31 December 2017. In the impairment test, the carrying amount of a cash-generating unit is compared with the recoverable amount. The recoverable amount of the cash-generating unit is the higher of the asset's fair value less costs to sell and its value in use.

DMG MORI tests the impairment of goodwill in accordance with the value in use on the basis of estimated future cash flows, which are derived from the DMG MORI group's planning approved by the responsible committees. The assumptions made with regard to the essential planning parameters reflect the past experiences. The calculation of cash values for estimated future cash flow is based primarily on assumptions as to future sales prices or volume and costs. The assumed development of sales revenue and overall performance is primarily determined on the basis of the expected order intake for machine tools (see forecast report, page 72 et seq). The expenses are planned according to the expected increase in costs.

Planning is based on a detailed planning period extending up to the financial year 2020. For the estimate of value in use, an average sales growth rate of around 3% was assumed. Marginally increasing EBIT margins were assumed from 2018 to 2020. A sustainable growth rate of 1% was assumed for the period following the detailed planning period, which is in line with general expectations of future business development.

For purposes of impairment testing, the cash-generating unit "Machine Tools" was allocated goodwill in an amount of € 57,073 K (previous year: € 44,292 K) and the cash-generating unit "Industrial Services" was allocated goodwill in an amount of € 82,346 K (previous year: € 91,125 K).

The cash flows determined were discounted at pre-tax weighted cost of capital rates (WACC) of 12.1% (previous year: 10.6%) for the cash-generating unit "Machine Tools" and 11.6% (previous year: 10.1%) for "Industrial Services". The WACC was derived from the application of the "Capital Asset Pricing Model" (CAPM). If the recoverable amount of a cash-generating unit is lower than its carrying amount, the value of goodwill allocated to the cash-generating unit will, initially, be reduced at an amount equal to the remaining balance. As in the previous year, in financial year 2017 there was no need for impairment.

Associates

Associates are entities over which the group can exercise significant influence but cannot exercise any control. Significant influence is basically assumed to be if the DMG MORI group has a share of at least 20% to 50% of the voting rights either directly or indirectly. Interests in associates are accounted for using the equity method of accounting and at purchase cost upon acquisition. The group's interest in associated companies includes the goodwill which arose from the acquisition.

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

At every balance sheet date, the group reviews whether there is reason to believe that impairment has to be taken into account when accounting for the investment in associates. In these cases, the difference between the book value and the recoverable amount is determined to be an impairment loss and recognised in the income statement item "Share of profits and losses of at equity-accounted investments".

Unrealised profits from transactions between group companies and associated companies are eliminated in accordance with the group's interest in the associated company. Unrealised losses are likewise eliminated, unless the transaction provides evidence of an impairment of the asset transferred. The accounting and valuation methods of associates were – insofar as necessary – changed in order to ensure uniform accounting throughout the group.

Joint ventures are likewise accounted for at equity pursuant to IFRS 11.24. Unrealised interim gains or losses from transactions with joint ventures are eliminated proportionately within the scope of consolidation insofar as the underlying assets are significant.

Equity investments

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

Equity investments for which a quoted market price is available are classified as "available-for-sale" and are measured at this value. Equity investments for which no active market exists are classified as "available-for-sale" and recognised at amortised cost (see page 139 "Financial instruments"). As no active market exists for these companies, it is assumed that the carrying amount corresponds to the fair value.

Inventories

Valuation of inventories was carried out at the acquisition or production costs or the lower net selling price. Pursuant to IAS 2 "Inventories", elements of the production costs include production material, manufacturing labour, prorated materials and production overheads. Expenses for administration and expenses arising in the social contribution area are included insofar as these are allocated to production. The proportion of overheads is evaluated on the basis of ordinary employment. Borrowing costs are recognised as part of the acquisition or production costs, if the requirements of IAS 23 are met (see page 110 "Borrowing costs"). When determining the net selling price, inventory risks arising from the period of storage and reduced usability were recognised through appropriate reductions in values. If the causes that led to a reduction in value no longer exist, a reversal will be made.

Lower values at the balance sheet date, arising from a reduction in prices on the sales market, were recognised. Inventories were measured primarily using the average cost method.

There were no orders at the balance sheet date that would have required accounting in accordance with IAS 11 (Construction Contracts).

Receivables and other assets

Receivables and other assets were recognised in the balance sheet at their amortised acquisition cost less impairment. Long-term non-interest-bearing receivables have been discounted. Impairments in the form of individual value adjustments make adequate allowance for the expected credit risks. Specific credit losses lead to de-recognition of the respective receivables. Within the scope of individual value adjustments, receivables, for which there is a potential devaluation requirement, will be tested for impairment and, if necessary, adjusted. The calculation of valuation adjustments for doubtful receivables is based to a large extent on estimates and assessments of individual receivables, which, in addition to credit worthiness and delay in payment of the respective customer, also take into account current economic development and credit default history. Impairments of trade debtors are carried out in some cases using value adjustment accounts. The decision to account for non-payment risks using a value adjustment account or by directly reducing the receivable will depend on the reliability of the risk assessment. Reclassification among the individual categories of financial assets was not carried out either in financial year 2017 or in the previous year.

Within the scope of factoring agreements, selected trade debtors are sold on a revolving basis to banks. Factoring is a standard financial instrument in the industry and an additional component of the financing mix. As of 31 December 2017, factoring agreements were concluded, as in the previous year, with a total volume of € 167.5 million. As of the balance sheet date, receivables with a volume of € 118.6 million (previous year: € 144.8 million) were sold. Trade debtors sold under these arrangements are excluded from accounts at the time of sale insofar as the risks and rewards have been substantially transferred to the buyer and the transmission of the cash flows related to those receivables is assured.

Assets held for sale or disposal groups for sale

Pursuant to IFRS 5, assets or groups of assets and liabilities held for sale must be classified as held for sale if their carrying amounts are recovered primarily through a sale transaction rather than through continued usage. These assets are measured at the lower of their carrying amount and fair value less costs of sale and recognised separately in the balance sheet under short-term assets or liabilities.

As of 1 January 2017, the assets and liabilities of subsidiaries and joint ventures in the America and Asia regions included in the balance sheet items "Assets held for sale" or "Liabilities in relation to assets held for sale" were sold. The interests held in the following companies have been sold:

- DMG MORI SEIKI CANADA INC.,
- DMG MORI CANADA INC.,
- DMG MORI BRASIL COMERCIO DE EQUIPAMENTOS INDUSTRIAIS LTDA.,
- DMG MORI KOREA CO., LTD.,
- DMG MORI Australia Pty. Ltd.,
- DMG MORI Taiwan Co. Ltd.,
- DMG MORI Singapore Pte. Ltd.,
- DMG MORI MALAYSIA SDN. BHD.,
- DMG MORI Vietnam Co. Ltd.,
- DMG MORI MEXICO S.A. de C.V.

These companies will be managed and consolidated by DMG MORI COMPANY LIMITED from the 1 January 2017 financial year onwards.

DMG MORI AKTIENGESELLSCHAFT and its subsidiaries will continue to realize sales revenues in the American and Asian markets. DMG MORI AKTIENGESELLSCHAFT has further subsidiaries in American and Asian sales territories.

Cash and cash equivalents

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

Deferred taxes

DMG MORI GmbH, a full subsidiary of DMG MORI COMPANY LIMITED, has conclude 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 between DMG MORI GmbH and DMG MORI AKTIENGESELLSCHAFT with the objective of fair and reasonable tax allocation.

IAS 12 requirements do not contain any explicit rules on recognising tax expense attributable to taxable entities within the DMG MORI group. The recognition of deferred taxes in the financial statement based due to the economic approach. As a tax allocation agreement exists with effect from 1 January 2017, the stand-alone taxpayer approach was used to determine deferred taxes. This approach assumes that the tax allocation is determined on the basis of the taxable income of the controlled company, DMG MORI AKTIENGESELLSCHAFT, irrespective of the actual tax payable by the parent company, DMG MORI GmbH.

Thus, during preparation of the Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT, all tax expenditures by domestic taxable entities within the group were accounted for in the Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT, irrespective of the actual tax liability. Thus, all the tax consequences of these entities were accounted for in the Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT. They include the recognition of current and deferred taxes, tax risks and possibly tax arrears or refunds for previous periods, including their effects on deferred tax items.

Income taxes include current and deferred taxes, which are accounted for in the Consolidated Income Statement, unless they are for items directly recognised in equity. In this case, the corresponding taxes are also recognised in equity and not in profit or loss.

Current income taxes are the taxes expected to be paid for the year based on the tax rates applicable for that year, as well as all tax adjustments for previous years.

Pursuant to IAS 12 "Income Taxes", deferred taxes are assessed using the liability method. For this purpose, deferred tax assets and liabilities were generally recognised for all temporary accounting and valuation differences between the IFRS statement of financial position valuations for group purposes and the tax valuations (temporary differences), and with respect to consolidation procedures recognised in profit or loss. Deferred tax assets for future tax reduction claims arising from tax-loss carry forwards were also reported in the balance sheet. However, deferred tax assets for all deductible temporary differences and for tax-loss carry forwards were only recognised to the extent that it is probable that future taxable income will be available against which the temporary differences or unused tax losses can be offset. The deferred taxes were calculated on the basis of income tax rates that, pursuant to IAS 12, "Income Taxes", apply on the evaluation date or have been enacted in the individual countries in accordance with the legal status on that date. Deferred tax assets and liabilities were only offset, if allowed by law. Deferred tax assets and liabilities were not discounted in accordance with the provisions contained in IAS 12, "Income Taxes".

Pursuant to Section 16 of the Corporation Tax Act, the taxable compensation amount paid by DMG MORI GmbH to minority shareholders of DMG MORI AKTIENGESELLSCHAFT and charged to DMG MORI AKTIENGESELLSCHAFT as the controlled company results in taxes. These must be estimated for the duration of the domination and profit transfer agreement, which also applies to any compensation payments made during this period and recognised in equity under "other non-financial liability" as a decrease in capital reserves. Thus, in financial year 2017, an amount of € 14,477 K was recognised under other provisions for the duration of the domination and profit transfer agreement.

Provisions and liabilities

Provision for benefit-oriented pensions is determined according to the projected unit credit method pursuant to IAS 19 (rev. 2011) "Employee Benefits". Under this method, not only those pensions and pension rights known or accrued at the balance sheet date are recognised, but also expected future increases in pension payments and salaries by estimating the relevant factors impacting such payments. Calculation is based on actuarial reports of independent experts taking into account demographic and financial calculation principles. The provisions for benefit-based plans recognised on the balance sheet correspond to the cash value of the defined benefit obligation (DBO) at the balance sheet date, less the fair value of pension plan assets.

Actuarial profits and losses, which are based on experience-based adjustments and changes of actuarial assumptions, are recognised in the period they occurred in other comprehensive income and accumulated in equity. Retroactive service cost is immediately recognised in profit or loss.

The DMG MORI group contributes to contribution-oriented plans, either due to statutory or contractual obligations or voluntary contributions to public or private pension plans. The DMG MORI group has no further payment obligations beyond the payment of these contributions. The contributions are recognised under personnel costs as they are due. Paid prepayments of contributions are recognised as assets, for which exists a right to repayment or reduction of future payments.

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

The provision for the long-term incentive (LTI) as a variable remuneration component for members of the Executive Board was determined, until the previous year, initially at fair value at the date of granting and is re-valuated at the balance sheet date. Any expense or revenue resulting from this is recognised as employee expense and is spread over the term of the programme and recognised as provisions. On the basis of the domination and profit transfer agreement concluded in 2016, the Supervisory Board of DMG MORI AKTIENGESELLSCHAFT passed a resolution to ensure a stable calculation base for LTI tranches. For all current LTI tranches, fixed imputed values were determined for previous variable parameters of earnings after taxes (EAT) and the share price. These obligations are valued at the amount of the estimated expenses due.

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

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

Selected suppliers of the DMG MORI group finance trade debtors from individual subsidiaries in advance on the basis of a reverse factoring agreement concluded with individual subsidiaries and factoring companies. Through this agreement, the subsidiaries involved are basically guaranteed longer payment periods. The reverse factoring agreement leads neither under civil law nor pursuant to the provisions of IFRS to a reclassification of the trade liabilities nor to another type of liabilities, as due to the contractual arrangement, no novations exist under the law of obligations. As of 31 December 2017, a total of € 19,207 K (previous year: € 18,035 K) trade liabilities had been purchased through the respective factoring company.

Financial Instruments

A financial instrument is an agreement, which also gives rise to a financial asset for one company and a financial liability or equity instrument for another company. Financial assets mainly include cash and cash equivalents, trade debtors and other originated loans and receivables as well as original and derivative financial instruments held for trading. Financial liabilities generally substantiate claims for repayment in cash or other financial liabilities. This includes, in particular, promissory note bonds and other securitized liabilities, liabilities to banks, trade creditors, liabilities from financial leasing arrangements and other original and derivative financial instruments.

Financial instruments are recognised in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Financial instruments are always recognised, when the DMG MORI group becomes a contractual partner in a financial instrument arrangement. Within the group, cash transactions are accounted for as of the settlement date irrespective of their classification. The settlement date is the date on which an asset is delivered to or through the company. The trading day, on the other hand, is the date on which the company has already entered into the obligation to purchase or sell an asset. Derivative financial instruments are accounted for as of the trading date. Financial instruments entered as financial assets and financial liabilities are only balanced insofar as an offset claim exists and it is intended to bring about settlement on a net basis.

Financial assets are measured at fair value on their initial recognition. At the same time, directly attributable transaction costs must be recognised for financial assets that are not subsequently measured at fair value through profit or loss. The fair values recognised in the balance sheet generally correspond to the fair values of the financial assets. If these are not directly available through recourse to an active market, they are calculated by applying recognised valuation models and on the basis of standard market parameters. In financial year 2017 and in the previous year, financial asset conditions were not renegotiated.

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

Assigned to the category "held to maturity" are non-derivative financial assets with a fixed or defined payment and a fixed term, which the company intends to and may hold until maturity; these are measured at amortised cost.

The "available for sale" category represents for the DMG MORI group the residual amount of original financial assets which fall under the application of IAS 39 and have not been assigned to any other category. They are always measured at fair value. Any gains or losses from measuring at fair value are recognised in equity in other comprehensive income. This does not apply if it involves a permanent or significant impairment, which is recognised in profit or loss. Only on disposal of the financial assets are the accumulated profits and losses recognised in equity from the measurement at fair value actually recognised in the income statement. The fair value of non-listed equity instruments and options on share purchase is assessed in principle according to the discounted cash flow method. If the fair value cannot be sufficiently and reliably assessed, the shares are measured at purchase price (if necessary, less impairment). The "loans and receivables" category of the DMG MORI group contains trade debtors, other original financial assets, and cash and cash equivalents. In principle, assets in this category are measured applying the effective interest method at amortised cost. Non-interest-bearing receivables are discounted on their cash value.

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

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

Derivative financial instruments

The hedging of risk items from currency and interest rate fluctuations is carried out through the use of derivative financial instruments such as forward exchange transactions. The hedging covers financial risks of scheduled underlying transactions and, in the case of currency risks, also risks from pending supply and service transactions.

Pursuant to IAS 39 "Financial Instruments: Recognition and Measurement", all derivative financial instruments are recognised at fair value at their initial measurement. The subsequent measurement is also carried out at fair value. If there is no quoted price on an active market, then the fair value of derivatives corresponds to the cash value of estimated future cash flows.

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

Fair Value hedge

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

Cash flow hedge

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

Forward exchange transactions are used to hedge future cash flows from expected incoming payments on the basis of present order intake. Payment is primarily expected within a period of up to one year. Derivative financial instruments are neither held nor issued for speculative purposes. However, derivatives are allocated to financial instruments held for trading and measured at fair value through profit or loss, if the pre-conditions for a cash flow hedge are not fulfilled.

Government grants

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

Borrowing costs

According to IAS 23.5, borrowing costs are to be capitalised if exist so-called qualified assets, i.e. those that take a substantial period of time to get ready for their intended use or sale. At the DMG MORI group, a period of more than twelve months is considered a substantial period of time. Borrowing costs in financial year 2017 that arose from the development assets amounted to € 25 K (previous year: € 41 K) and from property, plant and equipment amounted to € 13 K (previous year: € 4 K), which can be directly attributed to the acquisition, construction or production of a qualifying asset. The borrowing cost rate amounted to 1% analogue to the previous year. Other borrowing costs were therefore directly recognised as expense in the period.

Sales Revenues

Pursuant to the criteria laid down in IAS 18 "Revenue", sales revenues arising from the sale of goods are recognised at the time of transfer of the relevant risks and rewards, if a price has been agreed or can be determined and it can be assumed that such a price will be paid. In the sale of goods this is regularly the time when the delivery takes place and the risk has been transferred to the customer. Moreover, the DMG MORI group must reliably determine the amount of the sales revenues and be able to assume the collectability of the receivable. The worldwide delivery of goods is carried out by the group companies with different international trading clauses (Incoterms). This determines the transfer of significant opportunities and risks and thus the timing of revenue recognition. Sales revenues from services are recognised when the services are rendered. Recognition in accordance with the percentage-of-completion-method is not carried out, since the requirements of IAS 11 are not met. Interest income is recognised on a specific period of time basis taking into account the effective interest rate. Dividends are recognised at the point in time when the right to receive payment occurs. Interest and dividends are itemised in the financial result.

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

4. CONSOLIDATION GROUP

C.15 | NUMBER OF FULLY CONSOLIDATED COMPANIES	31 Dec 2017	31 Dec 2016
National	33	32
International	48	63
Total	**81**	**95**

At the balance sheet date, the DMG MORI group, including the DMG MORI AKTIENGESELLSCHAFT, comprised 86 companies (previous year: 100). In addition to DMG MORI AKTIENGESELLSCHAFT 80 subsidiaries (previous year: 94) were included in the Consolidated Financial Statements as part of the full consolidation process. Five companies (previous year: five) accounted for at equity were included in the Consolidated Financial Statements. The DMG MORI AKTIENGESELLSCHAFT is directly or indirectly entitled to a majority of voting rights of the fully consolidated companies. The group of consolidated companies has changed compared to the end of financial year 2016 to include the following companies:

- REALIZER GmbH, Borchen, Bielefeld,
- GILDEMEISTER LSG Solar RUS ooo, Moscow (Russia),
- GILDEMEISTER LSG Solar Australia, Pty Ltd., Brisbane (Australia),
- WERKBLiQ GmbH, Bielefeld.

As of the date of their foundation or the acquisition, the mentioned companies were fully consolidated. The following illustrates the details for the foundation and acquisition:

With effect from 6 February 2017, GILDEMEISTER Beteiligungen GmbH acquired a 50.1% interest in REALIZER GmbH, Borchen. The acquisition of the remaining shares (49.9%) takes place gradually. The purchase price (for 100% interest) amounted to € 14.7 million. The acquisition of these shares allows DMG MORI to focus on strengthening future technologies of ADDITIVE MANUFACTURING, which are a perfect addition to our Advanced Technologies.

During the financial year, GILDEMEISTER LSG Beteiligungs GmbH, Würzburg, founded GILDEMEISTER LSG Solar RUS ooo, Moscow (Russia) and GILDEMEISTER LSG Solar Australia, Pty Ltd., Brisbane (Australia). Both companies are to act as project companies for new projects in the solar business.

With effect from 26 September 2017, GILDEMEISTER Beteiligungen GmbH acquired a 100% interest in WERKBLiQ GmbH, Bielefeld. The purchase price amounted to € 0.7 million. The purchase of these shares is a strategic acquisition for the Digital Solutions business unit. WERKBLiQ provides a platform for various manufacturers, enabling all parties involved in the maintenance process to interact with each other. Thus, steps are being taken to digitise and accelerate the entire servicing and maintenance process.

Compared to the end of financial year 2016 the following companies are no longer included in the group of consolidated companies:

- DMG MORI ECOLINE Holding AG, Winterthur (Switzerland),
- DMG MORI Management AG, Winterthur (Switzerland),
- DMG ECOLINE GmbH, Klaus (Austria),
- DMG MORI ECOLINE AG, Winterthur (Switzerland),
- TECNO CONTROL S.R.L., Strambino (Italy).

In April 2017, DMG MORI Sales and Service Holding AG, Winterthur (Switzerland) acquired a 100% interest in DMG MORI ECOLINE Holding AG, Winterthur (Switzerland). Both of these entities were subsequently merged. In April 2017, TECNO CONTROL S.R.L. was also merged with DMG MORI Italia S.r.l.

In May 2017, DMG MORI Europe AG, Winterthur (Switzerland) acquired a 100% interest in both DMG MORI Management AG, Winterthur (Switzerland) and DMG MORI ECOLINE AG, Winterthur (Switzerland). Both companies were then merged with DMG MORI Europe AG, Winterthur (Switzerland).

The following companies were classified as joint ventures pursuant to IFRS 11. Pursuant to IFRS 11.24, the interests were included in the Consolidated Financial Statements 'at equity' from the date of their acquisition.

› Magnescale Co. Ltd., Kanagawa (Japan),
› Magnescale Europe GmbH, Wernau,
› Magnescale Americas, Inc., Davis (USA),
› DMG MORI Finance, Wernau,
› DMG MORI HEITEC GmbH, Erlangen.

In November 2017, GILDEMEISTER Beteiligungen GmbH entered into a joint venture, DMG MORI HEITEC GmbH, Erlangen, with HEITEC AG, Erlangen. GILDEMEISTER Beteiligungen GmbH holds a 50% interest in the company. The share capital is € 100 K and is fully paid. The joint venture allows us to speed up the development of innovative automation solutions. DMG MORI HEITEC GmbH, Erlangen was classified as an associated company and has been consolidated at equity since the date of acquisition.

The shares in DMG MORI Australia Pty. Ltd., Clayton Victoria, Australia were sold with effect from 1 January 2017.

Disposal of subsidiaries

As part of the realignment measures, the shares in:

› DMG MORI SEIKI CANADA INC. (incl. DMG MORI CANADA INC.),
› DMG MORI BRASIL COMERCIO DE EQUIPAMENTOS INDUSTRIAIS LTDA.,
› DMG MORI KOREA CO., LTD.,
› DMG MORI Australia Pty. Ltd.,
› DMG MORI Taiwan Co. Ltd.,
› DMG MORI Singapore Pte. Ltd.,
› DMG MORI MALAYSIA SND. BHD.,
› DMG MORI Vietnam Co., Ltd.,
› DMG MORI Mexico S.A. de C.V.

were transferred to DMG MORI COMPANY LIMITED with effect from 1 January 2017. The purchase price was € 50,657 K. The shares were fully consolidated as of the date of acquisition or incorporation. All assets and liabilities were deconsolidated from the group at the time the shares in this company were sold. The disposal of the companies incurred a total gain on disposal in the amount of € 3,332 K, which is recognised under other operating income. The pro rata reduction of goodwill amounts to € 3,376 K in total. In addition goodwill of € 5,393 K are deducted which were attributable to non-controlling interests.

The consideration received, the disposal of assets and liabilities in proportion to the share of DMG MORI AKTIENGESELLSCHAFT as a result of the loss of control, and the gain or loss on disposal, which is reported under other operating expenses, are shown in the following table:

C.16

in € K

Intangible assets	2,556
Goodwill	3,376
Tangible assets	22,870
Inventories	12,071
Trade debtors and other assets	29,738
Deferred tax assets	1,681
Cash and cash equivalents	21,504
Assets sold	**93,796**
Provisions	7,276
Trade creditors and other short-term liabilities	41,372
Deferred tax liabilities	472
Debt sold	**49,120**
Net assets sold	**44,676**
Consideration received	50,657
Net assets sold	44,676
Other result	-2,649
Gains or losses on disposal of subsidiaries	**3,332**

All companies belonged to the 'Industrial Services' segment. As at 31 December 2016, the companies in question were presented as a disposal group held for sale. All assets and liabilities belonging to these companies were presented in the balance sheet item 'assets held for sale' or 'liabilities from assets held for sale'.

