DMG MORI

AKTIENGESELLSCHAFT

ADDITIVE MANUFACTURING

TURNING

ULTRASONIC

MILLING

LASERTEC

ANNUAL REPORT 2016

DIGITISATION

CORPORATE SERVICES

DMG MORI AKTIENGESELLSCHAFT, Bielefeld

MACHINE TOOLS

GILDEMEISTER Beteiligungen GmbH, Bielefeld

Turning Technology	Milling Technology	Advanced Technologies	Software Solutions
GILDEMEISTER Drehmaschinen GmbH (Bielefeld)	DECKEL MAHO Pfronten GmbH (Pfronten)	SAUER GmbH (Idar-Oberstein, Pfronten)	DMG MORI Software Solutions GmbH (Pfronten)
GRAZIANO Tortona Sr.l. (Tortona / Italy)	DECKEL MAHO Seebach GmbH (Seebach)	REALIZER GmbH (Borchen, Bielefeld) [2]	ISTOS GmbH (Düsseldorf) [3]
GILDEMEISTER Italiana S.p.A. (Bergamo / Italy)			
FAMOT Pleszew Sp.z o.o. (Pleszew / Poland); Ulyanovsk Machine Tools ooo (Ulyanovsk / Russia)	DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., (Shanghai / China) [1]		

1) Realignment: Stopped entry-level machine production and pooled together sales, services and application technology areas under one roof.
2) Majority interest of 50.1% in the area of Additive Manufacturing
3) Majority interest of currently 85% in the area of Digitisation Solutions

INDUSTRIAL SERVICES

DMG MORI Management GmbH, Bielefeld

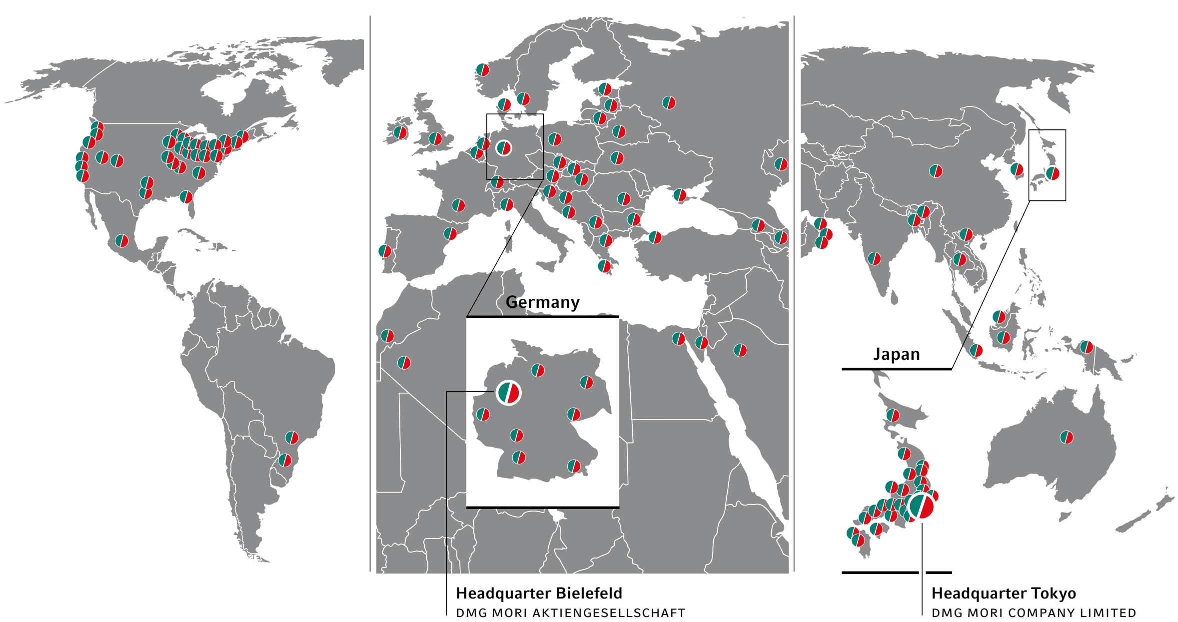
Sales and Services					Energy Solutions
DMG MORI Deutschland	DMG MORI EMEA	DMG MORI China	DMG MORI India	DMG MORI Services	GILDEMEISTER energy solutions GmbH

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.

157 DMG MORI Locations worldwide



Details of the realignment of our sales and service structure are presented in the chapter Corporate Strategy on pages 16 et seq. Simplified organisational structure according to management criteria. The legal structure is presented in the notes to the Financial Statements 2016 on pages 169 et seq. As at 7 March 2017

Key Figures

The Consolidated Annual Financial Statements of DMG MORI AKTIENGESELLSCHAFT as at 31 December 2016 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

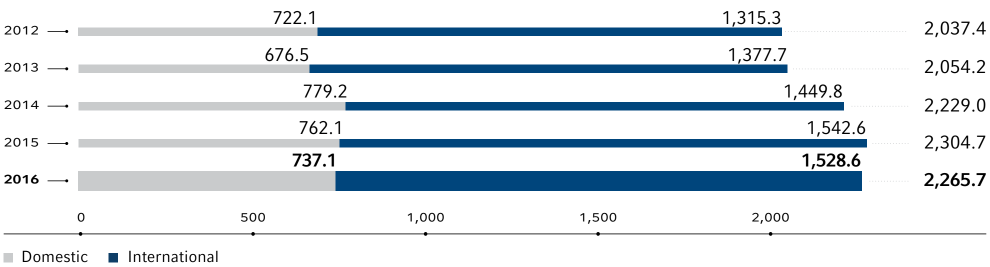
	2016 € MILLION	2015 € MILLION	Changes 2016 against 2015 € MILLION	 %
Sales revenues				
Total	2,265.7	2,304.7	−39.0	−2
Domestic	737.1	762.1	−25.0	−3
International	1,528.6	1,542.6	−14.0	−1
% International	67	67		
Order Intake				
Total	2,369.9	2,282.8	87.1	4
Domestic	763.0	785.0	−22.0	−3
International	1,606.9	1,497.8	109.1	7
% International	68	66		
Order Backlog*				
Total	937.5	884.2	53.3	6
Domestic	361.2	335.7	25.5	8
International	576.3	548.5	27.8	5
% International	61	62		
Investments	88.1	130.6	−42.5	−33
Personnel costs	572.0	545.5	26.5	5
Personnel quota %	25.3	23.2		
Employees	6,964	7,142	−178	−2
Plus trainees	318	320	−2	−1
Total employees*	7,282	7,462	−180	−2
EBITDA	169.7	243.1	−73.4	−30
EBIT	104.0	185.9	−81.9	−44
EBT	94.1	217.3**	−123.2	−57
Annual profit	47.5	159.6**	−112.1	−70

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

* Reporting date 31 December
** EBT includes one-off effect of € 37.8 million and annual profit one-off effect of € 37.2 million from the one-time profit from the sale of shares held in DMG MORI COMPANY LIMITED.

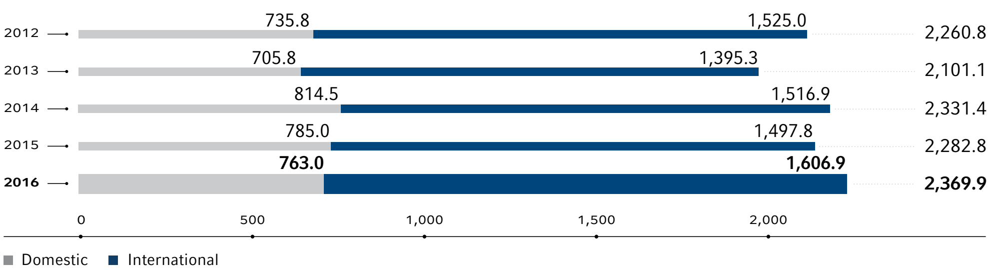
02

SALES REVENUES IN € MILLION



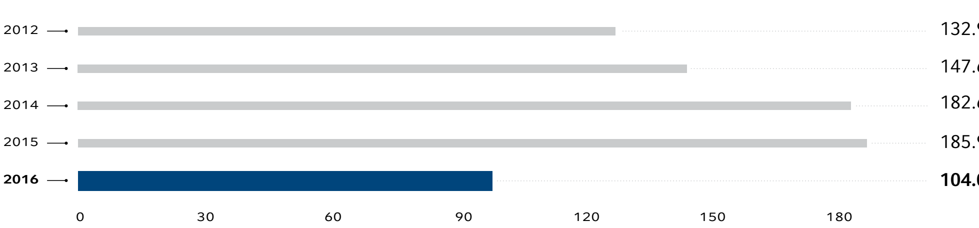
03

ORDER INTAKE IN € MILLION



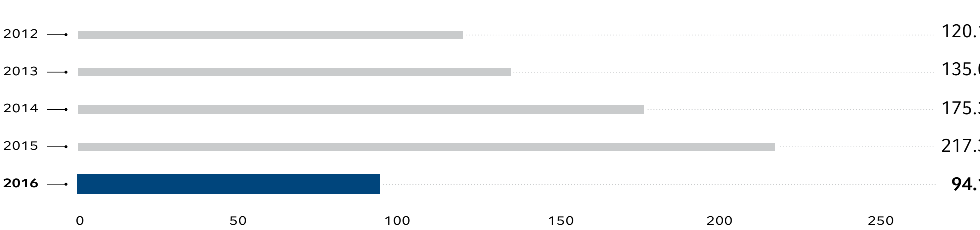
04

EBIT IN € MILLION



05

EBT IN € MILLION



DMG MORI IN BRIEF

With more than two billion euros in sales revenues and over 7,000 employees, DMG MORI is a worldwide leading manufacturer of cutting machine tools. As a global integrated machine tool company, we provide our customers with innovative machines, automation and complete technology solutions for the 'Automotive', 'Aerospace', 'Die & Mold' as well as 'Medical' industries.

Our range of products includes high-tech turning and milling machines, as well as Advanced Technologies, such as ULTRASONIC, LASERTEC and ADDITIVE MANUFACTURING. Our app-based control and operating software, CELOS and innovative products of Software Solutions enable us to shape the future for Industrie 4.0.

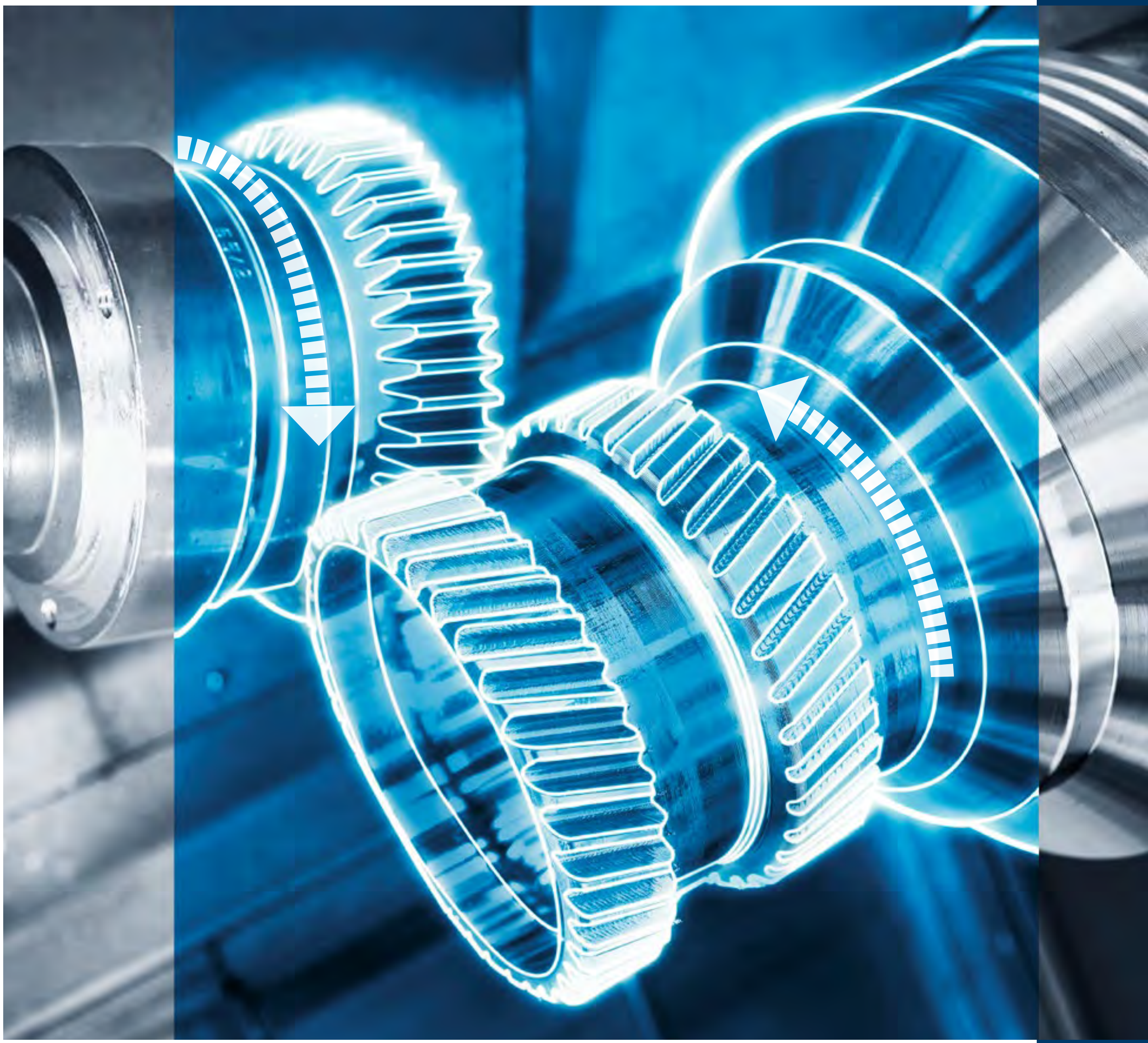
We also support our customers with a wide range of training, repair, maintenance and spare part services covering the entire machine life cycle.

As a 'Global One Company', together with our Japanese parent company, DMG MORI COMPANY LIMITED, we are present in 79 countries around the world. A total of 157 national and international locations are in direct contact to our customers.

TO OUR SHAREHOLDERS

BUSINESS REPORT DMG MORI AKTIENGESELLSCHAFT

CONSOLIDATED FINANCIAL STATEMENTS DMG MORI AKTIENGESELLSCHAFT



DMG MORI is setting innovative milestones in the machine tool industry, through its complete technology and software solutions.

"DMG MORI's 26 exclusive technology cycles allow easy and up to 60% faster shopfloor programming."

To our Shareholders

Prof. Dr.-Ing. Raimund Klinkner (52)
has been the chairman of the Supervisory Board since 17 May 2013. After graduating in mechanical engineering from the Technische Universität München (Technical University of Munich), Klinkner initially worked in the automotive industry. In the years 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 is chairman of the board of the 'Bundesvereinigung Logistik e.V.' (BVL– the German Logistics Association).

TO OUR SHAREHOLDERS

Report of the Supervisory Board

In financial year 2016, the work of the Supervisory Board focused on two main issues: Firstly, personnel changes took place within the Executive Board of DMG MORI AKTIENGESELLSCHAFT and secondly, the conclusion of a control and profit transfer agreement was a key focal point. In order to take the importance of this issue into account, the Supervisory Board formed a committee for capital market issues. The Supervisory Board also closely monitored the business and earnings performance of DMG MORI and discussed with the Executive Board issues concerning business policy, the risk management, as well as compliance and group performance until 2019, including investments.

During the reporting year, the Supervisory Board also received prompt, regular and full 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 company key performance indicators.

The Supervisory Board exercised due care and diligence when performing its duties, in accordance with the articles of association and statutory requirements. It met a total of seven times in financial year 2016. The chairs 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. Also in the past financial year, there were 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 and Supervisory Boards: Dr. Rüdiger Kapitza terminated his activity as chairman of the Executive Board on 6 April 2016 mutually. On 15 April 2016, the Supervisory Board met again. Christian Thönes was named as the new chairman of the Executive Board and Dr. Maurice Eschweiler was appointed as Labour Director pursuant to Section 33 German Co-determination Act (MitbestG).

As of 30 April 2016, Dr. Helmut Rothenberger resigned from his Supervisory Board position. Irene Bader was initially designated as a new member of the Supervisory Board by order of Bielefeld District Court on 24 May 2016. Her appointment was confirmed by the Annual General Meeting on 15 July 2016. Moreover, on 2 June 2016, Irene Bader was appointed as a member of the Supervisory Board's Personnel, Nomination and Remuneration Committee. Thus, she is also a member of the Nomination Committee. Since 2 June 2016, Ulrich Hocker has been a further deputy chairman of the Supervisory Board.

With one exception, no member of the Supervisory Board attended less than half of all Supervisory Board meetings held. Mario Krainhöfner was unable to attend five Supervisory Board meetings due to illness.

The annual auditors also attended the **balance sheet meeting on 8 March 2016.** The Supervisory Board approved the consolidated financial statements and group management report, as well as the annual financial statements and management report of DMG MORI AKTIENGESELLSCHAFT as at 31 December 2015. The Supervisory Board also approved the report on relationships with affiliated companies pursuant to Section 312 German Stock Cooperation Act (AktG).

The plenary meeting discussed the agenda for the 114th Annual General Meeting initially planned for 6 May 2016, as well as the proposal for the appropriation of profits and for the appointment of the annual auditor. The chairs also reported on previous meetings of the Personnel, Nomination and Remuneration Committee, the Finance and Audit Committee and Shareholder Business Relationships Committee (AfGA), as well as the Technology and Development Committee. Business performance was also a topic of discussion.

The main topics at the **Supervisory Board meeting on 6 April 2016,** which was convened at short notice, were the increase of the shareholding of DMG MORI COMPANY LIMITED in DMG MORI AKTIENGESELLSCHAFT to 76.03% and its intention to conclude a control and profit transfer agreement. Moreover, the Supervisory Board reached an agreement with the long-serving chairman of the board, Dr. Rüdiger Kapitza, regarding his resignation from office. Dr.-Ing. Masahiko Mori did not participate in the vote to adopt the resolution.

Accordingly, the Supervisory Board again held a meeting on **15 April 2016.** It appointed Christian Thönes as chairman of the board of DMG MORI AKTIENGESELLSCHAFT and Dr. Maurice Eschweiler as Labour Director pursuant to Section 33 German Co-determination Act (MitbestG). Furthermore, the Committee for Capital Market Issues was established for preparing, assessing and reviewing the control and profit transfer agreement between DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH.

At a meeting on **2 June 2016,** the Supervisory Board mainly focused on discussing the control and profit transfer agreement. In this respect, following discussion, the latest group planning from 2016 to 2018 was approved. The Supervisory Board also held detailed discussions on the company valuation, including the expert reports and discussed the report on the Capital Market Committee's previous preparatory work.

Without the participation of the Supervisory Board members, Dr.-Ing. Masahiko Mori and Irene Bader, the Supervisory Board then approved the conclusion of the control and profit transfer agreement between the controlling company, DMG MORI GmbH and the controlled company, DMG MORI AKTIENGESELLSCHAFT. Here, it included, in its view, the given adequacy of the cash compensation amount of € 37.35 or annual settlement amount ('guaranteed dividend') of € 1.17 gross (or € 1.03, after deduction of corporation and solidarity tax). The Supervisory Board also discussed the company's 114th Annual General Meeting postponed to 15 July 2016, particularly the proposal for the appropriation of profits and for the appointment of the annual auditor. Furthermore, with the abstention of Irene Bader, the shareholders' representatives passed a resolution to propose to the Annual General Meeting the appointment of Irene Bader as a member of the Supervisory Board. The Supervisory Board also passed a resolution to appoint Irene Bader as a member of the Supervisory Board's Personnel, Nomination and Remuneration Committee and to also appoint Ulrich Hocker as further deputy chairman of the Supervisory Board.

The **Supervisory Board meeting on 14 July 2016** focused on preparations for the Annual General Meeting on the following day. The board also discussed current business performance.

An important item on the agenda for the Supervisory Board **meeting on 20 September 2016** was again the discussion of business performance. The plenary session also discussed the reports from the Finance and Audit Committee, Personnel, Nomination and Remuneration Committee, Technology and Development Committee and Shareholder Business Relationships Committee.

The **meeting on 24 November 2016** focused on the current business trend, corporate planning from 2017 to 2019 and investment planning for 2017. The Supervisory Board approved corporate planning for 2017, mid-term planning for 2018/2019 and investment planning for 2017. Moreover, a resolution was passed on the variable Executive Board remuneration for 2017. The Supervisory Board also passed a resolution on conducting an efficiency check for the Supervisory Board in the first half of 2017.

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 2016. They comprise the presentation and disclosure of effects from group realignment measures in the consolidated financial statements and group management report, impairment testing of tangible fixed assets pursuant to IAS 36.66 and a quality assessment conducted by the Internal Audit department in accordance with DIIR Audit Standard no. 3.

A large proportion of the Supervisory Board's work is carried out by various committees: The **Finance and Audit Committee** held six meetings in financial year 2016. At its meetings, the committee discussed the current status of finances and tax as well as the ongoing tax audits. It also examined and discussed the interim reports for the 1st to 3rd quarters and half-year report, as well as risk management, the report on the J-SOX audit 2015, audit report 2015 and compliance report 2015. 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 clause 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 statutory auditor. Following a detailed review and discussion, this process was implemented by the committee. It also prepared resolution proposals on the declaration of conformity pursuant to Section 161 German Stock Cooperation Act (AktG) and audit focus areas for 2016.

The **Personnel, Nomination and Remuneration Committee** held three meetings. The committee prepared resolutions for Executive Board remuneration and discussed Executive Board issues.

The **Nomination Committee** held one meeting in financial year 2016. It prepared the nomination to appoint Irene Bader to succeed Dr. Helmut Rothenberger on the Supervisory Board.

The **Technology and Development Committee** held three meetings. The committee's discussions and analyses focused on general topics, such as universal machine tool building trends, as well as specific issues, such as ADDITIVE MANUFACTURING, digitisation and alignment of the company's product portfolio and the investment budget.

The **Committee for Market Issues** was formed on 15 April 2016 and held three meetings. The meetings focused on the discussion, preparation and support of the control and profit transfer agreement between DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH. During this process, the committee held detailed discussions on corporate planning and valuation. The committee was dissolved as end of day, 20 September 2016.

The **Shareholder Business Relationships Committee (AfGA)** was formed on 22 September 2015 and held four meetings in 2016. The committee discussed the report of the transparency department about shareholders business relations with the group, the report on relationships with affiliated companies 2015 and the ongoing reporting of transactions requiring approval. The committee was dissolved as end of day, 20 September 2016.

The **Corporate Governance** section on page 27 of the annual report describes the activities of the Supervisory Board with regard to the declaration of conformity in accordance with Section 161 German Stock Cooperation Act (AktG). Since the last declaration of conformity in November 2015, 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 and will comply with them in the future.

At the **balance sheet meeting on 7 March 2017,** after consultation with the annual auditor and following its own review and discussion, the Supervisory Board approved the annual financial statements and consolidated statements of DMG MORI AKTIENGESELLSCHAFT for the financial year 2016. Thus, the annual financial statements of DMG MORI AKTIENGESELLSCHAFT have been adopted pursuant to Section 172 German Stock Corporation Act (AktG). The resolutions were prepared by the Finance and Audit Committee.

The Executive Board prepared the management report and annual financial statements for 2016, as well as the group management report 2016 of DMG MORI AKTIENGESELLSCHAFT in accordance with the provisions of the German Commercial Code (HGB). The 2016 consolidated financial statements 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 of the German Commercial Code (HGB), consolidated financial statements in accordance with the German Commercial Code 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, Berlin, issued an unqualified auditor's report for both financial statements and management reports.

The annual auditor also stated that the Executive Board has taken all the reasonable steps required under Section 91(2) AktG. In particular, it has established a suitable information and monitoring system in line with company requirements. The design and application of this system is suited to provide early warning of decisions posing a threat to the continued existence of the company.

The chairman 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 statements, as well as the management report. The Supervisory Board concurred with the results of the audit based on its own review – as did the Finance and Audit Committee. No objections were raised either by the Supervisory Board or the Finance and Audit Committee.

DMG MORI successfully closed financial year 2016. The Supervisory Board wishes to thank the members of the Executive Board for their remarkable commitment and outstanding work, particularly with regard to the realignment of the company. Our special thanks go also 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, 7 March 2017

Björn Biermann (37)

Controlling, finance, accounting, taxes and risk management as well as investor relations and 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.

Christian Thönes (44),
Chairman of the Executive Board

Sales, product development, production, procurement, corporate public relations and 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.

Dr. Maurice Eschweiler (42)

Industrial Services division, personnel, legal and information technologies

has been member of the Executive Board since 01 April 2013. He received a doctorate in economics from the University of Münster and joined the group in 2007 and was among others managing director of DMG Vertriebs und Service GmbH.

TO OUR SHAREHOLDERS

Dear Shareholders,

this is the first annual report where I have the pleasure of addressing you, as chairman of the Executive Board of DMG MORI AKTIENGESELLSCHAFT. I have been working for your company for the last 19 years. Thus, continuity and stability are characteristics reflected both by myself and the entire management team at DMG MORI.

Together, we have set the course for the future and used the previous financial year to focus on our core machine tool and service business. We have accomplished a great deal within a short space of time and much flatter hierarchies have enabled us to generate countless positive effects within our group. Thus, I wish to take this opportunity to thank our employees for their work! Only with their outstanding commitment, their experience and strengths, we have been able to implement our realignment measures so quickly.

First of all, however, a brief summary of our key figures: Overall, DMG MORI successfully completed the financial year 2016. **With € 2,369.9 million, order intake reached a new record figure** (previous year: € 2,282.8 million). Despite challenging macroeconomic conditions, we achieved the highest order intake in the company's 146-year history. Although the worldwide market for machine tools was in decline at −2.5%, DMG MORI recorded a 4% increase. During the year, order intake showed an increasingly positive trend: after orders had outperformed the value of the previous four quarters at +12% in the third quarter already, the order intake in the fourth quarter of 2016 rose once again by 13% to € 610.3 million (previous year's quarter: € 540.8 million).

Sales revenues amounted to € 2,265.7 million and were thus, slightly below last year's figure (€ 2,304.7 million). EBITDA amounted to € 169.7 million (previous year: € 243.1 million), EBIT was € 104.0 million (previous year: € 185.9 million) and EBT € 94.1 million. The previous year's figure of € 217.3 million includes the one-off profit (€ 37.8 million) from the sale of shares held in DMG MORI COMPANY LIMITED. The development of earnings 2016 was significantly marked by effects, in particular, for the measures of implementing the realignment. After adjustment for these expenses (€ 77.8 million), EBT amounts to € 171.9 million. As at 31 December 2016, the group reported € 47.5 million in annual profit (previous year: € 159.6 million). At € 42.5 million, free cash flow was above last year's figure (€ 32.0 million).

The figures show that although market conditions are challenging, we have a stable base. We want to further expand our position as one of the world's leading suppliers of premium solutions for the manufacturing industry. Our mission is to establish ourselves permanently as a leading company and inspire our customers through our innovations as well as our technology and service excellence.