With effect from 28 February 2017, 100% of the interest held in the fully consolidated subsidiary, DMG MORI Systems GmbH, Wernau, was sold by DMG MORI Services to a strategic investor. The shares have been fully consolidated since the date of acquisition. All assets and liabilities were deconsolidated from the group at the time the shares in this company were sold. The disposal of the company resulted incurred a total loss on disposal in the amount of € 2,433 K for the group, which is accounted for in item other operating expense. A proportionate goodwill in the amount of € 15 K has been disposed of.

With an agreement dated 10 August 2017, GILDEMEISTER energy solutions GmbH sold 100% of its interest in the project companies, Cucinella S.r.l., Milan (Italy), Winch Pugglia Foggia S.r.l., Milan (Italy) and Rena Energy S.r.l., Milan (Italy) to a strategic investor. The shares had been fully consolidated since company foundation. All assets and liabilities were deconsolidated from the group at the time the shares in these companies were sold. These project companies operated solar parks, which were recognised on the balance sheet as other long-term assets. The sale resulted in the disposal of other long-term assets amounting to € 15,171 K and other liabilities amounting to € 17,865 K belonging to the project companies. The consideration received was € 1,474 K and was paid in cash. Total capital gains for the group were € 4,168 K. No pro-rata goodwill was disposed of.

With effect from 1 October 2017, GILDEMEISTER energy solutions GmbH sold 100% of its interest in Gildemeister a+f components GmbH to an external investor.

The shares had been fully consolidated as of the date the company was founded. All assets and liabilities were deconsolidated from the group at the time the shares in this company were sold. The sale of these shares resulted in total capital gains of € 502 K for the group, recognised in other operating income. No pro-rata goodwill was disposed of.

The respective consideration received, assets and liabilities that were disposed of due to a loss of control as well as the gains/losses from disposals for DMG MORI Systems GmbH and Gildemeister a+f components GmbH are illustrated in the following table. [→ C.17]

Business Combinations 2017

With effect from 6 February 2017, GILDEMEISTER Beteiligungen GmbH acquired a 50.1% interest in REALIZER GmbH, Borchen. For acquisition of the remaining 49.9% interest, the purchase price is, among other things, contingent upon contractually agreed terms and conditions. The purchase of the shares is a strategic acquisition with a focus on strengthening DMG MORI's future technologies in ADDITIVE MANUFACTURING and is a perfect addition to our Advanced Technologies. The fair value of the recognised consideration amounted to € 14,687 K for a 100% interest and was paid in cash. This comprises a fixed consideration amounting to € 10,113 K and a contingent consideration (number of machines sold) amounting to € 4,574 K. DMG MORI must make contingent payments to the selling shareholders within a four-year period, if defined earnings figures and technological targets have been met. As at 31 December, there was no change in the assessment of the contingent consideration amount.

C.17

in € K	DMG MORI Systems GmbH	Gildemeister a+f components GmbH
Intangible assets	411	4
Goodwill	15	0
Tangible assets	1,228	55
Inventories	3,064	2,238
Trade debtors and other assets	13,474	0
Deferred tax assets	30	0
Cash and cash equivalents	1	23
Assets sold	**18,223**	**2,320**
Provisions	2,302	43
Trade creditors and other short-term liabilities	13,193	2,754
Debt sold	**15,495**	**2,797**
Net assets sold	**2,728**	**-477**
Consideration received	**295**	**25**
Gains or losses on disposal of subsidiaries	**-2,433**	**502**

The acquired assets and liabilities were accounted for at their fair values. The exact figures can be found in the table below.

When determining the fair value, the licence analogy and the residual value methods were used for intangible assets. The resulting positive difference amounting to € 12,605 K was recognised as goodwill and results from synergy effects expected from the integration of the operating business into the DMG MORI group. The costs associated with the acquisition of the company amounting to € 43 K were accounted for as an expense for the period. The acquisition of intangible and tangible assets is shown in the fixed assets movement schedule in the "Change of consolidation group" column.

Since 6 February 2017, REALIZER GmbH contributed an additional € 5,359 K to the group's sales revenues. Its contribution to the earnings after taxes for the same period amounted to € 1,079 K. If the acquisition of the interest in REALIZER GmbH would have already been consolidated as of 1 January 2017 already, the proportion of the profit after taxes would have been € 897 K while sales revenues would have amounted to € 5,555 K.

The receivables acquired from the business combination mainly comprise trade debtors and had a fair value of € 339 K. The gross contract values at REALIZER GmbH amounted to € 348 K, of which € 9 K was considered uncollectible on the date of acquisition. The capitalised goodwill from the merger is not tax-deductible.

The consideration for the purchase of shares is paid by cash transfer.

With effect from 26 September 2017, GILDEMEISTER Beteiligungen GmbH acquired a 100% interest in WERKBLiQ GmbH, Bielefeld. The purchase of the shares is a strategic acquisition for the Digital Solutions business unit. WERKBLiQ provides a platform for various manufacturers, enabling all parties involved in the maintenance process to interact with each other. Thus, steps are being taken to digitise and accelerate the entire servicing and maintenance process. The fair value of the consideration amounted to € 685 K and was paid in cash.

The acquired assets and liabilities were accounted for at their respective fair values. The exact figures can be found in the table below.

When determining the fair value, the licence analogy method was used for intangible assets. The resulting positive difference amounting to € 192 K was recognised as goodwill and results from synergy effects expected from the integration of the operating business into the DMG MORI group. The costs associated with the acquisition of the company amounting to € 6 K were accounted for as an expense for the period. The acquisition of intangible and tangible assets is shown in the fixed assets movement schedule in the "Change of consolidation group" column.

Since 1 October 2017, WERKBLiQ GmbH contributed an additional € 2 K to the group's sales revenues. Its contribution to the earnings after taxes for the same period amounted to € -447 K. If the acquisition of the interest in WERKBLiQ GmbH would have been consolidated as of 1 January 2017 already, the proportion of the profit after taxes would have been € 720 K while the sales revenues would have amounted to € 46 K.

C.18

in € K	REALIZER GmbH	WERKBLiQ GmbH
Intangible assets	1,445	173
Tangible assets	197	28
Inventories	1,251	0
Trade debtors	339	0
Other short-term assets	156	26
Cash	45	596
Other provisions	401	209
Financial debts	0	20
Trade creditors	150	33
Other short-term liabilities	345	16
Deferred tax liabilities	455	52
Net assets	**2,082**	**493**
Goodwill occurring due to acquisition		
Consideration transferred for the acquisition of shares	14,687	685
Net assets	2,082	493
Goodwill	**12,605**	**192**

No receivables were acquired during the business combination. The capitalised goodwill from the merger is not tax-deductible.

The consideration for the purchase of shares is paid by cash transfer. [→ C.18]

Acquisition / sale of non-controlling interests

With effect from 31 March 2017, DMG MORI acquired the remaining 10% interest in DMG MORI Rus ooo, Moscow (Russia) from DMG MORI COMPANY LIMITED. The purchase price amounted to € 3,120 K and was fully paid in cash. DMG MORI recognised a € 6,167 K decrease in non-controlling interests and a € 3,047 K increase in retained earnings.

With effect from 18 January 2017, DMG MORI AKTIENGESELLSCHAFT sold 15% of its interest in ISTOS GmbH, Bielefeld for a purchase price of € 50 K and now holds an 85% interest. DMG MORI recognised a € 150 K increase in non-controlling interests.

Business Combinations 2016

The structural realignment efforts in the 2016 financial year brought about mergers in Switzerland and Italy.

Effective from 4 October 2016, DMG MORI Italia S.r.l., Brembate di Sopra (Italy) acquired a 100% interest in TECNO CONTROL S.R.L., Strambino (Italy) from DMG MORI COMPANY LIMITED, Nara (Japan). The acquisition of this company is intended to consolidate the sales and service business in Italy. The consideration paid for the acquisition amounted to € 2,140 K. The purchase price was paid to the seller in financial year 2016. The acquired assets and liabilities were accounted for at their respective fair values. The table below lists the details.

The resulting positive difference amounting to € 885 K was recognised as goodwill and results from synergy effects expected from the integration of the operating business into the DMG MORI group.

The € 51 K in costs directly incurred by the acquisition of the company was accounted for in expenses in financial year 2016. The acquisition of intangible and tangible assets is shown in the fixed assets movement schedule 2016 in the "Change of consolidation group" column.

Since 4 October 2016, TECNO CONTROL S.R.L contributed an additional € 2,585 K to the group' sales revenues in 2016. Its contribution to the earnings after taxes for the same period amounted to € 26 K. If the acquisition of the shares in TECNO CONTROL S.R.L. would have been consolidated as of 1 January 2016 already, the proportion of the earnings after taxes would have been € 164 K while the sales revenues would have amounted to € 10,145 K.

Effective from 7 December 2016, DMG MORI Sales and Service Holding AG, Winterthur (Switzerland) acquired a 100% interest in MORI SEIKI International SA, Le Locle (Switzerland) and in MORI SEIKI Europe AG, Winterthur (Switzerland) from DMG MORI COMPANY LIMITED, Nara (Japan). Both companies were then merged with DMG MORI Europe AG, Winterthur (Switzerland). The merger is intended to consolidate the sales and service business for our products as well as those of DMG MORI COMPANY LIMITED in Switzerland.

The consideration for the acquisition of the interest in MORI SEIKI Europe AG was € 6,407 K and corresponded to the fair value. The acquired assets and liabilities were accounted at the time value. Details are provided in the table below. Payment of the purchase price was still pending as of 31 December 2016. The resulting positive difference amounting to € 53 K was recognised as goodwill.

The costs associated with the acquisition of the company amounting to € 23 K were accounted for as expense for the financial year 2016. The acquisition of intangible and tangible assets is shown in the fixed assets movement schedule in the "Change of consolidation group" column.

The consideration for the acquisition of the interest in MORI SEIKI International SA was € 12,847 K and corresponded to the fair value. The acquired assets and liabilities were accounted at the time value. Details are provided in the table below. Payment of the purchase price was still pending as of 31 December 2016. The resulting positive difference amounting to € 95 K was recognised as goodwill. The costs directly associated with the acquisition of the company amounting to € 33 K were accounted for as expense for the financial year 2016. The acquisition of intangible and tangible assets is shown in the fixed assets movement schedule 2016 in the "Change of consolidation group" column.

The receivables acquired in the context of the company mergers consist predominantly of trade debtors and had a fair value of € 1,671 K (TECNO CONTROL S.R.L.), € 7,660 K (MORI SEIKI Europe AG) and € 8,192 K (MORI SEIKI International SA). The gross contract values at TECNO CONTROL S.R.L. amounted to € 1,708 K. The best estimate at the acquisition date of the contractual cash flows not expected to be collected amounted to € 37 K. For the other companies, the fair value was equal to the gross contract value. The capitalised goodwill from mergers is not tax-deductible.

C.19

in € K	TECNO CONTROL S.R.L.	MORI SEIKI Europe AG	MORI SEIKI International SA
Intangible assets	673	0	0
Tangible assets	126	0	5,552
Inventories	3,010	1,607	2,127
Trade debtors	1,671	7,660	8,192
Other short-term assets	155	203	154
Deferred tax assets	321	0	151
Cash assets	266	0	5,444
Pension provisions	0	0	698
Other provisions	907	1,612	2,479
Financial debts	302	0	0
Trade creditors	2,558	1,442	4,952
Other short-term liabilities	921	62	739
Deferred taxes	279	0	0
Net assets	**1,255**	**6,354**	**12,752**
Goodwill occurring due to acquisition			
Consideration transferred for the acquisition of shares	2,140	6,407	12,847
Net assets	1,255	6,354	12,752
Goodwill	**885**	**53**	**95**

The consideration for the purchase of shares in the three companies was paid by cash transfer. [→ C.19]

The group of consolidated companies has changed compared to the previous year as explained above. When compared with the Consolidated Financial Statements of 31 December 2016, the results of operations, net worth and financial position were not significantly affected in this regard.

Acquisition of non-controlling interest stakes 2016

In December 2016, DMG MORI acquired a 40% interest in DMG MORI Europe AG, Winterthur (Switzerland), from DMG MORI COMPANY LIMITED, Nara (Japan), and increased its holdings from 60% to 100%. As of 31 December 2016, DMG MORI recorded a reduction of the non-controlling interest in the amount of € 106,524 K and a reduction in retained earnings of € 33,832 K.

C.20

in € K	31 Dec 2016
Book value of the non-controlling equity interests	106,524
Purchase price paid for the non-controlling equity interests	140,356
Decrease in equity for DMG MORI AG shareholders	-33,832

In July 2016, DMG MORI acquired a 33% interest in DMG MORI CANADA INC., Vancouver (Canada), from Ellison Machinery Company Ltd. at a purchase price of € 4,346 K, thus increasing its share from 67% to 100%. DMG MORI recognised a € 5,016 K reduction in non-controlling interests and € 670 K increase in retained earnings.

An overview of all companies of the DMG MORI group is presented in the list of page 155 et seq.

5. FOREIGN CURRENCY TRANSLATION

The currency translation of all Annual Financial Statements of the international group companies that were prepared in foreign currencies was carried out in accordance with the functional currency principle pursuant to IAS 21 "The Effects of Change in Foreign Exchange Rates". Since all subsidiaries operate their business independently in financial, economic and organisational respects, their respective currencies represent the respective local currency. Assets and liabilities of foreign subsidiaries were translated in Euro at the average rate of exchange as of the reporting date, and revenue and expenses pursuant to IAS 21.40 at the transaction exchange rate – as far as reasonably approximated by average annual rates. The translation differences arising from items being translated at different rates in the balance sheet and income statement were recognised in equity.

C.21 | CURRENCIES		Exchange rate on reporting date = 1 €		Average exchange rate = 1 €	
	ISO-Code	31 Dec 2017	31 Dec 2016	2017	2016
Australian dollars	AUD	1.53460	1.45960	1.47749	1.48557
Brazilian real	BRL	3.97290	3.43050	3.62499	3.85714
Canadian dollars	CAD	1.50390	1.41880	1.46774	1.46297
Swiss franc	CHF	1.17020	1.07390	1.11288	1.09028
Chinese renminbi	CNY	7.80440	7.32020	7.62977	7.31992
Czech crowns	CZK	25.53500	27.02100	26.34354	27.04085
British pound	GBP	0.88723	0.85618	0.87432	0.81587
Indian rupees	INR	76.60550	71.59350	73.61906	74.03252
Japanese yen	JPY	135.01000	123.40000	126.99077	121.25846
Korean won	KRW	1,279.61000	1,269.36000	1,275.23538	1,279.98385
Mexican pesos	MXN	23.66120	21.77190	21.44565	20.54580
Malaysian ringgits	MYR	4.85360	4.72870	4.84984	4.57392
Polish zloty	PLN	4.17700	4.41030	4.25557	4.36590
Russian rubles	RUB	69.39200	64.30000	65.97698	73.87562
Singapore dollars	SGD	1.60240	1.52340	1.55832	1.52558
Taiwan dollars	TWD	35.76678	34.04532	34.43578	35.61428
US dollars	USD	1.19930	1.05410	1.13045	1.10205

Sources: European Central Bank. Frankfurt / Main

Exchange differences on monetary items to be received or paid from/to a foreign operation, for which settlement is neither planned nor likely to occur and thus, are a part of the net investment in that foreign operation, are not recognised in profit or loss in that period. The foreign exchange differences are initially recognised in other comprehensive income and transferred to equity in the income statement upon their sale.

In the individual financial statements monetary items (cash, receivables and liabilities) in a foreign currency were valued at the exchange rate at the reporting date. Non-monetary items in foreign currencies were assessed at historical values. The differences arising from the currency translation of monetary items were shown in the income statement. Goodwill resulting from the acquisition of international companies were recognised as assets of the international operation and was translated at the exchange rates at the closing date.

Accounting in accordance with the regulations contained in IAS 29 "Financial Reporting in Hyper-inflationary Economies" was not required, as the DMG MORI group has no significant subsidiaries with registered office in a hyper-inflationary economy.

The exchange rates of the major currencies developed as follows. [→ C.21]

NOTES TO INDIVIDUAL ITEMS IN THE INCOME STATEMENTS

6. SALES REVENUES

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

C.22		
in € K	2017	2016
Germany	712,094	737,069
EU (excluding Germany)	933,916	815,179
USA	81,564	159,092
Asia	447,272	390,315
Other countries	173,605	164,054
	2,348,451	**2,265,709**

A breakdown and explanation of the sales revenues from the sale of goods and provision of services are given in segment reporting on page 90 et seq. and in the “Segment Report” chapter of the Group Management Report on page 53 et seq.

7. OWN WORK CAPITALISED

The capitalised own work primarily results from the developed intangible assets for machine tools projects pursuant to IAS 38 “Intangible assets”. Capitalised production costs include all costs that are directly and indirectly attributable to the development process and necessary parts of development-related overheads as well as borrowing costs.

8. OTHER OPERATING INCOME

C.23

INCOME UNRELATED TO ACCOUNTING PERIOD

in € K	2017	2016
Release of provisions	9,415	12,751
Release of value adjustments	3,005	2,480
Profit on asset disposals	2,542	1,931
Receipt of payments for written off receivables	26	39
Other income unrelated to accounting period	2,891	3,780
	17,879	20,981
OTHER OPERATING INCOME		
Gains on currency and exchange rates	30,439	39,171
Refund of expenses and on-debiting	10,345	22,423
Compensation for damages	1,256	1,116
Letting and leasing	481	444
Bonuses and allowances	343	513
Others	20,421	12,104
	63,285	75,771
Total	**81,164**	**96,752**

On balance, exchange rate and currency losses occurred in the financial year 2017 in the amount of € -649 K (previous year: gains on currency and exchange rates: € 436 K). Income from the refund of expenses and on-debiting mainly include income from the on-debiting of marketing expenses to DMG MORI COMPANY LIMITED of € 10,210 K. As DMG MORI AKTIENGESELLSCHAFT is no longer responsible for group-wide marketing activities, no on-debiting was incurred in financial year 2017.

Other income includes € 307 K (previous year: € 651 K) of income from subletting arrangements where DMG MORI group is the lessor.

9. COST OF MATERIALS

The purchased services relate predominantly to expenses for external production.

10. PERSONNEL COSTS

In financial year 2017, the total remuneration of the Executive Board from direct and indirect remuneration amounted to € 8,659 K (previous year: € 10,498 K). Direct remuneration of Executive Board members accounted for € 8,059 K (previous year: € 9,873 K), of which the fixed remuneration accounted for € 2,100 K (previous year: € 2,134 K) and STI accounted for € 2,880 K (previous year: € 4,638 K). The individual performance remuneration was € 1,750 K (previous year: € 371 K). The value of the LTI amounted to € 1,272 K (previous year: € 2,665 K). Benefits in kind accounted for € 57 K (previous year: € 65 K). Besides direct remuneration, € 600 K (previous year: € 625 K) in indirect remuneration was spent on pension plans.

Former members of the Executive Board and their surviving dependants received € 1.339 K (previous year: € 1,088 K). Pension provisions for former members of the Executive Board and their surviving dependants have been formed in the amount of € 34,829 K (previous year: € 35,330 K).

The remuneration structure for the Executive Board and the Supervisory Board is explained on page 28 of the Group Management Report. An individual and detailed presentation of Executive Board remuneration in the financial year is set out on page 28 et seq. of the remuneration report.

Advances and loans to officers were not granted, nor were any contingent liabilities assumed in favour of these persons. Nor did the companies of the DMG MORI group pay any remuneration to officers for services personally rendered, in particular for consulting and introduction services.

In the financial year 2017, pension plan expenses in the group, including employer’s contributions to statutory pension insurance, amounted to € 26,957 K (previous year: € 27,524 K). This includes employers’ contributions to statutory pension insurance amounting to € 24,264 K (previous year: € 22,991 K).

C.24	Average number		At the balance sheet date	
	2017	2016	31 Dec 2017	31 Dec 2016
Wage earners	1,821	1,660	1,885	1,592
Salary earners	4,816	5,442	4,857	5,372
Trainees	309	294	359	318

In comparison with the previous year, the number of employees has changed as follows. [→ C.24]

11. DEPRECIATION

A distribution of amortisation/depreciation of intangible assets and tangible assets is provided in the asset movement schedule on page 86 et seq. Amortisation / depreciation includes impairments amounting to € 14,628 K (previous year: € 6,608 K) for intangible assets and property, plant and equipment.

12. OTHER OPERATING EXPENSES

Expenses for corporate communication, trade fairs and other advertising expenses were have fallen compared to the previous year. This includes expenses for product marketing and our marketing activities. [→ C.25]

C.25

EXPENSES UNRELATED TO ACCOUNTING PERIOD

in € K	2017	2016
Losses from the disposal of fixed assets	1,172	1,569
Other taxes	243	578
Other expenses unrelated to accounting period	3,128	2,953
	4,543	5,100
OTHER OPERATIONAL EXPENSES		
Freight out, packaging	54,381	59,154
Corporate communication, trade fairs and other advertising expenses	45,208	48,786
Travelling and entertainment expenses	37,759	45,373
Other external services	32,427	46,682
Exchange rate and currency losses	31,088	38,735
Rental and leases	29,784	35,232
Expenses for temporary employment and contractors	25,605	24,355
Sales commissions	23,238	28,543
Cost of preparation of accounts, legal and consultancy fees	18,518	21,742
Other personnel costs	15,574	15,814
Stationery, post and telecommunication expenses	8,637	10,777
Impairment on receivables	8,244	7,838
Additions to provisions	7,846	10,459
Insurance	6,604	7,188
Other taxes	4,266	5,266
Licences and trademarks	2,583	2,138
Monetary transactions and capital procurement	1,996	2,072
Investor and Public Relations	1,098	2,132
Others	22,437	42,583
	377,293	454,869
Total	**381,836**	**459,969**

Exchange rate and currency losses can be seen in connection with exchange rate and currency gains in other operating income. On balance, exchange rate and currency losses occurred in an amount of € -649 K (previous year: exchange rate and currency gains: € 436 K).

The additions to provisions resulted primarily from expenses for warranties. Sales commissions dropped from the previous year and are related to sales, as well as to the nature, amount and region where these sales are generated. The remaining other operating expenses contain losses from the disposal of subsidiaries in the amount of € 2,433 K (previous year: € 13,232 K).

Furthermore, the other expenses included in the previous year effects from asset impairments in the amount of € 3,733 K, which have been incurred in the context of restructuring and concentration on the core business.

The administration and sales costs are included proportionately in other operating expenses and personnel costs.

In the financial year 2017, € 1,498 K (previous year: € 1,629 K) accrued for the total remuneration of Supervisory Board members; this was recognised under other external services. Further details on the remuneration of the Supervisory Board are given in the Group Management Report. An individual and detailed presentation of Supervisory Board remuneration in the financial year is set out on page 28 seq. of the remuneration report.

13. FINANCIAL INCOME

Interest earned and other income of the DMG MORI group amounted to € 3,767 K (previous year: € 2,846 K). This includes interest earned in an amount of € 1,200 K (previous year: € 300 K) from the loan to DMG MORI GmbH.

14. FINANCIAL EXPENSES

Interest expenses of € 7,381 K (previous year: € 8,051 K) are related primarily to interest expenses for group financial debts and factoring.

Finance expenses include an interest component of € 508 K (previous year: € 814 K) from allocations to pension provisions. In addition, € 479 K (previous year: € 100 K) from the interest accrued on long-term other provisions have been taken into account. In the previous year, this included the impairment of a financial asset ("available for sale") amounting to € 3,535 K.

An expense amounting to € 633 K (previous year: € 580 K) was recognised in other financial expenses for the scheduled amortisation of transaction costs for the new syndicated credit line of DMG MORI AKTIENGESELLSCHAFT concluded in 2016.

15. SHARE OF PROFITS AND LOSSES OF AT EQUITY-ACCOUNTED INVESTMENTS

Profits from companies accounted for at equity amount to € 1,485 K (previous year: € 681 K). This includes the income generated in financial year 2017 from the pro rata earnings in the year under review for Magnescale Co. Ltd., Kanagawa (Japan) amounting to € 1,183 K (previous year € 296 K) and the pro rata proceeds from the interest held in DMG MORI Finance GmbH amounting to € 302 K (previous year: € 449 K).

16. INCOME TAXES

This account represents current and deferred tax expenditure and income, as well as tax allocation expenses that break down as follows:

C.26

in € K	2017	2016
Current taxes	**52,081**	**51,504**
Tax expense for the current financial year	49,865	45,013
Tax income for previous periods	-261	-1,014
Tax expense for previous periods	2,477	7,505
Deferred taxes	**5,938**	**-4,868**
Losses carried forward	3,304	3,573
Temporary differences	2,634	-8,441
	58,019	**46,636**

The item, current taxes recognises corporate income tax and trade tax (including solidarity surcharge) in the case of domestic companies and comparable income taxes in the case of foreign companies. The assessment was performed in accordance with the tax regulation applicable to the individual companies.

Tax expense for the current financial year includes € 30,017 K in current taxes debited by DMG MORI GmbH, Bielefeld, due to tax group. An amount of € 261 K (previous year: € 1,014 K) was attributable to current tax income for previous periods. Furthermore, an amount of € 2,477 K (previous year: € 7,505 K) is recognised in current tax expense for previous periods.

The reporting year did not have any current taxes relating to the termination of business units or non-operating business activities. The decision to maintain current accounting methods meant no additional tax expense or income occurred.

The deferred taxes are assessed on the basis of the tax rates applicable or expected in the individual countries on the basis of the current statutory regulation. For financial year 2017, the domestic corporate income tax rate was 15.0% plus 5.5% solidarity surcharge. This results in an effective corporate income tax rate of 15.8%. Taking account of the trade tax of 14.0% (previous year: 14.0%), the overall tax rate was 29.8% (previous year: 29.8%). The result is the tax rate applicable for the valuation of deferred taxes for domestic companies. The tax rates applicable in foreign countries are between 19% and 34%.

Deferred tax liabilities resulting from business combinations amounted to a balance of € 507 K (previous year: deferred tax assets amounting to € 193 K) in the financial year. The income tax on other comprehensive income amounts to € 671 K (previous year: € 2.557 K) and relates to changes in the fair values of derivative financial instruments included in other comprehensive income and the revaluation of defined benefit plans.

The difference between current and expected income tax expenditure is due to the following. [→ C.27]

The reported income tax expenditure for financial year 2017 of € 58,019 K (previous year: € 46,636 K) is € 5,457 K higher (previous year: higher by € 18,588 K) than the expected income tax expense of € 52,562 K (previous year: € 28,048 K), which would theoretically result from applying the domestic tax rate of 29.8% in financial year 2017 (previous year: 29.8%) at group level.

The change in tax loss carryforwards primarily concerns the non-recognition of deferred tax assets on current losses amounting to € 4,010 K (previous year: € 5,695 K) as well as adjustments to the deferred tax assets on losses carried forward from previous years in the amount of € 0 K (previous year: € 3,425 K). On the other side, previously omitted deferred taxes on losses carried forward in the amount of € 1,656 K (previous year: € 5,547 K) were capitalised or utilised.

17. ANNUAL PROFIT ATTRIBUTED TO NON-CONTROLLING INTERESTS

A pro-rata annual profit of € 921 K (previous year: € 2,664 K) can be attributed to non-controlling interests. The item primarily includes the pro rata earnings from non-controlling interests in DMG MORI India Pvt. Ltd. In the previous year, this also included the pro rata earnings from non-controlling interests in DMG MORI SEIKI CANADA INC. and DMG MORI MEXICO S.A. de C.V.

C.27

in € K	2017	2016
Earnings before taxes	176,382	94,120
DMG MORI AKTIENGESELLSCHAFT income tax rate in percent	29.8	29.8
Expected tax income / expenditure	52,562	28,048
Tax consequences of the following effects		
Adjustment due to different tax rate	-1,318	-3,957
Effects from the changes in tax rate	13	702
Tax reduction due to the revenues exempt from taxation	-3,244	-474
Tax loss carried forward	2,354	3,573
Non-recognition of temporary differences / deferred taxes previous years	233	6,606
Tax increase due to non-deductible expenses	6,013	6,669
Tax income or expenditure for prior years	2,216	6,491
Other adjustments	-810	-1,022
Income taxes	**58,019**	**46,636**

18. EARNINGS PER SHARE

In accordance with IAS 33 "Earnings per Share", the undiluted earnings per share ("Basic earnings per share") are determined by dividing the consolidated profit – excluding profit shares of other owners – by the average weighted number of shares outstanding, as follows:

C.28	2017	2016
Group result excluding annual net income attributable to non-controlling interests	€ 117,442 K	€ 44,820 K
Average weighted number of shares (pieces)	78,817,994	78,817,994
Earnings per share	€ 1.49	€ 0.57

Earnings result exclusively from continued business. Group earnings after taxes amounting to € 118,363 K was reduced by the earnings of the non-controlling interests by € 921 K. The (undiluted) earnings per share amounted to € 1.49 (previous year: € 0.57). As in the previous year, there were no dilutive effects.

NOTES TO INDIVIDUAL BALANCE SHEET ITEMS

19. INTANGIBLE ASSETS

The goodwill amounts to € 139,419 K (previous year: € 135,417 K).

The changes result from the conversion of goodwill denominated in foreign currency into the group's currency euro as well as from the change in the consolidated companies.

Intangible assets arising from development relate to new machine tool projects in domestic and international production companies, to service products and to specific software solutions. Intangible assets arising out of development recognised at the end of the financial year amounted to € 23,605 K (previous year: € 24,467 K). Research and development costs are immediately recognised as an expense and amounted to € 43,983 K in the financial year 2017 (previous year: € 38,525 K).

The amount stated for industrial property rights and similar rights includes acquired patents, rights from acquired customer relations, utility models and trademarks as well as data processing software.

In financial year 2017, an impairment loss was recognised for intangible assets in an amount of € 1,504 K and allocated to the item, depreciation and accounted for in the "Machine Tools" segment. This relates to internally developed IT-process know-how. As the company decided to no longer use this know-how, its net book value was completely written off.

The development and a breakdown of items in the group's intangible assets are illustrated in the consolidated fixed asset movement schedule. Investments are explained in the Group Management Report on page 49 et seq.

20. TANGIBLE ASSETS

The development and a breakdown of items in the group's tangible assets are illustrated in the consolidated fixed asset movement schedule. Investments are explained in further detail on page 49 of the Group Management Report.

DMG MORI identified an impairment of a power generating facility due to the expectation of changed productivity and changed market prices. A review of the recoverable amount resulted in the recognition of an impairment loss of € 4,465 K, which was allocated to depreciation and recognised under the "Industrial Services" segment. The discount rate used to determine the value in use after taxes was 5.0%. As of 31 December 2017, the recoverable amount of this facility amounted to € 4,890 K.

The recoverable amount was equal to the value in use. The calculation of the value in use is based on the assumption concerning future productivity and the development of market prices, which have been derived from past experiences. The assessment of the fair value less costs of disposal has been observed pursuant to IFRS 13.

During the current financial year, an impairment was identified for a building with technical equipment and factory and office equipment, resulting from a change in the purpose of the building and vacancies. In the future, the building will no longer be used to the extent it has been in previous years. A review of the recoverable amount resulted in the recognition of an impairment of € 7,198 K, which was allocated to depreciation and recognised under the "Industrial Services" segment. The fair value was determined on the basis of an external valuation report. The key assumptions used to determine fair value were the discount factor used (3.8%), various income and expenses from lettering the building, including investments and vacancies. The assessment of the fair value less costs of disposal has been observed pursuant to IFRS 13. As of 31 December 2017, the buiding's recoverable amount was € 36,139 K.

An impairment was recognised for an item of tangible assets in an amount of € 1,461 K for the previous financial year, resulting from a change of plan for the expected future purpose of these assets. The net book value was completely written off and accounted for in the 'Machine Tools' segment. There were no write-ups in the financial year.

In the previous year, impairment losses amounting to € 6,608 K were recognised for tangible assets.

Land and buildings with a carrying amount of € 39,831 K are mortgaged for the security of financial debt in the amount of € 15,202 K (previous year: € 17,985 K).

Tangible assets include leased assets to the value of € 1,265 K (previous year: € 2,274 K) that must be charged to the respective group company as the beneficial owner ("finance lease") due to the structuring of the underlying leasing agreements. The carrying amounts of capitalised lease items are broken down as follows:

C.29

in € K	31 Dec 2017	31 Dec 2016
Technical equipment and machinery	567	1,035
Other fixed assets, factory and office equipment	698	1,239
	1,265	**2,274**

21. EQUITY INVESTMENTS

The development of group investments is shown in the consolidated fixed asset movement schedule.

In September 2017, GILDEMEISTER Beteiligungen GmbH acquired a 20% interest in ADAMOS GmbH, Darmstadt. Together with Dürr, Software AG, ZEISS and ASM PT, DMG MORI established a strategic alliance for the future themes of Industry 4.0 and the Industrial Internet of Things. The book value as at 31 December 2017 is equal to the purchase price of € 2,000 K, which was paid in cash. Another partner has since joined this alliance. The interest held by GILDEMEISTER Beteiligungen GmbH is currently 16.7%. DMG MORI does not exercise any significant influence over the business activities of ADAMOS GmbH.

These investments also include € 83 K in shares in Pro-Micron GmbH & Co. KG Modular System and a 40% interest held by GILDEMEISTER energy solutions GmbH in Sonnenstromalpha GmbH & Co. KG, Hamburg. As at the reporting date, they had a fair value of € 21 K as in the previous year.

The DMG MORI group does not exercise any significant influence over these companies.

In the previous year, this included an interest in VR Leasing Frontania GmbH & Co. KG. The book value of the shares amounted to € 270 K. The shares were sold in financial year 2017.

As at 31 December 2017, DMG MORI AKTIENGESELLSCHAFT sold its interest (19%) in DMG MORI Manufacturing USA, Inc., Davis (USA) to DMG MORI COMPANY LIMITED. The purchase price amounted to € 21,400 K. The shares were acquired as part of the non-cash capital increase in financial year 2013. No significant influence was exercised. The amortised acquisition costs in the previous year amounted to € 21,415 K.

As in the previous year, no impairment on equity investments was recorded in the reporting year.

An overview of all DMG MORI group companies and information on registered offices, equity and equity interests in financial year 2017 are set out on page 155 et seq.

DMG MORI AKTIENGESELLSCHAFT is a shareholder with unlimited liability of MITIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bielefeld KG, Bielefeld.

22. EQUITY-ACCOUNTED INVESTMENTS

The following overview shows aggregated key financial figures for companies accounted for at equity included in the Consolidated Financial Statements. The figures refer to equity interests, carrying amounts and notes on the balance sheet as well as to sales revenues, other income and expenses:

C.30	31 Dec 2017		31 Dec 2016	
	Equity interest %	Carrying amount € K	Equity interest %	Carrying amount € K
DMG MORI Finance GmbH	42.6	10,118	42.6	9,816
Magnescale Co. Ltd.	44.1	34,985	44.1	36,272
DMG MORI HEITEC GmbH	50.0	50.0	–	–
		45,153		**46,088**

The equity interests of the equity-accounted companies correspond to the voting rights. Magnescale Co. Ltd. and DMG MORI Finance GmbH are classified as associated companies. Details of the results from equity-accounted companies are presented in the explanatory notes to the individual items on the income statement under "Share of profits and losses of at equity-accounted investments" on page 120.

In November 2017, GILDEMEISTER Beteiligungen GmbH founded the joint venture DMG MORI HEITEC GmbH, Erlangen, together with HEITEC AG, Erlangen. GILDEMEISTER Beteiligungen GmbH holds a 50% interest in the company. The share capital is € 100 K and is fully paid. The joint venture allows DMG MORI to speed up the development of innovative automation solutions. DMG MORI HEITEC GmbH, Erlangen, was classified as an associated company and has been consolidated using the equity method as of the date of acquisition.

We consider the 44.1% interest held in Magnescale Co. Ltd., Kanagawa (Japan), a subsidiary of DMG MORI COMPANY LIMITED, Nara (Japan), and a manufacturer of high-precision technologies for position measurement, with its fully owned subsidiaries Magnescale Europe GmbH, Wernau, and Magnescale Americas, Inc., Davis (USA), as being a significant interest. Impairment tests were conducted based on the future cash flows derived from company planning, which expected increases in sales revenues and EBIT margins. The cash flow calculated was discounted using a WACC rate of 8.54%. In financial year 2017, the company achieved an annual result of € 2,682 K.

The most significant items on the balance sheet and the income statement have been combined for all three companies and presented in the following table separately.

In addition to the annual net profit, a currency effect of € -5,599 K was recognised in other comprehensive income on a pro rata basis. This results in total comprehensive income of € -2,917 K (pro rata amount € -1,287 K).

C.31 | MAGNESCALE CO. LTD.

in € K	31 Dec 2017	31 Dec 2016
Short-term assets	34,375	31,458
Long-term assets	51,681	60,936
Short-term liabilities	11,525	11,256
Long-term liabilities	11,929	15,619
Sales revenues	82,762	73,290
Net income for the year	2,682	671

The values of the other associated company, DMG MORI Finance GmbH, are also summarised in the following table:

C.32 | DMG MORI FINANCE GMBH

in € K	31 Dec 2017	31 Dec 2016
Short-term assets	210,619	178,878
Long-term assets	217,199	207,366
Short-term liabilities	154,313	152,319
Long-term liabilities	249,726	207,366
Sales revenues	126,291	104,886
Net income for the year	710	1,057

The reconciliation of the carrying amounts at the reporting date is as follows:

C.33

in € K	31 Dec 2017 Magnscale Co. Ltd.	31 Dec 2016 Magnescale Co. Ltd.
Net carrying amount at 1 January	65,519	64,848
Results after taxes	2,682	671
Other comprehensive income	-5,599	0
Net carrying amount at 31 December	62,602	65,519
Proportional equity	27,620	28,907
Consolidation / other	7,365	7,365
Carrying amount at equity accounted interests	**34,985**	**36,272**

C.34

in € K	31 Dec 2017 DMG MORI Finance GmbH	31 Dec 2016 DMG MORI Finance GmbH
Net carrying amount at 1 January	23,069	22,012
Results after taxes	710	1,057
Net carrying amount at 31 December	23,779	23,069
Proportional equity	10,118	9,816
Carrying amount at equity accounted interests	**10,118**	**9,816**

23. LONG-TERM RECEIVABLES AND OTHER ASSETS

C.35

in € K	31 Dec 2017	31 Dec 2016
Trade debtors	849	978
Other long-term financial assets	5,906	7,673
Other long-term assets	2,426	17,076
	9,181	**25,727**

Trade debtors are to be assigned to financial assets. As in the previous year, there were no receivables from associated companies included in the long-term trade debtors.

Other long-term financial assets include the following items:

C.36

in € K	31 Dec 2017	31 Dec 2016
Security deposits and other sureties	427	470
Fair market values of derivative financial instruments	13	0
Other assets	5,466	7,203
	5,906	**7,673**

Other financial assets include the purchase price for acquiring an option on the purchase of shares in a company amounting to € 3,200 K (previous year: € 3,005 K). During the financial year, a write-up was made in an amount of € 195 K (previous year: impairment € 3,535 K) and disclosed in financial results.

Other long-term assets include the following items:

C.37

in € K	31 Dec 2017	31 Dec 2016
Tax refund claims	1,648	1,836
Other assets	778	15,240
	2,426	**17,076**

The tax refund claims do not contain receivables for income taxes.

Other assets included in the previous year assets of project companies operating solar parks in the amount of € 14,695 K. In financial year 2017, the project companies were sold together with their assets.

24. INVENTORIES

Inventories are made up as follows:

C.38

in € K	31 Dec 2017	31 Dec 2016
Raw materials and consumables	207,771	202,076
Work in progress	144,983	111,570
Finished goods and goods for resale	181,870	177,994
Payments on account	13,038	13,401
	547,662	**505,041**

Finished goods and goods for resale include machines in an amount of € 54,734 K (previous year: € 29,480 K) acquired from DMG MORI COMPANY LIMITED for trading purposes. Of inventories shown in the balance sheet on 31 December 2017, € 117,553 K (previous year: € 122,924 K) were recognised at their net realisable value. In the financial year; impairment of inventories in an amount of € 14,432 K (previous year: € 23,229 K) were recognised as cost of materials. In the previous year, this included impairments of inventories in the amount of € 4,900 K, which resulted in relation to the realignment measures.

In the financial year, revaluations amounting to € 2,975 K (previous year: € 2,930 K) arose primarily resulting from the increase in net realisable values; they also were recognised as cost of materials.

25. SHORT-TERM RECEIVABLES

C.39

in € K	31 Dec 2017	31 Dec 2016
Trade debtors		
Receivables from third parties	237,796	194,394
Receivables from at equity accounted companies	15,970	4,276
Receivables from other related companies	65,172	46,448
Receivables from associated companies	28	188
Total trade debtors	**318,966**	**245,306**
Other receivables from other related companies	141,800	120,000
Total	**460,766**	**365,306**

Trade debtors from other related companies include receivables owed by DMG MORI COMPANY LIMITED in the amount of € 32,184 K (previous year: € 21,373 K) and receivables from a purchase price receivable amounting to € 21,400 K. As in the previous year, in the receivables from other related companies are also receivables owed by DMG MORI GmbH from the granting of loans in the amount of € 120,000 K are included and from deferred interest in the amount of € 400 K (previous year: € 0 K). The loan bears interest at market rates.

C.40 in € K	Carrying amount	of which neither impaired nor past due at the reporting date	of which not impaired at the reporting date and past due in the following time periods: Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	More than 1 year
Receivables						
31 Dec 2017	461,615	428,720	19,160	2,769	2,815	3,549
Receivables						
31 Dec 2016	366,284	334,913	21,338	3,667	2,586	2,340

In the reporting year, DMG MORI group has continued the unchanged use of factoring programmes. As in the previous year, these agreements enabled domestic receivables in the amount of up to € 90,000 K and foreign receivables in the amount of € 77,500 K to be sold. As of the balance sheet date, German receivables with a value of € 59,693 K (previous year: € 87,673 K) and foreign receivables with a value of € 58,862 K (previous year: € 57,119 K) were sold without recourse and were thus no longer part of the receivables at the reporting date.

The analysis of the impairment for long-term and short-term trade debtors and other receivables, which are neither past due nor impaired, presents as follows. [→ C.40]

Trade debtors and accumulated impairments have developed as follows:

C.41 in € K	31 Dec 2017	31 Dec 2016
Trade debtors non impaired	315,213	244,844
Trade debtors before impaired	19,926	16,917
Accumulated impairments	15,324	15,477
Trade debtors impaired	4,602	1,440
Trade debtors	**319,815**	**246,284**

Allowances for trade debtors have developed as follows:

C.42 in € K	2017	2016
Impairments as at 1 January	15,477	14,636
Allocations (expenses for impairments)	4,170	4,726
Consumption	-1,318	-1,405
Dissolutions	-3,005	-2,480
Impairments as at 31 December	**15,324**	**15,477**

In the previous year, the additions included impairments of receivables in the amount of € 2,800 K (of which € 2,300 K are non-domestic), which resulted from the realignment measures. These receivables could not be expected to be paid.

The following table shows the expenses for the complete de-recognition of trade debtors as well as income from recoveries of trade debtors written off.

C.43 in € K	2017	2016
Expenses for full write-off of receivables	4,074	3,112
Income from recoveries on receivables written off	26	39

Income from receipt of payments for receivables written off are reported under other operating income.

Expenses relating to impairment and write-off of trade debtors are reported under other operating expenses. These concern a large number of individual cases.

26. OTHER ASSETS

Other assets include the following items.:

C.44 in € K	31 Dec 2017	31 Dec 2016
Other short-term financial assets	72,764	63,353
Other short-term assets	58,050	51,472
	130,814	**114,825**

Other short-term financial assets include the following items:

C.45

in € K	31 Dec 2017	31 Dec 2016
Discounted customers' bills	20,507	18,217
Creditors with debit balance	26,840	7,518
Receivables from factoring	8,945	14,075
Security deposits and other security payments	4,797	3,342
Purchase price receivables from asset disposal	2,680	3,250
Fair market value of derivative financial instruments	708	913
Receivables from employees and former employees	543	790
Loans to third parties	401	472
Other short-term financial assets	7,343	14,776
	72,764	**63,353**

During the financial year, impairments amounting to € 3,250 K were recognised for the full amount of a purchase price receivable from the previous year, as it is considered unlikely that the purchase price will be paid.

Creditors with a debit balance includes € 17,878 K for a down payment made for the provision of goods and services as part of a solar project.

No further impairments or write-offs were entered for other short-term financial assets in the previous year.

No financial assets were provided as collateral either in the reporting year or in the previous year.

The analysis of the impairment for other long-term and short-term financial assets, which are neither past due nor impaired, presents as follows. [→ C.46]

C.46

	Carrying amount	of which neither impaired nor past due on the reporting date	of which not impaired at the reporting date and past due in the following time periods			
in € K			Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	More than 1 year
Other financial assets						
31 Dec 2017	78,670	77,722	177	54	587	119
Other financial assets						
31 Dec 2016	71,026	65,595	160	20	18	224

Other short-term assets include the following items:

C.47

in € K	31 Dec 2017	31 Dec 2016
Tax refund claims	35,300	33,528
Prepayments	4,936	5,339
Other assets	17,814	12,605
	58,050	**51,472**

Tax refund claims primarily include receivables from value added tax.

27. CASH AND CASH EQUIVALENTS

At the reporting date, bank credit balances amounted to € 363,405 K (previous year: € 396,725 K).

The development of cash and cash equivalents constituting the financial fund pursuant to IAS 7 “Cash Flow Statement” is illustrated in the statement of cash flows on page 81.

28. ASSETS HELD FOR SALE

Effective from 1 January 2017, domination over the subsidiaries and a joint venture in the regions of the Americas and Asia was assigned to DMG MORI COMPANY LIMITED. The decision on transferring domination was made by the Executive Board in December 2016.

The concerned subsidiaries (see details on page 107) were therefore recognised in the previous year as a disposal group held for sale. All assets and liabilities of these companies have been reclassified in the balance sheet item "Assets held for sale" or "Liabilities in relation to assets held for sale". The reclassification of intangible assets, tangible assets and financial assets were shown in the consolidated fixed asset movement schedule under "Other changes". The disposal group was recognised at its book value and was disposed of on the date control was transferred to DMG MORI COMPANY LIMITED.

29. DEFERRED TAXES

Deferred tax assets and liabilities and deferred tax expense are allocated to the following items. [→ C.48]

The deferred taxes are assessed on the basis of the tax rates applicable or expected in the individual countries on the basis of the current statutory regulation. Taking into account the trade income tax as well as the corporate income tax and the solidarity surcharge, a tax rate of 29.8% is calculated for deferred taxes of domestic companies (previous year: 29.8%).