For us as members of the Executive Board, we wish to convey this important message: we believe the increase in the interest of DMG MORI COMPANY LIMITED in DMG MORI AKTIENGESELLSCHAFT at the beginning of April 2016 to 76.03% and conclusion of the control and profit transfer agreement is an opportunity to benefit from one another's strengths. Our aim is not to follow a completely different course, but we want to be better! To accomplish this, we are realigning our global sales and service structure, further enhancing our product portfolio and optimising our production capacities. Many steps have already been implemented. Here is an overview of some of the important measures:

› We have realigned our production site in Shanghai. As part of a modified utilisation plan, the entry-level machine production was stopped and sales, service and application technology were pooled together under one roof. Machine tools are still being produced at the production plant of DMG MORI COMPANY LIMITED in Tianjin. This measure allows us to consolidate our future viability on the Chinese market.
› Within our core machine tool business, we have replaced the ECOLINE series with the new CLX and CMX series. These are attractive basic machines,

fitted with a wide range of options covering DMG MORI's entire spectrum of technological performance and complete control system expertise.
- In our core Service business, our 'Customer First' strategy allows us to create added value for our customers. The new 'Smart Pricing Concept' with our 5-service promise offers top quality at fair prices. For example, this includes an exclusive best price guarantee for spare or wear parts, free shipping on orders in our online shop and customer-friendly service prices through transparent flat call-out rates.
- As part of our realignment measures, we reviewed business fields outside our core business. Thus, we have sold our shares in GILDEMEISTER energy storage GmbH and DMG MORI Microset GmbH to strategic investors.

We are convinced that the further growing together with DMG MORI COMPANY LIMITED and our new customer-focused culture will enable us to achieve long-term success. **As a 'Global One Company', we have a broad base, as well as a high level of innovative strength, technological expertise and global presence.**

Our new focus is also reflected in the realignment of our global sales and service structure: Since January 2017, DMG MORI AKTIENGESELLSCHAFT has been managing the home market, Germany, the EMEA region (Europe, Middle East and Africa) and the markets China and India. DMG MORI COMPANY LIMITED is responsible for its home market, Japan, the USA and the remaining regions in Asia and America. This new structure ensures fast decisions to suit the specific markets; it is intended to serve especially one target group: our customers!

Dear Shareholders, we believe the EMO, the world's largest machine tool trade fair, **will have a marked impact on 2017.** Our new products are geared towards this industry event in Hanover. From 18 to 23 September, we will be presenting a wide range of innovations with a total of **8 world premieres.** At our traditional open-house exhibition in Pfronten at the beginning of the year, we already presented four world premieres and major highlights from automation, digitisation, ADDITIVE MANUFACTURING and technology excellence to over 9,000 international trade visitors. I would like to provide you a more detailed overview of these areas below:

One of our focus areas is **automation.** Our goal is that all DMG MORI machines can be fully automated in the future. The intelligent networking of machines and automation solutions is therefore a focal point of development at our production plants. We are thus focusing on standard automation solutions with pallet handling in Pfronten and on component handling in Seebach and Bielefeld. Flexible manufacturing cells will be produced at different sites. These measures enable us to reduce interfaces and stages along the value-added chain. But most importantly – in the future, our customers will receive machines from a single source with automation solutions that are perfectly coordinated with each other.

Dear shareholders, our innovative software solutions in the area of **digitisation** enable us to shape the future for Industrie 4.0. Our app-based control and operating software, **CELOS,** has been used to make our machine tools ready for digitisation over the last few years. With 26 apps, we are already supporting networked intelligent production. Our 26 exclusive **DMG MORI technology cycles** also allow quick and easy shop floor programming and our **DMG MORI Powertools** facilitate automatic program creation during work scheduling. By establishing the start-up company, **ISTOS,** we are strengthening our digitisation expertise. ISTOS develops projects for digital production for DMG MORI and our customers. Our objective is to offer fully connected production processes to help evolve digital transformation for both our customers and also companies outside the machine tool industry. With a current 85% share in ISTOS, we are purposely creating an open structure for additional partners and thus providing room for digital alliances.

DMG MORI is strategically strengthening its future technologies in the area of **ADDITIVE MANUFACTURING:** With powder-bed systems known as Selective Laser Melting, we are now combining key generative manufacturing processes for metals under one roof. For this purpose, we acquired a 50.1% interest in **REALIZER GmbH** several weeks ago. This strategic acquisition is a perfect addition to our Advanced Technologies. Through our SAUER GmbH, we already have extensive expertise in laser metal deposition with powder nozzle technology besides the ULTRASONIC and LASERTEC technologies. Both these build-up manufacturing technologies enable our customers to produce complex, metal components from powder.

We are forging ahead with our 'First-Quality-Strategy'. As a 'Global One Company', we combine quality, precision and durability with DMG MORI COMPONENTS. Together, we benefit from a group-wide standardisation of components – and our customers benefit from our global quality campaign.

We are strategically addressing growth sectors with complete technology solutions. We are pooling our expertise in line with the product range and strengths of our supply plants. In our Technology Excellence Centres, we develop complete technology solutions across processes for the leading industries 'Aerospace', 'Die & Mold' and 'Medical'.

For the current financial year, I can sum up by saying: All indicators show that market conditions for machine tools will remain challenging. According to forecasts from the German Machine Builders' Association (VDW) and the British economic research institute, Oxford Economics, world consumption should see growth of 2.1%. However, the global economy continues to be marked by major uncertainties. It is difficult to predict the impact on our business development at present. Thus, taking into account our strategic realignment measures – particularly the modified sales and service structure in Asia and America – we are planning around € 2.3 billion in order intake and around € 2.25 billion in sales revenues. EBT shall amount to around € 130 million.

Although we are facing many challenges, this year also offers us fresh opportunities. I am confident that we are benefitting from the cultural diversity of our 'Global One Company' more than ever. With the courage to take new paths and our creative entrepreneurial spirit, together we are positioning DMG MORI to become even more innovative and customer-focused.

On behalf of my Executive Board colleagues, I especially wish to thank once again our employees and our customers, business partners and suppliers. We also wish to thank you, dear shareholders, for the confidence placed in us. Our goal to achieve top quality can only be realised through close cooperation based on trust and reliable partnerships. DMG MORI is on the right track – at high speed. Dear shareholders, we greatly appreciate your continued support in this endeavour, both now and in the future!

Best regards

Christian Thönes
Chairman of the Executive Board
Bielefeld, 7 March 2017

“We all have the same goal at DMG MORI: We want to be the world’s number 1 for our customers.”

Daniel Hübner (left), **Tim Adam** (centre) and **Jennifer Weber** are three from meanwhile 60 prospective leaders in DMG MORI’s ‘High Potential Program’, established at the end of 2016.

Business Report

THE BASIS OF THE GROUP

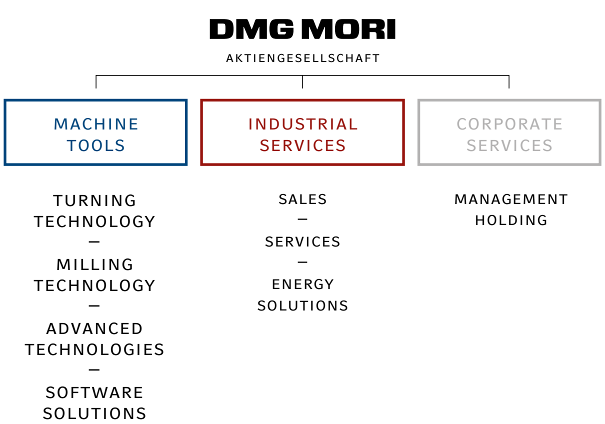
Corporate Strategy and Key Financial and Performance Indicators

P. 21 ____ Organisation and Legal Corporate Structure
P. 24 ____ Share

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

A . 01

SEGMENTS OF DMG MORI



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

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

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

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

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

DMG MORI permanently reviews the business field and product portfolio. As part of our realignment measures, we have sold our shares in GILDEMEISTER energy storage GmbH and DMG MORI Microset GmbH to strategic investors. Both companies were operating outside our core business.

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

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

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

The following strategic approaches govern the business activities of DMG MORI:

- **Integration – GLOBAL ONE:** A key component of our strategy is the integration with DMG MORI COMPANY LIMITED. The close cooperation allows us to realise efficiency advantages and expand our strengths. The development and use of shared machine platforms and key components reduce complexity and improve quality. Our enhanced international sales and service structures ensure the individual support of our customers worldwide. In this respect, we believe our cultural diversity is an opportunity.

- **Consolidation of existing customer relationships:** DMG MORI has a broad and cross-industry customer structure. Together with DMG MORI COMPANY LIMITED, we serve our customers locally at 157 sites in 79 countries worldwide. Sustainable measures enable us to secure the long-term loyalty of our existing customers towards our company. This is based on our innovative and extensive product, technology and service portfolio coupled with a trusting working relationship, which has grown over the years. Our major international customers benefit from the realignment of our global DMG MORI Key Account Management (KAM). Streamlining the KAM enables a more personalised management of our major customers around the world. Customers that used to be attributed to the KAM will from now on be managed by our local sales and service companies even more closely than before according to their country attribution. We traditionally have a close local relationship with our medium-sized customers and support them in an advisory capacity. In particular, we offer medium-sized customers individual financing solutions for new machine tools via our interest in DMG MORI Finance GmbH.

- **Increase in market share:** The purpose of our strategic market alignment is to increase our market share in established volume markets and strengthen our presence in growth markets. With our integrated technology solutions along the entire value-added chain, we are positioning ourselves globally as a solution provider for our customers. DMG MORI will stand even more than before for software expertise and digital production. Together with DMG MORI COMPANY LIMITED, we have a strong global presence with worldwide 14 production sites. By virtue of our high level of internationalisation, we are in a very good position to compensate for regional market fluctuations. There are potentials to be gained from established markets, particularly in growth sectors, such as 'Aerospace', 'Die & Mold' and 'Medical'. For these leading industries, we offer specific industry knowledge for high-yield production of complex components with our cross-plant Technology Excellence Centres.

- **Service Excellence:** The 'Industrial Services' segment makes a significant contribution towards group sales and profitability. With the provision of services in the areas of repair, maintenance and spare parts service, we fully support our customers throughout the entire life cycle of a machine tool. As part of our 'Customer First' service initiative, which started in the reporting year, our customers benefit from Best-Price-Spare-Parts, transparent service prices and comprehensive service agreements. The new 'Smart Pricing Concept' with our 5-service-promise offers high quality at fair prices. Already enjoying a world-leading position, our services are also being continuously improved. This provides our customers with benefits due to better and quicker service and improvement in our spare parts supply.

› **Innovation as the main driver of growth:** DMG MORI is positioning itself as a technology leader both now and in the future. This is based on our product, technology, software and service innovations. Alongside the further development of our cutting machine tools, the development areas, automation, digitisation and ADDITIVE MANUFACTURING are also of major strategic importance to DMG MORI.

In **automation,** standard solutions and flexible production cells are increasingly in demand. Our goal is that all DMG MORI machines can be fully automated in the future. Therefore, the focus is on automation at all production plants.

Digitisation is a further focus of our research and development activities. We are pushing ahead innovative software solutions for Industrie 4.0 through the advancement of our app-based control and operating software CELOS, our exclusive DMG MORI technology cycles and powertools and with the founding of ISTOS GmbH.

CELOS allows machines to be networked, as well as integrated into intelligent production networks. Using CELOS enables the quality of data collection, processing and analysis for cutting manufacturing processes to reach a new dimension. In combination with state-of-the-art sensor technology, the status of a machine tool can be monitored continuously.

From now on, the simple operability of machine tools will be even more in the customers' focus. DMG MORI simplifies the operation of machine tools by means of exclusive technology cycles and powertools. The technology cycles pool, for example, DMG MORI's many decades of application experience. The user can realise complex processing more quickly in the direct dialogue with the machine. In light of the demographic development, we consider the simplification of tool machine operation to be an important factor for the future success of our products.

Establishing the start-up company, **ISTOS,** we have strengthened our digitisation expertise. ISTOS will implement customised digitisation solutions across the group. A current 85% share in ISTOS has enabled us to purposely create an open structure for additional partners and strategic investments and thus provide room for digital alliances.

We are also strategically consolidating our competitive position in the technology of the future, **ADDITIVE MANUFACTURING.** Besides the ULTRASONIC and LASERTEC technologies, SAUER GmbH has extensive expertise in laser metal deposition with powder nozzle for many years. A majority interest in REALIZER GmbH has given us access to selective laser melting in powder bed. These two manufacturing technologies enable complex, metal components to be manufactured, opening up completely new application fields to our customers. Thus, DMG MORI has pooled the two most important generative manufacturing technologies under one roof.

› **Global quality campaign:** We are forging ahead with our 'First-Quality-Strategy'. As a 'Global One Company', we combine quality, precision and durability with DMG MORI COMPONENTS. Together, we benefit from a group-wide standardisation of components – and our customers benefit from our global quality campaign.

› **Increasing profitability and the sustainable use of capital:** Through the sustainable and efficient use of our capital, focus on our core business as well as the further integration with DMG MORI COMPANY LIMITED we are looking to achieve a constant increase in our earning power. Following to the aggressive investment strategy pursued in recent years, our large-scale projects are now completed. From now on, we will be concentrating on the further optimisiation of our sales and service processes. We will modernise and digitalise our plants and specifically develop pioneering products. Through the simplification of processes and systems, we want to realise further efficiency potentials and cost savings.

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

A . 02

KEY FINANCIAL AND PERFORMANCE INDICATORS: TARGETS AND RESULTS 2016

	Results 2015	Targets 2016[1)]	Targets 2016[2)]	RESULTS 2016
Sales revenues	€ 2,304.7 million	around € 2.3 billion	around € 2.25 billion	€ 2,265.7 million
Order intake	€ 2,282.8 million	slightly improvement from last year	slightly improvement from last year	€ 2,369.9 million
EBT	€ 217.3 million	significantly below last year's level	around € 95 million	€ 94.1 million
Free Cash flow	€ 32.0 million	slightly improved positive	slightly positive	€ 42.5 million
Net Working Capital	€ 261.6 million	moderate improvement	moderate improvement	€ 270.0 million
Capital expenditure				
Of which tangible fixed assets / intangible assets	€ 130.6 million	around € 100 million	around € 90 million	€ 88.1 million
Research and Development expenses	€ 45.9 million	around € 50 million	around € 50 million	€ 46.8 million
New Developments / world premieres	18	12	12	8

1) As at 10 March 2016

2) As at most recently published target values 27 October 2016

MANAGEMENT SYSTEM OF DMG MORI

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

Overall, DMG MORI has successfully closed financial year 2016. With € 2,369.9 million, order intake reached a new record (previous year: € 2,282.8 million) and thus exceeded the forecast. While the worldwide market for machine tools declined by −2.5%, DMG MORI was able to increase order intake by 4% or € 87.1 million for the full year. Sales revenues at € 2,265.7 million were slightly below last year's figure (€ 2,304.7 million). EBT amounted to € 94.1 million. The previous year's figure of € 217.3 million includes the one-off profit (€ 37.8 million) from the sale of shares held in DMG MORI COMPANY LIMITED.

The development of earnings 2016 was significantly marked by effects of € 77.8 million, in particular, for the measures of implementing the realignment. Further details can be found in the chapter Results of Operations, p. 54.

Free cash flow was above the previous year at € 42.5 million (previous year: € 32.0 million) and thus exceeded the target. Capital expenditure in property, plant and equipment and intangible assets amounted to € 88.1 million and expenditure for research and development amounted to € 46.8 million. In 2016, we presented 8 new developments or world premieres. For the benefit of our strategic realignment, we have reduced the quantity from the original forecast. The slight increase in net working capital from the original forecast is primarily attributable to the planned decrease in trade creditors.

"Digitisation is the focus of our research and development. With the DMG MORI technology cycles and our interactive, user-friendly software solutions, we get our customers ready for Industrie 4.0."

Dr. Edmond Bassett, Head of Application Technology at GILDEMEISTER Drehmaschinen GmbH, demonstrates applications for digital production in the Technology and Solution Centre.

THE BASIS OF THE GROUP

Organisation and Legal Corporate Structure

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P. 27 ____ Corporate Governance Report

DMG MORI AKTIENGESELLSCHAFT with its headquarter 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, was established in December 2016 and as of financial year 2017, will be the operating management company of the group's sales and service locations. As part of the realignment, as of 1 January 2017, DMG MORI AKTIENGESELLSCHAFT will manage the company's home market in Germany, the EMEA region (Europe, Middle East, Africa) as well as the markets China and India. As the parent company of the group's production sites, GILDEMEISTER Beteiligungen GmbH is responsible for further holding functions.

All companies of the group are managed as profit centres and follow clear guidelines in order to achieve the best possible performance and results. A group wide uniform IT infrastructure standardises the main work processes and workflows, and thus forms an integrative link for the group. The organisational costs of DMG MORI AKTIENGESELLSCHAFT amounted to € 31.9 million (previous year: € 28.4 million). The ultimate parent company of DMG MORI AKTIENGESELLSCHAFT is DMG MORI COMPANY LIMITED with the headquarter in Japan.

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

- In October 2016, DMG MORI Italia S.r.l., Brembate di Sopra (Italy), made a full acquisition of the shares in TECNO CONTROL S.R.L., Strambino (Italy) from DMG MORI COMPANY LIMITED, Japan. With the purchase of the company, the sales and service business in Italy has been pooled.
- In October 2016, GILDEMEISTER energy solutions GmbH sold its shares in the project company, Simon Solar S.r.l., Italy to an external investor.
- In November 2016, GILDEMEISTER Beteiligungen GmbH established ISTOS GmbH in Bielefeld. The objective of ISTOS GmbH is to offer fully connected production processes to help evolve digital transformation for both DMG MORI customers and also companies outside the machine tool industry.
- In the course of focusing on the core machine tool and service business, the shares in GILDEMEISTER energy storage GmbH, Wiener Neudorf (Austria) and the shares in DMG MORI MICROSET GmbH, Bielefeld were sold to strategic investors with effect from 31 December 2016.
- In December 2016, DMG Vertriebs und Service GmbH established DMG MORI Management GmbH in Bielefeld. As part of the realignment of sales and services, DMG MORI Management GmbH will be the group's operating managing company for sales and service locations.
- As part of the realignment of sales and services, in December, DMG MORI Sales and Service Holding AG, Winterthur (Switzerland) bought 40% interests in DMG MORI Europe AG, Winterthur (Switzerland), held by DMG MORI COMPANY LIMITED, Nagoya (Japan).
- Also in December 2016, DMG MORI Sales and Service Holding AG, Winterthur (Switzerland) made a full acquisition of the shares in MORI SEIKI International SA, Le Locle (Switzerland) and MORI SEIKI Europe AG, Winterthur (Switzerland) from DMG MORI COMPANY LIMITED, Japan. Both companies, as well as DMG MORI Europe Holding AG, Winterthur (Switzerland) were subsequently merged with DMG MORI Europe AG, Winterthur (Switzerland).

The structure of the group is oriented on all companies making their contribution to further expand the position as a global market and innovations leader for cutting machine tools. The group is depicted in a **matrix organisation** with the production plants on the one side and the sales and service companies on the other side. The supply plants are specialised according to business fields and production lines.

The DMG MORI sales and service companies are responsible for the direct sales and services 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.

DMG MORI COMPANY LIMITED, Nagoya (Japan), according to the notifications of voting rights disclosed until 31 December 2016, indirectly held a 76.03% share of voting rights in the share capital of DMG MORI AKTIENGESELLSCHAFT. Furthermore, according to its notifications of voting rights disclosed until 31 December, the following two shareholders have more than 3% of the voting rights reported: Elliott International Limited and affiliated companies held 5.07% of the share capital as at the date of their last notification of voting rights. Bank of America Corporation and affiliated companies held altogether a 5.84% share of voting rights as at the date of their notification of voting rights, which is structured in the following way: voting rights based on (financial/other) instruments pursuant to sec. 25 (1) no. 1 WpHG: 5.35% as well as voting rights pursuant to sec. 25 (1) no. 2 WpHG: 0.23% and voting rights pursuant to sec. 21, 22 WpHG: 0,26%.

DMG MORI does not hold **any significant financial investments.**

TAKEOVER DIRECTIVE IMPLEMENTATION ACT (SEC. 315(4) OF THE GERMAN COMMERCIAL CODE (HGB))

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 of the German Stock Corporation Act (AktG), the appointment and dismissal of the members of the Executive Board is within the responsibility of the Supervisory Board. This authorisation is specified in § 7(2) of the Articles of Association of DMG MORI AKTIENGESELLSCHAFT, to the effect that the Supervisory Board appoints the Executive Board members, determines their number and regulates the allocation of responsibilities.
- DMG MORI COMPANY LIMITED, according to the notifications of voting rights disclosed until 31 December 2016, indirectly held a 76.03% share of voting rights in the share capital of DMG MORI AKTIENGESELLSCHAFT.
- Pursuant to Section 119(1)(5) of the German Stock Corporation Act (AktG), the Annual General Meeting passes resolutions on changes to the Articles of Association. The procedural rules accordingly specified are defined in Sections 179, 181 of the German Stock Corporation Act (AktG), in conjunction with Article 15(4) of the Articles of Association of DMG MORI AKTIENGESELLSCHAFT.
- Pursuant to Article 5(3) of the Articles of Association, the Executive Board is authorised to increase the share capital of the company to up to nominal € 102,463,392.20 within the period until 15 May 2019 with the agreement of the Supervisory Board by way of a single or several issues of up to 39,408,997 new shares against contribution in cash and / or in kind **(authorised capital).** At the same time, the Executive Board is empowered to issue shares in the value of € 5,000,000 subject to the exclusion of pre-emptive rights, to employees of the company and to affiliates of the company.

- The Executive Board is furthermore authorised, with the approval of the Supervisory Board, to exclude the statutory subscription right in certain specifically defined cases according to the Articles of Association (authorised capital).
- 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 315(4) of the German Commercial Code (HGB), the Executive Board provides the following explanatory notes:

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

THE BASIS OF THE GROUP

Share

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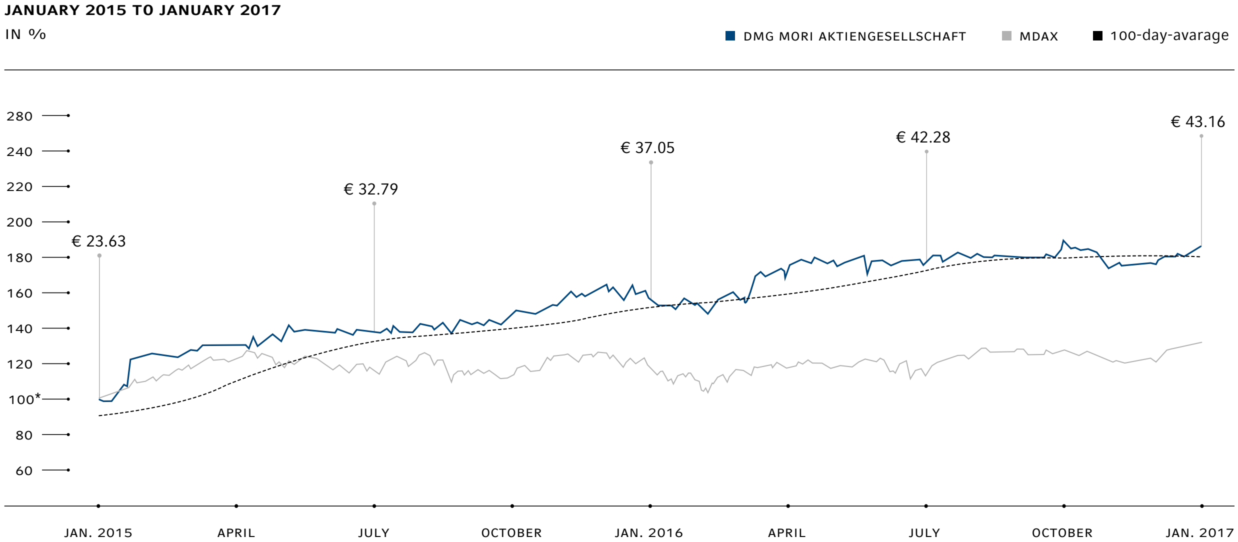
STOCK MARKET LISTING

The shares of DMG MORI AKTIENGESELLSCHAFT are listed 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, Hannover, Munich and Stuttgart. DMG MORI AKTIENGESELLSCHAFT had been an **MDAX**-listed company since December 2007. Following the majority acquisition by DMG MORI COMPANY LIMITED, the free-float market capitalisation of DMG MORI AKTIENGESELLSCHAFT fell significantly. Thus, during adjustment of share indices of the Deutsche Börse, the share moved to the **SDAX** index on 19 December 2016. DMG MORI AKTIENGESELLSCHAFT continues to meet transparency requirements of the German Stock Exchange's 'Prime Standard'. In a two-year comparison, the DMG MORI AKTIENGESELLSCHAFT share has performed as follows:

A . 03

DMG MORI AKTIENGESELLSCHAFT-SHARE IN COMPARISON WITH THE MDAX®
JANUARY 2015 TO JANUARY 2017
IN %



* 02 January 2015 = 100, stock performances indexed, XETRA; Source: Deutsche Börse Group

CONTROL AND PROFIT TRANSFER AGREEMENT

On 2 June 2016 DMG MORI GmbH – a 100% subsidiary of DMG MORI COMPANY LIMITED – as the controlling company and DMG MORI AKTIENGESELLSCHAFT as the controlled company concluded a control and profit transfer agreement pursuant to Section 291 et seq. of the German Stock Corporation Act (AktG).

Consequently, the 114th Annual General Meeting approved the control and profit transfer agreement on 15 July 2016. This agreement entered into force following entry in the commercial register on 24 August. For the term of this agreement, DMG MORI GmbH has undertaken to pay minority shareholders of DMG MORI AKTIENGESELLSCHAFT a compensation amount ('guaranteed dividend') of € 1.17 gross or € 1.03 net per share – after corporation tax and before personal income tax – for every full financial year.

In a multiple year comparison, the key figures of DMG MORI AKTIENGESELLSCHAFT have performed as follows:

A . 04

KEY FIGURES OF THE DMG MORI AKTIENGESELLSCHAFT SHARE
ISIN: DE0005878003

		2016	2015	2014	2013	2012	2011
Registered capital	€ million	204.9	204.9	204.9	204.9	156.4	156.4
Number of shares	million shares	78.8	78.8	78.8	78.8	60.2	60.2
Closing price 1)	€	43.16	38.08	23.50	23.15	15.25	9.75
Annual high 1)	€	44.76	38.90	26.82	24.53	16.11	17.50
Annual low 1)	€	35.02	23.28	18.85	15.00	9.74	8.69
Market capitalisation	€ million	3,401.8	3,001.4	1,852.2	1,824.6	917.6	586.6
Dividend*	€	–	0.60	0.55	0.50	0.35	0.25
Dividend total*	€ million	–	47.3	43.4	39.4	20.4	14.6
Dividend yield*	%	–	1.6	2.3	2.2	2.3	2.6
Earnings per share 2)	€	**0.57**	1.90	1.41	1.33	1.32	0.85
Price-to-earnings ratio 3)		**75.7**	20.0	16.7	17.4	11.6	11.5

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.

SHARE PERFORMANCE

The DMG MORI-Share gained further in value in the reporting year (+17%). In the stock market year 2016, it was initially quoted at € 37.05 (4 January 2016) and closed at a price of € 43.16 as at 30 December 2016. Market capitalisation rose in the reporting period by 13% to € 3.40 billion (reference date: 30 December 2016) and thus achieved the highest value in the 146-year history of the company.