A determining factor for the valuation of the recoverability of deferred tax assets is the assessment of the probability of sufficient future taxable income. Based on past experience and the expected taxable income situation, it is assumed that the corresponding advantages from the deferred tax assets can be realised. As at 31 December 2017, deferred tax assets on losses carried forward amounted to € 3,002 K (previous year: € 6,306 K) and were allocated as follows: as in the previous year, for the German tax group there were no German corporate tax and trade tax loss carry forwards as well as interest carry forwards due to the German interest barrier. Domestic companies outside of the tax group reported deferred tax assets on losses carried forward in the amount of € 0 K (previous year: € 78 K). Deferred tax assets on losses carried forward are attributable to foreign subsidiaries in an amount of € 3,002 K (previous year: € 6,228 K). In the reporting year, deferred tax assets on losses caried forward amounting € 231 K (previous year: € 706 K) were re-capitalised and € 3,031 K (previous year: € 2,795 K) have been offset with current taxable income. The tax losses carried forward amount to a total of € 95,119 K (previous year: € 86,749 K), of which € 82,255 K (previous year: € 60,693 K) were not recognised. Out of the unrecognised tax losses brought forward, € 23,115 K (previous year: € 25,723 K) are available for utilisation for an indefinite period, while € 29,964 K (previous year: € 31,269 K) must be used within the next five years. Moreover, the rest of the tax loss carry forwards not recognised in an amount of € 29,176 K (previous year: € 3,701 K) expire within 6 to 10 years. With regard to subsidiaries which had tax losses in the current year or in the previous year, deferred tax asset amounting to € 5,751 K (previous year: € 4,321 K) were capitalised. The realisation of these assets depends on future taxable income which is higher than the earnings effects of the dissolution of existing taxable differences. Due to substantial indicators, the DMG MORI group assumes that on the basis of future business activities and tax planning there will be sufficient positive taxable income available to realize the tax assets. In this respect, a deferred tax asset amounting to € 1,394 K was capitalised for a Russian subsidiary and a deferred tax asset amounting to € 3,488 K was capitalised for a Chinese subsidiary. Due to the positive tax results of these companies in financial year 2017 and in future tax planning, we expect each company to achieve sufficiant taxable income. As of 30 September 2016, our Russian subsidiary was given a 'Russian Manufacturer' status. This enables the company to gain better access to the Russian market. A rise in the localisation rate allows a further reduction in costs and an increase in the value-added share of locally sourced components. Realignment

C.48	31 Dec 2017		31 Dec 2016		2017	2016
in € K	Assets	Liabilities	Assets	Liabilities	Deferred tax expense / income	Deferred tax expense / income
Intangible assets	19,380	8,810	18,704	10,149	2,552	8,227
Tangible assets	8,060	3,069	8,501	4,438	928	-136
Financial assets	44	0	0	9	53	61
Inventories	11,441	2,174	17,190	1,469	-6,454	1,884
Receivables and other assets	9,850	5,319	11,536	6,569	-437	2,504
Provisions	11,362	2,977	11,071	5,467	3,226	-3,867
Liabilities	10,142	2,788	11,450	1,368	-2,502	-232
Tax loss carried forward	3,002	–	6,306	–	-3,304	-3,573
	73,281	25,137	84,758	29,469		
Balancing	-23,350	-23,350	-26,494	-26,494		
Total	**49,931**	**1,787**	**58,264**	**2,975**	**-5,938**	**4,868**

measures were implemented on the Chinese market in 2016 resulting in efficiency benefits for our Chinese company and its customers.

For passive temporary differences associated with interest in subsidiaries in the amount of € 17,399 K (previous year: € 19,530 K), no deferred taxes have been recognised because the requirements of IAS 12.39 are met.

The deferred tax assets recognised directly in equity reduced by € 671 K to € 10,638 K (previous year: € 11,309 K). These break down into deferred tax assets amounting to € 10,569 K (previous year: € 11,014 K) on actuarial gains and losses recognised in equity, as well as € 69 K relating to the valuation of financial instruments in equity (previous year: € 295 K).

30. EQUITY

The movement of individual components in group equity for the financial years 2017 and 2016 is illustrated in the "Development of group equity" on page 84 et seq. Business transactions are presented under "Transactions with owners" in which the owners have acted in their capacity as owners.

Subscribed capital

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

It is divided into 78,817,994 no-par value shares with a theoretical par value of € 2.60 per share. Each share carries the right to one vote.

The following statements have essentially been taken from the articles of association of DMG MORI AKTIENGESELLSCHAFT (version May 2017).

The Executive Board is authorized, 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 (authorized capital). This authorization can be exercised once or several times in partial amounts.

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

The Executive Board is authorized, with the approval 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 undertakings affiliated with the company,
b) capital increases through contribution in kind so as to acquire in suitable cases companies, parts of companies or interests in companies, or other assets in return for shares,
c) for capital increases against cash contributions, if the issuing price of the new shares is not significantly lower, in accordance with Section 203, (1) and (2), and Section 186 (3) (4) of the German Stock Corporation Act, than the stock market price on the final effective date of the issuing price determined by the Executive Board and if the total pro rata amount of the share capital 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 authorization 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 to be included in the maximum limit of 10% of the share capital;
d) to exclude any fractional amounts from the pre-emptive right.

All the shares issued on the basis of the aforementioned authorization 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 authorization 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 authorization from any other authorized capital disapplying the pre-emptive rights of shareholders, excluded from the aforementioned figure is the disapplication of pre-emptive rights to compensate for fractional amounts or the issue of shares to company employees and to affiliated companies.

The Executive Board is authorized, with the approval of the Supervisory Board, to lay down further details for the capital increase and its implementation. The Supervisory Board is authorized to adjust the articles of association according to each individual utilisation of the authorized capital and, if the authorized capital is not utilised or not fully utilised before 15 May 2019, to cancel this after this date.

The new shares will be issued at an option or conversion price to be determined in accordance with the aforementioned authorization resolution.

The capital increase is to be effected only insofar as the holders of conversion or options rights or those obliged to exercise conversion or options rights exercise their options or conversion rights, insofar as they are obliged to exercise their conversion or option rights, they fulfil their obligation to exercise the conversion or option right and neither shares already in existence nor the payment of a cash amount is used to fulfil the option or conversion rights.

The new shares will participate in the profit as of the beginning of the financial year in which they are issued following the exercising of option or conversion rights, or the fulfilment of conversion or option obligations.

Capital reserve

As of 31 December 2017, the capital reserve was unchanged at € 498,485,269. The group's capital reserve includes the premiums for the issue of shares of DMG MORI AKTIENGESELLSCHAFT in the previous years.

The transaction costs directly attributable for capital procurement, reduced by the related income tax benefits, have each been deducted from the capital reserve.

RETAINED EARNINGS AND OTHER RESERVES

Statutory reserve

The statement remains unchanged the statutory reserve of DMG MORI AKTIENGESELLSCHAFT in an amount of € 680,530.

Retained earnings

Other retained earnings include prior-period profits generated by the companies included in the Consolidated Financial Statements as far as they were not distributed. Retained earnings also include the offset of liabilities-side differences from the consolidation of investments of those subsidiaries that were consolidated before 1 January 1995, and the adjustments directly in equity in accordance with the first application of IFRS rules. Additionally, this item contains the changes from the revaluation of defined benefit plans.

Other reserves

The other reserves contain the differences arising from foreign currency translation recognised directly in equity of international subsidiaries and the post-tax effects from the valuation of financial instruments recognised directly in equity. Deferred taxes recognised directly in equity in connection with the valuation of financial instruments recognised directly in equity amount to € 69 K as of 31 December 2017 (previous year: € 295 K).

A detailed overview on the composition of, or changes in, other reserves in the financial year 2017 and in the previous year is included in the "Development of group equity" statement.

Appropriation of profits

In accordance with the German Commercial Code (HGB), the Annual Financial Statements of DMG MORI AKTIENGESELLSCHAFT form the basis for the appropriation of profits of the financial year.

A domination and profit transfer agreement exists between DMG MORI GmbH and DMG MORI AKTIENGESELLSCHAFT, which was approved by the Annual General Meeting on 15 July 2016. The agreement entered into force on 24 August 2016, following entry into the commercial register.

The 2017 financial year of DMG MORI AKTIENGESELLSCHAFT closes with a result pre-profit transfer of € 89,865,287.53 (previous year: € 41,096,790.86). The entire profits will be transferred to DMG MORI GmbH. According to IFRS regulations, this is a transaction with equity providers.

As at 31 December 2017, no retained earnings as stipulated by the German Commercial Code is recognised by DMG MORI AKTIENGESELLSCHAFT. In the previous year, this amounted to € 1,477,895 and in the financial year, was accounted for in revenue reserves.

Non-controlling equity interests

Non-controlling equity interests include the minority interests in the consolidated equity of the companies included in the annual accounts and, as at 31 December 2017, amount to € 3,111 K (previous year: € 39,905 K). The change over the previous year mainly results from the sale of shares in subsidiaries and a joint venture in American and Asian territories to DMG MORI COMPANY LIMITED as of 1 January 2017.

CAPITAL MANAGEMENT DISCLOSURE

A strong equity capital base is an important pre-condition for the DMG MORI group in order to ensure the ongoing existence of the company. The Executive Board's goal is to maintain its strong capital base and improve its equity ratio in order to preserve the trust of investors, creditors and markets and to ensure the sustainable development of the company. The capital is regularly monitored on the basis of various key figures. The ratio of net indebtedness to balanced equity (gearing) and the equity ratio are key figures for this.

As a result of the domination and profit transfer agreement between DMG MORI GmbH and DMG MORI AKTIENGESELLSCHAFT, the company is no longer able to play an active role in structuring the equity base of the DMG MORI group via a dividend policy.

Surplus funds are determined as the sum of financial debt less cash and cash equivalents.

C.49

in € K	31 Dec 2017	31 Dec 2016
Cash and cash equivalents	363,405	396,725
Financial debt	46,490	54,618
Surplus funds	316,915	342,107
Total equity	1,164,618	1,187,663
Equity ratio	52.0%	50.8%
Gearing	–	–

Total equity is decreased in absolute terms by € 23,045 K. The equity ratio as of 31 December 2017 amounted to 52.0% (previous year: 50.8%).

31. PROVISIONS FOR PENSIONS

Pension provisions are set up for obligations arising from legal rights to future pension payments and from current pension payments to those active and former employees of companies within the DMG MORI group entitled to such, and to their surviving dependants. According to the respective legal, economic and tax conditions prevailing in each country, there are different forms of old age protection that are usually based among other things on the duration of employment and the employees' remuneration. In Germany the commitments are dependent upon wages or salary and are paid as a pension; there is no minimum guarantee.

Employee pension schemes are based as a rule either on defined contribution plans or defined benefit plans.

In the case of defined contribution plans the respective company does not assume any further obligations which go beyond the payment of contributions into an earmarked reserve fund. The associated expenses in the financial year 2017 amounted to € 2,693 K (previous year: € 4,533 K).

In the case of defined benefit plans, it is the company's obligation to pay the promised benefits to active and former employees, whereby a distinction is made between pension plans that are financed through provisions and those that are financed through a fund. In general, the pensions paid correspond to the promised benefits.

For domestic subsidiaries, besides current pension plans, there are no defined benefit plans for new employees. The employees of Swiss subsidiaries participate in defined benefit pension plans. In Switzerland, employers are obligated to give a minimum contribution to their employees' pension plans. In addition to this, there are no minimum guarantees. These plans burden the group with actuarial risks, such as risk of longevity, currency exchange risk, interest and market (investment) risk.

In the DMG MORI group, pension commitments are financed through transfer to provisions as well as plan assets. The investment strategy of the global pension assets is based on the goal of long-term assurance of pension payments. In Germany, plan assets comprise insurance contracts or contracts and are held by a legally separate and independent entity whose sole purpose is to hedge and finance employee benefit liabilities. In Switzerland, external plan assets are invested in a customary pension fund. Plan assets in Switzerland are subject to customary minimum funding requirements. The amount of the pension obligation (present value of future pension commitments or defined benefit obligation) was calculated on the basis of actuarial methods by estimating the relevant factors impacting the pension commitment. In Germany, the assumptions are based on the mortality table "Heubeck 2005G". In Switzerland, the mortality table is based on "BVG, Generationentafeln".

Along with the assumptions on life expectancy, the following premises for the parameters to be applied to the actuarial calculations in the reports were defined:

C.50	Germany	Rest of the world	Germany	Rest of the world
in %	2017	2017	2016	2016
Discount interest rate	1.19	0.59	1.26	0.62
Salary trend	0.00	1.20	0.00	1.00
Pension trend	2.00	0.00	2.00	0.00

The discount interest rate of the pension obligations for entitled active and former employees was determined on the basis of the yield which was achieved on the balance sheet date of high-quality, fixed-interest industrial bonds on the market.

The salary trend includes expected future increases in salary that are assessed annually and are subject to, amongst other things, inflation and the duration of employment at the company. A future rise in salaries of 1% has been recognised for companies in Switzerland. Since the pension commitments that were entered into at the national subsidiaries are not subject to future increases in salary, salary development was not taken into account when determining the relating company pension provisions.

Due to increases or reductions in the cash value of defined benefit obligations, actuarial gains or losses may arise, which may result, amongst others, from changes in the calculation parameters or changes in the risk development assessment relating to the pension commitments. The pension provisions net value can be derived from the following. [→ C.51]

The plan assets take into account on the one hand risk payments that depend on the insured salary. On the other hand, they include retirement benefits that are dependent on the accumulated retirement assets at the time of retirement. This comprises the following values. [→ C.52]

The calculation of the typological interest of the plan assets is made in the amount of the discount interest rate of the pension obligations at the beginning of the period. The actual expenses from plan assets amount to € 86 K (previous year return on plain assets: € 236 K).

Payments from insurance companies are accounted for as benefits received and the benefits actually granted are disclosed as benefits paid.

Pension provisions for former members of the Executive Board and their surviving dependants have been formed in the amount of € 34,829 K (previous year: € 35,330 K).

The following table shows the reconciliation of the opening balance to the final balance for the net debt (net assets) from the defined benefit pension plans and their components. [→ C.53]

Over the past five years, the funding status, consisting of the cash value of all pension commitments and the fair value of plan assets, has changed as follows. [→ C.54]

C.51		31 Dec 2017		31 Dec 2016	
in € K		Germany	Rest of the world	Germany	Rest of the world
	Cash value of pension commitments not financed by funds	35,364	1,179	36,840	2,347
+	Cash value of funded pension commitments	19,577	17,070	20,058	25,859
–	Current value of pension plan assets	-16,370	-12,240	-16,429	-19,803
=	**Net value of amounts shown in the balance sheet on the reporting date**	**38,571**	**6,009**	**40,469**	**8,403**
	of which pensions	44,580		47,574	
	of which assets (–)	0		0	
	of which, pursuant to IFRS 5, reclassification to "Liabilities in relation to assets held for sale"	0		1,298	

C.52	2017		2016	
	in € K	in %	in € K	in %
Listed on stock exchange				
Cash and cash equivalents	0	0.00	172	0.48
Shares	0	0.00	1,711	4.72
Bonds	0	0.00	3,835	10.59
Property	0	0.00	1,298	3.58
Not listed on stock exchange				
Qualifying insurance policies (life insurance)	16,370	57.22	18,378	50.72
Other	12,240	42.78	10,838	29.91
Total plan assets	**28,610**	**100.00**	**36,232**	**100.00**

Payments to beneficiaries from pension plans not financed by funds in 2018 are expected in an amount of € 3,096 K (previous year for 2017: € 2,575 K), while payments to funded pension plans in the financial year 2018 are estimated to amount to about € 641 K (previous year for 2017: € 1,003 K).

The average weighted duration of pension obligations in Germany is around twelve years and in Switzerland between nineteen and twenty years.

Key assumptions for calculating the pension obligation were based on sensitivity analyses. The discount factor and assumed value of wage trends were discounted or increased by a fixed percentage rate.

Under unchanged other assumptions, the changes that would reasonably have been possible at the balance sheet date in the event of a significant actuarial assumption would have impacted on the defined benefit obligation in the following amounts.

C.53	Defined benefit obligation				Fair value of plan assets				Net liability (net asset) from benefit-oriented plans			
	2017		2016		2017		2016		2017		2016	
in € K	Germany	Rest of the world	Germany	Rest of the world	Germany	Rest of the world	Germany	Rest of the world	Germany	Rest of the world	Germany	Rest of the world
As at 1 January	**56,898**	**28,206**	**50,266**	**25,146**	**-16,429**	**-19,803**	**-16,108**	**-18,518**	**40,469**	**8,403**	**34,158**	**6,628**
Included in profit and loss												
Current service cost	0	1,173	650	2,464	0	0	0	0	0	1,173	650	2,464
Retroactive service cost	393	-85	606	-175	0	0	0	0	393	-85	606	-175
Effects from compensations	0	0	0	-243	0	0	0	0	0	0	0	-243
Interest expense (income)	697	109	984	214	-203	-82	-322	-149	494	27	662	65
Exchange rate changes	0	-1,671	0	236	0	1,280	0	-161	0	-391	0	75
	1,090	**-474**	**2,240**	**2,496**	**-203**	**1,198**	**-322**	**-310**	**887**	**724**	**1,918**	**2,186**
Included in other comprehensive income Loss (profit) from remeasurements												
Actuarial losses (profits) from:												
– financial assumptions	473	-692	4,950	1,874	0	0	0	0	473	-692	4,950	1,874
– experience adjustments	-338	-1,081	2,455	-224	0	0	0	0	-338	-1,081	2,455	-224
– demographic adjustments	0	0	0	-2,173	0	0	0	0	0	0	0	-2,173
Effects on plan assets (excluding interest income)	0	0	0	0	-305	676	-373	608	-305	676	-373	608
	135	**-1,773**	**7,405**	**-523**	**-305**	**676**	**-373**	**608**	**-170**	**-1,097**	**7,032**	**85**
Other												
Contributions paid by the employees	0	0	0	0	-2,476	-1,301	-1,263	-1,244	-2,476	-1,301	-1,263	-1,244
Payments achieved	-3,182	-2,272	-3,013	-1,501	3,043	2,921	1,637	1,420	-139	649	-1,376	-81
Effects from compensations	0	0	0	-335	0	0	0	335	0	0	0	0
Other (derecognition of actuarial reserves for pensioners)	0	-3,621	0	0	0	3,621	0	0	0	0	0	0
Effects from business combinations / disposals / transfers	0	-1,817	0	2,923	0	448	0	-2,094	0	-1,369	0	829
	-3,182	-7,710	-3,013	1,087	567	5,689	374	-1,583	-2,615	-2,021	-2,639	-496
As at 31 December	**54,941**	**18,249**	**56,898**	**28,206**	**-16,370**	**-12,240**	**-16,429**	**-19,803**	**38,571**	**6,009**	**40,469**	**8,403**

C.54					
in € K	2017	2016	2015	2014	2013
Cash value of all pension commitments	73,190	85,104	75,412	69,692	57,900
Current value of the pension plan assets of all funds	-28,610	-36,232	-34,626	-21,887	-19,479
Funding status	44,580	48,872	40,786	47,805	38,421

The effects on the entitlement present value are as follows:

C.55	Effects on the entitlements per 31 Dec 2017	
	in € K	in %
Cash value of the entitlement obligations	**73,190**	
In the case of		
Reduction of the discount rate by 0.25%	75,667	3.38
Increase of the discount rate by 0.25%	71,359	-2.50
Reduction of the pension trend by 0.25%	71,568	-2.22
Increase of the pension trend by 0.25%	74,876	2.30

In the presented sensitivities, it should be taken into account that due to actuarial effects, the change as a percentage is not and/or does not have to be linear. Thus, increases and decreases in terms of per cent do not react with the same absolute amount. There are no demographic effects.

32. OTHER PROVISIONS

The following lists the major contents of provisions. [→ C.56]

Tax provisions include current taxes on income and earnings of € 8,218 K (previous year: € 41,860 K), risks from current external tax audits and other operating taxes, which have been accumulated for the reporting period and for previous years. It can be assumed that a significant part of the obligations will be fulfilled during the financial year. As of 1 January 2017, the decrease in tax provisions from the previous year is mainly attributable to the income tax group of DMG MORI GmbH and DMG MORI AKTIENGESELLSCHAFT, so that DMG MORI AKTIENGESELLSCHAFT is no longer a taxable entity.

Provisions for personnel expenses in the group include obligations for profit-sharing and staff bonuses of € 43,242 K (previous year: € 41,371 K), part-time retirement payments of € 2,762 K (previous year: € 2,871 K), holiday pay of € 15,761 K (previous year: € 14,858 K) and anniversary payments of € 10,364 K (previous year: € 9,956 K). Most of the provision should be paid in the coming year. The provisions for anniversary bonuses and part-time retirement are discounted and classified as liability at their present value. Obligations arising from part-time retirement are secured against potential insolvency through a mutual trust relationship. To secure the pension plan, cash assets are transferred into a trust property. The members of this trust property are domestic group companies. The assets are defined as "plan assets" in accordance with IAS 19.7 and balanced against the related provisions. Any proceeds arising from the pension plan assets are balanced against the related expenses. As of 31 December 2017, liquid assets of € 2,895 K (previous year: € 2,049 K) were transferred to the trust property.

Risks arising from warranties and retrofitting relate to present obligations to third parties, the use of which is probable and the anticipated amount of which can be reliably estimated. The measurement of provisions was carried out on the basis of previous experience, taking into account the conditions and taking into account conditions and potential price increases on the balance sheet date. The obligations from the sales area are included in the liabilities for commissions, contractual penalties and other liabilities. Most of the provision should be paid in the coming year.

Other provisions primarily include risks from legal disputes, obligations for commissioning to be carried out and other various services, for which uncertainties exist regarding dates and required future expenses and whose expected amounts can be reliably estimated. The risk from additional outflows exceeding these provisions is considered unlikely as at 31 December 2017. For the short-term provisions, it can be assumed that a significant part of the obligations will be fulfilled in financial year 2018.

The movement in the other provisions is illustrated in the breakdown of provisions. [→ C.57]

The other changes include currency adjustments and book transfers.

C.56	31 Dec 2017		31 Dec 2016	
in € K	Total	of which short-term	Total	of which short-term
Tax provisions	**15,174**	**15,174**	**49,889**	**49,889**
Obligations arising from personnel	99,288	76,009	97,833	72,137
Risks arising from warranties and retrofitting	39,786	32,578	35,663	29,601
Obligation arising from sales	35,859	33,835	33,822	32,935
Legal and consultancy fees and costs of preparation of accounts	4,449	4,449	5,394	5,394
Other	47,063	36,328	34,947	34,798
Other provisions	**226,445**	**183,199**	**207,659**	**174,865**
Total	**241,619**	**198,373**	**257,548**	**224,754**

C.57

in € K	1 Jan 2017	Transfers	Used	Retransfers	Change in the group of consolidated companies	Other Changes	31 Dec 2017
Tax provisions	**49,889**	**9,265**	**42,826**	**2,325**	**0**	**1,171**	**15,174**
Obligations arising from personnel	97,833	65,258	54,107	7,886	-1,147	-663	99,288
Risks arising from warranties and retrofitting	35,663	24,183	18,450	1,464	-30	-116	39,786
Obligation arising from sales	33,822	18,767	12,803	3,118	-579	-230	35,859
Legal and consultancy fees and costs of preparation of accounts	5,394	3,438	3,226	1,058	-14	-85	4,449
Other	34,947	30,122	11,992	6,253	39	200	47,063
Other provisions	**207,659**	**141,768**	**100,578**	**19,779**	**-1,731**	**-894**	**226,445**
Total	**257.548**	**151,033**	**143.404**	**22.104**	**-1.731**	**277**	**241,619**

Obligations arising from personnel include provisions for the long-term incentive, a remuneration component with a long-term incentive effect, totalling € 7,620 K (previous year: € 9,601 K). A detailed description of the long-term incentive can be found in the "Remuneration report" chapter of the Group Management Report on page 28.

33. FINANCIAL DEBTS

Details of short-term and long-term financial debts are listed in the following tables. [→ C.58 | 59]

Financial debts decreased in comparison with the previous year by € 8,128 K.

The short and medium term working capital requirements for DMG MORI AKTIENGESELLSCHAFT and, as part of the intra-group cash management system, for the majority of domestic subsidiaries are covered by operating cash flow as well as short-term and long-term financing. Approved credit lines amount to € 849.2 million (previous year: € 773.0 million). This mainly comprises a syndicated credit line amounting to € 500.0 million (previous year: € 500.0 million), guarantee credit lines amounting to € 138.7 million (previous year: € 53.2 million) and factoring agreements, another part of the financing mix, amounting to € 167.5 million as in the previous year.

In addition to the syndicated credit there are still some long-term loans and short-term bilateral financing commitments to individual subsidiaries of a total volume of € 43.1 million (previous year: € 52.3 million).