“As a Global One Company, we bring together quality, precision and robustness: SCOPE stands for standardisation and reduction of component complexity.”

Yosuke Nakatsukasa (left), **Dr. Jens Möller** (centre) and **Thomas Roth** are discussing the benefits of the group-wide standardisation of components using the example of DMG MORI compactMaster.

THE BASIS OF THE GROUP

Corporate Governance Report

Declaration on Corporate Governance

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P. 41 ____ Research and Development

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

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

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

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

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

RESPONSIBLE MANAGEMENT OF OPPORTUNITIES AND RISKS

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

COOPERATION BETWEEN THE EXECUTIVE BOARD AND SUPERVISORY BOARD

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

OBJECTIVES IN THE COMPOSITION OF THE SUPERVISORY BOARD

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

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

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

AVOIDING CONFLICTS OF INTEREST

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

SHAREHOLDERS AND ANNUAL GENERAL MEETING

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

TRANSPARENCY

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

COMPLIANCE

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

STATUTORY GENDER QUOTA / DIVERSITY REQUIREMENTS

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

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

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

FINANCIAL ACCOUNTING AND ANNUAL AUDIT

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

SHARE OWNERSHIP OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

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

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

SUGGESTIONS OF THE GERMAN CORPORATE GOVERNANCE CODEX

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

DMG MORI's high-tech machines enable prompt performance and status analysis by means of more than 60 sensors.

"Our machine tools are equipped with intelligent sensor systems. Using the Condition Analyser and Performance Monitor, we record, save and analyse machine and production data for maximum productivity."

THE BASIS OF THE GROUP

Remuneration Report

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Pursuant to Section 5.4.7 of the German Corporate Governance Code, we report on the remuneration of the Supervisory Board individually and broken down into components.

REMUNERATION OF THE SUPERVISORY BOARD OF DMG MORI AKTIENGESELLSCHAFT

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

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

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

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

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

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REMUNERATION OF THE SUPERVISORY BOARD OF DMG MORI AKTIENGESELLSCHAFT

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

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

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

REMUNERATION OF THE EXECUTIVE BOARD OF DMG MORI AKTIENGESELLSCHAFT

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

Members of the Executive Board receive direct and indirect remuneration components. The indirect remuneration component primarily consist of pension plan expenses. The direct remuneration of members of the Executive Board of DMG MORI AKTIENGESELLSCHAFT contains fixed and variable components. The variable components comprise a short-term incentive (STI), an individual and performance-based remuneration and a long-term incentive (LTI). The remuneration components are designed in such a way that they present a clear incentive for the Executive Board members to achieve the targets.

In this way they support a sustainable and value-based corporate management. The criteria for the appropriateness of the remuneration include, primarily, the tasks rendered by each Executive Board member, his or her personal performance and the performance of the Executive Board, as well as the business situation, the success and the future prospects of the company within its comparative environment.

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

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

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

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

**Value of the LTI-Tranche 2013 – 2016

A severance payment arising from the termination of the contract with the former CEO, Dr. Rüdiger Kapitza, resulted in the amount of € 7,933 K. Dr. Rüdiger Kapitza holds a continued entitlement to the subsequent LTI tranches for 2013–2016, 2014–2017 and 2015–2018. The former Executive Board member André Danks received a payment of € 331 K as direct remuneration in the financial year 2016 until 31 December 2016. Contribution under the pension plan amounted to € 50 K. The employment contract concluded with André Danks, which has a term until 10 March 2017, remains unaffected for the time being.

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

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ALLOCATED GRANTS (IN € K)

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

1) Payments for pension provisions as defined contribution

ALLOCATED GRANTS (IN € K)

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

1) Payments for pension provisions as defined contribution

2) Pro-rata amount of service costs

In the Aerospace Excellence Centre at DECKEL MAHO in Pfronten, DMG MORI pools its group-wide expertise for the leading industry of aviation and space industry.

"In the Technology Excellence Centres for the lead industries of Aerospace, Die & Mold and Medical we develop complete technology solutions across processes."

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INFLOW FOR THE FINANCIAL YEAR (IN € K)

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

1) Payments for pension provisions as defined contribution

2) Pro-rata amount of service costs

INFLOW FOR THE FINANCIAL YEAR (IN € K)

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

1) Payments for pension provisions as defined contribution

The fixed remuneration is the contractually defined basic remuneration that is paid monthly in equal amounts. The STI is based on targets relating to key figures. In 2016 the earnings after taxes (EAT) provided the reference value used. The target figures are on a sliding scale and are specified anew each year. In addition, the STI includes a ceiling limit (CAP) in an amount of € 1,250 K for 2016 for a full member of the Executive Board. The CAP is likewise fixed anew every year. As a pre-condition for the payment of the STI, the sustainability factor of the group (total of expenses for R&D and corporate communication, as well as for vocational and further training in relation to total sales revenues) for the respective financial year must fall within a fixed range. This promotes a corporate management focused on sustainability.

As a long-term remuneration component, the LTI combines targets in relation to the EAT of the company with the performance of the company's share. A cap has been set at twice the annual fixed salary of each Executive Board member per tranche for the year in which the award takes place. Should the EAT fall below a set minimum figure over a four-year average, no LTI payment is made.

The LTI involves a **performance units plan,** which does not include any dividend payments or voting rights. In addition, the units may not be traded or sold to any third party. The tranches awarded at the beginning of each year have a term of four years. Each tranche is defined by an assumed amount of money that is converted into a number of performance units using the average share price. Following expiry of the relevant period, the amount to be paid out is calculated from the number of units. From the LTI tranche 2013 – 2016, which was awarded on 31 December 2016 and will be paid out in 2017, the resulting payment totals € 4,565 K (previous year's tranche 2012 – 2015: € 3,835 K).

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

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

The individual performance remuneration takes account of the level of success of the individual members of the Executive Board in reaching their individually set goals. The STI and LTI, as well as the individual performance remuneration, are variable, which means these are not a secure remuneration.

Remuneration in kind arises mainly from the value to be assessed in accordance with applicable tax regulations for the use of company cars and individual insurance contributions. Every member of the Executive Board is contractually entitled to remuneration in kind, which may vary depending on the personal situation and is subject to tax payable by each Executive Board member. Pension commitments for members of the Executive Board are mainly implemented through a defined contribution pension plan. A defined benefits plan existed for the former chairman of the Executive Board, Dr. Rüdiger Kapitza. The special purpose payments to the defined contribution pension plan amounted in total to € 460 K (previous year: € 385 K). The expense for the financial year just ended amounted to € 625 K (previous year: € 1,004 K).

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

Former members of the Executive Board and their surviving dependants were paid € 1,088 K in pensions (previous year: € 605 K). This also includes an amount of € 49 K (gross) that was paid in the financial year 2016 to the former chairman of the Executive Board, Dr. Rüdiger Kapitza, from insurance benefits financed by the salary conversion of variable remuneration. The amount of pension obligations for former members of the Executive Board and their surviving dependants amounted to € 35,330 K (previous year: € 11,584 K).

"High-precision work is a top priority at DMG MORI. In pre-assembly already, we lay the foundation for a maximum of accuracy and robustness of our core components."

Franziska Dreier, industrial mechanic at DECKEL MAHO in Pfronten, adjusts the modular, patented wheel tool magazine for the duoBLOCK series with space for over 450 tools.

THE BASIS OF THE GROUP

Research and Development

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P. 45 ____ Production and Logistics

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

With our app-based control and operating software CELOS we made our machine tools ready for digitisation over the last few years. Currently, our main focus is on software products for the seamless integration of machines with the company structure.

For example, the CELOS app PERFORMANCE MONITOR, presented in autumn 2016 at the AMB in Stuttgart, enables companies to determine the performance of all networked machines by measuring key indicators. The data collected allow downtimes to be analysed to enhance machine performance. Intelligent networking allows the plant operator to obtain information on all his machines, irrespective of their location.

With the establishment of the start-up company **ISTOS,** we are speeding up our digital innovation process. DMG MORI Software Solutions and ISTOS will jointly manage the digital transformation process and support DMG MORI customers and also companies outside the machine tool industry in realising projects for digital production. The focus rests on both networking DMG MORI machines and external machines as well as on providing integration services for a large variety of systems such as ERP, MES or CRM.

Focal points of the research and development work are:

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

At € 46.8 million, expenses for research and development (R&D) were around 2.0% above the previous year's figure (€ 45.9 million). A total of 502 employees worked on developing our products (previous year: 510 employees); this corresponds to 15% of the total workforce at the plants (previous year: 14%). The innovation ratio in the 'Machine Tools' segment was 3.8% (previous year: 3.6%). Investments in new products are listed in the segment reports as capitalised development costs. As drivers of growth, research and development activities make a marked contribution to the group's results.

A . 09

RESEARCH AND DEVELOPMENT AT DMG MORI IN A YEAR BY YEAR VIEW

		2016	2015	2014	2013	2012	2011	2010
R&D employees	number	502	510	501	504	502	485	451
Proportion of R&D employees 1)	in %	15	14	14	15	15	15	15
R&D expense 2)	€ million	46.8	45.9	44.1	42.5	45.3	44.7	40.3
Innovation ratio 3)	in %	3.8	3.6	3.5	3.5	3.9	4.1	5.2
Capitalisation ratio 4)	in %	18	18	18	26	20	24	23
New developments	number	8 5)6)	13 5)	16 5)	20 5)	17 5)	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) Capitalised development costs in relation to R&D expense.
5) Developments of DMG MORI AKTIENGESELLSCHAFT including cooperation developments with the DMG MORI COMPANY LIMITED.
6) Reduced number of new developments due to our strategic realignment.

In the reporting year, machines launched within the last three years accounted for around 31% of all orders (previous year: 31%). Together with DMG MORI COMPANY LIMITED, in the reporting year, we presented 8 world premieres at 73 national and international trade fairs, as well as at open house exhibitions, thus demonstrating our innovative capacity. This included seven of our own new developments and one joint development. In total, the value of our industrial property rights, defined by the market value method, amounts to around € 535 million in total (previous year: € 544 million).

The group's research and development activities are decentralised and are coordinated with each other through a central product development body. We are generating additional synergies with our worldwide annual developer conference (Global Development Summit). The conference was organised successfully at our leading site for production lathes in Bergamo (Italy) with more than 200 participants and over 30 suppliers. The close cooperation with DMG MORI COMPANY LIMITED is geared towards developing and merging our joint product portfolio. For this purpose, we are conducting cooperation developments and discontinuing the marketing and production of selected products. This has reduced the number of machines within our portfolio by around 30 machines (corresponds to −14% compared to the previous year).

The **Cooperative R&D Platform** (CRP), which has now been fully implemented, supports our global development activities. Across the group, it facilitates the exchange and standard generation of development information, such as CAD data, BOM structures and rules on parts management. The first project phase was completed with the implementation of a new product data management system (PDM). The second project phase involved implementing the processing and transfer of product information to downstream departments, as well as implementing a new CAD system for generating mechatronics circuit diagrams.

The **Turning** division presented the CTX gamma 3000 TC, the largest model in the series, in a completely revised second version and with our compact turn and mill spindle compactMASTER.

Within the **Milling** division, we have presented six new developments in the past financial year: the DMU 160 P duoBLOCK and DMC 160 U duoBLOCK have completed the fourth generation of the duoBLOCK series. In the gantry machine area, the division presented second generation versions of the DMU 210 P and DMC 210 U. The high gantry machine, the DMU 600 Gantry *linear* was designed for superior surface quality and high dynamic performance. The high-precision universal machining centre, the DMU 125 *μPrecision,* launched as the DIXI 125 in 2016, is based on the successful duoBLOCK 4th generation design and achieves accuracy classes which are unique in this market segment. The *μPrecision*-option replaces the DIXI-machines and is available for selected machines of the duoBLOCK, Portal and NHX series.

In the **Advanced Technologies** business area, the second generation ULTRASONIC 20 *linear* now makes the combined machining (milling and grinding) of complex components consisting of difficult-to-cut alloys and composites even more efficient and precise.

The existing combination of laser metal deposition (LMD) and traditional milling on a machine enable highly-complex work pieces to be produced. DMG MORI has significantly enhanced this process by adding the option of ULTRASONIC machining to the LASERTEC 65 3D. This combination allows components to be completely machined on one single machine. Users are supported by an exclusive hybrid CAD/CAM module for programming additive and subtractive processes, as well as by our extensive materials database.

The core components developed with DMG MORI COMPANY LIMITED, **DMG MORI COMPONENTS,** allow us to unite the quality attributes of both companies with regard to quality, precision and durability. These components include our speedMASTER, powerMASTER, compactMASTER and torqueMASTER spindles as well as the tool magazine toolSTAR. The use of the speedMASTER spindle was successfully expanded to other product lines and has become established as a standard motor spindle with about 3,000 units. In the future, we will continue our successful co-operation with DMG MORI COMPANY LIMITED in developing components, with the aim of creating synergies through the global production of standard components and their deployment in multiple machine series.

With its app functionality, **CELOS** is already revolutionising interaction between man and machine. With 10 presented apps and 50 new functions, CELOS now has a total of 26 apps. A new concept allows selected partners to design and integrate their own apps using the CELOS DEVELOPER development kit. The two partner apps, CLAMP CHECK and SURFACE ANALYZER were already presented at the autumn trade fair in Stuttgart. In the reporting year, we also presented 8 own new apps: PERFORMANCE MONITOR, CONDITION ANALYZER, 3D PART ANALYZER, ROBO2GO, PALLET MANAGER, MESSENGER, CELOS DEVELOPER and CELOS UPDATER. For example, together with the I4.0 sensor package, the CONDITION ANALYZER provides users with an ideal software tool for monitoring machine condition and the machining process, which can be used to carry out timely performance and condition monitoring analyses. Long-term analysis allows to obtain predictive maintenance knowledge whereby our customers save maintenance costs and unscheduled downtimes can be prevented as far as possible.

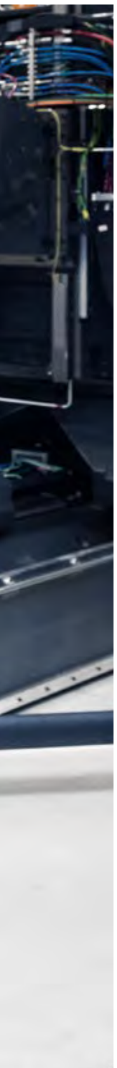
DMG MORI Powertools allows processes to be easily optimised at all production stages. For example, NC program simulation on the PC completely eliminates the need for time-consuming run-ins on machines and minimises set-up times. Certified CAD / CAM and exceptional 1:1 simulation in the DMG MORI Virtual Machine enables the productivity of all lathes and milling machines to be maximised even further. The DMG MORI Messenger allows permanent access to detailed machine condition monitoring data from any location.

We believe that making machine tools much easier to use is one of the key aspects for continuously improving production. Based on our many years of experience in the area of application technology, our 26 available exclusive **DMG MORI technology cycles** help to contribute towards this. These allow operators to locally perform complex machining functions, directly on the machine via a dialogue with parameterised context menus. In the reporting year, we presented the following new or revised technology cycles: Polygon / Oval Turning, gearSKIVING 2.0, Easy Tool Monitoring 2.0, Multi Threading 2.0, MPC 2.0 and Grinding.

We offer standard automation and flexible manufacturing cells that are ideally adjusted to our machines from one source in the **automation** area. We presented the Robo2Go as a robot cell for the standard automation of the DMG MORI universal turning machines. It is easy to operate via CELOS without any previous knowledge of robotics and can flexibly be used on multiple machines. Besides its outstanding user friendly design, users are especially impressed by its open access.

The shop floor monitors of DMG MORI display all important data that is relevant for production regarding the assembly progress, output quantity and productivity. **Tobias Däxle**, trainer in Process Management at DECKEL MAHO in Pfronten, can now also have mobile control over them on the newly implemented shop floor tablets.

“The shop floor tablet of DMG MORI shows all important information for the production process in real time.”



THE BASIS OF THE GROUP

Purchasing

P. 45 ____ Production and Logistics
P. 48 ____ Business Environment

In the reporting year, the **costs** of materials and purchased services amounted to € 1,157.5 million (previous year: € 1,211.4 million), of which raw materials and consumables accounted for € 1,018.0 million (previous year: € 1,068.1). The **material ratio** was reduced by 0.3 percentage points to 51.2% compared to the previous year (51.5%).

Within the scope of the **supplier management,** our Premium Partner Programme is a component for the expansion of supplier relations. The objective of the programme is to successfully implement the central issues of innovation, quality and globalisation through close supplier involvement already at an early stage. Since 2016, the selection of supply partners has been based on an evaluation of the suppliers according to standardised, transparent and objective criteria. The global potential is utilised by means of process optimisation; the quality, price and time requirements are continuously improved. Technological strategies are now coordinated even more closely with our Premium Partners, so that the competitiveness of DMG MORI products is guaranteed.

The **structural analysis of suppliers** in purchasing shows that 11% cover around 90% of the overall purchasing volume. We refer to these as our A-suppliers. A further 19% of our suppliers have a share of 7% of the purchasing volume (B-suppliers); 30% of our suppliers thus cover 97% of the entire purchasing volume. The remaining 3% share of materials purchased is spread among the remaining 70% of our suppliers, the so-called C-suppliers.

Beside the intensive supplier management, the **Material Group Management** is also an important pillar within the DMG MORI purchasing activities. Divided into 30 material groups, it coordinates worldwide cooperation between purchasing and development. By introducing the global material group management at DMG MORI COMPANY LIMITED, synergy effects were realised and further cost optimisations were reached.

THE BASIS OF THE GROUP

Production and Logistics

P. 48 ____ Business Environment
P. 51 ____ Results of Operations, Net Worth and Financial Position

In the continuous Project **'TAKT',** the group-wide standardisation for raising efficiency in production and logistics as well as in the areas close to production has been further pushed ahead. The focus remained on measures for sustainable productivity and inventory management.

Besides the implemented shop floor monitors, we have also introduced shop floor tablets that provide a transparent real time information to each master craftsman in the course of digitisation. Data that is relevant for production regarding the assembly progress, the output quantity and productivity is available to the master craftsman at any time and place at the site, and helps him make quick decisions on the shop floor.

Having introduced an **'Improve Together Organisation',** continuous improvements are being expanded at all production plants and best practices are transferred across all divisions.

In the current reporting year, we have further intensified the **cooperation with DMG MORI COMPANY LIMITED** in the area of production. Through the reciprocal use of the worldwide production capacities, our customers profit from shorter delivery periods and reduced transport costs. One example for this is the vertical machining centre CMX V, which was developed jointly and has been produced successfully in series since August 2016 by FAMOT Plezew Sp.z.o.o at our site in Plezew (Poland). In the future as well, we will utilise our global production network in the optimal way to increase our flexibility and produce 'in the market for the market'.

The **Ideas Management System** has once more realised very good results in the past year. The excellent quality of our established employee suggestion system is reflected in the industry benchmarking by the Institut für Betriebswirtschaft (German Institute of Business Administration). In the present competition with 72 companies from twelve industries, our plants GILDEMEISTER Drehmaschinen GmbH, DECKEL MAHO Pfronten GmbH and DECKEL MAHO Seebach GmbH are ranked among the top four.

In the **Milling business division,** we have optimised the assembly of wheel magazines at DECKEL MAHO Pfronten by introducing a cycle-timed preassembly and a rail system, whereby the output quantity was more than doubled. Furthermore, we could integrate the speedMASTER spindle in the cycle-timed motor spindle line and simultaneously increase the entire output quantity by making an adjustment to the cycle timing.

DECKEL MAHO Seebach GmbH has fundamentally modernised its module assembly. By implementing semi-automated installation devices and highly modern, individually programmable handling systems, we have reached a productivity increase of up to 10%.

In the **Turning business division,** we have reduced our flow times at GILDEMEISTER Drehmaschinen GmbH by optimising the incoming goods logistics. In close cooperation with selected suppliers, we were able to lower the repurchase times and inventories consistently.

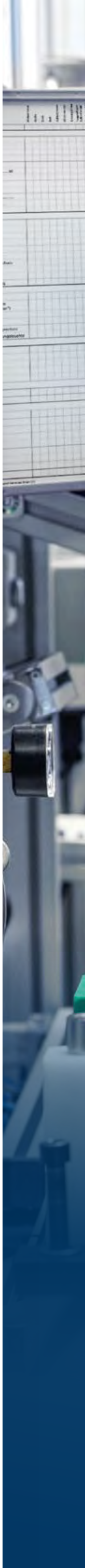
At our plant in Pleszew (Poland), we could increase the storage efficiency and reduce the commissioning expense by up to 15% by commissioning an automatic warehouse lift system for small parts and a transport line.

In the course of digitisation, the group-wide standardised platform MachData was developed. It offers a centralised overview of the most important mechanical production issues such as utilisation, productivity, costs or capacities. MachData was implemented at all of our production sites and serves as a decision-making instrument for strategic 'make or buy' decisions.

Since 30 September, our production site in Ulyanovsk (Russia) has been holding the official status of 'Russian manufacturer' as the first international machine tool builder. This enables an easier access for us to the Russian machine tool market.

In the **Advanced Technology business area,** we have expanded our production capacities at our site in Idar-Oberstein and doubled the production area to 900 m². In addition, we have optimised the logistics processes in the incoming goods department.

In the future as well, we will stand for an integrated and rigorous focus on quality and continue this with our **First Quality Standards** in all areas. Through the further standardisation of systems and tools in use, the harmonisation between our international service subsidiaries and factories were made more efficient. As a part of this we have introduced our group-wide quality tool 'Product Problem Report'. It enables a transparent processing of service requests and swift finding of lasting solutions. In the development area, the focus on software quality was emphasised further in light of the progressing digitisation of our products, so that we can guarantee the highest performance for our customers.



"As an internationally operating technology group, we see great advantages in our cultural versatility."

In the cycle-timed spindle assembly at DECKEL MAHO in Pfronten, the aspiring mechatronics technician **Sarah Menhofer** (front) and her colleagues manufacture the speedMASTER spindle. Already more than 3,000 DMG MORI machines are equipped with speedMASTER spindles.

REPORT ON ECONOMIC POSITION

Business Environment

P. 51 ____ Results of Operations, Net Worth and Financial Position
P. 64 ____ Segment Report

OVERALL ECONOMIC DEVELOPMENT

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

In **Asia,** the economy slowed down in the beginning of the year – due to economic turbulences in China – but it stabilised again from the middle of the year 2016 onward. Overall, economic growth at +6.6% stayed nearly constant compared to the previous year (+6.5%). Growth of gross domestic product (GDP) in **China** of +6.6% was below previous year (+6.9%). GDP in **Japan** rose by 1.0% (previous year +0.7%) – in spite of the appreciation of the yen.

In the **USA,** the economy accelerated in the second half of 2016. The GDP grew by 1.6% in the full year (previous year: +2.5%).

Economic development in the **Euro zone** was +1.7% (previous year: +1.5%). The economic development overall was set on a broad basis, as the development in many Member States picked up pace. It was stronger than expected especially in countries with economic problems, e.g. Portugal or Greece. The Brexit vote has hardly burdened the cyclical development at all, at least not in the short-term perspective.

In **Germany** GDP at 1.9% rose slightly stronger as in the previous year (+1.7%).

The international business development of DMG MORI AKTIENGESELLSCHAFT is influenced by the exchange rates of the euro. The U.S. dollar, the Chinese renminbi, the Russian rouble and the Japanese yen are of particular importance. Compared to these currencies, other than the Chinese renminbi, the euro decreased in the year 2016. This had a positive effect on our prices in the dollar-dependent markets, in Japan and in the Russian market.

DEVELOPMENT OF THE MACHINE TOOL BUILDING INDUSTRY

International Development

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

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

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

German Machine Tool Industry

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

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

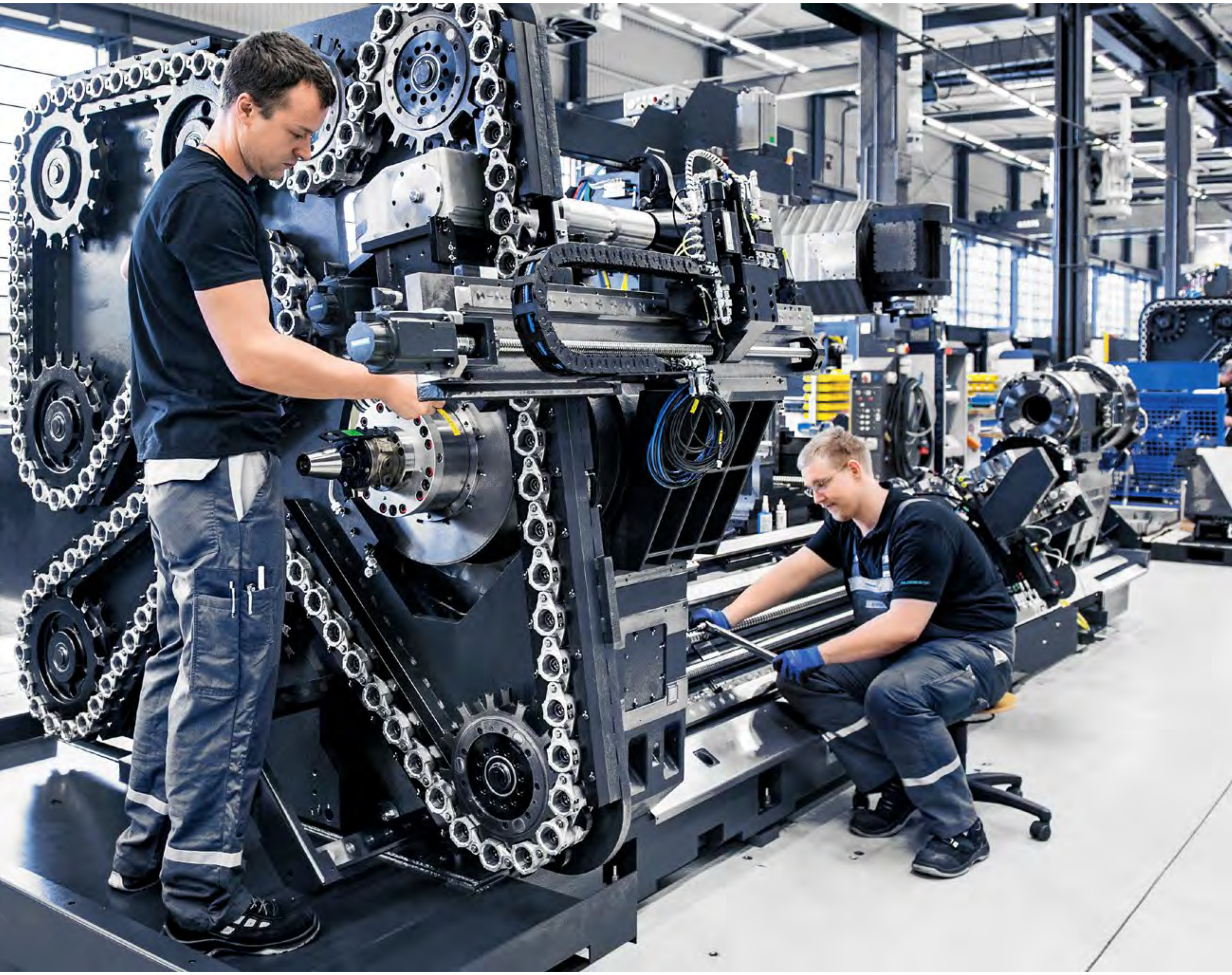
Sales revenues of German machine tool manufacturers rose slightly by 1.0% compared to the previous year period (previous year: +3.0%).

The **production** reached once again a volume of € 13.8 billion and was thereby at the previous year's level.

Machines with a value of € 9.1 billion were exported (previous year: € 9.4 billion); **exports** thus decreased by 3.0% compared to the previous year; the export ratio fell by two percentage points to 66%. The most important export market for German machine tools was once again China at € 1.8 billion (previous year: € 2.0 billion), this represents 20% of German machine tool exports (previous year: 22%). As in the previous year, the USA took second place with a constant export volume of € 1.0 billion (export share: 11%). At € 0.4 billion, Italy was once again the third most important export market (export share: 5%). **Imports** of machine tools remained constant at a level of € 3.3 billion. Accounting for an import share of 28%, almost every third imported machine tool came from Switzerland, followed by Japan (11%) and Italy (8%) also ranking among the top 3.

Domestic consumption rose by € 0.3 billion (+3.9%) to € 8.0 billion (previous year: € 7.7 billion). Over the course of the year, the **capacity utilisation** of German machine tool producers remained constant. The capacity utilisation of producers of cutting machines was 88% (previous year: 88%).

The extent of the **order backlog** rose sligtly over the course of the year: It was an average of 6.9 months (previous year: 6.8 months). The extent of order backlog is based on calculations and represents an average figure for the industry. The total number of **employees** in German machine tool companies rose on an annual average in total to 69,000 (previous year: 68,482).



The industrial mechanic **Christian Plöger** (left) and Michael Grote fit a chain magazine to the CTX gamma 3000 TC at GILDEMEISTER Drehmaschinen in Bielefeld. The universal turning / milling machine with 6-side complete machining is ideally suited for the aerospace industry.

“Transparent production processes and modern high-tech workplaces make DMG MORI an attractive employer.”

REPORT ON ECONOMIC POSITION

Results of Operations, Net Worth and Financial Position

P. 64 ____ Segment Report
P. 70 ____ Non-financial Key Performance Indicators

SALES REVENUES

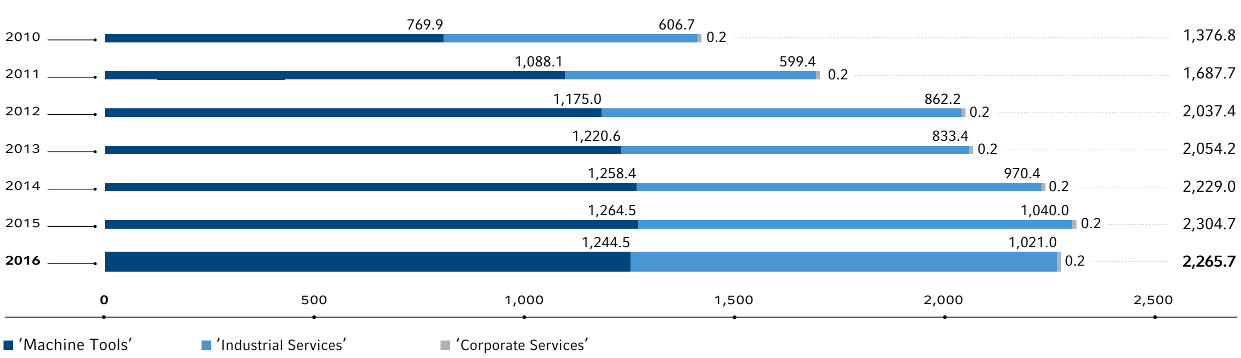
Sales revenues of DMG MORI amounted to € 2,265.7 million in the reporting year (previous year: € 2,304.7 million). In the fourth quarter, sales revenues amounted to € 636.6 million (previous year: € 655.9 million).

In the ‘Machine Tools’ segment, the sales revenues were € 1,244.5 million (previous year: € 1,264.5 million). Sales revenues reached € 346.8 million in the fourth quarter (previous year quarter: € 372.1 million).

The ‘Industrial Services’ segment reached sales revenues of € 1,021.0 million (previous year: € 1,040.0 million). Sales revenues in the Services division were € 970.5 million (previous year: € 996.5 million). Sales revenues from trade with products of DMG MORI COMPANY LIMITED decreased to € 433.4 million (previous year: € 463.3 million). The Energy Solutions division accounted for € 50.5 million (previous year: € 43.5 million). In the fourth quarter, sales revenues in the ‘Industrial Services’ segment amounted to € 289.8 million (previous year's quarter: € 283.8 million).

International sales revenues of the group amounted to € 1,528.6 million. Domestic sales revenues were € 737.1 million. The export share amounted to 67%, as in the previous year.

B . 01
SALES REVENUES DMG MORI
IN € MILLION



ORDER INTAKE

Order intake developed increasingly positive in the course of the year despite weakening market conditions: after orders had outperformed the value of the previous four quarters at +12% in the third quarter already, the order intake in the past three months of 2016 rose to € 610.3 million – which is a plus of 13% (previous year's quarter: € 540.8 million). In the overall year, order intake rose by 4% to € 2,369.9 million (previous year: € 2,282.8 million). Thus, we have achieved the highest order intake in the 146-year history of the company.

Orders in the ‘Machine Tools’ segment in the reporting period were € 1,269.3 million (previous year: € 1,212.5 million). The ‘Industrial Services’ segment recorded order intake of € 1,100.4 million (previous year: € 1,070.1 million), of which € 1,032.8 million was accounted for the Services division (previous year: € 1,021.2 million). This figure includes orders for machines of DMG MORI COMPANY LIMITED in the amount of € 386.9 million (previous year: € 405.7 million).

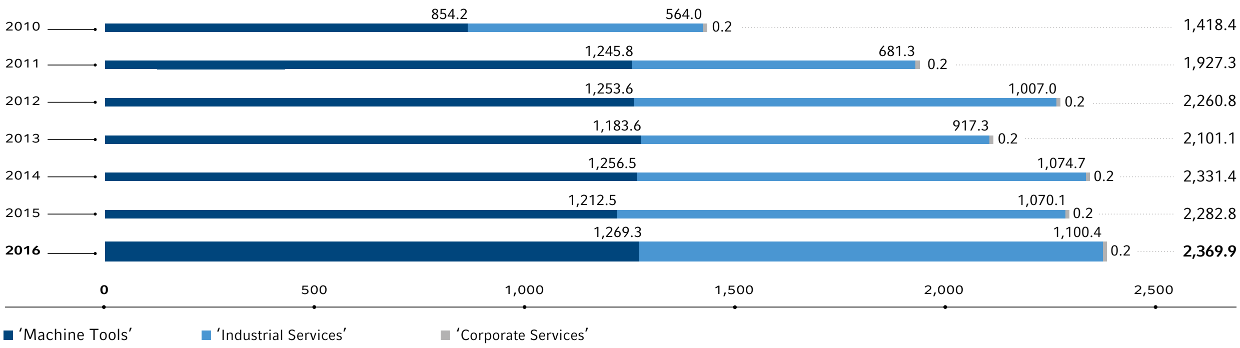
Domestic orders amounted to € 763.0 million (previous year: € 785.0 million). International orders were € 1,606.9 million (previous year: € 1,497.8 million). Thus, the proportion of foreign business was 68% (previous year: 66%).

In a multiple year comparison, the segments contributed to group order intake as follows:

B . 02

ORDER INTAKE DMG MORI

IN € MILLION

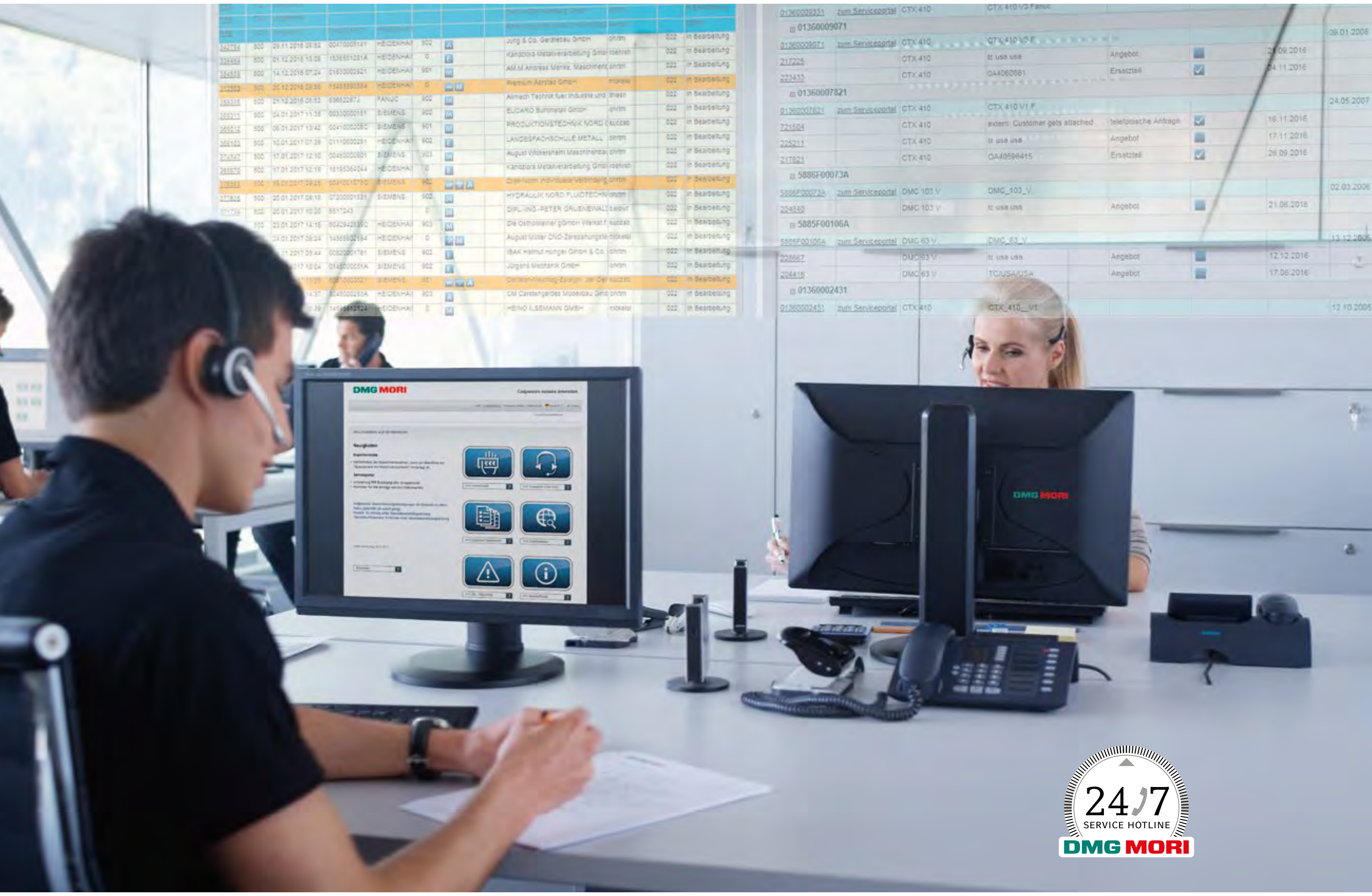


ORDER BACKLOG

On 31 December 2016, the order backlog of the group was € 937.5 million (previous year: € 884.2 million). The rise results from the excellent order intake in the fourth quarter. The domestic order backlog was € 361.2 million (corresponding date of the previous year: € 335.7 million). The foreign order backlog increased by € 27.8 million to € 576.3 million (previous year: € 548.5 million); international orders accounted for 61% of orders in hand (corresponding date of the previous year: 62%). The order backlog still includes the values of the companies in the remaining regions of Asia and America, which have been managed by DMG MORI COMPANY LIMITED since the beginning of the year 2017.

The order backlog varied in the individual segments. In 'Machine Tools' it amounted to € 502.9 million (31 Dec. 2015: € 478.1 million). 'Industrial Services' had an order backlog as at 31 December 2016 totalling € 434.6 million (previous year: 406.1 million); of which € 414.9 million was accounted for by the order backlog in the Services division (previous year: € 387.8 million). The Energy Solutions order backlog amounted to € 19.7 million (previous year: € 18.3 million).

In 'Machine Tools', order backlog results in a calculated production capacity of an average of about 4.5 months (previous year: about 4.0 months) – a good basic capacity utilisation for the new business year. In this respect, the individual production companies report differences in the level of their capacity utilisation.



More than 2,500 worldwide DMG MORI service employees are on duty around the clock for our customers.

“We are living service excellence: We can be reached by our customers 24 hours, 7 days a week.”

RESULTS OF OPERATIONS

In financial year 2016, the key income figures of DMG MORI developed as follows: The **EBITDA** amounted to € 169.7 million (previous year: € 243.1 million) and **EBIT** was € 104.0 million (previous year: € 185.9 million). **EBT** was € 94.1 million (previous year: € 217.3 million); the previous year's figure of € 217.3 million includes the one-off profit from the sale of shares held in DMG MORI COMPANY LIMITED. The decline of profits by € 77.8 million was particularly the result from effects of the implemented realignment measures. These include expenses amounting to € 66.8 million for events not recurring on an annual basis. The annual profit amounted to € 47.5 million (previous year: € 159.6 million).

The items of the income statement are explained in consideration of the effects as follows.

B . 03

INCOME STATEMENT DMG MORI	2016		2015		Changes against previous year	
	€ million	%	€ million	%	€ million	%
Sales revenues	**2,265.7**	**100.1**	**2,304.7**	**98.0**	**−39.0**	**1.7**
Changes in finished goods and work in progress	−16.9	−0.7	33.5	1.4	−50.4	150.4
Own work capitalised	13.6	0.6	13.8	0.6	−0.2	1.4
Total work done	**2,262.4**	**100.0**	**2,352.0**	**100.0**	**−89.6**	**3.8**
Cost of materials	−1,157.5	−51.2	−1,211.4	−51.5	53.9	4.4
Gross profit	**1,104.9**	**48.8**	**1,140.6**	**48.5**	**−35.7**	**3.1**
Personnel costs	−572.0	−25.3	−545.5	−23.2	−26.5	4.9
Other expenses and income	−363.2	−16.0	−352.0	−15.0	−11.2	3.2
EBITDA	**169.7**	**7.5**	**243.1**	**10.3**	**−73.4**	**30.2**
Depreciation of fixed assets	−65.7	2.9	−57.2	−2.4	−8.5	14.9
EBIT	**104.0**	**4.6**	**185.9**	**7.9**	**−81.9**	**44.1**
Financial result	−10.6	−0.4	30.8	1.3	−41.4	134.4
Results of at equity valued companies	0.7	0.0	0.6	0.0	0.1	16.7
EBT	**94.1**	**4.2**	**217.3**	**9.2**	**−123.2**	**56.7**
Taxes on profit	−46.6	−2.1	−57.7	−2.4	11.1	19.2
Annual profit	**47.5**	**2.1**	**159.6**	**6.8**	**−112.1**	**70.2**

Total work done decreased in financial year 2016 to € 2,262.4 million; it was thus € 89.6 million or 3.8% below the previous year's figure (€ 2,352.0 million). The decline resulted from sales revenues being lower by € 39.0 million or 1.7% (previous year: € 2,304.7 million) and the change in inventory of € −16.9 million (previous year: € 33.5 million), which was primarily due to a reduction in unfinished goods. The implementation of the 'Smart Pricing Concept' since 1 September 2016 resulted in a decline of sales revenues by € 11.0 million, which became effective on income in the same amount.

The **materials ratio** amounted to 51.2% (previous year: 51.5%). The cost of materials decreased by € 53.9 million or 4.4% to € 1,157.5 million (previous year: € 1,211.4 million). The decline results in particular from the decreased total work done. The cost of materials includes effects from the realignment in the amount of € 4.9 million. Gross profit amounted to € 1,104.9 million (previous year: € 1,140.6 million).

The **personnel ratio** amounted to 25.3% (previous year: 23.2%). Employee expenses rose by € 26.5 million to € 572.0 million (previous year: € 545.5 million). This includes an effect from realignment in the amount of € 17.2 million, which is largely caused by severance payments. Without this effect personnel ratio would amount to 24.5%.

The balance of **other income and expenses** amounted to € −363.2 million (previous year: € −352.0 million). Other operating income reduced to € 96.7 million (previous year: € 129.9 million); it includes, as in the previous year, in particular exchange rate profits in the amount of € 39.2 million (previous year: € 65.9 million), which should be seen in connection with the exchange rate losses in other operating expenses.

In the financial year 2016, an exchange rate profit resulted in the amount of € 0.5 million on balance (previous year: € 4.6 million). Other operating expenses decreased by € 22.0 million to € 459.9 million (previous year: € 481.9 million). In particular, currency exchange losses (€ 38.7 million; previous year: € 61.3 million), trade fair costs (€ 48.8 million; previous year: € 55.7 million) as well as expenses for agency work (€ 24.4 million; previous year: € 29.0 million) recorded a decline. In other operating expenses, an effect occurred in the reporting year that resulted from the realignment and amounted to € 32.8 million, which was largely owing to the sale of shares in GILDEMEISTER energy storage GmbH, the costs for contract termination and impairment of receivables and assets.

At a continued high investment volume, **depreciations** amounted to € 65.7 million (previous year: € 57.2 million). In connection with the realignment, an effect resulted in the amount of € 8.4 million.

The **financial result** amounted to € −10.6 million (previous year: € 30.8 million); in the previous year, especially the earnings from the sale of shares held in DMG MORI COMPANY LIMITED (€ 37.8 million) contributed to this result. Interest expenses amounted to € 8.1 million (previous year: € 8.0 million). An effect from the depreciation of financial assets in the amount of € 3.5 million arose in the financial result.

The **tax ratio** amounted to 49.5% (previous year: 26.5%). The change is influenced by the effects on the result from the implemented realignment measures, that are largely not tax-deductible. The tax effects from this will not affect the cash flow for the most part. The tax expense amounted to € 46.6 million (previous year: € 57.7 million). For further descriptions of the tax ratio, please see Notes page 131 et seq.

FINANCIAL POSITION

DMG MORI´s financial position developed as follows in the reporting year: **Cash flow from operating activities (cash inflow)** was € 124.0 million (previous year: € 142.7 million).

Substantial contributions to this cash flow came from earnings before taxes (EBT) of € 94.1 million (previous year: € 217.3 million) and depreciation of € 65.7 million (previous year: € 57.2 million). The rise of received prepayments by € 25.2 million and the decline of other assets by € 24.1 million led to an improvement of the cash flow. The planned reduction in trade creditors by € 44.7 million, the rise in trade debtors by € 8.3 million and in inventories by € 6.3 million led to a reduction of the cash flow. In addition, payments for taxes on profit and income (€ 49.5 million) and interest (€ 7.5 million) lowered the cash flow.

B . 04

CASH FLOW	2016 € million	2015 € million
Cash flow from operating activity	124.0	142.7
Cash flow from investment activity	−198.3	18.9
Cash flow from financing activity	−52.5	−44.3
Changes in cash and cash equivalents	−124.8	119.1
Liquid funds at the start of the reporting period	552.1	433.0
Liquid funds of assets held for sale	−30.6	0
Liquid funds at the end of the reporting period	396.7	552.1

The **cash flow from investing activities (cash inflow)** amounted to € −198.3 million (previous year: € 18.9 million). Payments made for investments in property, plant and equipment were € 74.3 million (previous year: € 124.0 million) and in intangible assets were € 13.8 million (previous year: € 14.8 million); the key point was the completion of our large projects. The first disbursement for the loan of € 120.0 million to DMG MORI GmbH in the reporting year is also disclosed in the cash flow from investment activity. The positive cash flow in the previous year resulted from payments amounting to € 153.7 million, which were received for the sale of the shares held in DMG MORI COMPANY LIMITED.

At € 42.5 million, the **free cash flow** was above the previous year´s value of € 32.0 million. The free cash flow is defined as the balance of the cash flow from operating activities and the cash flow from investing activities, whereas the inflows and outflows relating to financial assets (€ 3.2 million; previous year:

€ 153.7 million), payments for the loan to DMG MORI GmbH (€ 120.0 million; previous year: € 0.0 million) and payments to plant, property and equipment (€ 0.0 million; previous year: € −24.1 million), which are financed by loans, remain outside of consideration.

B . 05

FREE CASH FLOW	2016 € million	2015 € million
Free cash flow from operating activity	124.0	142.7
Free cash flow from investing activity	−81.5	−110.7
Free cash flow	42.5	32.0

Cash flow from financing activities (cash outflow) was € −52.5 million (previous year: € −44.3 million) and resulted essentially from the dividend payment in July 2016 in the amount of € −47.3 million (previous year: € −43.4 million) as well as from the repayment of financial liabilities in the amount of € −5.2 million (previous year: € −1.7 million).

The change in the cash flow as at 31 December 2016 resulted in a decrease of liquid funds by € 155.4 million to € 396.7 million (previous year: € 552.1 million), which essentially results from the loan having been granted to DMG MORI GmbH in the amount of € 120.0 million. DMG MORI is therefore in a good liquidity position at the end of the year.

As at 31 December 2016, surplus funds are recorded in the amount of € 342.1 million (previous year: € 500.3 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 totals € 773.0 million in the financial year 2016. Its material elements are a syndicated credit facility 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 € 53.2 million and factoring agreements of € 167.5 million. As of 31 December 2016, the cash tranche was unused.

Factoring remains an important component of our financing mix. In addition to the financing effect, we can also optimise the process of our debtor management. Besides this, we still have some long-term loans and short-term bilateral loan commitments to individual subsidiaries with a total volume of € 52.3 million (previous year: € 55.6 million). For its operating activities, DMG MORI requires aval lines in order to have guarantees for pre-payments and warranties issued.

Our syndicated credit agreement obligates us to observe a covenant in line with the market. As at 31 December 2016, the covenant has been adhered. The financing is supplemented by off balance sheet operating lease agreements. The sum of future obligations from the operating lease agreements is € 58.3 million (previous year: € 65.0 million).

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

DMG MORI´s financing takes place centrally. Only if group financing is not advantageous due to the legal framework, local financing is concluded in individual cases. Cash pooling is used to employ the liquidity surpluses of subsidiaries optimised within the group.

NET WORTH

The assets and balance sheet structure developed as follows:

B . 06

BALANCE SHEET OF DMG MORI					Changes against previous year	
	31 Dec. 2016 € million	%	31 Dec. 2015 € million	%	€ million	%
Assets						
Long-term assets						
Fixed assets	749.5	32.0	742.7	32.5	6.8	0.9
Long-term assets held for sale	84.0	3.6	103.7	4.6	−19.7	−19.0
	833.5	35.6	846.4	37.1	−12.9	−1.5
Short-term assets						
Inventories	505.1	21.6	522.3	22.8	−17.2	−3.3
Short-term receivables and other assets	487.4	20.8	363.1	15.9	124.3	34.2
Assets held for sale	116.5	5.0	0	0.0	116.5	100.0
Liquid funds	396.7	17.0	552.1	24.2	−155.4	−28.1
	1,505.7	64.4	1,437.5	62.9	68.2	4.7
Balance Sheet total	**2,339.2**	**100,0**	**2,283.9**	**100.0**	**55.3**	**2.4**
Equity and liabilities						
Long-term financing resources						
Equity	1,187.7	50.8	1,357.5	59.4	−169.8	−12.5
Outside capital						
Long-term provisions	80.4	3.4	77.4	3.4	3.0	3.9
Long-term liabilities	48.8	2.1	54.0	2.4	−5.2	−9.6
	129.2	5.5	131.4	5.8	−2.2	−1.7
	1,316.9	56.3	1,488.9	65.2	−172.0	−11.6
Short-term financing resources						
Short-term provisions	224.7	9.6	216.5	9.5	8.2	3.8
Short-term liabilities	761.0	32.5	578.5	25.3	182.5	31.5
Liabilities in connection with assets held for sale	36.6	1.6	0	0.0	36.6	100.0
	1,022.3	43.7	795.0	34.8	227.3	28.6
Balance Sheet total	**2,339.2**	**100.0**	**2,283.9**	**100.0**	**55.3**	**2.4**

Compared to the previous year the balance sheet has expanded by two items. The items 'assets held for sale' or 'liabilities in connection with assets held for sale' include the assets and debts from the subsidiaries in the Asian and American regions that are to be sold to DMG MORI COMPANY LIMITED in 2017; in the course of the structural realignment of our global sales and service, these entities will be managed and consolidated by DMG MORI COMPANY LIMITED as of the financial year 2017.

As at 31 December, the **balance sheet total** rose by € 55.3 million to € 2,339.2 million (previous year: € 2,283.9 million).

Under **assets, fixed assets** increased by € 6.8 million or 0.9% to € 749.5 million (previous year: € 742.7 million). Due to the construction projects completed in 2016, tangible assets increased by € 22.6 million to € 486.3 million (previous year: € 463.7 million). The intangible assets decreased by € 14.6 million to € 195.3 million (previous year: € 209.9 million). Financial assets amounted to € 67.9 million (previous year: € 69.1 million). Fixed Assets reduced by € 32.2 million due to the reposting to the item assets held for sale.

Long-term trade debtors and other long-term assets declined by € 19.7 million to € 84.0 million (previous year: € 103.7 million). Deferred taxes amounted to € 58.3 million (previous year: € 53.4 million).

Inventories decreased by 3.3% or € 17.2 million to € 505.1 million (previous year: € 522.3 million). Stocks of raw materials and consumables amounted to € 202.1 million (previous year: € 196.4 million). Stocks of work in progress reduced by € 14.0 million to € 111.6 million (previous year: 125.6 million) and stocks of finished goods by € 19.6 million to € 178.0 million (previous year: € 197.6 million). The turnover rate of inventories amounted to 4.5 (previous year: 4.4). Inventories reduced by € 23.6 million due to the reposting to the item assets held for sale.

The proportion of inventories in the balance sheet total amounted to 21.6% (previous year: 22.8%).

Short-term receivables and other assets increased in comparison with the previous year by 34.2% or € 124.3 million to € 487.4 million (previous year: € 363.1 million). Trade debtors decreased by € 2.0 million to € 194.4 million (previous year: € 192.4 million). Receivables from related parties rose by € 125.1 million to € 166.4 million (previous year: € 41.3 million); the increase results from a loan having been granted to DMG MORI GmbH in the amount of € 120.0 million in 2016. The turnover rate of trade debtors amounted to 10.0 (previous year: 9.5). Other assets amounted to € 122.1 million (previous year: € 122.1 million). Short-term receivables and other assets reduced by € 25.4 million due to the reposting to the item assets held for sale.

At the end of the reporting period, **liquid funds** declined to € 396.7 million (previous year: € 552.1 million). This equates to 17.0% of the balance sheet total (previous year: 24.2%). Liquid funds reduced by € 30.6 million due to the reposting to the item assets held for sale.