As of 31 December 2017, € 36.6 million (previous year: € 41.4 million) had been taken out in long-term loans. As of the reporting date, no short-term financing commitments had been used (previous year: € 3.6 million). As of 31 December 2017, the international share in liabilities to banks was about 98% (previous year: about 92%) in total. The average cost of borrowing amounts to 1.3% (previous year: 1.4%).

C.58

in € K	31 Dec 2017	of which due within 1 year	of which due within 1 to 5 year	of which due after 5 years
Bank loans and over drafts [1]	36,567	1,530	35,037	0
Discounted bills of exchange	9,923	9,923	0	0
	46,490	**11,453**	**35,037**	**0**

1) of which secured by mortgages: € 15,202 K

C.59

in € K	31 Dec 2016	of which due within 1 year	of which due within 1 to 5 year	of which due after 5 years
Bank loans and over drafts [1]	45,034	4,790	39,471	773
Discounted bills of exchange	9,584	9,584	0	0
	54,618	**14,374**	**39,471**	**773**

1) of which secured by mortgages: € 17,985 K

C.60	31 Dec 2017				31 Dec 2016			
	Currency	Book value	Remaining period in years	Effective interest rate	Currency	Book value	Remaining period in years	Effective interest rate
Loan	EUR	€ 673 K	up to 1	6.25%	EUR	€ 1,375 K	up to 10	3.54 – 6.25%
Loan	CHF	€ 35,894 K	up to 2	1.25 – 1.90%	CHF	€ 40,041 K	up to 3	1.25 – 1.90%
Overdrafts	various	€ 0 K			various	€ 3,618 K	up to 1	3.93 – 11.50%
		€ 36,567 K				**€ 45,034 K**		

Set out below are the major liabilities to credit institutions. [→ C.60]

From 31 Dec 2017, DMG MORI group has access to a syndicated credit line with a total volume of € 500.0 million and a five-year term (matures in February 2021). In January 2018, the maturity date of the syndicated credit line was extended to February 2022. It comprises a usable revolving cash tranche of € 200.0 million and a bank guarantee tranche of € 300.0 million. The syndicated loan agreement was concluded with an international bank syndicate at better terms and has an interest rate based on the current money market rate (1 to 6-month EURIBOR) plus a mark-up. This interest mark-up may change depending on group key figures. The syndicated credit line also requires the DMG MORI group to comply with a customary covenant, which specifies a defined financial ratio. The covenant was complied with as of 31 December 2017. The syndicated loan is classified as short-term as it can only be drawn down over a maximum period of six months. As in the previous year, it had not been used as of 31 December 2017.

For the financing of the syndicated credit line, the lending banks have completely waived the right to collateral. The companies DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, DMG MORI Spare Parts GmbH, Sauer GmbH, GILDEMEISTER energy solutions GmbH, GILDEMEISTER Partecipazioni S.r.l., FAMOT Pleszew Sp. z o.o., Graziano Tortona S.r.l. and GILDEMEISTER Italiana S.p.A. continue to be guarantors for the credit line.

As at the balance sheet date, open credit lines amounted to € 437.4 million (previous year: € 441.8 million). These comprise free cash lines of € 206.5 million (previous year: € 207.2 million) and additional open lines of credit (bank guarantees, bills of exchange, factoring) of € 230.9 million (previous year: € 234.6 million).

In addition to the granted mortgage, loans advanced by SAUER GmbH in the amount of € 673 K (previous year: € 849 K) had been secured by granting the banks fixed and floating charges over the fixed assets and current assets.

34. TRADE CREDITORS AND OTHER LONG-TERM LIABILITIES

Long-term financial liabilities are shown as follows:

C.61 in € K	31 Dec 2017	31 Dec 2016
Other long-term financial liabilities	9,505	1,590
Other long-term liabilities	3,856	4,012
	13,361	**5,602**

Other long-term financial liabilities include the following items:

C.62 in € K	31 Dec 2017	31 Dec 2016
Liabilities from finance lease arrangements	720	1,484
Debtors with credit balance	8	0
Other long-term financial liabilities	8,777	106
	9,505	**1,590**

Liabilities arising from finance leases amount to € 720 K (previous year: € 1,484 K) and show the discounted value of future payments from finance leases.

Other long-term financial liabilities include € 8,687 K in unpaid compensation from the sale of shares in REALIZER GmbH.

In other long-term financial liabilities, the fair value of long-term liabilities corresponds to the values shown on the balance sheet.

C.63 in € K	31 Dec 2017	31 Dec 2016
Deferred income	2,570	2,744
Tax liabilities	379	0
Liabilities relating to social insurance	188	244
Other long-term liabilities	719	1,024
	3,856	**4,012**

The deferred income accounted for in other long-term liabilities include the guaranteed investment grants from the funds of the joint aid programme "Improvement of the Regional Economic Structure" and investment subsidies and grants pursuant to the German Investment Subsidy Act in a total amount of € 2,570 K (previous year: € 2,744 K) as applied under IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance".

As in the previous year, no investment subsidies were paid in financial year 2017. Deferred income will be amortised in accordance with the depreciation procedure for subsidized capital assets and recognised in the income statement.

35. TRADE CREDITORS AND OTHER SHORT-TERM LIABILITIES

Short-term financial liabilities are shown as follows:

C.64

in € K	31 Dec 2017	31 Dec 2016
Trade creditors	169,759	236,024
Liabilities to at equity accounted companies	2,310	2,003
Liabilities to other related companies	207,132	273,326
Liabilities to associated companies	0	6
Other short-term financial liabilities	10,722	34,365
	389,923	**545,724**

Liabilities to other related companies arise from goods and services supplied as part of the business relationship to DMG MORI COMPANY LIMITED and its affiliated companies. These include liabilities to DMG MORI COMPANY LIMITED in an amount of € 93,724 K.The transfer of profits to DMG MORI GmbH resulted in a liability in the amount of € 89,865 K.

Other short-term financial liabilities are shown as follows:

C.65

in € K	31 Dec 2017	31 Dec 2016
Debtors with credit balance	3,355	3,406
Fair market values of derivative financial instruments	1,380	5,310
Liabilities from finance lease arrangements	694	901
Liabilities from factoring	47	12,472
Other short-term financial liabilities	5,246	12,276
	10,722	**34,365**

The fair value of derivative financial instruments involves the fair value for forward exchange transactions amounting to € 1,380 K (previous year: € 5,310 K), mainly in USD, GBP and JPY. Liabilities arising from finance leases amounted to € 694 K (previous year: € 901 K) and show the discounted value of future payments from finance leases. These are primarily liabilities arising from finance leases for technical equipment and machinery as well as office equipment.

Short-term liabilities arising from finance leases are recognised without consideration of future interest payable.

All future payments arising from finance leases amount to € 1,536 K (previous year: € 2,630 K).

Other financial liabilities include liabilities from bills of exchange amounting to € 1,252 K (previous year: € 8,332 K) and additionally € 1,500 K unpaid compensation from the sale of shares in REALIZER GmbH.

The minimum lease payments for the respective lease agreements are as follows:

C.66

in € K	31 Dec 2017	31 Dec 2016
TOTAL FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	756	1,041
Due within one and five years	780	1,589
Due in more than five years	0	0
	1,536	**2,630**
INTEREST PORTION INCLUDED IN MINIMUM LEASE PAYMENTS		
Due within one year	62	140
Due within one and five years	60	105
Due in more than five years	0	0
	122	**245**
NET PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	694	901
Due within one and five years	720	1,484
Due in more than five years	0	0
	1,414	**2,385**

During the 2017 financial year, DMG MORI group acted as a lessor in the context of finance lease contracts. The minimum lease payments for 2018 from these subleases amount to € 189 K; the payments due in the following years amount to € 349 K. These agreements mainly cover the leasing of machine tools.

As at 31 December 2017, the DMG MORI group was also the lessor for operating lease agreements. The minimum lease payments in 2018 from these subleases amount to € 73 K (previous year for 2017: € 307 K).

Other short-term liabilities include the following items:

C.67

in € K	31 Dec 2017	31 Dec 2016
Tax liabilities	28,796	26,008
Deferred income	10,719	7,805
Liabilities relating to social insurance	5,679	5,270
Payroll account liabilities	2,858	2,721
Other liabilities	687	965
	48,739	**42,769**

Tax liabilities refer to liabilities arising from value added tax amounting to € 11,888 K (previous year: € 12,051 K) as well as liabilities arising from wage and church tax in the amount of € 8,940 K (previous year: € 9,157 K).

36. LIABILITIES IN RELATION TO ASSETS HELD FOR SALE

Effective from 1 January 2017, the domination of shares in subsidiaries and a joint venture in the regions of the Americas and Asia was transferred to DMG MORI COMPANY LIMITED. The concerned subsidiaries (see details on page 107) were therefore recognised as a disposal group held for sale as of 31 December 2016. All assets and debts of these companies have been reclassified in the balance sheet item "Assets held for sale" or "Liabilities in relation to assets held for sale". The disposal group was recognised at its book value.

37. CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

No provisions were set up for the following contingent liabilities, as the risk of utilisation is considered relatively improbable:

C.68 | CONTINGENCIES

in € K	31 Dec 2017	31 Dec 2016
Guarantees	1,701	1,659
Warranties	1,177	93
Other contingencies	4,790	5,106
	7,668	**6,858**

The guarantees primarily include advance payment guarantees to foreign group companies. Other contingencies comprise, in particular, guarantees for framework agreements and contract performance guarantees.

During financial year 2017, the DMG MORI group concluded agreements for the purchase of property, plant and equipment in 2018 amounting to € 7,728 K.

Other financial obligations consist mainly of lease agreements and long-term tenancy agreements. In operating lease agreements, the beneficial owner of the leased items is the lessor, which means risks and rewards are borne by the lessor.

The total minimum lease payments from permanent tenancy and lease agreements are broken down below by due dates. The agreements have terms from two to thirty-three years and some include options to extend or purchase options:

C.69 | TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS

in € K	31 Dec 2017	31 Dec 2016
Due within one year	22,951	26,672
Due within one and five years	27,921	30,191
Due within more than five years	3,659	4,073
	54,531	**60,936**

Of which operating lease arrangements account for:

C.70 | TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS

in € K	31 Dec 2017	31 Dec 2016
Due within one year	22,195	25,631
Due within one and five years	27,141	28,602
Due within more than five years	3,659	4,073
	52,995	**58,306**

Operating lease agreements relating to the financing of buildings exist for DECKEL MAHO Pfronten GmbH in an amount of € 1.2 million and for FAMOT Pleszew Sp. z o.o., Pleszew (Poland) in an amount of € 2.4 million. The operating lease agreements for the buildings include a purchase option upon expiry of the basic rental period.

Other operating lease agreements exist for machines at DECKEL MAHO Pfronten GmbH in an amount of € 0.4 million. The agreements contain purchase options upon expiry of the basic rental period.

At other group companies, leasing agreements exist, especially for vehicle fleets, for a total of € 24.5 million. Moreover, leasing agreements have been concluded for machines and other plant, factory and business equipment. Some of the agreements contain purchase options upon expiry of the basic rental period. The operating lease agreements have a minimum term of between two and ten years.

There are no permanent sub-tenancy agreements to be included in the sum of future minimum lease payments. There are no contingent rental payments to be recognised in the income statement.

38. FINANCIAL INSTRUMENTS

At the balance sheet date, forward exchange contracts were held by the DMG MORI group primarily in USD, CHF, GPB, JPY and PLN. The nominal and fair values of derivative financial instruments existing at the balance sheet date are set out below. [→ C.71]

The nominal values correspond to the sum of all unbalanced purchase and sales amounts from derivative financial transactions. The fair market values recognised constitute the price at which, as a rule, third parties would assume the rights or obligations arising from the financial instruments as of the balance sheet date. It cannot generally be assumed that this assessed value may actually be achieved upon liquidation. The fair market values are the current values of the derivative financial instruments excluding any adverse trends in value from underlying transactions.

The fair values of forward exchange contracts are recognised in the balance sheet as other long-term or short-term financial assets or other long-term and short-term financial liabilities.

At the close of the reporting period, the DMG MORI group also held forward exchange contracts for trading purposes, which, although they do not meet the strict requirements of hedge accounting pursuant to IAS 39, make an effective contribution to the securing of financial risks in accordance with the principles of risk management. For the hedging of currency risks recognised as monetary assets and liabilities, the DMG MORI group does not use hedge accounting pursuant to IAS 39 in these cases, as the gains and losses on the underlying transaction from currency translation that are recognised in profit or loss in accordance with IAS 21 are shown in the income statement together with the gains and losses on the derivatives used as hedging instruments. In the event that third parties do not fulfil their obligations arising from forward exchange contracts, as at the reporting date, the DMG MORI group had a deficit risk amounting to € 721 K (previous year: € 913 K).

As of the balance sheet date, existing forward exchange transactions in cash flow hedges with a nominal volume of € 25,214 K have a residual term of up to one year (previous year: € 55,560 K). The cash flows from these forward exchange transactions will eventuate within the next twelve months. For the most part, it must be assumed that these will be recognised as income in the profit and loss statement within the next twelve months. As of the balance sheet date, forward exchange contracts to cash flow hedges with a nominal volume of € 461 K had a remaining term of over one year (previous year: forward exchange contracts held for trading purposes € 761 K).

In financial year 2017, expenses arising from the fair value recognition of financial instruments attributable to cash flow hedges in an amount of € 233 K (previous year: € 991 K) were allocated to equity and not recognised in the income statement and an amount of € 991 K (previous year: € 197 K) was removed from equity and recognised as an expense (previous year: expense) in profit or loss for the reporting period. Forward exchange transactions were recognised in the income statement as exchange rate and currency profits or exchange rate and currency losses. As in the previous year, forward exchange transactions during the financial year resulted in insignificant ineffectivenesses.

C.71

in € K	31 Dec 2017 Nominal value	31 Dec 2017 Asset	31 Dec 2017 Debt	31 Dec 2017 Fair market value Total	31 Dec 2016 Nominal value	31 Dec 2016 Fair market value Total
Forward exchange contracts as cash flow hedges	25,675	110	342	-232	55,560	-957
Forward exchange contracts held for trading purposes	172,741	611	1,038	-427	155,692	-3,440
	198,416	**721**	**1,380**	**-659**	**211,252**	**-4,397**

The group concluded derivative transactions pursuant to global netting agreements (framework agreement) of the "International Swaps and Derivative Association" (ISDA) and other corresponding national framework agreements. In these netting agreements, the right to settle net is contingent upon future events, such as default or bankruptcy of the group or its rivals. The netting agreements thus do not fulfil the offsetting criteria of IAS 32.

The following tables provide an overview of financial assets and financial liabilities, which are subject to netting agreements or similar agreements. [→ C.72 | 73]

39. RISKS FROM FINANCIAL INSTRUMENTS

Risks from financial instruments

Currency and interest rate fluctuations can lead to considerable profit and cash flow risks. For this reason, the DMG MORI group centralizes these risks as far as possible and manages them with a view to the future and by using derivative financial instruments. Risk management is based on guidelines that apply throughout the group and in which objectives, principles, responsibilities and competencies are defined. Further information on the risk management system is presented in detail in the Management Report on page 64 et seq. in the risk and opportunity report.

Currency risks

In its global business activities, the DMG MORI group is exposed of currency risks. Transaction risks arise through changes in the value of future foreign currency payments due to exchange rate fluctuations in the individual financial statements. In the DMG MORI group, both purchases and sales are made in foreign currencies. To hedge currency risks arising from these activities within the DMG MORI group, forward exchange transactions are used. Derivative financial instruments are concluded and handled, based on binding internal guidelines defining scope, responsibilities, reporting and controls.

The group hedges at least 90% of its estimated foreign exchange risks from contracted orders and expected acquisitions and disposals over the next 12 months. To hedge against the foreign exchange risk, forward exchange transactions with a maturity of less than one year from the date of the financial statement are used predominantly. Hedging transactions are only permitted with specified counterparties.

The DMG MORI group determines foreign currency sensitivity through aggregating all foreign currency items that are not represented in the functional currency of the respective company and sets these against hedging. The fair values of the basic items and hedges included are measured once at the actual exchange rates and once using sensitivity rates. The difference between the two values represents the effects on equity and earnings.

The following table shows the net currency risk from transactions in € K for major currencies as at 31 December 2017 and 2016. [→ C.74]

C.72

in € K	Gross amounts of financial instruments in the balance sheet 31 Dec 2017	Potential off setting assets subject to global netting agreements 31 Dec 2017	Net amount 31 Dec 2017
Financial assets			
Forward exchange contracts	721	721	0
Financial liabilities			
Forward exchange contracts	1,380	721	659

C.73

in € K	Gross amounts of financial instruments in the balance sheet 31 Dec 2016	Potential off setting assets subject to global netting agreements 31 Dec 2016	Net amount 31 Dec 2016
Financial assets			
Forward exchange contracts	913	913	0
Financial liabilities			
Forward exchange contracts	5,310	913	4,397

C.74	31 Dec 2017			31 Dec 2016		
in € K	USD	JPY	GBP	USD	JPY	GBP
Currency risk from balance sheet items	7,682	-1,791	3,168	45,446	-12,010	15,160
Currency risk from pending transactions	9,394	-6,872	5,375	22,187	936	11,493
Transaction-related currency items	17,076	-8,663	8,543	67,633	-11,074	26,653
Financially hedged item through derivatives	-16,226	8,165	-8,358	-66,633	12,011	-25,404
Open currency items	850	-498	185	1,000	937	1,249

C.75	Profit or loss		Net equity	
in € K	Increase	Decrease	Increase	Decrease
31 December 2017				
USD (10% change)	6,665	-6,665	644	-644
JPY (10% change)	2,550	-2,550	-793	793
GBP (10% change)	-239	239	475	-475
RUB (10% change)	876	-876	151	-151
	9,852	**-9,852**	**477**	**-477**
31 December 2016				
USD (10% change)	-1,635	1,635	-517	517
JPY (10% change)	-735	735	0	0
GBP (10% change)	1,778	-1,778	915	-915
RUB (10% change)	-176	176	-187	187
	-768	**768**	**211**	**-211**

The following table presents the possible impact from financial instruments on the reserve for derivatives or the other reserves in equity as well as the impact on earnings as of 31 December 2017 or 31 December 2016. The reserve for derivatives or the other reserves in equity and the fair value of forward exchange transactions with a hedge relationship would have been € 477 K higher (lower) (previous year: € 211 K higher (lower)), in the case the Euro had appreciated (depreciated) against the other significant currencies USD, JPY, GBP and RUB by 10%. The results and fair value of forward exchange transactions without a hedging relationship would have been € 9,852 K higher (lower) (previous year: € 768 K lower (higher)). [→ C.75]

Interest rate risks

Interest rate risks include any potential positive or negative impact of interest rate changes on earnings, equity or cash flow during the current or any future reporting periods. At the DMG MORI group, interest rate risks are essentially related to financial assets and debts. The entire Executive Board will decide in each individual case on whether interest rate risks will be hedged using interest rate hedging instruments on the basis of a proposal drafted by the Board's Chief Financial Officer.

As of 31 December 2017, the DMG MORI group has no net deficit, so that interest rate increases would present an opportunity for higher interest income. As in the previous year, a 1% increase in interest rates pertaining to the portfolio at the reporting date would result in an increase in interest income of € 2.5 million analogue to the previous year. In the event of a further reduction in the level of interest rates, we only expect an effect of five base points on the inventory at the balance sheet date; the interest income would then decrease by € 106 K (previous year: € 186 K). As in the previous year, there would be no impact on equity. The following table shows the nominal volumes of fixed and variable rate financial instruments:

C.76	Nominal volume	
in € K	31 Dec 2017	31 Dec 2016
Fixed-rate instruments		
Financial assets	153,619	141,432
Financial liabilities	-36,567	-41,173
	117,052	**100,259**
Variable-rated instruments		
Financial assets	329,786	375,293
Financial liabilities	-118,555	-148,288
	211,231	**227,905**

Fixed interest rates have been mainly agreed for financial assets and liabilities bearing interest. Changes in the interest rate would only have an effect if these financial instruments were recognised at their fair value. As this is not the case, fixed-rate instruments are not subject to interest-change risks as defined by IFRS 7. The fair value of forward exchange contracts is not altered significantly by changes in the interest rate.

The interest sensitivities are shown below:

C.77	Profit or loss	
in € K	Increase by 100 basis points	Decrease by 5 basis points
31 December 2017		
Variable-rate instruments	2,112	-106
Profit sensitivity (net)	**2,112**	**-106**
31 December 2016		
Variable-rate instruments	2,270	-186
Profit sensitivity (net)	**2,270**	**-186**

Liquidity risks

Liquidity risk is the risk that the DMG MORI group may not be able to meet its financial obligations. Cash outflows result primarily from financing working capital, capital investments and covering the financial requirements of sales financing. The management is regularly informed about cash inflows and outflows as well as about financing sources. The liquidity risk is mitigated by creating the necessary financial flexibility within the scope of existing financing operations and through effective cash management. Liquidity risk at the DMG MORI group is governed by financial planning over twelve months. This makes it possible to finance predictable deficits under normal market conditions at standard market terms. On the basis of current liquidity planning, no liquidity risks are identifiable at present. As a liquidity precaution, the group has a syndicated loan facility of € 500.0 million with various banks as well as bilateral credit commitment of € 43.1 million (previous year: € 52.3 million). The syndicated credit line was obtained in February 2016 and has a term of five years. In January 2018, the maturity date of the syndicated credit line was extended to February 2022. Loan facilities have not been cancelled either in financial year 2017 or in the previous year. The financing agreements for the syndicated loan obligate the DMG MORI group to comply with customary covenants. We complied with the covenant as of 31 December 2017.

As of 31 December 2017, DMG MORI group has access to cash and cash equivalents amounting to € 363.4 million (previous year: € 396.7 million) and available lines of credit in the amount of € 206.5 million (previous year: 207.2 million) and additional available credit lines (guarantees, bills of exchange and factoring) in the amount of € 230.9 million (previous year: € 234.6 million).

The following table shows contractually agreed (non-discounted) interest and repayments of original financial liabilities as well as of the derivative financial instruments with negative fair values. [→ C.78 | 79]

This includes all instruments that were held as at 31 December 2017 and 31 December 2016 respectively, and for which payments have been contractually agreed. Forecast figures for future new liabilities have not been included. Amounts in foreign currencies were translated at the exchange rate on the reporting date. The variable interest payments for financial instruments were determined on the basis of the last fixed interest rate before 31 December 2017 and 31 December 2016 respectively. Financial liabilities that can be repaid at any time are always allocated to the earliest possible date. For the proportion of the financial assets from derivatives in the amount of € 110 K (previous year: € 285 K) as well as the proportion of liabilities from derivatives in the amount of € 342 K (previous year: € 1,242 K), which have been classified as cash flow hedges, it must be assumed that they will be recognised in the income statement in the next twelve months and thus will affect net income.

Credit risks

A credit risk is the unexpected loss of payment funds or income. Such a credit risk occurs if the customer is not able to meet his obligations within the due date. The objective of the company is to mitigate or avoid these credit risks. Receivables management with global guidelines and regular analysis of the age structure of trade debtors ensures the continuous monitoring and mitigation of risks and, in this way, minimizes losses from receivables. Due to the broad business structure within the DMG MORI group, there is no particular concentration of credit risks, either for customers or individual countries. The DMG MORI group is generally exposed to default risks which may cause impairments or in individual cases even bad debt. Bad debts within the group have historically been around 1% of receivables. In the financial year, expenses for the complete write down of receivables totalled € 4,075 K (previous year: € 3,112 K). Further details on financial risk assessment can be found in the section "Risk and Opportunity Report".