Under **equity and liabilities, equity** declined by € 169.8 million or 12.5% to € 1,187.7 million (previous year: € 1,357.5 million). The annual profit in the amount of € 47.5 million increased equity, while the dividend payment in July 2016 in the amount of € 47.3 million and the transfer of profits to DMG MORI GmbH in the amount of € 41.1 million led to a reduction. The equity ratio decreased by 8.6 percentage points to 50.8% (previous year: 59.4%). The reduction essentially results from the acquisition of 40% shares in DMG MORI Europe AG by DMG MORI COMPANY LIMITED. The **non-controlling interests in equity** amounted to € 39.9 million (previous year: € 146.6 million). As at the same date in the previous year, we have surplus funds and thus no **gearing.**

Long-term borrowings decreased slightly by € 2.2 million to € 129.2 million (previous year: € 131.4 million). The proportion of the balance sheet total amounted to 5.5% (previous year: 5.8%). The long-term provisions increased by € 3.0 million to € 80.4 million and long-term liabilities reduced by € 5.2 million to € 48.8 million. liabilities of € 3.0 million (previous year: € 3.9 million) related to deferred tax liabilities. Long-term borrowings reduced by € 2.0 million due to the reposting to the item liabilities in connection with assets held for sale.

The **long-term financing resources,** comprising equity and long-term borrowings, decreased in the reporting period by € 172.0 million or 11.6% to € 1,316.9 million.

Short-term financing resources increased to € 1,022.3 million (previous year: € 795.0 million). Short-term provisions amounted to € 224.7 million (previous year: € 216.5 million). Trade creditors decreased as planned by € 33.1 million to € 236.0 million (previous year: € 269.1 million). Prepayments received increased to € 158.1 million (previous year: € 132.9 million); the proportion of prepayments improved by 1.9 percentage points to 16.9% (previous year: 15.0%). Liabilities to other related parties increased by € 183.5 million to € 273.3 million (previous year: € 89.8 million). The increase results from the price for the acquisition of 40% interests in DMG MORI Europe AG and the profit transfer to DMG MORI GmbH. Short-term financing resources were reduced by € 34.6 million due to reposting to the item liabilities in connection with assets held for sale.

The sale of the shares in GILDEMEISTER energy storage GmbH and DMG MORI Microset GmbH, as well as the acquisition of new companies taken together did not significantly affect the net worth situation (see Notes, page 123).

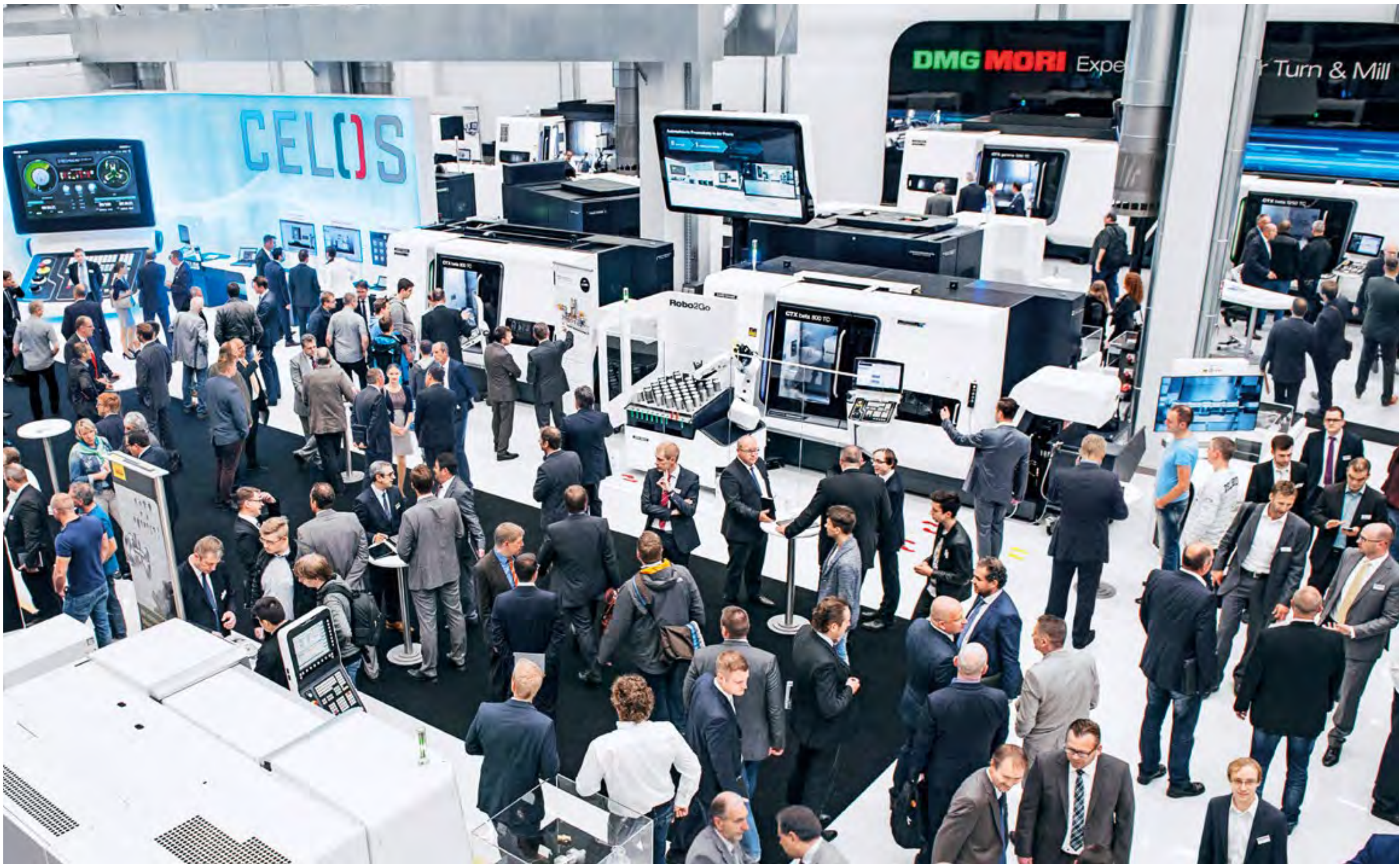
The sale of our sales and service companies in Asia and America will not have a material impact on future results of operations, net worth and financial position.

In addition to the assets recognised in the group balance sheet, DMG MORI also uses **off balance sheet assets.** These relate substantially to specific leased or rented goods (operating lease). Within the framework of off-balance sheet financial instruments, the group makes use of factoring programmes. Our excellent, long-term relationships of trust with our customers and suppliers are also of special 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 plant, property and equipment and in intangible assets of € 88.1 million were below the level of the previous year (€ 130.6 million), as planned. Depreciations of fixed assets adjusted for effects from realignment and in consideration of the capitalised development costs and finance lease amounted to € 57.3 million (previous year € 57.2 million). Depreciations of capitalised development costs amount to € 10.6 million (previous year: € 9.7 million).

The completion of our large projects were at the centre of the investment activities: We opened our new technology and solution centres in Moscow (Russia) on 23 May and in Seoul (South Korea) on 9 November. At the Bielefeld site, we expanded and modernised our technology and solution centre. On a floor space of 3,400 m², we placed greater focus on innovative products and holistic solutions for entering the digitisation stage. In the Advanced Technologies area, we could complete the expansion of our ULTRASONIC technology site in Idar-Oberstein. The additional floor space of 900 m² is primarily used to expand the production and logistics capacities. We furthermore started to expand and modernise our production sites in Seebach and Pleszew (Poland) in the area of mechanical production and logistics. 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.



Our 3,400 m² Technology and Solution Centre in Bielefeld demonstrates integrated technology solutions and the latest development trends in digitisation.

"At the DMG MORI headquarter in Bielefeld, we have invested in the expansion of our Technology and Solution Centre. We present customer-specific solutions and live demonstrations there."

ANNUAL FINANCIAL STATEMENTS OF DMG MORI AKTIENGESELLSCHAFT (SUMMARY)

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

B . 07

BALANCE SHEET OF DMG MORI AKTIENGESELLSCHAFT
GERMAN COMMERCIAL CODE (HGB)

	2016 € million	2015 € million
Assets		
Fixed assets		
Shares in affiliated companies	653.1	601.7
Equity investments	6.7	6.7
Other fixed assets	38.0	39.4
	697.8	**647.8**
Current and other assets		
Receivables from affiliated companies	573.4	442.0
Other current assets and other assets	260.0	392.6
	833.4	834.6
Balance Sheet total	**1,531.2**	**1,482.4**
Equity and liabilities		
Equitiy	**921.2**	**968.5**
Provisions	**61.3**	**58.0**
Liabilities		
Liabilities to affiliated companies	539.8	437.1
Other liabilities	8.9	18.8
	548.7	**455.9**
Balance Sheet total	**1,531.2**	**1,482.4**

The DMG MORI AKTIENGESELLSCHAFT balance sheet total increased by € 48.8 million to € 1,531.2 million (previous year: € 1,482.4 million). Fixed assets rose by € 50.0 million to € 697.8 million (previous year: € 647.8 million), due to capital increases of subsidiaries. Current assets and other assets amounted to € 833.4 million (previous year: € 834.6 million). Receivables from affiliated companies increased, especially due to the loan having been granted (€ 120.0 million) to DMG MORI GmbH. This mainly resulted in a reduction in liquid assets to € 231.9 million (previous year: € 367.3 million).

Under equity and liabilities equity declined by € 47.3 million to € 921.2 million (previous year: € 968.5 million). The decline results from the dividend payment in July 2016 in the amount of € 47.3 million. The equity ratio amounted to 60.2% (previous year: 65.3%).

B.08

INCOME STATEMENT OF DMG MORI AKTIENGESELLSCHAFT GERMAN COMMERCIAL CODE (HGB)	2016 € million	2015 € million
Sales revenues	21.6	20.6
Other operating income	21.0	28.2
Other expenses	−83.1	−98.0
Income from financial assets	115.0	86.1
Financial result	4.8	45.8
Income taxes	−38.2	−35.6
Transfer of profits to DMG MORI GmbH	−41.1	0
Net income	0	47.1
Retained profits brought forward	**1.5**	**1.7**
Net profit	**1.5**	**48.8**

Essentially, DMG MORI AKTIENGESELLSCHAFT'S income came from returns from subsidiaries in Germany totalling € 115.0 million (previous year: € 83.7 million), resulting from the profit and loss transfer; in the previous year, a dividend payment from DMG MORI COMPANY LIMITED amounting to € 2.4 million was also reported here.

Other expenses decreased to € 83.1 million (previous year: € 98.0 million) and primarily resulted from personnel expenses in the amount of € 34.8 million (previous year: € 35.5 million) and other operating expenses in the amount of € 43.5 million (previous year: € 53.4 million).

The decline of other operating expenses was primarily the result of currency losses (€ 11.9 million; previous year: € 22.5 million).

The financial result was € 4.8 million (previous year: € 45.8 million). In the previous year, the financial result was essentially supported by income received from the sale of shares held in DMG MORI COMPANY LIMITED (€ 37.8 million). The tax expense amounted to € 38.2 million (previous year: € 35.6 million).

Based on the control and profit transfer agreement, the annual result in the amount of € 41.1 million will be transferred to DMG MORI GmbH. Net profit amounted to € 1.5 million (previous year: € 48.8 million). The decline results from the dividend payment in July 2016 in the amount of € 47.3 million.

The universal lathe NEF 400 is one of the products manufactured in 14 cycles by the staff of GILDEMEISTER Drehmaschinen GmbH in Bielefeld.

"Modern line assembly facilitates high efficiency and process reliability through standardised processes."

REPORT ON ECONOMIC POSITION

Segment Report

P. 70 ____ Non-financial Key Performance Indicators
P. 74 ____ Overall Statement of the Executive Board on Financial Year 2016

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 entered in the accounts under 'Industrial Services'.

B . 09

SEGMENT KEY INDICATORS DMG MORI

	2016 € million	2015 € million	Changes 2016 against 2015 € million	%
Sales revenues	**2,265.7**	**2,304.7**	**−39.0**	**−2**
Machine Tools	1,244.5	1,264.5	−20.0	−2
Industrial Services	1,021.0	1,040.0	−19.0	−2
Corporate Services	0.2	0.2	0.0	
Order intake	**2,369.9**	**2,282.8**	**87.1**	**4**
Machine Tools	1,269.3	1,212.5	56.8	5
Industrial Services	1,100.4	1,070.1	30.3	3
Corporate Services	0.2	0.2	0.0	
EBIT	**104.0**	**185.9**	**−81.9**	**−44**
Machine Tools	80.5	102.6	−22.1	−22
Industrial Services	63.1	126.6	−63.5	−50
Corporate Services	−40.0	−42.6	2.6	

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 Software Solutions.

As part of the realignment, the ECOLINE business division has been consolidated into the turning and milling business divisions. We have replaced the ECOLINE machines with the new CLX and CMX series. The plants FAMOT Pleszew Sp. z o.o. and Ulyanovsk Machine Tools OOO ensure the production of the machines. They allow us to now offer our customers attractive basic machines – fitted with a wide choice of options covering DMG MORI's full range of technological performance and complete control expertise.

We have realigned our production site in Shanghai. As part of our modified utilisation plan, we have stopped entry-level machine production and pooled together sales, service and application technology areas under one roof. Machine tools are still being produced locally at the production plant of DMG MORI COMPANY LIMITED in Tianjin. This measure allows us to consolidate our future viability on the Chinese market.

The **Turning** division comprises GILDEMEISTER Drehmaschinen GmbH, GRAZIANO Tortona S.r.l. and GILDEMEISTER Italiana S.p.A. Our full-line range of turning machines covers the full range from universal lathes and machining centres to turn-mill centres for 5-axis complete machining, through to production lathes with multispindle and multi-slide machining centres.

The **Milling** division comprises DECKEL MAHO Pfronten GmbH and DECKEL MAHO Seebach GmbH. Our range includes products for the 5-axis simultaneous processing as well as the horizontal and vertical processing centres.

The technologies of SAUER GmbH in the business area **Advanced Technologies** can be integrated flexibly in the 5-axis processing machines of DMG MORI. Besides the ultrasound-supported milling and grinding processing provided for in the ULTRASONIC range, the LASERTEC range covers the technological fields of Shape, PrecisionTool, PowerDrill and ADDITIVE MANUFACTURING.

In the business area **Software Solutions,** DMG MORI Software Solutions GmbH pools our group-wide competencies in the control and software development.

In November 2016, ISTOS GmbH was founded. The objective of ISTOS is to offer fully connected production processes to help evolve digital transformation for both DMG MORI customers and also companies outside the machine tool industry. Together with DMG MORI Software Solutions GmbH, ISTOS GmbH will sustainably shape the digitisation in the field of machining.

In **automation,** integrated solutions are increasingly in demand. DMG MORI can adjust the interfaces between machines, automation and system control optimally, in order to create integrated automation solutions from a single source. The intelligent networking of machines and automation solution is therefore a focal point of development at our production sites.

B.10

KEY FIGURES 'MACHINE TOOLS' SEGMENT

	2016 € million	2015 € million	Changes 2016 against 2015 € million	%
Sales revenues				
Total	1,244.5	1,264.5	−20.0	−2
Domestic	405.6	420.8	−15.2	−4
International	838.9	843.7	−4.8	−1
% International	67	67		
Order intake				
Total	1,269.3	1,212.5	56.8	5
Domestic	395.5	417.7	−22.2	−5
International	873.8	794.8	79.0	10
% International	69	66		
Order backlog*				
Total	502.9	478.1	24.8	5
Domestic	127.2	137.3	−10.1	−7
International	375.7	340.8	34.9	10
% International	75	71		
Investments	48.8	82.5	−33.7	−41
Employees	3,423	3,599	−176	−5
plus trainees	267	259	8	3
Total employees*	3,690	3,858	−168	−4
EBITDA	120.1	138.7	−18.6	−13
EBIT	80.5	102.6	−22.1	−22
EBT	71.4	92.1	−20.7	−22

* Reporting date 31 December

In the fourth quarter, sales revenues in the 'Machine Tools' segment amounted to € 346.8 million (previous year: € 372.1 million). For the complete year 'Machine Tools' achieved sales revenues of € 1,244.5 million. While domestic sales amounted to € 405.6 million (previous year: € 420.8 million), international sales were € 838.9 million (previous year: € 843.7 million). The quota of international sales was 67%, as in the previous year. The 'Machine Tools' segment accounted again for a share of 55% in sales revenues.

Order intake in the 'Machine Tools' segment in the fourth quarter increased by 20% or € 54.4 million to € 328.1 million (previous year: € 273.7 million). Over the whole year, order intake amounted to € 1,269.3 million and was thus € 56.8 million or 5% above the previous year's figure (€ 1,212.5 million).

Domestic order intake declined by 5% or € 22.2 million to € 395.5 million (previous year: € 417.7 million). International orders amounted to € 873.8 million. Compared to the previous year at € 794.8 million, they were higher by 10% or € 79.0 million; the international share was 69% (previous year: 66%). The percentage of orders in the 'Machine Tools' segment amounted to 54% (previous year: 53%).

Order backlog as at 31 December 2016 amounted to € 502.9 million (previous year: € 478.1 million). The domestic order backlog amounted to € 127.2 million (previous year: € 137.3 million). International orders amounted to 75% (previous year: 71%) or € 375.7 million (previous year: € 340.8 million).

EBITDA reached € 120.1 million (previous year: € 138.7 million). **EBIT** for the financial year was € 80.5 million (previous year: € 102.6 million). Due to the realignment introduced at our Shanghai site and additional measures as part of the optimisation of our production capacities, effects arose in the amount of € 8.2 million. **EBT** amounted to € 71.4 million (previous year: € 92.1 million).

Investments amounted to € 48.8 million (previous year: € 82.5 million). The focus was on the expansion and modernisation of our technology and solution centre at the Bielefeld site, as well as the expansion of our ULTRASONIC technology site in Idar-Oberstein. We furthermore started to modernise and expand our production sites in Seebach and Pleszew (Poland) in the area of mechanical production and logistics. In Pfronten, we have fundamentally restructured the wheel magazine assembly by introducing a rail system and a cycle-timed preassembly. The capitalised development costs amounted to € 6.9 million (previous year: € 7.3 million)

The 'Machine Tools' segment had 3,690 **employees** at year-end (previous year: 3,858 employees). The percentage of the employees in this segment accounted for 51% (previous year: 52%). The adjustment in the number of employees is primarily due to the discontinuation of assembly activities at our Shanghai site.

The personnel ratio in the 'Machine Tools' segment was 20.1% (previous year: 19.0%); employee expenses amounted to € 250.3 million (previous year: € 240.3 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 aid of the DMG MORI LifeCycle Services, our customers maximise the productivity of their machine tools over their entire life cycle – from commissioning until part exchange as a used machine. The wide range of service contracts, repair and training services offered to our customers ensures the maximum cost-efficiency of their machine tools.

As of 1 September 2016, we realigned the pricing structure for our Service business. The new **'Smart Pricing Concept'** offers our customers high service quality at fair prices. DMG MORI offers inter alia an exclusive best price guarantee for spare parts or wear parts, free shipping in its online shop, as well as custom-tailored service prices through transparent flat call-out rates.

Due to the sale of interests, GILDEMEISTER energy storage GmbH and DMG MORI Microset GmbH were deconsolidated. Details are described in the section 'Organisation and legal company structure' on page 21 et seq. The values of the order backlog and number of employees were adjusted accordingly; sales revenues and order intake have been considered up to 31 December 2016.

B.11

KEY FIGURES 'INDUSTRIAL SERVICES' SEGMENT

	2016 € million	2015 € million	Changes 2016 against 2015 € million	%
Sales revenues				
Total	1,021.0	1,040.0	-19.0	−2
Domestic	331.3	341.1	-9.8	−3
International	689.7	698.9	-9.2	−1
% International	68	67		
Order intake				
Total	1,100.4	1,070.1	30.3	3
Domestic	367.3	367.1	0.2	0
International	733.1	703.0	30.1	4
% International	67	66		
Order backlog*				
Total	434.6	406.1	28.5	7
Domestic	234.0	198.4	35.6	18
International	200.6	207.7	−7.1	−3
% International	46	51		
Investments	35.8	41.4	−5.6	−14
Employees	3,442	3,419	23	1
plus trainees	51	61	−10	−16
Total employees*	3,493	3,480	13	0
EBITDA	86.0	144.3	−58.3	−40
EBIT	63.1	126.6	−63.5	−50
EBT	54.5	120.9	−66.4	−55

* Reporting date 31 December

Sales revenues in the 'Industrial Services' segment rose in the fourth quarter compared to the previous year by 2% or € 6.0 million to € 289.8 million (previous year: € 283.8 million). Sales revenues in the financial year reached € 1,021.0 million (previous year: € 1,040.0 million). International sales amounted to € 689.7 million (previous year: € 698.9 million), domestic sales were € 331.3 million (previous year: € 341.1 million). International sales of the segment accounted for a share of 68% (previous year: 67%). In the Services division, sales revenues decreased by € 26.0 million or 3% to € 970.5 million (previous year: € 996.5 million). The decline results from lower trading volume earned with machines of DMG MORI COMPANY LIMITED. Sales revenues in the Energy Solutions division amounted to € 50.5 million (previous year: € 43.5 million). 'Industrial Services' contributed a share of 45% to the group sales revenues, as in the previous year.

Order intake at € 1,100.4 million was 3% above the previous year´s figure (€ 1,070.1 million). At the same time, the contribution of Services accounted for € 1,032.8 million (previous year: € 1,021.2 million). In particular, the order intake in our original business, LifeCycle Services (e.g. spare parts, maintenance and repair), and sales commissions contributed to this result. It increased by € 30.5 million or 5% to € 646.0 million (previous year: € 615.5 million). While orders for machines of DMG MORI COMPANY LIMITED fell to € 386.9 million (previous year: € 405.7 million). The Energy Solutions division achieved an order intake of € 67.6 million (previous year: € 48.9 million). Domestic orders in 'Industrial Services' rose by 4% or € 30.1 million to € 733.1 million (previous year: € 703.0 million). A portion of 67% of all orders was received from abroad; domestic orders amounted to € 367.3 million (previous year: € 367.1 million). Within the group, 46% of all orders were attributed to 'Industrial Services' (previous year: 47%).

Order backlog as at 31 December amounted to € 434.6 million (previous year: € 406.1 million). EBITDA in the 'Industrial Services' segment in the reporting year amounted to € 86.0 million (previous year: € 144.3 million). EBIT was at € 63.1 million (previous year: € 126.6 million). The earnings performance is essentially marked by effects due to the realignment measures. In the Services division, EBIT amounted to € 104.1 million in the financial year (previous year: € 127.4 million). The decrease results, amongst others, from the new Smart Pricing Concept as of 1 September 2016. Overall, EBT of 'Industrial Services' amounted to € 54.5 million (previous year: € 120.9 million).

Investments amounted to € 35.8 million (previous year: € 41.4 million). The expansion of our international market presence was among the focus points of the investment activity, especially the completion of the new technology and solution centre in Moscow (Russia) and in Seoul (South Korea). The capitalised development costs in the 'Industrial Services' segment amounted to € 1.3 million (previous year: € 0.9 million).

The number of **employees** in the 'Industrial Services' segment was 3,493 at the end of the year (previous year: 3,480 employees). The percentage of the employees in this segment accounted for 48% (previous year: 47%). The slight increase of the number of employees results in particular from additions to personnel at our local sales and service companies in Germany, Spain and France. GILDEMEISTER energy storage GmbH and DMG MORI Microset GmbH were sold at the end of 2016.

The personnel ratio in the 'Industrial Services' segment was 28.2% (previous year: 26.0%); employee expenses totalled € 288.0 million (previous year: € 270.4 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

	2016 € million	2015 € million	Changes 2016 against 2015 € million
Sales revenues	0.2	0.2	0
Order intake	0.2	0.2	0
Investments	3.5	6.7	−3.2
Employees*	99	124	−25
EBITDA	−36.8	−39.2	2.4
EBIT	−40.0	−42.6	2.6
EBT	−32.2	5.0	−37.2

* reporting date 31 December

In the 'Corporate Services' segment, both **sales revenues** as well as **order intake** in respective amounts of € 0.2 million primarily consisted of rental income as in the previous year. 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 € −40.0 million (previous year: € −42.6 million). The financial result amounted to € 7.8 million compared to the previous year (previous year: € 47.2 million). EBT was at € −32.2 million (previous year: € 5.0 million). This includes effects for reason of severance payments in the amount of € 7.9 million, which were entered with effect on expenses. In the previous year, this includes one-off income in the amount of € 37.8 million from the sale of the shares in DMG MORI COMPANY LIMITED.

Investments in property, plant and equipment and in intangible assets in the 'Corporate Services' segment amounted to € 3.5 million (previous year: € 6.7 million). At our site in Bielefeld, we have systematically continued the modernisation and efficiency measures. The modernisation of the production halls by installing more efficient air conditioning systems and modern LED technology was in the focus here.

As of 31 December 2016, the 'Corporate Services' segment had 99 **employees** (previous year: 124 employees). As in the previous year, this represents 1% of the group workforce.

Julian Bindel, metal technology specialist trainee at DECKEL MAHO in Seebach, seen in front of CELOS – the basis for digitisation in production. With currently 26 apps, DMG MORI enables the complete networking of machines with the business organisation.

“With the app-based control and operating software CELOS, we have readied the high-tech machines of DMG MORI for digitisation.”

REPORT ON ECONOMIC POSITION

Non-financial Key Performance Indicators

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SUSTAINABILITY

DMG MORI considers itself to be obligated for sustainable action in relation to its employees, society and the environment. In all we do, we act responsibly and in conformity with all applicable laws. We expect the same from our business partners. We offer the opportunity to our employees to advance their personal development. We are seeking an active dialogue with customers, employees and business partners and are constantly developing our strategy.

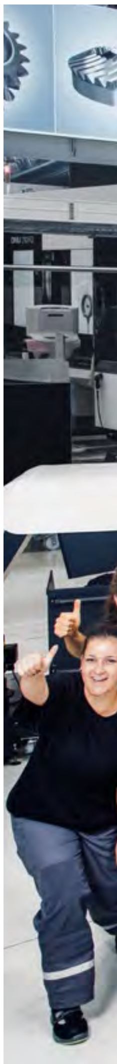
Development of energy-saving products
Sustainable energy and resources efficiency results from the emission-minimising production and the sustainability characteristics of our machines. As co-initiator of the **VDW Initiative Blue Competence,** we continuously work on reducing the energy demand of our machine tools.

We bundle our activities to raise energy efficiency under the label DMG MORI ENERGY SAVING. Thanks to intelligent technology and layouts that are sparing on resources, our machines achieve an energy saving of up to 30% over the entire lifecycle. Our app-based control and operating software CELOS allows an automated energy management of the machines by virtue of lower energy consumption with simultaneous productivity increases. The integrated 'Energy monitor' delivers consumption data, energy costs and the CO_2 balance for different machine states.

Our subsidiary, GILDEMEISTER energy solutions, offers complete solutions for the energy management of industrial and commercial customers. This includes efficiency analyses for savings as well as systems for generating and using renewable energies.

Resource-saving production
We are working toward structuring our production and logistics in a climate-friendly way. To keep the CO_2-emissions at our company as minimal as possible, we take account of not only economic but also ecological aspects when transporting machines, spare parts or operational and auxiliary supplies. Part of our ecological responsibility is also the requirement that all of our products must be recyclable. We actively design Industrie 4.0 as a production strategy and optimise our production sites accordingly. This way, processes and requirements become transparent and waste is minimised.