Within the DMG MORI group, cash deposits are managed and coordinated centrally by DMG MORI AKTIENGESELLSCHAFT. Financial contracts are only entered into with banks that have been carefully selected by us. We monitor credit rating (external rating) on a regular basis; cash deposits are distributed at different banks, mainly our syndicated banks. With respect to derivative financial instruments, the DMG MORI group is exposed to a credit risk arising from the non-performance of contractual agreements by the other party to the agreement. This credit risk is only mitigated by entering into transactions with parties with good credit ratings. Pursuant to IFRS 7.36, the carrying amount of the financial assets represents the maximum credit risk. The maximum credit risk as of the balance sheet date is € 903,690 K (previous year: € 855,450 K).

No securities received or other credit enhancements existed in the financial year or previous year.

40. OTHER DISCLOSURES ON FINANCIAL INSTRUMENTS

The carrying amounts of the financial instruments are shown in the following table by measurement category. The item financial investments includes interests classified as "available for sale". The trade debtors include receivables from third parties, other related companies, at equity-accounted companies and joint ventures. Other receivables are shown separately.

The same disclosure applies to trade creditors (see page 136 and 137). Details of other financial assets and liabilities are shown on the tables on page 125 and 127 as well as 136 and 137.

C.78		Cash flows 2018		Cash flows 2019 – 2022		Cash flows 2023 et seq.	
in € K	Book value 31 Dec 2017	Interest	Repayment	Interest	Repayment	Interest	Repayment
Liabilities to banks	36,567	576	1,530	519	35,037	0	0
Liabilities arising from leases	1,414	62	694	60	720	0	0
Discounted customers' bills	9,923	0	9,923	0	0	0	0
Trade creditors	379,201	0	379,201	0	0	0	0
Other financial liabilities	17,433	0	8,648	0	8,764	0	21
Subtotal	**444,538**	**638**	**399,996**	**579**	**44,521**	**0**	**21**
Liabilities from derivatives	1,380	0	1,380	0	0	0	0
	445,918	**638**	**401,376**	**579**	**44,521**	**0**	**21**

C.79		Cash flows 2017		Cash flows 2018 – 2021		Cash flows 2022 et seq.	
in € K	Book value 31 Dec 2016	Interest	Repayment	Interest	Repayment	Interest	Repayment
Liabilities to banks	45,034	779	4,790	1,374	39,470	192	774
Liabilities arising from leases	2,385	140	901	105	1,484	0	0
Discounted customers' bills	9,584	0	9,584	0	0	0	0
Trade creditors	511,359	0	511,359	0	0	0	0
Other financial liabilities	28,260	0	28,154	0	68	0	38
Subtotal	**596,622**	**919**	**554,788**	**1,479**	**41,022**	**192**	**812**
Liabilities from derivatives	5,310	0	5,310	0	0	0	0
	601,932	**919**	**560,098**	**1,479**	**41,022**	**192**	**812**

C.80		Valuation in accordance IAS 39			
in € K	Carrying amount 31 Dec 2017	Amortised cost	Fair value recognised in equity	Fair value through profit and loss	Fair value at 31 Dec 2017
Assets					
Financial assets	2,107	2,107			n/a
Cash and cash equivalents	363,405	363,405			363,405
Trade debtors	319,815	319,815			319,815
Other receivables	141,800	141,800			141,800
Factoring receivables	8,945	8,945			8,945
Other financial assets	65,804	65,804			65,804
Other financial assets in the category					
Available for sale	3,200		3,200		3,200
Derivative financial assets					
Derivatives without hedge relation	611			611	611
Derivatives with hedge relation	110		110		110
Equity and Liabilities					
Liabilities to banks	36,567	36,567			37,187
Discounted customers' bills	9,923	9,923			9,923
Trade creditors	379,201	379,201			379,201
Factoring liabilities	47	47			47
Liabilities from finance leases	1,414	1,414			1,414
Other financial liabilities	17,386	17,386			17,386
Derivative financial liabilities					
Derivatives without hedge relation	1,038			1,038	1,038
Derivatives with hedge relation	342		342		342
Of which aggregated in measurement categories acc. to IAS 39:					
Loans and receivables	899,769	899,769			899,769
Assets in the category					
available for sale	5,307	2,107	3,200		3,200
Derivatives held for trading	611			611	611
Derivatives in cash flow hedge	110		110		110
Liabilities in the category					
measured at amortised cost	444,538	444,538			445,158
Derivatives held for trading	1,038			1,038	1,038
Derivatives in cash flow hedge	342		342		342

	Valuation in accordance IAS 39				
	Carrying amount 31 Dec 2016	Amortised cost	Fair value recognised in equity	Fair value through profit and loss	Fair value at 31 Dec 2016
	21,415	21,415			n / a
	396,725	396,725			396,725
	246,284	246,284			246,284
	120,000	120,000			120,000
	14,075	14,075			14,075
	53,033	53,033			53,033
	3,005		3,005		3,005
	628			628	628
	285		285		285
	45,034	45,034			46,171
	9,584	9,584			9,584
	511,359	511,359			511,359
	12,472	12,472			12,472
	2,385	2,385			2,385
	15,788	15,788			15,788
	4,069			4,069	4,069
	1,242		1,242		1,242
	830,117	830,117			830,117
	24,420	21,415	3,005		3,005
	628			628	628
	285		285		285
	596,622	596,622			597,758
	4,069			4,069	4,069
	1,242		1,242		1,242

For financial instruments accounted at fair value, the fair value is always determined from stock market prices. If stock market prices are not available, this is measured by applying standard economic methods (measurement methods), taking instrument-specific market parameters as a basis.

Fair value is determined using the discounted cash flow method, where individual credit ratings and other market circumstances in the form of standard market credit or solvency spreads are taken into account in the cash value assessment.

Financial assets are measured at fair value or acquisition cost (if applicable, taking impairments into account).

The other financial assets include the purchase price for an option on the purchase of shares in a company operating a solar park. The valuation model takes into account the cash value of expected payments, discounted at the risk-adjusted discount rate (WACC). The expected payments are determined by taking into account the possible scenarios for planned sales revenues (as a function of the market prices for electricity) and EBIT. The essential, non-observable input factors for 2017 are the risk-adjusted discount rate of 4.60% (previous year: 4.99%) and the annually expected sales revenues (between € 700 K and € 925 K) as a function of the market prices for electricity and the productivity (output). The estimated fair value would increase (decrease), if the annual sales revenues (as a function of the market prices) were to increase (decrease); if the risk-adjusted discount rate was lower (higher); if the degradation was lower (higher).

No liquid markets exist for loans and receivables, which are measured at amortised costs. For short-term loans and receivables, it is assumed that the fair value corresponds to the carrying amount. All other loans and receivables are assessed at fair value through the deduction of accrued interest on future expected cash flows. Thus, the interest rates applied to loans are the same as those used for new loans with a similar risk structure, original currency and term.

Trade creditors and other short-term financial liabilities generally have a maturity of less than one year, so that the carrying amount corresponds approximately to the fair value.

For liabilities to banks and other long-term liabilities, the fair values are determined as present values of the liability payments based on market interest rates and risk surcharge.

Fair Value Hierarchy

As of 31 December 2017, the group held the financial assets and liabilities presented in the following table and measured at fair value.

The measurement and disclosure of the fair value of financial instruments is based on a fair value hierarchy, which takes into account the significance of the input data used in the measurement and is broken down as follows:

Level 1: Quoted prices (adopted unadjusted) in active markets for identical financial assets and liabilities;

Level 2: Input data other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: Input data used for measuring the asset or liability data not based on observable market data (unobservable input data). [→ C.81]

C.81	31 Dec 2017			31 Dec 2016		
in € K	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial assets						
Measured at fair value						
Other financial assets			3,200			3,005
Derivative financial instruments with hedge relation (not affecting net income)		110			285	
Derivative financial instruments without hedge relation (affecting net income)		611			628	
Financial Liabilities						
Measured at fair value						
Liabilities to banks		37,187			46,171	
Derivatives with hedge relationship (not affecting net income)		342			1,242	
Derivatives without hedge relationship (affecting net income)		1,038			4,069	

In the financial year, no reclassification was made between Levels 1 and 2 in the measurement of fair value and no reclassification was made on or from Level 3 with respect to the measurement of fair value. Analogous to the previous year, other financial assets include the purchase price for acquiring a share purchase option. The carrying amount was € 3,200 K (previous year: € 3,005 K). In the financial year, a net change of € 195 K in the fair value is recognised. The group has classified the option as available for sale and allocated it to Level 3 (refer to page 146 for information on the valuation method). A change considered possible for one of the essential, non-observable input factors would, with the other input factors remaining unchanged, result in the following changes for the fair value of the option. [→ C.82 | 83]

The net results of the financial instruments are shown below by valuation categories. [→ C.84 | 85]

Interests from financial instruments are recognised in interest results.

Value adjustments on trade debtors is recognised in other operating expenses. Interest results from financial liabilities in the valuation category "liabilities valued at amortised cost" result essentially from interest expenses for liabilities to banks.

C.82 | PROFIT OR LOSS

in € K	Increase	Decrease
31 December 2017		
WACC (1.00% change)	-519	630
Degradation (0.50% change)	-315	328
Market price for electricity (0.50% change)	303	-276

C.83 | PROFIT OR LOSS

in € K	Increase	Decrease
31 December 2016		
WACC (1.00% change)	-482	594
Degradation (0.50% change)	-316	338
Market price for electricity (1.00% change)	600	-493

C.84

	From interest	From subsequent measurement			From disposal	2017
in € K		At fair value	Foreign currency translation	Value adjustment		
Loans and receivables	3,597	0	10,517	-5,214	363	9,263
Assets in the category						
available for sale	0	195	0	0	-15	180
held for trading	0	-17	0	0	0	-17
Liabilities in the category						
valued at amortised cost	-6,283	0	-14,180	0	0	-20,463
held for trading	0	3,031	0	0	0	3,031
Total	**-2,686**	**3,209**	**-3,663**	**-5,214**	**348**	**-8,006**

C.85

	From interest	From subsequent measurement			From disposal	2016
in € K		At fair value	Foreign currency translation	Value adjustment		
Loans and receivables	1,104	0	15,526	-5,319	685	11,996
Assets in the category						
held for trading	0	-611	0	0	0	-611
Liabilities in the category						
valued at amortised cost	-6,941	0	-12,332	0	0	-19,273
held for trading	0	-2,053	0	0	0	-2,053
Total	**-5,837**	**-2,664**	**3,194**	**-5,319**	**685**	**-9,941**

NOTES ON THE CASH FLOW STATEMENT

41. CASH FLOW STATEMENT

The statement of cash flows pursuant to IAS 7 "Statements of Cash Flows" records the payment flow in a financial year and provides information on the inflow and outflow of the company's liquid funds. The payment flows are broken down into cash flow from current operations and cash flow from investment and financing activities.

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

The cash flow from current operations was calculated using the indirect method through adjusting earnings before tax for changes in inventories, trade debtors and creditors, non-cash items and all other items showing cash flows in the investment or financing areas.

The cash flows from investment and financing activities were each calculated in terms of actual sums paid. Effects from foreign currency translation and changes in the consolidated group were adjusted accordingly. Investment transactions for finance lease agreements that did not lead to a change in payment method did not occur in financial year 2017, nor in the previous year.

The table below shows the reconciliation of the change in liabilities from financing activities with cash flow from financing activities. [→ C.86]

Other changes in liabilities to related companies are mainly attributable to unpaid profit transfer to DMG MORI GmbH for financial year 2017 (€ 89,865 K) and the tax debited (€ 30,017 K) by DMG MORI GmbH as a result of the tax allocation agreement. The other change (€ 21,953 K) was due to the increase in other related companies from operating activities.

The profit and loss transfer to DMG MORI GmbH for financial year 2016 resulted in a cash outflow of € 41,097 K in 2017, recognised in cash flow from financing activities.

The profit and loss transfer to DMG MORI GmbH for financial year 2017 in an amount of € 89,865 K did not result in a cash outflow in 2017.

In 2016, DMG MORI acquired the shares in MORI SEIKI International SA from DMG MORI COMPANY LIMITED. The purchase price for the acquisition of the shares in the amount of € 12,847 K was paid in 2017 and recognised in cash flow from investment activities.

In 2016, DMG MORI acquired the shares in MORI SEIKI Europe AG from DMG MORI COMPANY LIMITED. The purchase price for the acquisition of the shares in the amount of € 6,407 K was paid in 2017 and recognised in cash flow from investment activities.

C.86

in € K	Liabilities to banks	Liabilities from financial leasing arrangements	Liabilities to other related companies	Non-controlling interests	Total
As at 1 January 2017	45,034	2,385	273,326	39,905	360,650
Changes in cash flow from financing activities					
Deposits / payments for borrowings / for repayment of financial debts	-5,161	-971			-6,132
Transfer of profit to DMG MORI GmbH			-41,097		-41,097
Payments from changes in interests in subsidiaries			-140,356	-3,070	-143,426
Total changes in cash flow from financing activities	**-5,161**	**-971**	**-181,453**	**-3,070**	**-190,655**
Changes from the acquisition or loss of control of subsidiaries	61		-19,405	-31,836	-51,180
Effects of changes in foreign exchange rates	-3,367		-7,171	766	-9,772
Other changes			141,835	-2,654	139,181
As at 31 December 2017	**36,567**	**1,414**	**207,132**	**3,111**	**248,224**

The purchase price for acquisition of the 40% non-controlling interest in DMG MORI Europe AG in 2016 in the amount of € 140,356 K was paid in 2017 and recognised in cash flow from financing activities.

The sale of shares in DMG MORI Microset GmbH in 2016 resulted in a cash inflow of € 1,000 K in 2017, recognised in cash flow from investment activities.

In the reporting year, DMG MORI acquired a 50.1% interest in REALIZER GmbH. The purchase price for the acquisition of the shares amounted to € 14,687 K (for 100% interest), of which € 4,500 K was paid in 2017. A cash amount of € 45 K was acquired and recognised in cash flow from investment activities.

In the reporting year, DMG MORI acquired a 100% interest in WERKBLiQ GmbH. The purchase price for the acquisition of the shares in the amount of € 685 K was paid in 2017. A cash amount of € 596 K was acquired and recognised in cash flow from investment activities.

In the reporting year, DMG MORI sold its interest in DMG MORI Systems GmbH to a strategic investor. The purchase price of € 295 K resulted in a cash inflow in 2017. A cash amount of € 1 K was also transferred and recognised in cash flow from investment activities.

In the reporting year, DMG MORI sold its interest in Gildemeister a+f components GmbH to a strategic investor. The purchase price of € 25 K resulted in a cash inflow in 2017. A cash amount of € 23 K was transferred and recognised in cash flow from investment activities.

In the reporting year, DMG MORI sold the shares in the following companies to DMG MORI COMPANY LIMITED:

- DMG MORI SEIKI CANADA INC. (including DMG MORI CANADA INC.),
- DMG MORI BRASIL Comercio de Equipamentos Industriais Ltda.,
- DMG MORI KOREA Co., Ltd.,
- DMG MORI Australia Pty. Ltd.,
- DMG MORI Taiwan Co. Ltd.,
- DMG MORI Singapore Pte. Ltd.,
- DMG MORI MALAYSIA SDN. BHD.,
- DMG MORI Vietnam Co. Ltd.,
- DMG MORI MEXICO S.A. de C.V.

The purchase price was paid in 2017 in an amount of € 50,657 K and was recognised in cash flow from investment activities. As part of the sale of DMG MORI BRASIL Comercio de Equipamentos Industriais Ltda., a capital increase was implemented, resulting in a cash outflow of € 8,231 K. This cash outflow was also recognised in cash flow from investment activities.

The interests in the project companies Cucinella S.r.l., Winch Pugglia Foggia S.r.l. and Rena Energy S.r.l. were sold to a strategic investor. The purchase price amounted to € 1,474 K and resulted in a cash inflow in 2017. This was recognised in cash flow from investment activities.

In the reporting year, DMG MORI acquired a 20% interest in ADAMOS GmbH. The purchase price of € 2,000 K resulted in a cash outflow in 2017 and was recognised in cash flow from investment activities.

The 50% interest in DMG MORI HEITEC GmbH resulted in a cash outflow of € 50 K in 2017 and was recognised in cash flow from investment activities.

The purchase price for the acquisition of a 10% non-controlling interest in DMG MORI Rus ooo in an amount of € 3,120 K was paid in 2017 and recognised in cash flow from financing activities.

The sale of a 15% interest in ISTOS GmbH resulted in a cash inflow of € 50 K, recognised in cash flow from financing activities.

The sale of a 19% interest in DMG MORI Manufacturing USA, Inc. to DMG MORI COMPANY LIMITED at a purchase price of € 21,400 K did not result in any cash inflow in 2017. The purchase price is to be paid in 2018.

DMG MORI AKTIENGESELLSCHAFT granted a loan to DMG MORI GmbH in the amount of € 120,000 K in financial year 2016. In the previous year, the disbursement of the loan was reported under cash flow from investment activities.

Joint ventures are accounted for at equity in the group consolidated financial statements and thus only have an impact on cash flows, if dividends are paid.

NOTES ON SEGMENT REPORTING

42. EXPLANATORY NOTES ON THE SEGMENTS

Within the scope of segment reporting, pursuant to the IFRS 8 regulations, the business activities of the DMG MORI group are categorized into the business segments of "Machine Tools", "Industrial Services" and "Corporate Services". Essential in the differentiation between the business segments is the information that the so-called "chief decision-maker" is regularly provided with for the purposes of decision-making on the allocation of resources and the evaluation of profitability. The segment differentiation follows internal management and reporting on the basis of the different products and services. The key performance indicators for evaluating profitability of each business segment are the sales revenues and EBT.

A tabular presentation as part of the notes can be found on page 90 et seq.

The **Machine Tools** segment includes the group's new machine business and consists of the Turning, Milling, Advanced Technologies (ULTRASONIC / LASERTEC / ADDITIVE MANUFACTURING) as well as Digital Solutions (previously Software Solutions). The rise in importance and expansion of our digital competences are reflected in the renaming of this business area.

The "Machine Tools" segment includes the lathes and turning centres of

› GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
› GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy,
› GRAZIANO Tortona S.r.l., Tortona, Italy,
› FAMOT Pleszew Sp. z o.o., Pleszew, Poland,
› DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co. Ltd., Shanghai, China,
› Ulyanovsk Machine Tools ooo, Ulyanovsk, Russia,

the milling machines and machining centres of

› DECKEL MAHO Pfronten GmbH, Pfronten,
› DECKEL MAHO Seebach GmbH, Seebach,
› FAMOT Pleszew Sp. z o.o., Pleszew, Poland,
› DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co. Ltd., Shanghai, China,
› Ulyanovsk Machine Tools ooo, Ulyanovsk, Russia,

the ultrasonic and laser machines of Advanced Technologies

› SAUER GmbH, Idar-Oberstein / Kempten,
› REALIZER GmbH, Borchen,

and the products of

› DMG MORI Software Solutions GmbH, Pfronten,
› ISTOS GmbH, Bielefeld,
› WERKBLiQ GmbH, Bielefeld.

All machines produced are classified as cutting machine tools, and all business segments are highly concurrent with each other. GILDEMEISTER Beteiligungen GmbH as the parent company of all production plants, and along with GILDEMEISTER Partecipazioni S.r.l., Brembate di Sopra (Italy), is also part of this segment. Additionally, the group's uniform IT is concentrated here.

In February 2017, GILDEMEISTER Beteiligungen GmbH acquired a 50.1% interest in REALIZER GmbH, Borchen and in September 2017, it acquired a 100% interest in WERKBLiQ GmbH, Bielefeld. Both companies are allocated to the "Machine Tools" segment as of the date of acquisition.

With effect from 28 February 2017, the shares in DMG MORI Systems GmbH, Wernau, were sold to a strategic investor. DMG MORI Systems GmbH data is not included in the segment as of the date of deconsolidation.

The **Industrial Services** segment comprises both the Services and Energy Solutions segments.

The Services division, which covers all areas with its products and services, is directly related to machine tools. It includes the business operations of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld and its subsidiaries, as well as DMG MORI Management GmbH, Bielefeld, which has been the operating management company of the group's sales and service sites since the beginning of financial year 2017. In the course of the realignment, DMG MORI AKTIENGESELLSCHAFT assumed management of the home market in Germany, the EMEA region (Europe, Middle East, Africa) as well as the markets in China and India as of 1 January 2017. DMG MORI COMPANY LIMITED is responsible for its home market in Japan, the USA and the other regions in Asia and the Americas. The shares in the subsidiaries in the regions of Asia and the Americas have been sold to DMG MORI COM-

PANY LIMITED, which has been responsible for consolidation and reporting activities for these companies since financial year 2017. This does not include DMG America Inc., Itasca (USA) and DMG Asia Pte. Ltd., Singapore. The shares of these two subsidiaries have not been sold.

In the Services division we pool our marketing activities and LifeCycle services for both our machines and the machines of DMG MORI COMPANY LIMITED. DMG MORI LifeCycle Services help our customers to maximize the productivity of their machine tools over their entire life cycle – from commissioning through to part exchange as used machines. The wide range of service agreements, maintenance and training services offered, guarantees our customers maximum cost-effectiveness for their machine tools. This includes placement and consulting activities. Another area is the key accounting for major international customers, which is concentrated cross-region and cross-product.

The Energy Solutions division includes the business activities of GILDEMEISTER energy solutions GmbH and the companies responsible for sales and service in Italy and Spain. In this area, we focus on the following business sectors: Energy Efficiency and Service. The "Components" sector, which specialised in the production and marketing of cast and steel components, particularly for the machine building industry and wind turbines, was sold to a strategic investor during the financial year (details see page 113).

The **"Corporate Services"** segment primarily comprises the DMG MORI AKTIENGESELLSCHAFT with its group wide holding functions. DMG MORI AKTIENGESELLSCHAFT is assigned with corporate functions, such as group strategy, development and purchasing coordination, management of overall projects in the production and logistics areas, financing, corporate controlling and corporate personnel management. The holding functions across the group generate expenses and sales revenues.

43. EXPLANATORY NOTES ON SEGMENT DATA

The definition of terms used in individual segment information is in line with the management principle for the value-oriented corporate management of the DMG MORI group. Segment data is generally based on the same accounting and valuation methods that form the basis for the Consolidated Financial Statements.

Segmental assets include all operating assets including goodwill and deferred income or expenses; it does not include income tax claims. To evaluate the profitability of the segments, sales revenues from the "Machine Tools" segment are reclassified to the "Industrial Services" segment. Sales between the segments are made at standard market transfer prices.

Pursuant to IFRS 3 "Business Combinations", existing goodwill was allocated to the segments as follows: goodwill is attributed to the "Machine Tools" segment amounting to € 57,073 K (previous year: € 44,292 K), to the "Industrial Services" segment in an amount of € 82,346 K (previous year: € 91,125 K), and to the "Corporate Services" segment in an amount of € 0 K as in the previous year. As in the previous year, no impairment of goodwill was recorded for the financial year.

Investments include additions to intangible assets, tangible fixed assets and additions to financial assets.

Intersegment sales revenues show sales revenues made between the segments. The transfer prices for intra-group sales revenues are determined in line with the market (arm's length principle).

Scheduled depreciation relates to segmental fixed assets.

EBT for the "Machine Tools" segment includes income from the reversal of provisions amounting to € 2,757 K in the financial year (previous year: € 5,430 K) as well as write-downs amounting to € 2,965 K. In the previous year, EBT included effects in the amount of € 8.2 million from the commenced realignment of the Shanghai facility and further measures in the context of optimising production capacities. EBT for the "Industrial Services" segment included in the financial year income from the reversal of provisions amounting to € 5,084 K (previous year: € 6,943 K). Income from electricity generation by solar parks in the amount of € 228 K (previous year: € 533 K) has been recognised as sales revenues and an amount of € 1,682 K (previous year: € 4,020 K) as other operating revenue. Depreciation includes impairment amounting to € 11,663 K, mainly attributable to buildings. The implementation of the "Smart Pricing concept" starting on 1 September 2016, resulted in financial year 2017 in a decline in sales in the amount of € 39.7 million (previous year: € 11.0 million), which was fully recognised in income. In the previous year, EBT also included € 50.7 million in effects relating to realignment measures.

The "Corporate Services" segment recognises € 633 K (previous year: € 580 K) from the scheduled amortisation of the transaction costs for the syndicated credit line of DMG MORI AKTIENGESELLSCHAFT. In the previous year, in segment results in the amount of € 7,933 K have been recognised in expenses due to severance payments.

There were no significant non-cash expenses in the other two segments.

In financial year 2017 and in the previous year, no transactions carried out with any one customer were more than 10% of the sales revenues of the DMG MORI group.

The "Transition" column shows the elimination of intra-group receivables and liabilities, income and expenses, as well as the elimination of intercompany profits between segments.

The information on geographical areas is based on the registered office of the group companies and is broken down into regions comprising Germany, the rest of Europe, North America, Asia and the rest of the world, which includes Mexico and Brazil. The data is determined on the basis of geographical sub-groups.

Long-term assets are mainly attributable to fixed assets; they do not include financial instruments or deferred tax claims. As of 31 December 2017, the region of "Rest of Europe" contained long-term assets in Italy in an amount of € 122,740 K (previous year: € 131,677 K) as well as in Russia in the amount of € 95,837 K (previous year: € 110,553 K). In the region of Europe, sales revenues with third parties were generated in an amount of € 251,872 K (previous year: € 215,831 K) in Italy, as well as in an amount of € 64,628 K (previous year € 43,331 K) in Russia.

OTHER EXPLANATORY NOTES

44. AUDITOR'S FEES AND SERVICES

The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Bielefeld, was appointed to audit the Annual Accounts and Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT and the companies included in the Consolidated Financial Statements.

The fees and charges recognised as expenses in financial year 2017 for the auditor of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft, Bielefeld, relate to auditing services amounting to € 1,520 K (previous year: € 1,371 K) and other assurance services of € 174 K (previous year: € 713 K). These also include tax advisory services amounting to € 153 K (previous year: € 427 K) and other services amounting to € 748 K (previous year: € 874 K). Only services that are consistent with the engagement as auditor of the annual accounts and consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT were provided.

The auditing services primarily relate to audits of the Annual Accounts and Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT and other annual audits and audits of IFRS reporting packages for its subsidiaries, to be included in the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT, including statutory extensions to the scope of audit assignments and also audit focus areas agreed with the Supervisory Board.

Audits were accompanied by audit reviews of quarterly and half-year reports and project-related, accounting ICS and IT audits. Other assurance services relate to auditing of the Compliance Management System and legally stipulated or contractually agreed audits, such as e.g. covenant compliance assurance or the EMIR audit in accordance with Section 20 WpHG (Securities Trade Act). Tax consultancy services include support services regarding the transfer pricing system and VAT advice on individual tax matters. Other services include 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.

45. EVENTS OCCURRING AFTER THE REPORTING DATE

In January 2018, DMG MORI increased its interest in REALIZER GmbH, Borchen, to 75.1%. This strategic acquisition strengthens the position of DMG MORI in ADDITIVE MANUFACTURING.

With effect from 15 May 2018, Michael Horn will assume executive responsibility for Production, Logistics and Quality.

Furthermore, no significant events occurred after the reporting date. No other events occurred before the financial statements were authorized for issue by the Executive Board on 12 March 2018.

46. RELATED PARTY DISCLOSURES

Related companies and parties as defined by IAS 24 "Related Party Disclosures" are, in principle, members of the Executive and Supervisory Boards, close members of their families and subsidiaries that are not fully consolidated. Excluding remuneration and pension plans, these related parties were not involved in any significant or unusual transactions with companies of the DMG MORI group. All transactions with related companies have been carried out under normal market conditions, as between external third parties.

DMG MORI Finance GmbH and Magnescale Co. Ltd. are considered as associates. The financial year of Magnescale Co. Ltd. and its subsidiaries is, as is the case for the other significant consolidated companies of DMG MORI COMPANY LIMITED, in line with the reporting period of DMG MORI group. Other related companies of the DMG MORI group are all companies which, with the exception of Magnescale Co. Ltd, belong to the group of consolidated companies of DMG MORI COMPANY LIMITED, Nara (Japan), the ultimate parent company within the DMG MORI group.

The acquisition by or sale to DMG MORI COMPANY LIMITED and the assessment of the purchase prices for equity interests in companies held by DMG MORI COMPANY LIMITED were based on neutral valuation reports (for details see "Business Combinations"). Effective from 1 January 2017, domination over the subsidiaries and a joint venture in the regions of the Americas and Asia was assigned to DMG MORI COMPANY LIMITED. The decision on transferring domination was made by the Executive Board in December 2016. The interests in the relevant companies were sold in financial year 2017. The consideration for the acquisition of shares amounted to € 50,657 K. In December 2017, the interest in DMG MORI Manufacturing USA, Inc., Davis (USA) was sold to DMG MORI COMPANY LIMITED. The consideration for the acquisition of shares amounted to € 21,400 K.

DMG MORI AKTIENGESELLSCHAFT granted a loan in the amount of € 120,000 K in financial year 2016. The loan is bearing interest at a market rate of 1.00%.

A domination and profit transfer agreement exists between DMG MORI GmbH, Bielefeld, a wholly owned subsidiary of DMG MORI COMPANY LIMITED and DMG MORI AKTIENGESELLSCHAFT and became effective on 24 August 2016. With effect from 1 January 2017, a tax allocation agreement was concluded between DMG MORI GmbH and DMG MORI AKTIENGESELLSCHAFT. The profit transfer to DMG MORI GmbH for financial year 2017 amounted to € 89,865 K (previous year: € 41,097 K). The current tax debited by DMG MORI GmbH as a result of the tax allocation agreement amounted to € 30,017 K.

In the reporting year, impairments or provisions for doubtful receivables in connection with outstanding balances for other related companies amounted to € 683 K (previous year: € 1,034 K) and for joint ventures € 0 K (previous year: € 10 K). In financial year 2017, expenses for uncollectible or doubtful receivables from other related companies and persons were recognised in the amount of € 470 K (previous year: € 922 K). None were recognised from associated companies. Expenses for uncollectible or doubtful receivables from joint ventures amounted to € 0 K (previous year: € 10 K).

As in the previous year, no licences were acquired from other related companies during the reporting year. The licences acquired from previous years are capitalised as industrial property rights and similar rights and are amortised using the straight-line method from the date of being put to use.

The following transactions were carried out with related companies:

C.87 | GOODS AND SERVICES RENDERED

in € K	2017	2016
Associates	107,287	113,406
Joint ventures	0	4,464
DMG MORI COMPANY LIMITED	147,107	51,824
Other related companies	113,409	130,315

C.88 | GOODS AND SERVICES RECEIVED

in € K	2017	2016
Associates	8,958	6,139
Joint ventures	0	128
DMG MORI COMPANY LIMITED	259,288	168,219
Other related companies	108,783	137,254

The goods and services rendered and received with related companies are primarily attributable to the purchase and sale of machine tools and other services. The disclosure of receivables and liabilities from related companies is shown under the corresponding notes on the balance sheet items. The balances are normally settled within a three-month period. No guarantees and securities were granted to or received by related companies.

Detailed disclosures on the remuneration structure for members of the Executive and Supervisory Boards can be found in the remuneration report on page 28 et seq. of the Management Report. The management in key positions comprises the members of the Executive and Supervisory Boards.

Remuneration is explained in the section on employee expenses (page 118); note that indirect remuneration includes benefits after the end of the employment relationship, LTI and other long-term benefits and all other remuneration components include short-term benefits. During the previous year, severance payments for former Executive Board members were recognised in profit or loss in an amount of € 7,933 K. During the previous year, the Institute for Manufacturing Excellence GmbH, where Prof. Klinkner is a managing partner, was paid consultancy fees of € 1,726 K. As of 31 December 2017, there were no outstanding liabilities as in the previous year.

47. STATUTORY NOTIFICATION PURSUANT TO SECTION 26 WPHG

The statutory notifications pursuant to Section 26 WpHG are stated in the Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT.

48. CORPORATE GOVERNANCE

The declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) and the Corporate Governance Report was made in November 2017 and has been made permanently accessible on our website at → **www.corporate-governance-de.dmgmori.com**

49. SHAREHOLDER STRUCTURE

According to its voting rights notification from 6 April 2016, DMG MORI COMPANY LIMITED, Nara (Japan) held a direct voting share of 76.03% in the share capital of DMG MORI AKTIENGESELLSCHAFT. Elliott International Limited and affiliated companies also held 5.07% of share capital as per their last voting rights notification on 13 September 2016. According to their voting rights notification communicated by 31 December 2017, the Bank of America Corporation and affiliated companies reported a voting share of less than 3% of voting rights and in accordance with Section 25 (1) no. 2 WpHG (German Securities Trading Act) held 0.04%.

C.89 | PRODUCTION PLANTS, SALES AND SERVICE COMPANIES

Subsidiaries (fully consolidated companies)	National currency	Equity [1]	in € K	Participation quota in %
GILDEMEISTER Beteiligungen GmbH, Bielefeld [2/3/4]			273,866	100.0
DECKEL MAHO Pfronten GmbH, Pfronten [3/5/6]			83,427	100.0
SAUER GmbH, Stipshausen / Idar-Oberstein [3/4/7/8]			12,455	100.0
Alpenhotel Krone GmbH & Co. KG, Pfronten [3/7]			2,629	100.0
Alpenhotel Krone Beteiligungsgesellschaft mbH, Pfronten [3/7]			28	100.0
GILDEMEISTER Drehmaschinen GmbH, Bielefeld [3/5/6]			24,000	100.0
GILDEMEISTER Partecipazioni S.r.l., Brembate di Sopra (Bergamo), Italy [5]			92,452	100.0
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy [9]			33,102	100.0
GRAZIANO Tortona S.r.l., Tortona, Italy [9]			33,196	100.0
DMG MORI Global Service Turning S.r.l., Brembate di Sopra (Bergamo), Italy [9]			1,828	100.0
CARLINO FTV 3.2 S.R.L., Bolzano, Italy [9]			10,644	100.0
DECKEL MAHO Seebach GmbH, Seebach [3/5/6]			43,000	100.0
DMG MORI Software Solutions GmbH, Pfronten [3/4/5/6]			1,100	100.0
DMG MORI Spare Parts GmbH, Geretsried [3/4/5/6]			25,000	100.0
ISTOS GmbH, Bielefeld [3/5/6]			1,000	85.0
Ulyanovsk Machine Tools ooo, Ulyanovsk, Russia [5]	RUB K	7,179,661	103,465	100.0
REALIZER GmbH, Borchen [3/5]			2,492	50.1
WERKBLiQ GmbH, Bielefeld [5]			-1,180	100.0
MITIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bielefeld KG, Bielefeld [3]			149	100.0
MITIS Grundstücks-Vermietungsgesellschaft mbH, Bielefeld [3]			159	100.0
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [2/3]			282,858	100.0
DMG MORI Management GmbH, Bielefeld [3/4/10/11]			24	100.0
DMG MORI Deutschland GmbH, Leonberg [3/4/10/11]			63,968	100.0
DMG MORI München GmbH, Munich [3/4/12/13]			5,000	100.0
DMG MORI Hilden GmbH, Hilden [3/4/12/13]			4,200	100.0
DMG MORI Bielefeld GmbH, Bielefeld [3/4/12/13]			2,800	100.0
DMG MORI Berlin Hamburg GmbH, Berlin [3/4/12/13]			3,400	100.0
DMG MORI Frankfurt GmbH, Bad Homburg [3/4/12/13]			2,700	100.0
DMG MORI Hamburg GmbH, Hamburg [3/4/12/13]			2,100	100.0
DMG MORI Stuttgart GmbH, Leonberg [3/4/12/13]			7,000	100.0
DMG MORI Services GmbH, Bielefeld [3/4/10/11]			29,635	100.0
DMG MORI Global Service Turning GmbH, Bielefeld [3/4/14/15]			1,700	100.0
DMG MORI Global Service Milling GmbH, Pfronten [3/4/14/15]			3,500	100.0
DMG MORI Academy GmbH, Bielefeld [3/4/14/15]			4,000	100.0
DMG MORI Used Machines GmbH, Geretsried [3/4/14/15]			17,517	100.0
DMG MORI Netherlands Holding B.V., Veenendaal, Netherlands [10]			451,518	100.0
antiquitas Verwaltungsgesellschaft mbH, Klaus, Austria [16]			9,189	100.0
DMG MORI Sales and Service Holding AG, Winterthur, Switzerland [16]	CHF K	405,155	346,227	100.0
DMG MORI Europe AG, Winterthur, Switzerland [17]			111,960	100.0
DMG MORI Schweiz AG, Winterthur, Switzerland [18]	CHF K	31,119	26,593	100.0
DMG MORI Balkan GmbH, Klaus, Austria [17]			1,705	100.0
DMG MORI Austria GmbH, Klaus, Austria [19]			14,732	100.0

C.89 | PRODUCTION PLANTS, SALES AND SERVICE COMPANIES

	National currency	Equity [1]	in € K	Participation quota in %
DMG MORI Netherlands B.V., Veenendaal, Netherlands [17]			6,097	100.0
DMG MORI BeLux BVBA – SPRL., Zaventem, Belgium [17]			3,615	100.0
DMG MORI Czech s.r.o., Brno, Czech Republic [17]	CZK K	259,205	10,151	100.0
DMG MORI DENMARK ApS, Copenhagen, Denmark [17]	DKK K	21,198	2,847	100.0
DMG MORI FRANCE SAS, Paris, France [17]			16,217	100.0
DMG MORI Hungary Kft., Budapest, Hungary [17]			6,427	100.0
DMG MORI IBERICA S.L., Ripollet, Spain [17]			12,929	100.0
DMG MORI Italia S.r.l., Milan, Italy [17]			43,693	100.0
DMG MORI MIDDLE EAST FZE, Dubai, United Arab Emirates [17]	AED K	8,824	2,003	100.0
DMG MORI Israel Ltd., Tel Aviv, Israel [17]	ILS K	0	0	100.0
DMG MORI POLSKA Sp. z o.o., Pleszew, Poland [17]	PLN K	47,162	11,291	100.0
DMG / MORI GREECE M.E.P.E., Thessaloniki, Greece [17]			602	100.0
DMG MORI Sweden AB, Gothenburg, Sweden [17]	SEK K	85,968	8,733	100.0
DMG MORI NORWAY AS, Langhus, Norway [17]	NOK K	10,049	1,021	100.0
DMG MORI Finland Oy Ab, Tampere, Finland [17]			2,418	100.0
DMG MORI UK Limited, Luton, Great Britain [17]	GBP K	22,801	25,699	100.0
DMG MORI ROMANIA S.R.L., Bukarest, Romania [17]	RON K	18,492	3,969	100.0
DMG MORI BULGARIA EOOD, Sofia, Bulgaria [17]	BGN K	1,165	596	100.0
DMG MORI Istanbul Makine Ticaret ve Servis Limited Sirketi, Istanbul, Turkey [17]	TRY K	29,059	6,392	100.0
DMG MORI Rus ooo, Moscow, Russia [17]	RUB K	3,244,430	46,755	100.0
DMG Egypt for Trading in Machines Manufactured LLC, Cairo, Egypt [17]	EGP K	200	9	100.0
Mori Seiki Egypt for Trading in Machines & Equipments LLC, Cairo, Egypt [17]	EGP K	200	9	100.0
DMG MORI Africa for Trading in Machines & Service (S.A.E.), Cairo, Egypt [20]	EGP K	5,954	279	100.0
DMG America Inc., Itasca, USA [17]	USD K	41,858	34,902	100.0
DMG Asia Pte. Ltd., Singapore [17]			23,575	100.0
DMG MORI Machine Tools Spare Parts (Shanghai) Ltd., Shanghai, China [17]	CNY K	37,078	4,751	100.0
DMG MORI India Private Limited, Bangalore, India [17]	INR K	472,303	6,165	51.0
DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China [17]	CNY K	82,389	10,557	100.0
FAMOT Pleszew Sp. z o.o., Pleszew, Poland [17]	PLN K	380,397	91,069	100.0
DMG MORI Machine Tools Trading Co., Ltd., Shanghai, China [10]	CNY K	63,525	8,140	100.0

C.89 | PRODUCTION PLANTS, SALES AND SERVICE COMPANIES

	National currency	Equity [1]	in € K	Participation quota in %
GILDEMEISTER energy solutions GmbH, Würzburg [3/4/10/11]			52,100	100.0
GILDEMEISTER energy efficiency GmbH, Stuttgart [21]			-277	60.0
GILDEMEISTER ENERGY SERVICES IBERICA, S.L., Madrid, Spain [21]			356	100.0
GILDEMEISTER TURKEY SOLAR ENERJI ANONIM SIRKETI, Istanbul, Turkey [21]	TRY K	727	160	100.0
GILDEMEISTER ENERGY SERVICES ITALIA S.R.L., Milan, Italy [21]			1,682	100.0
GILDEMEISTER LSG Beteiligungs GmbH, Würzburg [21]			105	51.0
GILDEMEISTER LSG Solar Australia Pty Ltd., Brisbane, Australia [22]	AUD K	1,089	710	100.0
Gildemeister LSG Solar RUS ooo, Moscow, Russia [22]	RUB K	22,020	317	100.0
Associates				
DMG MORI Finance GmbH, Wernau			22,798	42.6
Magnescale Co. Ltd., Kanagawa, Japan	JPY K	7,048,000	52,204	44.1
Magnescale Europe GmbH, Wernau [23]			2,184	44.1
Magnescale Americas, Inc., Davis, USA [23]	USD K	1,128	941	44.1
DMG MORI HEITEC GmbH, Erlangen [5]			89	50.0

1) The figures correspond with the financial statements prepared in accordance with local regulations; they do not show the respective companies' contribution to the Consolidated Financial Statements. Foreign currencies with respect to equity were translated at the market price on reporting date.
2) with profit and loss transfer and control agreement with DMG MORI AKTIENGESELLSCHAFT
3) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the disclosure of its annual financial statements and relating documents.
4) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the preparation of a management report.
5) equity investment of GILDEMEISTER Beteiligungen GmbH
6) with profit and loss transfer and control agreement with GILDEMEISTER Beteiligungen GmbH
7) equity investment of DECKEL MAHO Pfronten GmbH
8) with profit and loss transfer and control agreement with DECKEL MAHO Pfronten GmbH
9) equity investment of GILDEMEISTER Partecipazioni S.r.l.
10) equity investment of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
11) with profit and loss transfer and control agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
12) equity investment of DMG MORI Deutschland GmbH
13) with profit and loss transfer and control agreement with DMG MORI Deutschland GmbH
14) equity investment of DMG MORI Services GmbH
15) with profit and loss transfer and control agreement with DMG MORI Services GmbH
16) equity investment of DMG MORI Netherlands Holding B.V.
17) equity investment of DMG MORI Sales and Service Holding AG
18) equity investment of DMG MORI Europe AG
19) equity investment of DMG MORI Balkan GmbH
20) subsidiary of DMG Egypt for Trading in Machines Manufactured LLC (51%), DMG MORI Sales and Service Holding AG (47,7%) and 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.

Corporate Directory

SUPERVISORY BOARD

Prof. Dr.-Ing. Raimund Klinkner
Gräfeling, born in 1965
Chairman,
Managing Partner of
INSTITUTE FOR MANUFACTURING EXCELLENCE GmbH
- 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)
Vils, born in 1956
1st Deputy Chairman,
Director of Purchasing Special Projects of
DECKEL MAHO Pfronten GmbH,
Senior Executives' representative

Ulrich Hocker
Düsseldorf, born in 1950
Deputy Chairman,
President and Attorney of the 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

Mario Krainhöfner
(Employee representative)
Pfronten, born in 1964
Deputy Chairman,
Chairman of the Group Works Council of
DMG MORI AKTIENGESELLSCHAFT,
Head of Ideas Management of
DECKEL MAHO Pfronten GmbH

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

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

Prof. Dr. Edgar Ernst
(Member until 5 May 2017)
Bonn, born in 1952
President of Deutsche Prüfstelle für Rechnungslegung DPR e. V.,
- Deutsche Postbank AG, Bonn, Member of the Supervisory Board,
- Vonovia SE, Bochum, Member of the Supervisory Board,
- TUI AG, Hannover, Member of the Supervisory Board,
- Metro AG Düsseldorf, Member of the Supervisory Board

Tanja Fondel
(Employee representative)
Frankfurt am Main, born in 1976
(Member since 23 January 2018)
Union Secretary, IG Metall Management Board,
Frankfurt on the Main
› GRAMMER AG, Amberg, Member of the Supervisory Board

Dietmar Jansen
(Employee representative)
Memmingen, born in 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 in 1967
(Member since 5 May 2017)
Professor & Chair of the Accounting,
Auditing & Controlling Department at the
University of Duisburg-Essen
- UniCredit Bank AG Munich, Member of the Supervisory Board

Dr. Constanze Kurz
(Employee representative; Member until 30 November 2017)
Gerlingen, born in 1961
Consultant for the General and Group Works Council,
Robert Bosch GmbH, Stuttgart

Dr. Eng. Masahiko Mori
Nara, born in 1961
President of DMG MORI COMPANY LIMITED

Matthias Pfuhl
(Employee representative)
Schmerbach, born in 1960
Supply technician,
Member of the Works Council of
DECKEL MAHO Seebach GmbH

Peter Reinoss
(Employee representative)
Bergisch Gladbach, born in 1958
Electronic service technician,
Chairman of the Works Council of
DMG Vertrieb und Service GmbH
DECKEL MAHO GILDEMEISTER,
Chairman of the General Works Council
of DMG MORI Academy GmbH

› Supervisory Board mandates pursuant to Section 100 AktG (German Stock Corporation Act)
- Membership in comparable domestic and foreign control bodies of business enterprises

EXECUTIVE BOARD

Dipl.-Kfm. Christian Thönes
Bielefeld
Chairman

Dipl.-Kfm. Björn Biermann
Bielefeld

Dipl.-Kfm. Dr. Maurice Eschweiler
Bielefeld

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable accounting and reporting principles, the consolidated financial statements give a true and fair view of the results of operations, financial position and net worth of the group, and the group business report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Bielefeld, 12 March 2018
DMG MORI AKTIENGESELLSCHAFT
The Executive Board

Dipl.-Kfm. Christian Thönes | Dipl.-Kfm. Björn Biermann | Dipl.-Kfm. Dr. Maurice Eschweiler

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 consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT, Bielefeld, and it subsidiaries (the Group), which comprise the consolidated balance sheet as of December 31, 2017, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1 to December 31, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of DMG MORI AKTIENGESELLSCHAFT, Bielefeld, for the financial year from January 1 to December 31, 2017. In accordance with the German legal requirements we have not audited the content of the Group's corporate governance statement, which is included in the section "Group Business Profile" in the group management report.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as of December 31, 2017, and of its financial performance for the financial year from January 1 to December 31, 2017, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the Group corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and 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 Consolidated Financial Statements and of the Group Management Report' section of our auditor's report. We are independent of the group entities 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) point (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 consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

› Revenue recognition cut-off

For the accounting principles applied, please see the disclosures in Section 3 'Accounting and valuation principles' and Section 6 'Sales revenues' in the notes to the consolidated financial statements.

The Financial Statement Risk

DMG MORI AKTIENGESELLSCHAFT recognized revenue of EUR 2,348.5 million in the consolidated income statement. Revenue is a significant financial and performance indicator.

DMG MORI Group recognizes revenue from the sale of products, especially machine tools, and from services when the requirements according to IAS 18 are satisfied. This requires that the Company has transferred to the customer the significant risks and rewards of ownership of the goods sold or that the income from the service transaction can be reliably estimated.

The Group's key markets are in Germany, Europe and Asia. Group entities agree different international trade clauses to deliver the products around the world. The international trade clauses set down the transfer of risk and thereby also the date of revenue recognition. Furthermore, the products, especially the machine tools, are delivered to customers using various modes of transportation such as ship or truck.