Integrated energy concept
At all European group sites, an **energy management system according to DIN EN ISO 50001** was introduced and certified. Comprehensive analyses have shown potentials for raising energy efficiency along the entire value-added chain. Numerous measures have already been put into practice. Group-wide energy targets and site-specific actions plans secure the continuous improvement of our energy efficiency. For example, the 'GILDEMEISTER energy monitor' software was implemented at all European sales sites in the past financial year. Furthermore, lighting and pressurised air, heat and cold generation were optimised at many sites. The electricity generated by photovoltaic and combined power and heat systems amounts to approx. 4% of the overall power consumption. Through these measures, DMG MORI contributes to climate protection and reasserts its sustainable resources management.



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.

"With a training rate of around 10% at our production sites, DMG MORI makes an important contribution to the qualification of young people."

EMPLOYEES

On 31 December 2016, the group employed 7,282 employees, including 318 trainees (previous year: 7,462 employees). The number of employees decreased by 180.

The adjustment of the headcount in the 'Machine Tools' segment largely results from the discontinuation of assembly at our Shanghai site. In the 'Industrial Services' segment, we have increased the personnel, especially in our sales and service companies in Germany, Spain and France. GILDEMEISTER energy storage GmbH and DMG MORI Microset GmbH were sold at the end of 2016. At year-end, 4,099 employees (56%) worked at our domestic companies and 3,183 employees (44%) at our foreign companies.

The number of **agency workers** employed throughout the group was 438 at the end of the financial year (previous year: 488). At the end of December 2016, a total of 318 **trainees** were employed at the group (previous year: 320). At the start of the new training year, 74 trainees were hired (previous year: 89). The vocational training ratio at the domestic companies in the 'Machine Tools' segment amounted to 9.9% (previous year: 9.6%). Overall, we offer vocational training in ten different occupations. Moreover, we offer courses of study in cooperation with regional colleges of advanced vocational education and universities of applied sciences. We are continuously expanding and developing these collaborations.

At the end of the reporting year, a total of 894 women were employed in the group (previous year: 975). The ratio of women working for the group was 12.3%. In the 'Machine Tools' segment, the ratio of women was 10%, in 'Industrial Services' it was 15%, and in 'Corporate Services' it was 32%.

DMG MORI AKTIENGESELLSCHAFT supports the reconciliation of work and family life: We support flexible working times, the use of parental leave by both female and male employees, as well as individual solutions for better reconciliation of work and family life. In an industry that has traditionally been preferred by men, we are making every effort to ensure that the number of female employees continues to rise. Through projects such as MINT-relations, we specifically support girls and women in their interest in scientific and technical careers and strengthen their commitment.

In the area of **Human Capital,** we have been placing a high value on the skills of our employees for years. The qualifications structure remains at a high level. In all, 97% of the workforce has a professional qualification or is currently receiving vocational training (previous year: 97%). 4,991 employees or 69% of the workforce took part in further training courses (previous year: 5,369 employees or 72%). In total, expenses for vocational and further training amounted to € 16.4 million (previous year: € 15.9 million).

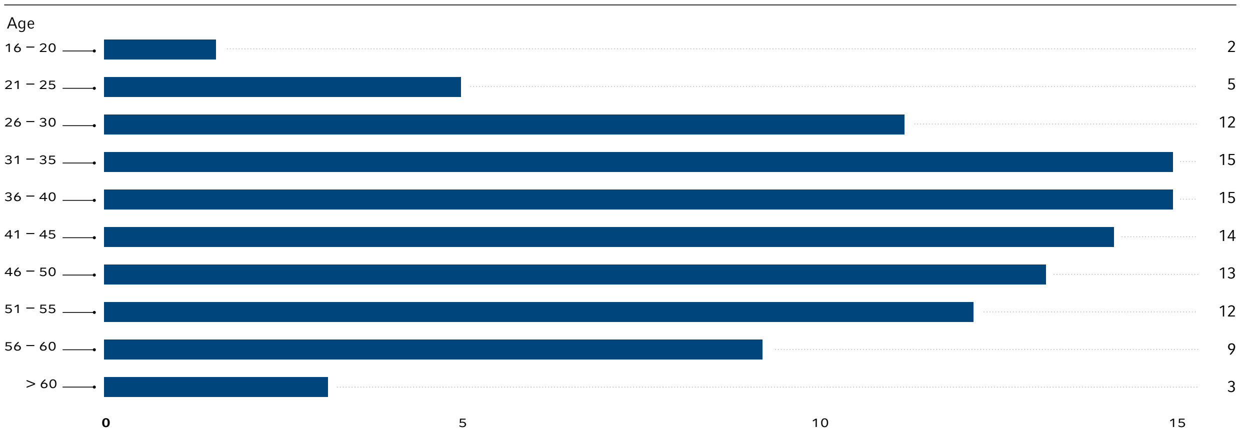
Variable income components reward individual performance and encourage **employee motivation.** In addition, we have again agreed a **worldwide premium model** for the financial year ended, which grants employees of the group a profit-dependent share in **the result of 2016.** The premium volume amounts in total to around **€ 9.3 million.** Further components of employee motivation are occupational safety and health protection, which are a core element in our value creation system both nationally and internationally. Our certified quality management system sets out the working conditions for every country in which we have production plants as well as sales and service companies.

As part of the 'High Potential Programme' started in the second half of 2016, we are training qualified employees for taking on future managerial roles.

Employee expenses rose by € 26.5 million to € 572.0 million (previous year: € 545.5 million). Of this, wages and salaries accounted for € 485.7 million (previous year: € 463.6 million), social insurance contributions for € 78.9 million (previous year: € 74.9 million) and the costs of retirement pensions for € 7.4 million (previous year: € 7.0 million). Additional personnel costs resulted from effects related to the realignment measures in the amount of € 17.2 million, which was largely the result of severance payments. The personnel ratio amounted to 25.3% (previous year: 23.2%). Without effects from realignment, the personnel expense rate would be at 24.5%. Our employees' age structure is balanced and is represented as follows:

B . 13

AGE STRUCTURE OF EMPLOYEES AT DMG MORI
IN %



The part-time retirement plan covered 56 employment agreements (previous year: 54), for which we use the block model; the entire period of part-time retirement is divided into equal active and passive phases. In the active phase there were 33 employees and 23 in the passive phase.

The sickness rate was 4.0% (previous year: 3.5%) and was thus below the latest industry average of 4.6%, as in the previous year. The employee fluctuation rate in the financial year just ended was 8.6% (previous year: 8.1%) and was primarily influenced by the discontinuation of assembly activities at our Shanghai site.

REPORT ON ECONOMIC POSITION

Overall Statement of the Executive Board on Financial Year 2016

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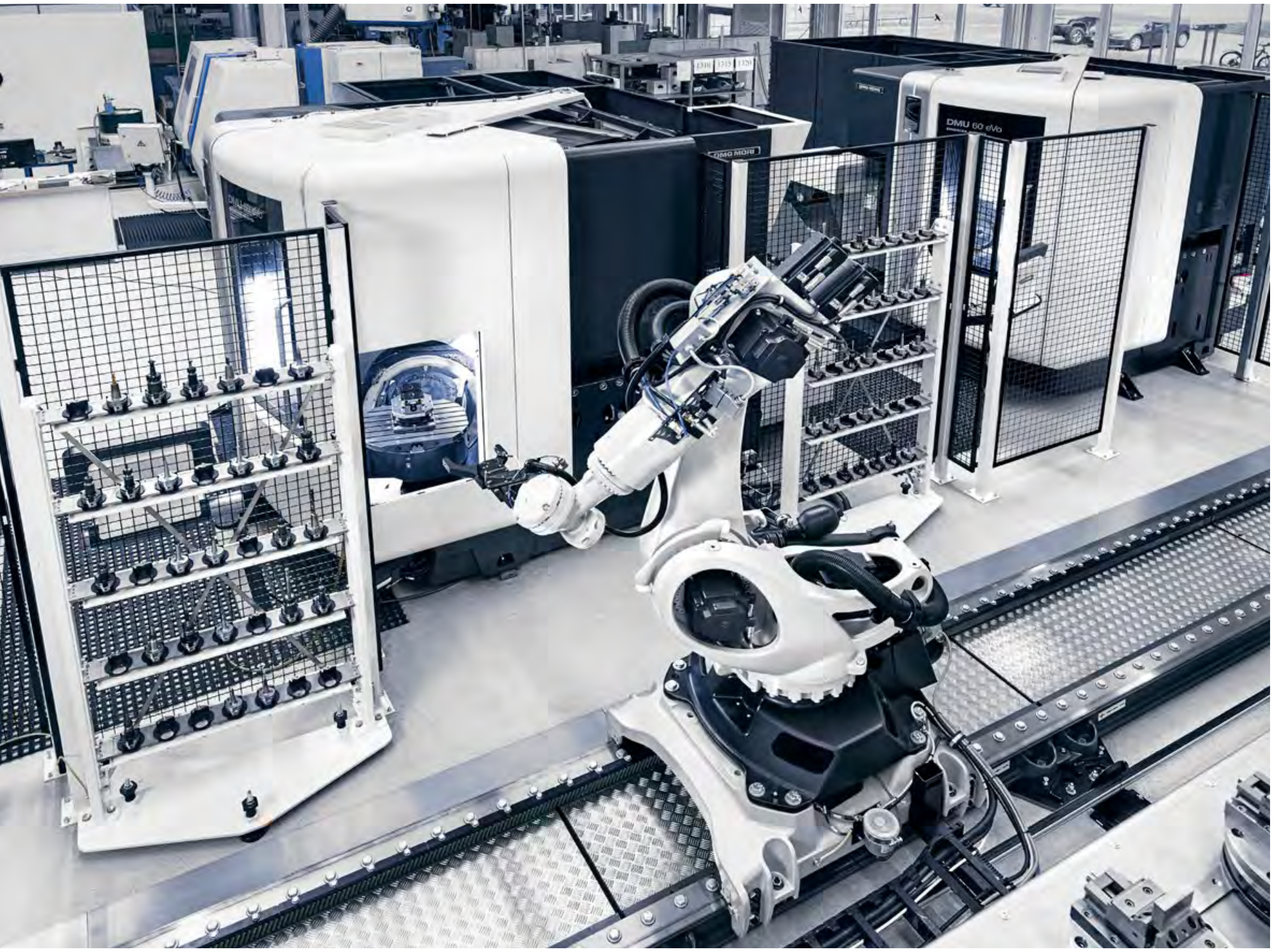
Overall, DMG MORI successfully completed the financial year 2016. With € 2,369.9 million, order intake reached a new record figure (previous year: € 2,282.8 million). Despite challenging macroeconomic conditions, we achieved the highest order intake in the company's 146-year history. Although the worldwide market for machine tools was in decline at −2.5%, DMG MORI recorded a 4% increase. During the year, order intake showed an increasingly positive trend: after orders had outperformed the value of the previous four quarters at +12% in the third quarter already, the order intake in the fourth quarter of 2016 rose once again by 13% to € 610.3 million (previous year's quarter: € 540.8 million).

Sales revenues amounted to € 2,265.7 million and were thus, slightly below last year's figure (€ 2,304.7 million). EBITDA amounted to € 169.7 million (previous year: € 243.1 million), EBIT was € 104.0 million (previous year: € 185.9 million) and EBT € 94.1 million. The previous year's figure of € 217.3 million includes the one-off profit (€ 37.8 million) from the sale of shares held in DMG MORI COMPANY LIMITED. The development of earnings 2016 was significantly marked by effects of € 77.8 million, in particular for the measures of implementing the realignment. As at 31 December 2016, the group reported € 47.5 million in annual profit (previous year: € 159.6 million). At € 42.5 million, free cash flow was above last year's figure (previous year: € 32.0 million).

A pivotal event was the increase in the interest of DMG MORI COMPANY LIMITED in DMG MORI AKTIENGESELLSCHAFT at the beginning of April to 76.03% and the conclusion of a control and profit transfer agreement. It forms the legal framework for an even closer cooperation with DMG MORI COMPANY LIMITED. The agreement entered into force following approval at the 114th Annual General Meeting on 15 July and entry into the commercial register on 24 August. In this respect, 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.

In financial year 2016, DMG MORI set the course for the future through focusing on its core machine tool and service business. This includes steps taken towards establishing a new global sales and service structure, optimising production capacities and selling companies outside our core business. Through the further growing together with DMG MORI COMPANY LIMITED and our new customer-focused culture we are in a good position for the challenges ahead of us. As a 'Global One Company', we have a high level of innovative strength, technological expertise and extensive global presence.



In automation, DMG MORI offers standard automation solutions that are optimally adjusted to each other and flexible manufacturing cells from one source.

"One focus of our research and development is on automation. In the future, every machine of DMG MORI should be equipped with automation."

SUPPLEMENTARY REPORT

Supplementary Report

ECONOMIC DEVELOPMENT 2017

The **overall economic development** in the first two months of the year was mixed. According to the Institute for World Economics (IfW) in Kiel, this was characterised in particular by the change of the U.S. government and the related insecurities about the future economic course of the USA. Although the economic situation in Germany continued to be stable, the most recent business climate index published by the Munich ifo-Institute for Economic Research fell in January 2017. The current estimation of the situation for the first six months of the year is less optimistic.

The German machine tool industry started with optimistic expectations into the year 2017. VDW and Oxford Economics, however, forecast a decline of 6.0% in order intake for the first half-year in light of the very strong previous year.

CORPORATE SITUATION AFTER THE END OF THE REPORTING PERIOD

DMG MORI had a good start into the new year as expected: Order intake in January and February was € 435.2 million (previous year: € 399.2 million). Sales revenues amounted to € 308.3 million (previous year: € 322.2 million). The earnings (EBT) in the first two months were slightly below the previous year's figure; a more detailed statement is premature at the present time.

We started successfully into the new year with the machine tool exhibition IMTEX in India and our traditional in-house exhibition in Pfronten. In Pfronten, we achieved record figures with an order intake of over € 200 million and over 9,000 international trade visitors.

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

DMG MORI is strategically strengthening its cutting-edge technologies in the area of ADDITIVE MANUFACTURING: With powder-bed systems known as Selective Laser Melting, we are now combining key generative manufacturing processes for metals under one roof. For this purpose, we acquired a 50.1% interest in REALIZER GmbH in February. This strategic acquisition is a perfect addition to our Advanced Technologies.

As part of the realignment, the shares in DMG MORI Systems GmbH, Wernau, were sold to a strategic investor with effect from 28 February 2017. Our goal is that all DMG MORI machines can be fully automated in the future. The intelligent networking of machines and automation solutions is therefore a focal point of development at our production plants. We are thus focusing on standard automation solutions with pallet handling in Pfronten and on component handling in Seebach and Bielefeld. Flexible manufacturing cells will be produced at different sites.

At the in-house exhibition at DECKEL MAHO in Pfronten in February 2017 already, DMG MORI presented the LASERTEC 30 *SLM* – a new machine for the powder bed application.

"DMG MORI strengthens its future technologies in ADDITIVE MANUFACTURING. Selective laser melting in the powder bed opens up completely new fields of application to our customers."

OPPORTUNITIES AND RISK REPORT

Opportunities Management System (CMS)

Opportunities are identified, analysed and managed within the opportunities and risk management system. With our marketing information system (MIS) we identify significant individual opportunities in the sales area. 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 development of established market territories and new growth markets through the company's own sales activities and those of DMG MORI COMPANY LIMITED.

Economic growth in Germany and the Euro zone was marked by a moderate upturn in 2016. In particular, one-time effects from the ECB's expansionary monetary policy, low crude oil prices and favourable exchange rates with the US dollar and other currencies had a positive effect.

The current cyclical trend in Germany is expected to continue in 2017 with a marginally lower growth rate. The outlook for German machine building exports in 2017 is quite positive for the end of the year. However, there is also a high level of uncertainty, as the absence of one-time effects could have a significant negative impact on some or all areas of economic growth.

Europe showed stable economic growth in 2016 with a moderate upturn. A marginal decline in this trend is also expected for 2017, both for EU countries and most other European countries. In particular, a large number of former European debt crisis states (Spain, Ireland, Portugal) are showing an improvement in their economic data. Moreover, the improvement in Greece's economic situation in conjunction with the implementation of the reforms stipulated by the Euro group has, at present, largely reduced economic uncertainty on the markets. Major uncertainties also have to be considered with regard to the trend in Europe, as to a large extent, the positive trend is solely being supported by the effects of the European Central Bank's (ECB) expansionary monetary policy.

In the USA, the positive economic trend is set to continue in calendar year 2017. However, the future path of monetary policy will also have a significant impact there. Moreover, the effects of the new US president's economic policy are still unforeseeable.

The upturn in economic growth in India is also forecast to continue in financial year 2017.

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

We are exploiting **industry-specific opportunities** through our new technical innovative CLX and CMX series as attractive basic machines for the global market. The product portfolio will be constantly further developed from a technological point of view in financial year 2017.

Overall, DMG MORI continues to record a high level of interest in its products in the machine tools business.

By virtue of the continuously and unchanged low exchange rate level of the Japanese yen compared to the euro, additional sales opportunities for the machines of DMG MORI COMPANY LIMITED, which are sold by us in the euro zone, are presented to us.

Corporate strategic opportunities for DMG MORI also exist through sustained leadership in the areas of innovation and technology, as well as premium product quality. Here, we constantly maintain an active role in the area of research and development. 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', the DMG MORI AKTIENGESELLSCHAFT has realigned its global sales and service structures. Thus, as of financial year 2017, its focus will be on managing its German home market, EMEA region (Europe, Middle East, Africa) as well as the markets China and India. Together with DMG MORI COMPANY LIMITED, we support customers around the world via our direct sales and service network. This means a close relationship with customers in 79 countries across the globe.

In the area of innovative manufacturing technologies, we are expanding our current expertise in ADDITIVE MANUFACTURING at SAUER GmbH through acquisition of a majority interest in REALIZER GmbH. This allows us to offer the current two most important generative manufacturing technologies under one roof.

We continuously expand our app-based control and operating software CELOS, with new applications (apps) and more features. CELOS enables the seamless and complete networking with the company organisation. This way, CELOS represents the starting basis for the next step in digitisation, which we have taken by establishing the digital start-up company ISTOS GmbH. ISTOS will from now on realise customer-specific digitisation solutions for completely networked production processes for the entire group.

In the implementation of joint development activities, purchasing activities, and additional efficiency increases in production, we profit from our close cooperation with DMG MORI COMPANY LIMITED.

We are also restructuring and thus expanding DMG MORI's key Service segment to become even more customer-oriented. With our global service and spare parts supply concept, we provide comprehensive services to our customers around the world.

Based on numerous early operating indicators, such as e.g. market potential, order intake or trade fair evaluations identified by our Marketing Information System (MIS), we implement flexible sales control, allowing us to systematically exploit our opportunities.

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

Performance-related opportunities arise from the constant 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.

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

OPPORTUNITIES AND RISK REPORT

Risk Management System (RMS)

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P. 87 ____ Forecast Report

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 decentralised 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 the level of the group 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 recording throughout the group 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.

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 belonging measures for risk reduction or rather elimination. These risks are identified in a standardised, periodic process in the individual business units every quarter. The identified risk potentials are analysed and assessed in a gross approach and in consideration of the maximum risks and probabilities of occurrence, in order to then coordinate the measures for risk reduction or risk elimination. Based on the existing net risks after measures were taken, reporting is provided by the affiliates of the group to the group Risk Management Division. Risks threatening the continuation of business are reported immediately, also outside of the periodic reporting.

The structure of the early risk identification system is designed in such a way that we determine the individual local and central risks, as well as the effects on the group, in order to present the overall risk situation of the group:

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

Risk-bearing capacity 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.

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

The internal control system (ICS) of DMG MORI is an additional part of the group-wide risk management system. Here, the ICS complies with German statutory requirements of the Stock Corporation Act ('Aktiengesetz' (AktG)) 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 existing internal control system of the group serves to minimise or eliminate the controllable risks in day-to-day 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 value at our group.

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

In the Medical Excellence Centre newly built in 2016 at DECKEL MAHO in Seebach DMG MORI combines its full range of group-wide medical technology expertise.

> "DMG MORI works growth markets specifically with complete technology solutions for important leading industries."

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

The accounting-related internal accounting system comprises, in supplementation, the principles, procedures and measures for ensuring the propriety of the group reporting. We standardise 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 in this respect are supported and monitored by the group accounting department. In addition, there are local regulations that each has to be harmonised 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 review 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. The management testing is conducted by an external audit firm, PricewaterhouseCoopers Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, and the Internal Audit Department. Furthermore, results of a review are subjected to an audit conducted by the auditor of annual accounts. The results of the management review and its audit are reported to the Executive Board and the Supervisory Board.

The adequacy and effectiveness of the ICS is also reviewed and analysed 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.

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

An emerging turnaround of interest rates in Germany in consequence of risen inflation may have negative effects here on the cyclical development. The investment propensity of German industrial companies might weaken.

In Europe, there are noticeable risks in the euro zone arising from the missing implementation of necessary structural reforms in several euro countries, as for example in France and Italy. Also in Europe, medium-term risks for financial stability are clearly on the rise due to the current path taken in monetary policy. Major uncertainties also exist with regard to a resurgence of the 'Euro debt crisis' and a European bank crisis. The effects of Great Britain's planned exit from the European Union are currently unforeseeable. In Europe, other risks are also incurred by the future political development resulting from the upcoming elections in various countries in 2017 (Netherlands, France and Greece).

In spite of a good cyclical development in the USA, substantial risks are arising from potential restrictions of free trade with the USA.

Other risks for the global economy are incurred from the sustained slowdown in growth in the countries China and Russia.

A worldwide cyclical downturn would have a major impact on the global machine tool market and would result in a significant drop in order intake and achievable margins. We are counteracting these risks through constantly 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 rouble and British pound could lead to a price increase 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 are counteracting this risk through global sourcing and by increasing regional production.

We presently perceive the probability to be low that losses will occur due to general economic risks (0% – 20%).

Industry-specific risks exist in the form of intense competition with existing and new competitors and in increased pressure on prices in the markets for machine tools. Through the continued low exchange rate of the Japanese yen, Japanese suppliers have gained additional competitive advantages in Europe, America and Asia. We counteract these with a technological lead and a focus on our customers and markets. General operator risks may result from the continued operation of solar parks for some customers in the 'Energy Solutions' sector.

Risks for the group might arise from matters relating to export control regulations in the DMG MORI Spare Parts segment.

Overall, we consider the probability of occurrence of losses from industry-specific risks as slight.

Sales related risks arise from our products being exposed to persisting price competition in the international markets. We counteract this risk through cost reductions, improved manufacturing and procurement processes, and by optimising product startups. We consider losses from the above risks to be slight.

From the general economic, industry-specific and sales related risks, cumulative expected risks result in the amount of € 28.7 million with a low probability of occurrence.

Corporate strategic risks lie mainly in false estimations of future market development and in possible misjudgements in technological developments. We counteract these risks through intensive monitoring of the market and competition, regular strategy discussions with customers and suppliers, a comprehensive trade fair pre-sence in all of the important markets.

In consequence of the control and profit transfer agreement risks for the future economic development 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 set in the interest of the group.

We estimate any possible losses arising out of corporate strategic risks at around € 14.3 million with a low probability of occurrence.

Procurement and purchasing risks are those that we are particularly exposed to due to price increases for materials in the machine tools business.

Further risks exist in possible supplier shortfalls and quality problems. We counteract these risks through the standardisation of structural parts and components as well as through international sourcing with a minimum of two suppliers for essential materials. We quantify potential losses from the procurement and purchasing risk at € 15.6 million with a low probability of occurrence.

Production risks such as production ineffectiveness, poor utilisation 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, profit 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 innovations focused product strategy, which safeguards our technological lead.

We counteract risks of technical work safety 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 at ensuring an efficient use of resources to spare scarce environmental resources in our internal business processes.

The potential risks from the production risk field are estimated at a value of € 15.8 million with a low probability of occurrence.

In the area of **research and development,** there are risks based on possible budget exceedances, failed developments, increased start-up costs for new products, and delayed market launch of innovations. We are counteracting this risk through a closely coordinated development cooperation with DMG MORI COMPANY LIMITED, customers, suppliers and universities. Here, too, we avoid incalculable research and development projects so that we consider these risks to be manageable and controllable. We estimate any possible losses arising out of research and development risks at € 3.3 million with a low probability of occurrence.

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

On the basis of the above-mentioned measures, we consider the probability of occurrence of estimated losses at around € 8.5 million as slight.

IT risks exist due to the increasing networking of our 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 organised data espionage. 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 authorisations. Possible losses arising out of this area amount to € 1.9 million at the current time and are manageable. We consider the probability of occurrence as slightly increased.

Financial risks result inter alia from our international activities in the form of currency-related risks that we assess and hedge by means of our currency strategy. At the present time, we expect currency related risks in the amount of around € 2.3 million. The essential components of DMG MORI financing are a syndicated loan, which comprises a cash and aval tranche and is firmly agreed until February 2021, and a factoring programme. All financing agreements include an agreement on compliance with a standard covenants. 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 may even result in default. Possible losses from financial risks, including currency-related risks, amount in total to around € 11.4 million. The probability of occurrence of any loss is low. Please refer to the description of financial risks in accordance with IFRS 7 in the notes to this report.

Other risks arise out of operating activities. Legal risks grow in particular out of 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. 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. Should there be additional charges, or should it not be 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 have calculated any possible losses arising out of tax risks and further other risks at € 14.7 million or € 4.3 million with a low probability of occurrence.

OPPORTUNITIES AND RISK REPORT

Overall Statement of the Executive Board on the Risk Situation

P. 87 ____ Forecast Report
P. 88 ____ Overall Statement of the Executive Board on Future Business Development 2017

The Executive Board rates the existing risks as being controllable and does not consider the continuation of business at the group to be threatened in today's perspective. Compared to the last reporting for the third quarter 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 meetings of the Board as well as status meetings at regular intervals.

The risk-bearing capacity of equity is calculated based on the expected accumulated value of aggregate risk determined. In this case, group equity is significantly higher than the expected value of aggregate risk determined.

"Our machine tools are the prerequisite for technical progress in a great number of industries. DMG MORI sets new standards with state-of-the-art high-tech workplaces in the semi-automated pre-assembly."

Patrick Buchold (front) and **Werne Kühnel** fit a swivel rotary table for the DMU eVo-series in the completely modernised production line for assembly groups at DECKEL MAHO in Seebach.

FORECAST REPORT

Forecast Report

FUTURE BUSINESS ENVIRONMENT

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

Asia will be the strongest growth region again in the current year with probable growth of 6.3%. For China, growth of 6.4% is forecast. Growth of the Japanese economy will amount to 1.2% in 2017 according to preliminary calculations. In the **USA,** the economic development will continue to accelerate. According to estimates of the Institute for World Economics (IfW) in Kiel, GDP will grow by 2.5%. **Europe** will continue its course of moderate growth in the current year. Economic researchers anticipate that the GDP of the euro countries will rise by 1.7% in 2017.

For **Germany** growth of the GDP by 2.0% is forecast for the current year.

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

The **German machine tool industry** started the year 2017 with optimistic expectations of the **sector's economic activity.** VDW and Oxford Economics are anticipating a rise in production of 3.5% and in consumption of 3.9%. Risk factors that might counteract this increase are price developments of raw materials and energy, exchange rate changes, global political uncertainties and the upcoming parliamentary elections in four of the five largest European Member States.

FUTURE DEVELOPMENT OF DMG MORI

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

In the beginning of the year 2017, the **order intake** developed better than in the previous year. In the first quarter 2017, we are expecting order intake of around € 630 million (previous year: € 591.6 million) – despite the strategic realignment measures, such as the modified sales and service structure in Asia and America.

For the complete year, we are planning order intake of around € 2.3 billion. At around € 520 million, sales revenues in the first quarter will be slightly below the previous year's level (€ 541.4 million), due to the realignment. For the complete year, we are planning sales revenues of around € 2.25 billion. In the first quarter, EBT will be at around the previous year's level (€ 25.8 million). In the complete year, EBT shall amount to around € 130 million. For the financial year 2017,we are expecting a free cash flow of around € 40 million.

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

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

For financial year 2017, we are planning **investments** in property, plant and equipment and in intangible assets of around € 45 million. Following the completion of our large-scale projects, we have substantially reduced our investment planning. The planned volume of investments will be below the level of depreciation.

In the **'Machine Tools'** segment, we intend to invest around € 38 million. At our Seebach site, we will complete the expansion of assembly and logistics. In Pleszew (Poland), we continue to invest in the expansion of the production plant. The focus is on the construction of an induction hardening shop and the expansion of assembly. Overall, we will modernise our production sites target-oriented and provide tools, models and supplies that are required for production. 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 € 6 million are planned. We will focus on the target-oriented modernisation of our sales sites and equip our service technicians also in the future with state-of-the-art tools and measuring instruments.

In the **'Corporate Services'** segment, we are planning to invest around € 1 million. The optimisation of business processes and replacement investments at our Bielefeld site are the priorities.

Currently, we are planning to adjust the number of **employees,** as dependent on the order intake and business development. The costs of personnel will presumably be slightly below the previous year's figure.

In the area of **research and development,** we will continue to pursue our innovation based strategy to increase customer benefits together with DMG MORI COMPANY LIMITED. The continuous advancement and integration of our product portfolio form the basis for a successful company development. For the current financial year, we are planning 13 world premieres. Further significant development focal points are automation, digitisation and ADDITIVE MANUFACTURING.

The expenses for research and development will be around € 50 million. Overall, in research and development, nearly unchanged about 15% of the staff at the factories will continue working on the expansion of our technological lead.

FORECAST REPORT

Overall Statement of the Executive Board on Future Business Development 2017

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For the **financial year 2017,** we are expecting that market conditions for machine tools will remain challenging. According to forecasts by the German Machine Tool Builders' Association (VDW) and the British Economic Research Institute, Oxford Economics, world consumption should grow by 2.1%. However, the global economy continues to be marked by mayor uncertainties. It is difficult to predict the impacts on our business development at present. Taking into account our strategic realignment measures – particularly the modified sales and service structure in Asia and America – we are planning around € 2.3 billion in order intake and around € 2.25 billion in sales revenues. EBT shall amount to around € 130 million. For the financial year 2017, we are expecting a free cash flow of around € 40 million. Investments in property, plant and equipment and in intangible assets shall amount to around € 45 million and are to be financed largely from own funds. Together with DMG MORI COMPANY LIMITED, we are concentrated as 'Global One Company' on the core business with machine tools and services. With a total of 157 national and international sales and service locations and worldwide 14 production plants, we have a strong global presence, a high innovation power and technological expertise.

“The LASERTEC 75 Shape enables fast and easy laser texturing in 3D free shapes.”

At the in-house exhibit at DECKEL MAHO in Pfronten in February 2017, DMG MORI presented four world premieres – among them the LASERTEC 75 Shape.

Consolidated Financial Statements

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

C.01

	Notes	2016 € K	2015 € K
Sales revenues	6	2,265,709	2,304,721
Changes in finished goods and work in progress		−16,909	33,450
Own work capitalised	7	13,552	13,786
Total work done		**2,262,352**	**2,351,957**
Other operating revenues	8	96,752	129,899
Operating performance		**2,359,104**	**2,481,856**
Cost of materials	9		
Cost of raw materials, consumables and goods for resale		1,018,061	1,068,132
Cost of purchased services		139,437	143,285
		1,157,498	1,211,417
Personnel costs	10		
Wages and salaries		485,668	463,614
Social security contributions, pensions and other benefits		86,303	81,843
		571,971	545,457
Depreciation	11	65,720	57,181
Other operating expenses	12	459,969	481,943
Operating result		**103,946**	**185,858**
Financial income	13		
Interest income		1,488	918
Other income		1,358	40,479
		2,846	41,397
Financial expenses	14		
Interest payable		8,051	7,987
Interest expense from pension provisions		814	775
Other financial expenses		4,488	1,872
		13,353	10,634
Financial result		−10,507	30,763
Share of profits and losses of at equity-accounted investments	15	681	640
Earnings before taxes		94,120	217,261
Income taxes	16	46,636	57,676
Annual profit		**47,484**	**159,585**
Of which attributed to the shareholders of DMG MORI AKTIENGESELLSCHAFT		44,820	149,396
Of which attributed to non-controlling interests	17	2,664	10,189
Earnings per share pursuant to IAS 33 in €	**18**		
Undiluted		0.57	1.90
Diluted		0.57	1.90

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OF DMG MORI AKTIENGESELLSCHAFT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2016

C . 02

	Notes	2016 € K	2015 € K
Annual profit		**47,484**	**159,585**
Other comprehensive income			
Remeasurement of benefit-oriented pension plans	31	−7,117	−190
Income taxes	16	2,340	56
Sum of items never reclassified to income statement		**−4,777**	**−134**
Differences from currency translation		17,628	−10,044
Net investments		2,055	−1,054
Changes in market value of hedging instruments	38	−991	−197
Available-for-sale assets – reclassification to the income statement		0	−17,238
Market value of hedging instruments – reclassification to the income statement	38	197	1,579
Income taxes	29	237	22
Sum of items which are reclassified to the income statement		**19,126**	**−26,932**
Other comprehensive income for the period after taxes		**14,349**	**−27,066**
Total comprehensive income for the period		**61,833**	**132,519**
Of which attributed to the shareholders of DMG MORI AKTIENGESELLSCHAFT		58,409	122,855
Of which attributed to non-controlling interests		3,424	9,664

CONSOLIDATED CASH FLOW STATEMENT OF DMG MORI AKTIENGESELLSCHAFT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2016

C.03

CASH FLOW FROM OPERATING ACTIVITIES	Notes	2016 € K	2015 € K
Earnings before taxes (EBT)		94,120	217,261
Depreciation		65,720	57,181
Financial result	14	10,507	7,078
Change in long-term provisions		−3,909	−2,485
Other income and expense not affecting payments		−487	−3,843
Change in short-term provisions	32	7,596	8,198
Result from the disposal respectively the sale of fixed assets and available-for-sale assets		−362	−38,987
Income tax refunds		3,352	1,650
Income taxes paid		−49,475	−49,349
Interest received		1,716	1,042
Interest paid		−7,481	−9,731
Dividends received	13	0	2,446
Changes in asset and liabilities items			
Inventories	24	−6,271	−27,219
Trade debtors	23, 25	−8,282	21,746
Other assets not from investments or financing activity		24,084	1,123
Trade creditors		−44,712	−46,523
Other liabilities not from investments or financing activity		37,908	3,160
	39	**124,024**	**142,748**
CASH FLOW FROM INVESTMENT ACTIVITY			
Amounts received from the disposal of tangible assets and intangible assets		6,568	3,952
Amounts paid out for investments in tangible assets		−74,277	−124,005
Amounts paid out for investments in intangible assets		−13,829	−14,807
Cashflow from the takeover of control over subsidiaries		3,570	0
Cash flow from the loss of control over subsidiaries		−330	0
Amounts paid out for loans to other related parties		−120,000	0
Amounts received from disposal in financial assets		0	153,744
		−198,298	**18,884**
CASH FLOW FROM FINANCING ACTIVITY			
Amounts paid out for transaction costs for raising financial debt	33	−3,163	0
Payments for repayment		−2,039	−1,702
Deposit from non-controlling interests		0	739
Dividends paid		−47,291	−43,350
	39	**−52,493**	**−44,313**
Changes affecting payments		−126,767	117,319
Reclassification of funds for assets held for sale		−30,597	0
Effect of exchange rate on financial securities		1,962	1,812
Cash and cash equivalents as at 1 January	27	552,127	432,996
Cash and cash equivalents as at 31 December	27	**396,725**	**552,127**

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

C . 04

ASSETS	Notes	31 Dec. 2016 € K	31 Dec. 2015 € K
Long-term assets			
Goodwill	19	135,417	134,335
Other intangible assets	19	59,859	75,576
Tangible assets	20	486,370	463,733
Equity accounted investments	22	46,088	47,337
Other equity investments	21	21,792	21,792
Trade debtors	23	978	517
Other long-term financial assets	23	7,673	10,808
Other long-term assets	23	17,076	38,948
Deferred taxes	29	58,264	53,400
		833,517	**846,446**
Short-term assets			
Inventories	24	505,041	522,259
Trade debtors	25	194,394	192,368
Receivables from at equity accounted investments	25	4,276	7,054
Receivables from other related companies	25	166,448	41,308
Receivables from associated companies	25	188	163
Other short-term financial assets	26	63,353	64,604
Other short-term assets	26	51,472	52,246
Income tax receivables		7,117	5,300
Cash and cash equivalents	27	396,725	552,127
Assets held for sale	28	116,587	0
		1,505,661	**1,437,429**
BALANCE SHEET TOTAL		**2,339,178**	**2,283,875**

EQUITY AND LIABILITIES	Notes	31 Dec. 2016 € K	31 Dec. 2015 € K
Equity			
Subscribed capital	30	204,927	204,927
Capital reserve	30	498,485	498,485
Retained earnings and other reserves	30	444,346	507,487
Total equity of shareholders of DMG MORI AKTIENGESELLSCHAFT		**1,147,758**	**1,210,899**
Non-controlling equity interests	30	39,905	146,575
Total equity		**1,187,663**	**1,357,474**
Long-term debts			
Long-term financial debts	33	40,244	41,057
Pension provisions	31	47,574	41,652
Other long-term provisions	32	32,794	35,683
Other long-term financial liabilities	34	1,590	4,870
Other long-term liabilities	34	4,012	4,098
Deferred taxes	29	2,975	3,924
		129,189	**131,284**
Short-term debts			
Short-term financial debt	33	14,374	10,736
Tax provisions	32	49,889	47,788
Other short-term provisions	32	174,865	168,707
Payments received on account		158,094	132,910
Trade creditors	35	236,024	269,105
Liabilities to at equity accounted companies	35	2,003	1,813
Liabilities to other related companies	35	273,326	89,809
Liabilities to associated companies	35	6	26
Other short-term financial liabilities	35	34,365	30,335
Other short-term liabilities	35	42,769	43,888
Liabilities in relation to assets held for sale	36	36,611	0
		1,022,326	**795,117**
BALANCE SHEET TOTAL		**2,339,178**	**2,283,875**

DEVELOPMENT OF GROUP EQUITY OF DMG MORI AKTIENGESELLSCHAFT FOR THE PERIOD 1 JANUARY 2015 TO 31 DECEMBER 2016

C.05

	Subscribed capital	Capital reserve	Revenue reserves and other reserves			Shareholders equity of DMG MORI AKTIEN-GESELLSCHAFT	Non-controlling equity interests	Total
			Revenue reserves	Difference from currency translation	Market-valuation of financial derivatives			
	€ K	€ K	€ K	€ K	€ K	€ K	€ K	**€ K**
As at 01 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 140 et seq.

	Subscribed capital	Capital reserve	Revenue reserves	Revenue reserves and other reserves: Difference from currency translation	Changes in the value of available for-sale-assets	Market-valuation of financial derivatives	Shareholders equity of DMG MORI AKTIEN-GESELLSCHAFT	Non-controlling equity interests	**Total**
	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	**€ K**
As at 01 Jan. 2015	**204,927**	**498,485**	**423,230**	**−9,880**	**15,747**	**−1,115**	**1,131,394**	**134,757**	1,266,151
Reposting				−1,063	1,063		0		0
Total comprehensive income									
Annual profit			149,396				149,396	10,189	159,585
Other comprehensive income									
Differences from currency translation				−9,519			−9,519	−525	−10,044
Net investments				−1,054			−1,054		−1,054
Change in fair value of derivative financial instruments (after taxes)						976	976		976
Remeasurement of benefit-oriented plans (after taxes)			−134				−134		−134
Change in fair value of available-for-sale assets (after taxes)					−16,810		−16,810		−16,810
Other comprehensive income for the period after taxes			**−134**	**−10,573**	**−16,810**	**976**	**−26,541**	**−525**	**−27,066**
Total comprehensive income for the period			**149,262**	**−10,573**	**−16,810**	**976**	**122,855**	**9,664**	**132,519**
Transactions with owners									
Total capital contribution to owners								2,154	2,154
Dividend payment for financial year 2014			−43,350				−43,350		−43,350
Sum of transactions with owners			**−43,350**				**−43,350**	**2,154**	**−41,196**
As at 31 Dec. 2015	**204,927**	**498,485**	**529,142**	**−21,516**	**0**	**−139**	**1,210,899**	**146,575**	**1,357,474**

See accompanying explanations regarding equity and non-controlling equity interests in the Consolidated Financial Statements page 140 et seq.

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

(Part of the notes)

C.06

ACQUISITION AND PRODUCTION COSTS

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	
Investments in associates accounted for at equity	
Other equity investments	
Securities	
Total fixed assets	

DEPRECIATION

	As at 1 Jan. 2016	Other changes
	€ K	€ K
Intangible assets		
Goodwill	0	0
Assets arising from development	98,627	−15
Industrial property and similar rights	66,973	−2,435
	165,600	**−2,450**
Tangible assets		
Land and buildings	130,985	−1,836
Technical equipment and machinery	53,856	271
Other equipment, factory and office equipment	153,864	−5,251
Construction in progress	238	−9
	338,943	**−6,825**
Financial assets		
Investments in associates accounted for at equity	−3,071	−692
Other equity investments	7,384	0
Securities	6	0
	4,319	**−692**
Total fixed assets	**508,862**	**−9,967**

As at 1 Jan. 2016	Other changes	Change in the group of consolidated companies	Additions	Disposals	Book transfers	**As at 31 Dec. 2016**
€ K	€ K	€ K	€ K	€ K	€ K	**€ K**
134,335	343	739	0	0	0	135,417
127,848	−30	−8,031	8,245	−941	0	127,091
113,328	−7,016	−1,859	5,584	−854	284	109,467
375,511	**−6,703**	**−9,151**	**13,829**	**−1,795**	**284**	**371,975**
382,757	−18,941	5,273	12,512	−5,901	48,423	424,123
100,661	1,696	−2,634	6,002	−2,372	12,483	115,836
230,280	−6,233	−920	17,176	−9,693	6,481	237,091
88,978	10,652	−69	38,588	−1,073	−67,671	69,405
802,676	**−12,826**	**1,650**	**74,278**	**−19,039**	**−284**	**846,455**
44,266	−1,941	0	0	0	0	42,325
29,174	0	0	0	0	0	29,174
8	0	0	0	0	0	8
73,448	**−1,941**	**0**	**0**	**0**	**0**	**71,507**
1,251,635	**−21,470**	**−7,501**	**88,107**	**−20,834**	**0**	**1,289,937**

					NET BOOK VALUE	
Change in the group of consolidated companies	Additions	Disposals	Book transfers	**As at 31 Dec. 2016**	**As at 31 Dec. 2016**	As at 31 Dec. 2015
€ K	€ K	€ K	€ K	**€ K**	**€ K**	€ K
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**

CONSOLIDATED FIXED ASSET MOVEMENT SCHEDULE AS AT 31 DECEMBER 2015 OF DMG MORI AKTIENGESELLSCHAFT

(Part of the notes)

C . 06

ACQUISITION AND PRODUCTION COSTS

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	
Investments in associates accounted for at equity	
Other equity investments	
Securities	
Total fixed assets	

DEPRECIATION

	As at 1 Jan. 2015 € K	Other changes € K
Intangible assets		
Goodwill	0	0
Assets arising from development	89,008	26
Industrial property and similar rights	65,614	–83
	154,622	**–57**
Tangible assets		
Land and buildings	118,130	227
Technical equipment and machinery	53,290	21
Other equipment, factory and office equipment	144,515	216
Construction in progress	0	–4
	315,935	**460**
Financial assets		
Investments in associates accounted for at equity	–2,432	–639
Other equity investments	7,384	0
Securities	6	0
	4,958	**–639**
Total fixed assets	**475,515**	**–236**

As at 1 Jan. 2015	Other changes	Change in the group of consolidated companies	Additions	Disposals	Book transfers	**As at 31 Dec. 2015**
€ K	€ K	€ K	€ K	€ K	€ K	**€ K**
135,173	−838	0	0	0	0	134,335
119,427	62	0	8,228	−134	265	127,848
114,003	−86	0	6,579	−7,377	209	113,328
368,603	**−862**	**0**	**14,807**	**−7,511**	**474**	**375,511**
355,747	5,665	0	16,522	−969	5,792	382,757
94,037	247	0	7,370	−5,794	4,801	100,661
217,403	942	0	20,270	−11,133	2,798	230,280
43,980	−11,949	0	71,608	−796	−13,865	88,978
711,167	**−5,095**	**0**	**115,770**	**−18,692**	**−474**	**802,676**
44,348	118	0	0	−200	0	44,266
162,316	−17,238	0	0	−115,904	0	29,174
8	0	0	0	0	0	8
206,672	**−17,120**	**0**	**0**	**−116,104**	**0**	**73,448**
1,286,442	**−23,077**	**0**	**130,577**	**−142,307**	**0**	**1,251,635**

					NET BOOK VALUE	
Change in the group of consolidated companies	Additions	Disposals	Book transfers	**As at 31 Dec. 2015**	**As at 31 Dec. 2015**	As at 31 Dec. 2014
€ K	€ K	€ K	€ K	**€ K**	**€ K**	€ K
0	0	0	0	0	134,335	135,173
0	9,727	−134	0	98,627	29,221	30,419
0	8,818	−7,376	0	66,973	46,355	48,389
0	**18,545**	**−7,510**	**0**	**165,600**	**209,911**	**213,981**
0	12,997	−369	0	130,985	251,772	237,617
0	6,242	−5,697	0	53,856	46,805	40,747
0	19,155	−10,022	0	153,864	76,416	72,888
0	242	0	0	238	88,740	43,980
0	**38,636**	**−16,088**	**0**	**338,943**	**463,733**	**395,232**
0	0	0	0	−3,071	47,337	46,780
0	0	0	0	7,384	21,790	154,932
0	0	0	0	6	2	2
0	**0**	**0**	**0**	**4,319**	**69,129**	**201,714**
0	**57,181**	**−23,598**	**0**	**508,862**	**742,773**	**810,927**

SEGMENTAL REPORTING IN THE CONSOLIDATED FINANCIAL STATEMENTS 2016 OF DMG MORI AKTIENGESELLSCHAFT

(Part of the notes)

C.07

SEGMENTATION BY BUSINESS SEGMENTS

	'Machine Tools' 2016	2015	Changes against previous year		'Industrial Services' 2016	2015	Changes against previous year	
	€ K	€ K	€ K	%	€ K	€ K	€ K	%
Sales revenues with other segments	924,476	904,544	19,932	2.2	98,412	102,087	−3,675	−3.6
Sales revenues with third parties	1,244,463	1,264,446	−19,983	−1.6	1,021,026	1,040,059	−19,033	−1.8
EBIT	80,546	102,637	−22,091	−21.5	63,053	126,596	−63,543	−50.2
Financial result	−9,132	−10,579	1,447	13.7	−8,435	−5,836	−2,599	−44.5
thereof interest income	705	628	77	12.3	3,412	4,572	−1,160	−25.4
thereof interest expense	−9,516	−11,237	1,721	15.3	−8,509	−9,792	1,283	13.1
Share of profit for the period of at equity accounted investments	0	0	0	0	−64	137	−201	−146.7
EBT	71,414	92,058	−20,644	−22.4	54,554	120,897	−66,343	−54.9
Carrying amount of at equity accounted investments	0	0	0	0	0	1,995	−1,995	−100.0
Segment assets	1,158,978	1,073,426	85,552	8.0	1,879,373	1,658,978	220,395	13.3
Investments	48,829	82,463	−33,634	−40.8	35,795	41,389	−5,594	−13.5
Scheduled depreciation	39,589	36,067	3,522	9.8	22,874	17,677	5,197	29.4
Employees	3,690	3,858	−168	−4.4	3,493	3,480	13	0.4

See accompanying explanations in notes under segmental reporting page 164 et seq.

INFORMATIONS ON GEOGRAPHICAL AREAS

	Germany 2016	2015	Changes against previous year		Rest of Europe 2016	2015	Changes against previous year		North America 2016	2015	Changes against previous year	
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%
Sales revenues with third parties	839,863	883,529	−43,666	−4.9	924,012	911,587	12,425	1.4	134,776	131,250	3,526	2.7
Long-term assets	280,536	274,332	6,204	2.3	381,571	350,764	30,807	8.8	12,083	15,207	−3,124	−20.5

	'Corporate Services' 2016	2015	Changes against previous year		Transition 2016	2015	Group 2016	2015	Changes against previous year	
	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
	21,847	20,959	888	4.2	−1,044,735	−1,027,590	0	0	0	0.0
	220	216	4	1.9	0	0	2,265,709	2,304,721	−39,012	−1.7
	−40,003	−42,699	2,696	6.3	350	−676	103,946	185,858	−81,912	−44.1
	7,060	47,178	−40,118	−85.0	0	0	−10,507	30,763	−41,270	−134.2
	11,676	13,452	−1,776	−13.2	−14,305	−17,734	1,488	918	570	62.1
	−4,727	−5,568	841	15.1	13,787	17,640	−8,965	−8,957	−8	−0.1
	745	503	242	48.1	0	0	681	640	41	6.4
	−32,198	4,982	−37,180	746.3	350	−676	94,120	217,261	−123,141	−56.7
	46,088	45,342	746	1.6	0	0	46,088	47,337	−1,249	−2.6
	1,520,809	1,471,079	49,730	3.4	−2,295,563	−1,991,760	2,263,597	2,211,723	51,874	2.3
	3,483	6,725	−3,242	−48.2	0	0	88,107	130,577	−42,470	−32.5
	3,257	3,437	−180	−5.2	0	0	65,720	57,181	8,539	14.9
	99	124	−25	−20.2	0	0	7,282	7,462	−180	−2.4

	Asia 2016	2015	Changes against previous year		Other 2016	2015	Changes against previous year		Transition 2016	2015	Group 2016	2015	Changes against previous year	
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
	334,451	342,219	−7,768	−2.3	32,607	36,136	−3,529	−9.8	0	0	2,265,709	2,304,721	−39,012	−1.7
	9,934	32,824	−22,890	−69.7	657	2,819	−2,162	−76.7	−3,135	−2,302	681,646	673,644	8,002	1.2

The world premiere DMU 600 Gantry *linear* permits processing of work pieces weighing up to 150 tonnes. The 5-axis universal processing centre is used, i.a. in tool and mould making as well as in the aerospace industry.

"In the assembly hall for XXL machines at DECKEL MAHO in Pfronten, DMG MORI produces high-tech machines for large parts processing."

Notes to the Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT for the Financial year 2016

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 2016 to 31 December 2016 was 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 statements include further explanations pursuant to Section 315a 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 income statement, the consolidated statement of other comprehensive income for the reporting period, the balance sheet, the development of the group's equity and the cash flow statement.

To allow for a better presentation, individual items have been combined in the income statement and in the statement of comprehensive income; 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 Statement and the group Management Report of DMG MORI AKTIENGESELLSCHAFT for the reporting period as at 31 December 2016 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, Nagoya (Japan), is the ultimate parent company of DMG MORI group. The consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT is included in the consolidated financial statements of DMG MORI COMPANY LIMITED, Nagoya (Japan).

The consolidated financial statements will be available on the website www.dmgmori.co.jp.

During the financial year, DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH, a 100% subsidiary of DMG MORI COMPANY LIMITED, concluded a control and profit transfer agreement pursuant to Sections 291 et seqq. AktG (Stock Corporation Act), which entered into force following entry into the commercial register on 24 August 2016.

The Executive Board of DMG MORI AKTIENGESELLSCHAFT released the Consolidated Financial Statement and the Group Management Report for publication on 7 March 2017.

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 acquisation method.

The consideration paid for the acquisition of such interest 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 prorata amount of the net assets of the acquired company corresponding to the interest held.

Goodwill is recognised at the value that arises from the surplus of the acquisition costs, from the amount of the non-controlling interests share in the company acquired as well as from the fair value of any previously held equity interest of the group 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 reevaluated 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 Statement have the same balance sheet dates as the Consolidated Financial Statement 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 Statement has 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 2016, the following new and revised standards, as well as IASB / IFRIC interpretations, were obligated to be applied for the first time:

Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRS 11	Accountig of acquisitions of an Interest in a Joint Operation
Amendments to IAS 1	Notes disclosures
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Fruit-bearing Plants
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IAS 27	Equity Method in Separate Financial Statements
Improvements to IFRS 2010 – 2012	Amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38
Improvements to IFRS 2012 – 2014	Amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

On 1 January 2016, DMG MORI group commenced application of the following new and revised IFRS standards bearing relevance for the Consolidated Financial Statements:

Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

The amendments serve to clarify various issues relating to the application of the consolidation exception pursuant to IFRS 10 in the case of the parent company meeting the criteria of an 'investment company'. According to this, parent companies are also exempt from preparing consolidated financial statements if the ultimate parent company does not consolidate its subsidiaries, but measures them at fair value in accordance with IFRS 10.

Regarding the accounting of subsidiaries of an investment entity, the standard now makes the following distinction: subsidiaries which are themselves investment entities must – following the general guidelines of the investment entity exception – be accounted for at their fair value. In contrast, subsidiaries which are themselves not investment entities, but render services which relate to the parent company's investment activities, are to be seen as an extension of the parent company's activities and must be consolidated.

It has also been clarified that an investors, who does not meet the criteria of an investment entity and who applies the equity method to an associated company or joint venture, may keep the valuation that is currently being applied by the investment entity to its interests in subsidiaries.

The amendments also provide for investment entities which value all their subsidiaries at fair value, must make the disclosures regarding the investment entities as stipulated by IFRS 12. The amendments do not affect the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

IFRS 11 contains regulations regarding the accounting and income statement recognition of joint ventures and joint operations. Although joint ventures are to be accounted for using the equity method, the depiction of joint operations in IFRS 11 is comparable to proportionate consolidation.

With the amendment of IFRS 11, the IASB regulates the accounting of the acquisition of shares in a joint operation which constitutes a business operations as defined in IFRS 3 'Business Combinations'. In such cases, the buyer should apply the principles regarding the accounting of business combinations according to IFRS 3. In these cases, the disclosure requirements of IFRS 3 also apply.

The amendments do not affect the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

Amendments to IAS 1 – Disclosure Initiative

These amendments relate to various reporting issues. The issue, that notes disclosures are only necessary if their content is significant, has been clarified. This also applies explicitly if IFRS requires a list of minimum disclosures. Also, explanations on aggregation and disaggregation of items in the balance sheet and in the statement of comprehensive income are to be listed. Moreover, the issue has been clarified as to how amounts in other income of at equity accounted companies are to be presented on the statement of comprehensive income. Finally, the normal order of presentation of the notes was removed, making it easier to provide more individualised corporate information.