There is the risk for the financial statements that revenue is inaccurately recognized as of the reporting date.

Our Audit Approach

In order to assess whether revenue is recognized on an accrual basis, we assessed the design, setup and effectiveness of internal controls relating to order acceptance, outgoing goods (including the determination of the transfer of risk) and/or the service provision and the invoice.

Furthermore, we assessed revenue recognition cut-off by reconciling invoices with the related orders, external delivery or performance records and incoming payments. The basis for this was revenue selected in line with a mathematical-statistical procedure, approximating a random selection or according to risk criteria, which was entered in a defined period before the reporting date. Furthermore, revenue recognition cut-off was assessed by us obtaining third-party confirmations or through reconciliation of invoices with the related orders, external delivery or performance records and incoming payments. This was based on trade receivables recognized as of December 31, 2017, selected using a mathematical/statistical procedure, and thus the associated revenue. We also inspected revenue entries for a fixed period before the closing date that are based on critical international trade clauses and thus constitute a greater risk as concerns revenue recognition cut-off.

Particularly in cases where the transfer of risks and rewards takes place at a date which deviates from transfer of ownership (e.g. for bill and hold agreements), we verified compliance with the conditions for revenue recognition as per IAS 18 by inspecting the separate agreements with customers.

Our observations

DMG MORI Group's procedure for revenue recognition cut-off is appropriate.

› Impairment of shares in equity-accounted investees and investments

For the accounting policies applied, we refer to Section 3 'Accounting and valuation principles' in the notes to the consolidated financial statements. The assumptions underlying measurement are described in Section 22 Shares in equity-accounted investees in the notes to the consolidated financial statements.

The Financial Statement Risk

DMG MORI AKTIENGESELLSCHAFT recognizes shares in equity-accounted investees amounting to EUR 45.2 million as of December 31, 2017 in the consolidated financial statements. No impairment losses on the shares in equity-accounted investees of DMG MORI AKTIENGESELLSCHAFT were recognized in financial year 2017.

DMG MORI AKTIENGESELLSCHAFT examines whether there are any indications of impairment at each balance sheet date and, if such an indication is identified, determines the potential impairment loss. To test for a potential need for impairment, the recoverable amount for the equity-accounted investee is determined by DMG MORI AKTIENGESELLSCHAFT. The identification of indications of impairment and the determination of the recoverable amount are complex and subject to judgment. The recoverable amount is determined on the basis of planned future earnings development. Projecting future earnings involves assumptions being made about the anticipated future price and volume increases to generate income as well as the development of expenses. Arriving at an appropriate assessment of assumptions and their consideration for the determination of the recoverable amount is therefore subject to risk. Moreover, future earnings are discounted proportionally to the reporting date. Various assumptions and parameters are incorporated into the discount rate. Arriving at an appropriate determination of the assumptions and parameters for an appropriate discount rate is thus also subject to risk.

There is the risk for the financial statements that shares in equity-accounted investees are impaired.

Our Audit Approach

We initially referred to explanations of employees of the accounting and tax department and Group controlling and assessed documentation to obtain an understanding of the Company's process for impairment testing equity-accounted investees. In doing so, we thoroughly examined the Company's approach to determining the need to recognize impairment losses and, based on the information obtained in the course of our audit, assessed whether there were indications of impairment that had not been identified by the Company.

With the involvement of our valuation experts, we then assessed the appropriateness of key assumptions and the valuation model used for the business valuations carried out by the Company. For this purpose we assessed the expected cash flows and the assumed long-term growth rates. We also reconciled this information with other internally available forecasts. 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 analyzed deviations.

We compared the assumptions and parameters underlying the capitalization rate, in particular the risk-free rate, the market risk premium and the beta factor, with our own assumptions and publicly available data. In order to take account of forecast uncertainty, we also investigated the impact of potential changes to the capitalization rate and the expected cash inflows on the fair value (sensitivity analysis), by calculating alternative scenarios and comparing these with the Company's measurement figures. 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 equity-accounted investees is appropriate and in line with the accounting policies. The Company's assumptions, estimates and parameters are appropriate.

› Sale of entities in America and Asia

For the accounting principles applied, please see the disclosures in Section 3 'Accounting and valuation principles'. Information on the sale of the companies can be found in the notes to the consolidated financial statements in Section 4 'Scope of consolidation'.

The Financial Statement Risk

In 2017 DMG MORI Group concluded agreements on the sale of ten entities in America and Asia to the parent company, DMG MORI CO LTD. The sale was made at a selling price of EUR 50.7 million, which was determined on the basis of an external appraisal. DMG MORI Group recognized a gain on disposal of EUR 3.3 million for financial year 2017.

Determining the gain on disposal, given a large number of entities in a transaction, is complex. Furthermore, the explanatory notes in the notes to the consolidated financial statements on the topic of the transaction are complex. These explanatory disclosures also include disclosures on transactions with related parties.

There is a risk for the consolidated financial statements that the assets and liabilities sold were not appropriately identified as such and thus that the recognition of gain on disposal resulting from the transaction is incorrect in the consolidated statement of comprehensive income. As regards the explanatory notes on the transaction in the notes to the consolidated financial statements, there is a risk that the explanations are not sufficiently detailed or appropriate.

Our Audit Approach

We initially assessed whether the outgoing assets and liabilities were correctly determined. This also included a review of the related group entries. We verified the determination of the gain on disposal and assessed whether this determination is appropriate in respect of the requirements of IFRS 10.

We assessed whether the explanatory notes in the notes to the consolidated financial statements concerning the transaction (including the disclosures in notes on related parties) were appropriate and sufficiently detailed.

Our Observations

The determination of the sold assets and liabilities and of the gain on disposal and the related consolidation entries is appropriate as a whole and consistent with the requirements to be applied.

The explanatory notes in the notes to the consolidated financial statements concerning the sale of entities in America and Asia are sufficiently detailed and appropriate.

› Acquisition of REALIZER GmbH

For the accounting and valuation policies applied, we refer to Section 2 'Consolidation policies' in the notes to the consolidated financial statements. For explanatory notes on the acquisition and the effects of first-time consolidation on the consolidated financial statements, please refer to the disclosures in the notes to the consolidated financial statements Section 4 'Scope of consolidation'.

The Financial Statement Risk

With effect as of February 6, 2017, GILDEMEISTER Beteiligungen GmbH acquired 50.1% of REALIZER GmbH. Overall the fair value of the consideration for 100 % of the shares amounted to EUR 14.7 million. This comprises a fixed agreed consideration in the amount of EUR 10.1 million and a contingent consideration in the amount of EUR 4.6 million. Taking into account the acquired net assets of EUR 2.1 million, goodwill amounts to EUR 12.6 million.

In determining the fair value of the consideration, the contingent considerations are also taken into account in accordance with IFRS 3. The identification and measurement of the contingent consideration are complex and based on assumptions of the Executive Board that require judgment. The significant assumption concerns the probability of the occurrence of the events which are contingent.

The acquired identifiable assets and assumed liabilities are usually recognized at fair value pursuant to IFRS 3 on the date of acquisition. DMG MORI AKTIENGESELLSCHAFT determined and measured the identifiable assets acquired and liabilities assumed.

The identification and measurement of assets acquired and liabilities assumed is complex and based on assumptions of the Executive Board that require judgment. The significant assumptions concern sales planning and development of margins of the acquired operation and the cost of capital.

There is the risk for the financial statements that the fair value of the consideration and the assets acquired and liabilities assumed are identified improperly or measured inaccurately. There is also the risk that the disclosures in the notes to the consolidated financial statements are not complete and accurate.

Our Audit Approach

With the involvement of our own valuation experts, we assessed the appropriateness of key assumptions and parameters as well as the identification and calculation methods used, among other things. To that end, we first gained an understanding of the acquisition by consulting employees of the accounting and tax department and through an evaluation of the relevant agreements.

We reconciled the determination of the fair value of the consideration with the underlying purchase contract. We discussed the evaluation of the probability of occurrence of the contingent consideration with those responsible for planning and assessed this.

We assessed the process of identification of assets acquired and liabilities assumed based on our knowledge of REALIZER GmbH's business model to verify compliance with the requirements of IFRS 3. We investigated the measurement methods used for their compliance with the accounting policies.

We discussed projected revenue and margin development with those responsible for planning. We also evaluated the consistency of assumptions with external market assessments. We compared the parameters used to measure intangible assets with benchmarks from relevant databases. We compared the assumptions and parameters underlying the capital costs, in particular the risk-free rate, the market risk premium and the beta factor with our own assumptions and publicly available data.

To assess computational accuracy, we verified selected calculations based on risk criteria. Finally, we assessed whether the disclosures in the notes regarding the acquisition of REALIZER GmbH were complete and accurate.

Our Observations

The approach used for identifying and measuring the assets acquired and liabilities assumed and the consideration is appropriate and in line with the accounting policies to be applied.

The key assumptions and parameters are appropriate and they are completely and properly presented in the notes to the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises:

- the Group's corporate governance statement and
- the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group 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 consolidated financial statements, with the group 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 Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group 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 group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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 consolidated financial statements and this group 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 consolidated financial statements and of the group 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 control.
› Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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 Group'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 consolidated financial statements and in the group 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 Group to cease to be able to continue as a going concern.
› Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
› Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
› Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
› Perform audit procedures on the prospective information presented by management in the group 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 consolidated 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 group auditor by the annual general meeting on May 5, 2017. We were engaged by the supervisory board on November 24, 2017. Taking into account the transitional provision of Article 41 (1) of the EU Audit Regulation, we have been the group auditor of DMG MORI AKTIENGESELLSCHAFT without interruption for more than 24 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 12, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft

Koch Wirtschaftsprüfer (German Public Auditor)	Bröker Wirtschaftsprüfer (German Public Auditor)

Multiple Year Overview

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		IFRS							
		2011	2012*	2013	2014	2015	2016	2017	Changes against previous year in %
Sales revenues	€ K	**1,687,657**	**2,037,362**	**2,054,219**	**2,229,013**	**2,304,721**	**2,265,709**	**2,348,451**	**4**
Domestic	€ K	632,578	722,126	676,483	779,218	762,079	737,069	712,094	-3
International	€ K	1,055,079	1,315,236	1,377,736	1,449,795	1,542,642	1,528,640	1,636,357	7
% International	%	63%	65%	67%	65%	67%	67%	70%	
Total work done	€ K	**1,743,556**	**2,055,065**	**2,060,978**	**2,262,302**	**2,351,957**	**2,262,352**	**2,367,881**	**5**
Cost of materials	€ K	952,693	1,129,323	1,086,677	1,190,026	1,211,417	1,157,498	1,263,576	9
Personnel costs	€ K	384,704	440,408	465,232	506,145	545,457	571,971	550,655	-4
Depreciation	€ K	33,605	40,913	46,345	49,883	57,181	65,720	72,833	11
Financial result	€ K	-46,076	-13,740	-13,449	-7,892	30,763	-10,507	-5,248	-50
Earnings before taxes	€ K	**66,893**	**120,097**	**135,014**	**175,313**	**217,261**	**94,120**	**176,382**	**87**
Annual profit / loss	€ K	**45,539**	**82,359**	**93,205**	**121,065**	**159,585**	**47,484**	**118,363**	**149**
Adjusted results									
EBITDA	€ K	**146,102**	**173,828**	**193,944**	**232,512**	**243,039**	**169,666**	**252,978**	**49**
EBIT	€ K	**112,497**	**132,915**	**147,599**	**182,629**	**185,858**	**103,946**	**180,145**	**73**
EBT	€ K	**66,893**	**120,097**	**135,014**	**175,313**	**217,261**	**94,120**	**176,382**	**87**
Profit share of shareholders in DMG MORI AG	€ K	**46,846**	**77,294**	**85,077**	**110,575**	**149,396**	**44,820**	**117,442**	**162**
Fixed assets	€ K	**403,925**	**500,697**	**718,447**	**810,927**	**742,773**	**749,526**	**677,948**	**-10**
Intangible assets	€ K	132,354	184,598	192,817	213,981	209,911	195,276	190,681	
Tangible assets	€ K	218,025	263,174	317,341	395,232	463,733	486,370	440,005	
Financial assets	€ K	53,546	52,925	208,289	201,714	69,129	67,880	47,262	
Current assets incl, deferred tax and deferred income	€ K	**967,883**	**1,117,800**	**1,291,598**	**1,418,882**	**1,541,102**	**1,589,652**	**1,563,350**	**-2**
Inventories	€ K	451,986	486,259	483,840	495,297	522,259	505,041	547,662	
Receivables incl. deferred tax assets + prepaid expenses	€ K	410,746	458,213	436,609	490,589	466,716	687,886	652,283	
Cash and cash equivalents	€ K	105,151	173,328	371,149	432,996	552,127	396,725	363,405	
Equity	€ K	**655,158**	**775,355**	**1,164,441**	**1,266,151**	**1,357,474**	**1,187,663**	**1,164,618**	**-2**
Subscribed capital	€ K	151,744	151,744	200,234	204,927	204,927	204,927	204,927	
Capital provisions	€ K	257,177	257,177	480,383	498,485	498,485	498,485	498,485	
Retained earnings and other reserves	€ K	234,137	281,825	389,442	427,982	507,487	444,346	458,095	
Non-controlling equity interests	€ K	12,100	84,609	94,382	134,757	146,575	39,905	3,111	
Outside capital	€ K	**716,650**	**843,142**	**845,604**	**963,658**	**926,401**	**1,151,515**	**1,076,680**	**-6**
Provisions	€ K	196,703	254,371	258,984	276,644	293,830	305,122	286,199	
liabilities + deferred income	€ K	519,947	588,771	586,620	687,014	632,571	846,393	790,481	
Balance Sheet total	€ K	**1,371,808**	**1,618,497**	**2,010,045**	**2,229,809**	**2,283,875**	**2,339,178**	**2,241,298**	**-4**
Employees (annual average)		5,576	6,149	6,410	6,815	7,034	7,102	6,637	
Employees (31 Dec)		5,810	6,267	6,497	6,918	7,142	6,964	6,742	
Trainees		222	229	225	248	320	318	359	
Total employees		**6,032**	**6,496**	**6,722**	**7,166**	**7,462**	**7,282**	**7,101**	

* adjusted due to first-time adoption of IAS 19 (rev. 2011)

C.90 | DMG MORI GROUP		IFRS							
		2011	2012*	2013	2014	2015	2016	2017	Changes against previous year in %
Efficiency ratios									
Profit on sales (EBIT) = EBIT / Sales revenues	%	6.7	6.5	7.2	8.2	8.1	4.6	7.7	67
Profit on sales (EBT) = EBT / Sales revenues	%	4.0	5.9	6.6	7.9	9.4	4.2	7.5	79
Profit on sales (Annual result) = Annual result / Sales revenues	%	2.7	4.0	4.5	5.4	6.9	2.1	5.0	138
Equity return = Annual result / Equity (as of 1 Jan)	%	11.0	12.6	12.0	10.4	12.6	3.5	9.8	180
Return on total assets = EBT + interest on borrowed capital / average total assets	%	8.5	9.2	8.1	8.8	10.1	4.6	8.1	76
ROI – Return on Investment = EBT / average total capital	%	4.9	8.0	7.4	8.3	9.6	4.1	7.7	88
Sales per employee = Sales revenues / average number of employees (exc. trainees)	€ K	302.7	331.3	320.5	327.1	327.7	319.0	353.8	11
EBIT per employee = EBIT / average number of employees (exc. trainees)	€ K	20.2	21.6	23.0	26.8	26.4	14.6	27.1	86
ROCE – Return on capital employed = EBIT / Capital Employed	%	14.4	15.3	13.8	15.7	16.1	9.0	15.9	77
Balance Sheet ratios									
Capitalisation ratio of fixed assets = fixed assets / total assets	%	29.4	30.9	35.7	36.4	32.5	32.0	30.2	-6
Working intensity of current assets = current assets / total assets	%	67.1	65.7	61.3	60.8	64.6	65.0	66.9	3
Equity ratio = equity / total capital	%	47.8	47.9	57.9	56.8	59.4	50.8	52.0	2
Borrowed capital ratio = borrowed capital / total assets	%	52.2	52.1	42.1	43.2	40.6	49.2	48.0	-2
Assets and liabilities structure = fixed assets / current assets	%	43.9	47.1	58.4	59.8	50.3	49.3	45.2	-8
Capital structure = equity / outside capital	%	91.4	92.0	137.7	131.4	146.5	103.1	108.2	5

* adjusted due to first-time adoption of IAS 19 (rev. 2011)

C.90 | DMG MORI GROUP

		IFRS							
		2011	2012*	2013	2014	2015	2016	2017	Changes against previous year in %
Ratios pertaining to financial position									
1st class liquidity = liquid funds (from balance sheet) / short-term liabilities (up to 1 year)	%	20.0	28.5	60.2	62.5	83.4	45.9	56.0	22
2nd class liquidity = (liquid funds + short-term receivables) / short-term liabilities (up to 1 year)	%	89.1	94.8	121.2	124.4	144.1	117.5	146.9	25
3rd class liquidity = liquid funds + short-term receivables + inventories) / short-term liabilities (up to 1 year)	%	150.8	149.2	175.7	175.9	202.9	157.6	186.6	18
Net financial liabilities = bank liabilities + bond / borrower's note – liquid funds	€ million	-71.2	-161.0	-356.4	-380.8	-500.3	-342.1	-316.9	-7
Gearing = net financial liabilities / equity	%	–	–	–	–	–	–	–	–
Working Capital ** = current assets – short-term borrowed capital **	€ million	283.6	299.0	466.6	525.5	681.1	574.3	540.3	-6
Net Working Capital 1) = inventories + payments on account – customer prepayments + trade debtors ** – trade creditors ** – notes payable	€ million	271.3	221.3	196.8	189.5	261.6	270.0	317.1	17
Capital Employed = equity + provisions + net financial liabilities	€ million	780.7	868.7	1,067.0	1,161.9	1,151.0	1,150.7	1,133.9	-1
Structural analysis ratios									
Turnover rate of raw materials and consumables = cost for raw materials and consumables / average inventories of raw materials and consumables		4.3	5.0	4.8	5.5	5.5	5.1	5.4	6
Turnover rate of inventories = sales revenues / inventories		3.7	4.2	4.2	4.5	4.4	4.5	4.3	-4
Turnover rate of receivables = sales revenues (incl. 19% VAT on domestic revenues) / average trade debtors **		6.9	9.8	10.1	10.3	9.8	10.0	8.8	-12
Total capital-sales ratio = sales revenues / total capital (incl. deferred tax and deferred income)		1.2	1.3	1.0	1.0	1.0	1.0	1.0	0
DSO (Days sales outstanding) = average trade debtors ** / (sales revenues (incl. 19% VAT on domestic revenues)) x 365		52.6	37.2	36.1	35.6	37.4	36.7	41.3	13
Productivity ratios									
Intensity of materials = Cost of materials / Total work done	%	54.6	55.0	52.7	52.6	51.5	51.2	53.4	4
Intensity of staff = Personnel costs / Total work done	%	22.1	21.4	22.6	22.4	23.2	25.3	23.3	-8

* adjusted due to first-time adoption of IAS 19 (rev. 2011)
** without finance appartionments
1) since 1 January 2012 including notes payable

C.90 | DMG MORI GROUP		IFRS							
		2011	2012*	2013	2014	2015	2016	2017	Changes against previous year in %
Cash flow & Investments									
Cash flow from operating activity	€ million	161.0	168.7	171.1	170.6	142.7	124.0	171.7	38
Cash flow from investment activity	€ million	-80.6	-63.0	-160.1	-145.3	18.9	-198.3	-9.7	-95
Cash flow from financing activity	€ million	-86.7	-39.2	189.5	39.0	-44.3	-52.5	-190.7	263
Free Cashflow = cash flow from operating activity + cash flow from investment activity (exc. Cash flow from financial investments and payments to plant, property and equipment which are financed with loans)	€ million	95.2	99.1	67.3	86.1	32.0	42.5	142.4	235
Investments	€ million	89.7	74.5	213.5	159.0	130.6	88.1	41.8	-53
Share & valuation									
Market capitalisation	€ million	586.6	917.6	1,824.6	1,852.2	3,001.4	3,401.8	3,627.2	7
Company value = Market capitalisation + bank liabilities + bills of exchange + other liabilities + pension provisions – liquid funds	€ million	600.5	867.8	1,585.0	1,597.5	2,624.0	3,187.4	3,414.9	7
Earnings per share = result after minority interests / number of shares	€	0.85	1.32	1.33	1.41	1.90	0.57	1.49	161
Price-to-earnings ratio (P / E) = market capitalisation / EBT		8.8	7.6	13.5	10.6	13.8	36.1	20.6	-43
Company value-EBITDA-ratio = company value / EBITDA		4.1	5.0	8.2	6.9	10.8	18.8	13.5	-28
Company value-EBIT-ratio = company value / EBIT		5.3	6.5	10.7	8.7	14.1	30.7	19.0	-38
Company value sales ratio = company value / sales revenues		0.4	0.4	0.8	0.7	1.1	1.4	1.5	4

* adjusted due to first-time adoption of IAS 19 (rev. 2011)

List of tables and graphs

BUSINESS REPORT DMG MORI AKTIENGESELLSCHAFT

CONSOLIDATED FINANCIAL STATEMENTS OF DMG MORI AKTIENGESELLSCHAFT

Forward-Looking Statements

This report contains forward-looking statements, which are based on current estimates of the management of future developments. Such statements are based on the management's current expectations and specific assumptions. They are subject to risks, uncertainties and other factors, which could lead to the actual future circumstances including the assets, liabilities, financial position and profit or loss of DMG MORI AKTIENGESELLSCHAFT differing materially from or being more negative than that those expressly or implicitly assumed or described in these statements. The business activities of DMG MORI AKTIENGESELLSCHAFT are subject to a series of risks and uncertainties, which may result in forward-looking statements estimates or forecasts becoming inaccurate.

DMG MORI AKTIENGESELLSCHAFT is strongly affected, in particular, by changes in general economic and business conditions (including margin developments in the most important business areas as well as the consequences of a recession) as these have a direct effect on processes, suppliers and customers. Due to their differences, not all business areas are affected to the same extent by changes in the economic environment; significant differences exist with respect to the timing and extent of the effects of any such changes. This effect is further intensified by the fact that, as a global entity, DMG MORI AKTIENGESELLSCHAFT operates in various markets with very different economic rates of growth. Uncertainties arise inter alia from the risk that customers may delay or cancel orders or they may become insolvent or that prices become further depressed by a persistently, unfavourable market environment than that which we are expecting at the current time; developments on the financial markets, including fluctuations in interest rates and exchange rates, in the price of raw materials, in borrowing and equity margins as well as in financial assets in general; growing volatility in the capital markets and a deterioration in the conditions for the credit business as well as a deterioration in the future economic success of the core business areas in which we operate; challenges in integrating major acquisitions and in implementing joint ventures and achieving the expected synergy effects and other essential portfolio measures; the introduction of competing products or technology by other companies or the entry onto the market of new competitors; a change in the dynamics of competition (primarily on developing markets); a lack of acceptance of new products and services in customer target groups of DMG MORI; changes in corporate strategy; interruptions in the supply chain, including the inability of a third party, for example due to natural catastrophes, to supply 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 events occur, or should the assumptions on which these statements are based prove incorrect, the actual results may diff er materially from the results stated, expected, anticipated, intended, planned, aimed at, estimated or projected in these statements. DMG MORI AKTIENGESELLSCHAFT neither intends to nor does DMG MORI AKTIENGESELLSCHAFT assume any separate obligation to update any forward-looking statements to reflect any change in events or developments occurring after the reporting period. Forward-looking statements must not be understood as a guarantee or assurance of the future developments or events contained therein.

There are two companies using the name "DMG MORI": DMG MORI AKTIENGESELLSCHAFT with registered office in Bielefeld, Germany, and DMG MORI COMPANY LIMITED with registered office in 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 Corporation 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.

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