The amendments do not affect the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

With these changes, the IASB provides further guidelines to determine acceptable methods of depreciation and amortisation. Revenuebased depreciation methods are thus not permitted for tangible assets and only permitted for intangible assets in certain exceptional cases (refutable presumption of inappropriateness).

The amendments do not affect the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

Amendments to IAS 16 and IAS 41 – Agriculture: Fruit-Bearing Plants

According to IAS 41, all biological assets have until now been measured at fair value through profit or loss, deducting estimated sales costs. This also applies to so-called bearer plants such as grapevines, rubber trees and oil palms, whose assets are harvested over several periods without being sold as agricultural products themselves. According to the amendments, bearer plants are in future to be accounted for as tangible assets in accordance with IAS 16, since their use is comparable. Their fruits, however, are to be accounted for in accordance with IAS 41 in future. During first-time use of the amendments, accountants can make use of special relief. To simplify at the date of transition, bearer plants may thus be measured at fair value.

The amendments do not affect the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions

These amendments clarify the requirements that relate to how contributions from employees or third parties linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service.

The amendments do not affect the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

Amendments to IAS 27 – Equity Method in Separate Financial Statements

With this amendment, the equity method is again permitted as an accounting option for holdings in subsidiaries, joint ventures and associated companies in separate financial statements of an investor. The existing options to valuate to acquisition costs or in accordance with IAS 39 / IFRS 9 remain. Since 2005, the use of the equity method for holdings in separate financial statements (of the parent company) was no longer permitted under IAS 27.

The IASB made the amendment to IAS 27 in response to complaints of users, including the high expenditure to produce a fair value measurement at every balance sheet closing date, especially by nonstock exchange listed associated companies.

The amendments do not affect the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

Improvements to IFRS 2010 – 2012

As part of the 'Annual Improvement Project', changes to seven standards were made. The adjustment of wordings in individual IFRS standards should clarify existing regulations. Moreover, there are amendments which affect notes disclosures. The standards affected are IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38.

The amendments to IFRS 2 and IFRS 3 must, despite application of the rules for fiscal years commencing on or after 1 February 2015, be applied to transactions taking place on or after 1 July 2014.

The amendments do not affect the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

Improvements to IFRS 2012 – 2014

As part of the 'Annual Improvement Project', changes to four standards were made. The adjustment of wordings in individual IFRS / IAS standards should clarify existing regulations. The standards affected are IFRS 5, IFRS 7, IAS 19 and IAS 34.

The amendments do not affect the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

NEW ACCOUNTING REGULATIONS

For the following new or revised standards and interpretations, the use of which are mandatory in future financial years, are not planned to be applied earlier by the DMG MORI group. Unless otherwise specified, the effects on the consolidated financial statements are currently being reviewed.

a) These have already received EU endorsement.

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

IFRS 9 – Financial Instruments

In July 2014, the International Accounting Standards Board published the final version of IFRS 9 'Financial Instruments'.

IFRS 9 must initially be applied in the first reporting period of a financial year commencing on or after the 1 January 2018 and its early application is permissible. DMG MORI group will currently intends to commence application of IFRS 9 on 1 January 2018. It has decided against early application of this standard.

The actual ramifications of the application of IFRS 9 to the group financial statements for the 2018 financial year are currently unknown and cannot be estimated with sufficient certainty, because they depend on the financial instruments held by the group, the financial and economic conditions at that time and the choice of accounting methods and discretionary decisions made by the group in the future. The new standard requires the company to review and if necessary to adjust its accounting processes and internal controls in relation to the representation of financial instruments. This review is still pending. Based on its positions as of 31 December 2015, DMG MORI group has however performed a preliminary assessment of the possible ramifications of applying IFRS 9.

Classification – Financial assets

IFRS 9 contains a new classification and valuation approach for financial assets. Financial instruments are classified in three new categories – valued at the armotised acquisition cost, at fair value through profit or loss (FVTPL) and at fair value through other comprehensive income (FVOCI) – according to the business model and to criterias of their cashflows.

The standard eliminates the existing categories of IAS 39: to hold to maturity, loans and receivables as well as available for sale.

On the basis of its preliminary assessment, DMG MORI holds that the new classification requirements, if hypothetically applied as of 31. December 2016, would not entail significant ramifications for the accounting of its financial assets.

Impairment – Financial assets and contractual assets

IFRS 9 replaces the model of the 'incurred losses' prescribed by IAS 39 with a futureoriented model of 'expected credit losses'. This requires significant new parameters for calculation on the question of the extent to which the expected credit losses are impacted by changes in the economic factors. This assessment will be made on the basis of weighted probabilities of different scenarios.

The new impairment model is applicable to financial assets valued at amortised acquisition 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:

- Credit losses over 12 months: These are expected credit losses due to possible loss events within a period of twelve months after the balance sheet date
- Expected credit losses over the entire contractual term: 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 life-long credit losses 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 loss 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 life-long credit losses must however always be applied to trade receivables and contractual assets lacking a major financing component; a company may elect to also apply this method for trade receivables and contractual assets that do incorporate 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. The group has however not yet made a final decision on the impairment assessment method to be applied. Reliable quantification is not possible at the present time.

Classification – Financial debts

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

The group's preliminary assessment did not establish any significant ramifications of the application of the IFRS 9 requirements with regard to the classification of financial liabilities as of 31 December 2015.

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 currently intends to apply the new requirements set out in IFRS 9. Pursuant to IFRS 9, the company 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. Pursuant to IFRS9 new possibilities of designation especially for hedging of non-financial items as purchase or sales of raw materials will occur. 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.

Pursuant to IAS 39 the group recognises forward exchange contracts at fair value. Changes in the value are directly recognised in the income statement, if no hedge accounties is possible or, in the case of effective cash flow hedges are recognised in other comprehensive income.

When applying IFRS 9, the group can account for the forward points of forward exchange transactions separately as the cost of hedging. They will in this case be recognised as part of the other comprehensive income, reported as separate equity item as part of a reserve for the costs of hedging and subsequently accounted for as profits and losses in the reserve for cash flow hedges.

With regard to the hedging of cash flows, IAS 39 prescribes that the amounts reported in the reserves for cash flow hedges must be reclassified through profit or loss as reclassification amounts in the same period in which the expected hedged cash flows impact on the 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 reserve for cash flow hedges and the reserve for hedging costs must be included directly in the acquisition costs of the non-financial assets at the time of the initial journal entry.

According to the current state the types of accounting for hedging relationships currently applied could continue. The group's preliminary assessment also indicates that the expected changes in the accounting methods for hedging costs and hedges for inventory purchases would have insignificant ramifications if applied to the accounting of hedging transactions by the group during the 2016 financial year.

Notes disclosures

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

The group's preliminary assessment included an analysis aimed at clarifying whether there are any data gaps in comparison to the current procedures; the group intends to review the system and controls and if necessary adjust as it deems necessary for the required collection of data.

Transition

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

DMG MORI intends to 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 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 group has reserved its decision on this option.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether to recognise revenue, when to recognise revenue 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'.

IFRS 15 first needs to be applied to financial years which start on or after 1 January 2018. While application at an earlier point in time is permissible, it is not currently intended.

DMG MORI group has performed an initial assessment of the possible ramifications of applying IFRS 15 to its consolidated financial statement.

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, collectibility is probable and no other right of disposal of the goods exists, preventing revenue recognition. The sales revenues from the sale of machine tools normally include supplementary works.

According to IFRS 15, the company must identify its performance obligations. 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. DMG MORI group is currently analysing whether the contracts from the sale of tool machines give rise to individual performance obligations, which would be subject to own rules pertaining to the realisation principle.

In the case of certain contracts, which permit the customer to return an article, sales revenues are currently recognised at the time an estimation of the return volume can be performed with sufficient certainty and subject to meeting all other criteria for the recognition of sales revenues. If a reliable estimation cannot be performed, the recognition of sales revenues is deferred to the end of the return period or the date on which an estimation of the returns can be performed with sufficient certainty.

Pursuant to IFRS 15, sales revenues for such contracts are recognised to the extent it is likely that a significant correction of the cumulatively recorded sales revenues will not be necessary. This results in sales revenues for contracts, for which the company is unable to perform a sufficiently certain estimation of the return volume, being entered earlier than previously, meaning before the end of the return period or the date on which a sufficiently certain estimation of the return volume is possible. For these contracts, a liability representing the corresponding refund and an asset representing the entitlement to obtain title in the returned product are entered and reported as separate items in the balance sheet.

Rendering of services

Sales revenues for service performances which are not included in machine sales, 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 prices. The stand-alone selling prices are determined based on the prices at which DMG MORI offers the services in separate transactions. DMG MORI is current analysing whether any ramifications arise from the application of IFRS 15 to sales revenues for service performances, which are not provided in relation to machine sales.

Transition

The group intends to apply IFRS 15 in its consolidated financial statements commencing on 1 January 2018 and to apply the modified retrospective initial application of IFRS 15. In this case, only those customer contracts whose performance obligations have not been met in full on the date of commencing application must be adjusted to the new accounting rules. DMG MORI will apply the relief available for agreements that have already been settled. This means that settled contracts whose commencement and termination are within the same comparison period, as well as contracts that were settled at the beginning of the earliest represented period, will not be adjusted.

The group is currently carrying out a detailed assessment of the ramifications of the application of IFRS 15 and assumes that additional quantitative information will be provided prior to the application of IFRS 15.

b) EU Endorsements are still pending

Furthermore, the following standards and interpretations were issued by IASB and not yet recognised by the European Union.

IFRS 16	Leases
Amendments to IFRS 2	Classification and Measurment of Share-based Payment Transactions
Amendments to IFRS 4	Application of IFRS 9 Financial Instruments and IFRS 4 Inurance Contracts
Amendments IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IFRS 15	Clarifications concerning IFRS 15
Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IAS 40	Transfers of Investment Property
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Improvements to IFRS 2014–2016	Amendments to IFRS 12
Improvements to IFRS 2014–2016	Amendments to IFRS 1 and IAS 28

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 economic substance of transactions in the legal form of leases.

The standard 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. Early application is permissible for companies applying IFRS 15 'Revenues from contracts with customers' at the time of or prior to the initial application of IFRS 16.

DMG MORI group has however not yet commenced an initial assessment of the possible ramifications of the application of IFRS 16 to its consolidated financial statement.

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.

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 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 optional solutions: Deferral of the initial application of IFRS 9: The concerned companies may, if they apply IFRS 4 to existing insurance contracts, continue to apply IAS 39 instead of IFRS 9 for fiscal years commencing before 1 January 2021. This only applies if IFRS 9 has not been applied previously.

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 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 its 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 a business operations as defined by IFRS 3. This is regardless of whether the transaction is arranged as a share or an asset deal. In contrast, if the assets do not constitute a business operations, then only a partial income recognition is allowed.

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

Amendments to IFRS 15 – Clarifications to 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 the commencement of the earliest represented period.

The amendments are – subject to adoption into EU law – applicable from 1 January 2018 onwards.

Amendments to IAS 7 – Disclosure Initiative
The amendments aim at improving the information about changes in the indebtedness of the company. Pursuant to the amendments, a company must disclose information on changes in financial liabilities, whose deposits and withdrawals are reported in the cash flow statement item 'cash flow from financing activities'. Associated financial assets must also be included in the disclosed information (e.g. assets from hedging transactions).

Changes impacting on net income, changes from the acquisition or sale of companies, foreign currency exchange rate related changes, changes in the accounted fair values and other changes must be disclosed.
The IASB proposes such disclosure to take the form of a reconciliation from the opening balance in the balance sheet to the closing balance on the balance sheet, but also permits other forms of representations.

The amendments must – subject to adoption into EU law – initially be applied in the first reporting period of a financial year commencing on or after 1 January 2017 and its early application is permissible.

In order to meet the new disclosure requirements, the group intends to present a reconciliation between the opening and closing balance for debts that have changed in connection with the financing activity.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses
The amendments clarify the accounting of deferred tax assets for unrealized losses of debt instruments valued at their fair value.

The amendments must – subject to adoption into EU law – initially be applied in the first reporting period of a financial year commencing on or after 1 January 2017 and its early application is permissible.

The group currently expects no significant effects on the consolidated financial statement.

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.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses a question concerning application of IAS 21 **Ramifications 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 resulting from such prepayment (or liability) 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.

Improvements to IFRS 2014 – 2016

The annual improvements to IFRSS (2014 – 2016) amended three IFRSS. 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. 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 stake. Moreover, the temporary relief provisions in IFRS 1. Appendix E (IFRS 1.E3 – E7) for first time IFRS adopters have been abolished.

Subject to adoption into EU law, the amendments to IFRS 12 must be applied for the first time in the first reporting period of a financial year commencing on or after 1 January 2017, and the amendments to IFRS 1 and IAS 28 for the first time in the respective 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.

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, liabilities, 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 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 statement.

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 2016, the carrying amount of goodwill totalled € 135,417 K (previous year: € 134,335 K). The change from the previous year is attributable to additions and disposal of subsidiaries during 2016, as well as currency effects. More information about this can be found on pages 116 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, expected returns on plan assets, future wage and salary increases, the mortality rate and future pension increases. Corresponding to the longterm focus of these plans, such assessments are subject to significant uncertainties. As of 31 December 2016, provisions for pension obligations amounted to € 47,574 K (previous year: € 41,652 K). More information about this can be found on pages 142 et seq.

Intangible assets arising from development

Intangible assets arising from development are capitalised according to the accounting and valuation method presented on page 115 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 2016, the carrying amount of intangible assets arising from development amounted to € 24,467 K according to the best possible assessment (previous year: € 29,221 K).

Discretionary decisions and estimations are additionally required for leases (see Note Disclosure 37), value adjustments for doubtful debts (see Notes Disclosure 25) as well as for contingent liabilities 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 will be taken into account at the time of their discovery and recognised in the income statement. 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

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 machines	2 to 30 years
Other equipment / 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 production 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 straightline 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.

Property, plant and equipment were valuated at acquisition or production costs, reduced by scheduled depreciation. Borrowing costs are recognised as part of the acquisition or production costs, if the requirements of IAS 23 are fulfilled (see page 122 'Borrowing costs'). Depreciation was carried out using the straight-line method in accordance with useful life. A re-valuation 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.

Leasing agreements

Leasing agreements, for which a significant share of the risks and opportunities that are associated with the lease object remain with the lessor, are classified as operating leases. In connection with an operating lease, payments are recognised on a straightline basis for the period of the lease agreement in the income statement.

The group leases certain property, plant and equipment (lease objects). Lease agreements for property, plant and equipment for which the group bears the significant risks and the benefits from the ownership in the lease object 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 object 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. Property, plant and equipment 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 the close of every reporting period. If such signs exist, the fair value of the assets will be estimated and, if required, adjusted accordingly. This adjustment will be recognised in the income statement. 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 2016. 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 87 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 2019. For the estimate of value in use, an average sales growth rate of approx. 3% was assumed for the detailed planning period. A slightly increasing EBIT margin was assumed for 2017 to 2019. 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 € 44,292 K (previous year: € 44,292 K) and the cash-generating unit 'Industrial Services ' was allocated goodwill in an amount of € 91,125 K (previous year: € 90,043 K).

The cash flows determined were discounted at pre-tax weighted cost of capital rates (WACC) of 10.6% (previous year: 10.8%) for the cash-generating unit 'Machine Tools' and 10.1% (previous year: 10.2%) 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 2016 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 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 equity 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 closing date, the group reviews whether there is reason to believe that impairment loss 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 and recognised in the income statement item 'Share of profits and losses of equity accounted investments'.

Unrealised profits from transactions between group companies and associated companies are eliminated in accordance with the size of the group's holding of the associated company. Unrealised losses are likewise eliminated, unless the transaction provides evidence of an impairment of the asset transferred. The accounting and measurement 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 price is available are classified as 'available for sale' and are measured at this value. Equity investments for which there is no active market are classified as 'available for sale' and recognised at the cost of acquisition (see pages 152 'Financial Instruments'). There is no active market for these enterprises; therefore it is assumed that the book value 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 122 '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 revaluation will be carried out.

Lower values at the reporting 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 reporting 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. Longterm non-interest bearing receivables have been discounted. Impairments in the form of individual value adjustments make adequate allowance for the expected risk of deficit. Specific cases of losses lead to derecognition of the respective receivables. Within the scope of individual impairments, receivables, for which there is a potential devaluation requirement, will be tested for impairment and, if necessary, impaired. The calculation of impairment for doubtful receivables is based to a large extent on estimates and assessments of individual receivables, which, in addition to credit worthiness and late payment of the respective customer, also take into account the current economic development and previous cases of deficits. Impairments of trade debtors are carried out in some cases using value adjustment accounts. The decision to account for deficit risks using an allowance 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 2016 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 portfolio. As of 31 December 2016, 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 € 144.8 million (previous year: € 153.3 million) were sold. Trade receivables 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 acquirer 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 for sale must be classified as held for sale if their book values are recovered primarily through a sale transaction rather than through continuing use.

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 31 December 2016, the balance sheet item 'assets held for sale' and 'liabilities in relation to assets held for sale' contains the assets and liabilities of subsidiaries and joint ventures in the Americas and Asia regions sold to DMG MORI COMPANY LIMITED during the 2017 fiscal year. The shares held in the following companies will be disposed of:

- 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.

In the context of the reorientation, these companies will be managed and consolidated by DMG MORI COMPANY LIMITED from the 2017 financial year onwards.

DMG MORI AKTIENGESELLSCHAFT and its subsidiaries will continue to realise sales revenues in the American and Asian markets. Furthermore subsidiaries of DMG MORI AKTIENGESELLSCHAFT are established in the Americas and Asia regions.

Cash and cash equivalents

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.

Deferred taxes

Pursuant to IAS 12 'Income Taxes', deferred taxes are assessed in accordance with the statement of financial position oriented liability method. For this purpose, deferred tax assets and liabilities were basically 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 processes recognised in the income statement. Deferred tax assets for future tax reduction claims arising from tax-loss carry forwards were also reported in the statement of financial position. 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 utilised. 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 balanced out only to the extent that an offset is legally permissible. Deferred tax assets and liabilities were not discounted in accordance with the provisions contained in IAS 12, 'Income Taxes'.

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 reporting 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 recognized on the balance sheet correspond to the cash value of the defined benefit obligation (DBO) at the reporting 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 through 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 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 amount of performance was recognised. The calculation is carried out using the best estimate of the amount required to settle the obligation at the reporting date. The amount of performance 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 program and booked as provisions. Because of the control 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 liabilities are valuated at the amount of the estimated expenses due.

Financial liabilities 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 against individual subsidiaries in advance on the basis of reverse factoring agreements concluded with individual subsidiaries and factoring companies. Through these agreements, 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 2016, a total of € 18,035 K (previous year: € 18,984 K) trade liabilities had been purchased through the respective factoring company.

Financial Instruments

A financial instrument is an agreement, which at the same time constitutes a financial asset for one company and a financial liability or equity instrument for another company. Financial assets include in particular cash and cash equivalents, and trade receivables 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, borrowers' notes and other securitised liabilities, liabilities to banks, trade creditors, liabilities from financial leasing arrangements and other original and derivative financial instruments.

The accounting of financial instruments takes place pursuant to IAS 39 'Financial Instruments: Recognition and Measurement'. Financial instruments are assessed in principle as soon as DMG MORI group becomes a contractual partner in the financial instrument arrangement. Within the group, all dealings for cash are accounted for at the settlement date irrespective of their classification. The settlement date is the date on which an asset is delivered to or through the enterprise. 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 at the trading date. Financial instruments entered as financial assets and financial liabilities are only balanced insofar as a offset claim exists and it is intended to bring about settlement on a net basis.

Financial assets are measured at fair value on initial recognition. At the same time, the directly attributable transaction costs must be taken into account for financial assets, which, as a result of measurement at fair value, do not affect net income. The fair values recognised in the balance sheet generally correspond to the market prices 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 2016 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' (the socalled '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 DMG MORI group intends to and may hold until maturity financial liabilities 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. Measurement takes place in principle 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 upon the divestiture of the financial assets are the accumulated profits and losses in equity recognised from the measurement at fair value 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 measured, 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 assessed 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 foreign exchange future contracts. The hedging covers financial risks of scheduled underlying transactions, 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 valuated 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.

Cashflow 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 statement of comprehensive income as soon as the hedged underlying transaction affects the income.

Foreign exchange future contracts are used to hedge future cash flows from expected incoming payments on the basis of present order intake. Payment is 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 2016 that arose from the development assets amounted to € 41 K (previous year € 33 K) and from property, plant and equipment amounted to € 4 K (previous year: € 352 K), which can be directly attributed to the acquisition, construction or production of a qualifying asset. The borrowing cost rate amounted to 1% (previous year: 1% resp. 2%). Other borrowing costs were therefore directly recognised as expense in the period.

Sales Revenues

Pursuant to the criteria laid down in IAS 18 'Revenues', 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. 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

NUMBER OF FULLY CONSOLIDATED COMPANIES	31 Dec. 2016	31 Dec. 2015
National	32	30
International	63	65
Total	**95**	**95**

At the balance sheet date, the DMG MORI group, including the DMG MORI AKTIENGESELLSCHAFT, comprised 100 companies (previous year: 100). In addition to DMG MORI AKTIENGESELLSCHAFT 94 subsidiaries (previous year: 94) were included in the consolidated financial statements as part of the full consolidation process. Five companies 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 2015 to include the following companies:

- TECNO CONTROL S.R.L., Strambino (Italy),
- ISTOS GmbH, Bielefeld,
- DMG MORI Management GmbH, Bielefeld,
- GILDEMEISTER LSG Beteiligungs GmbH, Würzburg,
- GILDEMEISTER TURKEY SOLAR ENERJI A.S., Istanbul (Turkey).

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

On 4 October 2016, DMG MORI Italia S.r.l., Brembate di Sopra (Italy), acquired 100% of the shares in TECNO CONTROL S.R.L., Strambino (Italy) from DMG MORI COMPANY LIMITED, Nagoya (Japan). The purchase price was € 2,140 K. The purchase of the company consolidates the sales and service business in Italy.

On 1 December 2016, DMG Vertriebs and Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, established DMG MORI Management GmbH with registered office in Bielefeld as a fully-owned subsidiary. The share capital is € 25 K and is fully paid. The new company will act as an operational holding company for the sales and service branches of DMG MORI group from January 2017 onwards.

On 24 November 2016, GILDEMEISTER Beteiligungen GmbH, Bielefeld, established ISTOS GmbH, Bielefeld as a fully-owned subsidiary. The share capital is € 1,000 K and is fully paid. The new company trades in the business area of software solutions and will assist DMG MORI customers and companies outside of the machine tools industry in the digital transformation by offering fully integrated production processes.

On 29 November 2016 GILDEMEISTER energy solutions GmbH, Würzburg, established GILDEMEISTER LSG Beteiligungs GmbH, Würzburg, as a subsidiary in which it holds an interest of 51%. The remaining 49% of shares are held by LSG Building Solutions GmbH, Vienna (Austria). The share capital is € 25 K and is fully paid. The new company trades in the business area of Energy Solutions.

On 15 December 2016, GILDEMEISTER energy solutions GmbH, Würzburg, founded GILDEMEISTER TURKEY SOLAR ENERJI A.S., Istanbul (Turkey), as a fully-owned subsidiary. The share capital is TRY 50 K (€ 13 K) and is paid. The new company trades in the Energy Solutions business area.

With effect from 7 December 2016, DMG MORI Sales and Service Holding AG, Winterthur (Switzerland), acquired 40% of the shares in DMG MORI Europe AG, Winterthur (Switzerland), from DMG MORI COMPANY LIMITED, Nagoya (Japan). The purchase price corresponded to the fair value in the amount of € 140,356 K. It is due for payment in 2017.

In December, DMG MORI Sales and Service Holding AG acquired 100% of the shares in both MORI SEIKI International SA, Le Locle (Switzerland), for a purchase price of € 12,847 K and in MORI SEIKI Europe AG, Winterthur (Switzerland), for a purchase price of € 6,407 K from DMG MORI COMPANY LIMITED, Nagoya (Japan). The purchase prices are due for payment in 2017. The identified acquired assets and liabilities assumed of MORI SEIKI International SA and of MORI SEIKI AS were included as of 31 December 2016 for the first time. MORI SEIKI International SA, MORI SEIKI Europe AG and DMG MORI Europe Holding AG were merged with DMG MORI Europe AG.

The following companies were classified as joint ventures pursuant to IFRS 11. Pursuant to IFRS 11.24, the shares were included in the consolidated financial statement 'at equity' from the date of their acquisition.

Shares in the following companies were acquired during the 2013 financial year. They have been consolidated 'at equity' since August 2013:

› Magnescale Co. Ltd., Kanagawa, Japan,
› Magnescale Europe GmbH, Wernau,
› Magnescale Americas, Inc., Davis, USA.

Shares in the following company were acquired during the 2010 financial year:

› DMG MORI Australia Pty. Ltd., Clayton Victoria, Australia.

Unchanged from the consolidated financial statements of 2015, DMG MORI Australia Pty. Ltd. has been consolidated at equity since acquisition of the shares.

DMG MORI Finance GmbH, Wernau, is classified as an associated company and has also been consolidated at equity since acquisition of the shares in 2010.

Disposal of subsidiaries

By contract of 24 October 2016, 100% of the interests in Simon Solar S.r.l., Milan (Italy), were sold to an external 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 this company were sold. Other long-term assets in the amount of € 19,661 K and other liabilities in the amount of € 17,327 K have been disposed of. The consideration received was € 10 K.

The sale of shares resulted in a total loss on disposal in the amount of € 2,324 K for the group, which has been accounted for in item other operating expense. No pro-rata goodwill was disposed of.

With effect from 31. December 2016, DMG MORI sold 100% of the shares held in DMG MORI Microset GmbH, Bielefeld to an external investor. The shares had been fully consolidated since the time of their acquisition. All assets and liabilities were deconsolidated from the group at the time the shares in this company were sold. The sale of shares resulted in a total loss on disposal in the amount of € 490 K for the group, which has been accounted for in item other operating expense. A proportionate goodwill in the amount of € 69 K was disposed.

With effect from 31. December 2016, 100% of the shares held in GILDEMEISTER energy storage GmbH, of Wiener Neudorf (Austria), were sold to an external investor. The company included the storage technology buiness. The shares had been fully consolidated since the time of their 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 € 10,418 K for the group, which has been accounted for in item other operating expense. Goodwill in the amount of € 224 K was disposed.

The respective consideration received, assets and liabilities that were deconsolidated due to a loss of control as well as the results from disposals for GILDEMEISTER energy storage GmbH and DMG MORI Microset GmbH are illustrated in the following table:

	GILDEMEISTER energy storage GmbH € K	DMG MORI Microset GmbH € K
Intangible assets	4,203	2
Goodwill	224	69
Tangible assets	1,161	241
Inventories	6,765	1,947
Trade debtors and other assets	3,212	2,660
Deferred tax assets	548	2
Cash and cash equivalents	339	1
Assets sold	**16,452**	**4,922**
Provisions	708	463
Trade creditors and other short-term liabilities	1,762	2,969
Deferred taxes	314	0
Debt sold	**2,784**	**3,432**
Net assets sold	**13,668**	**1,490**
Consideration received	**3,250**	**1,000**
Gains or losses on disposal of subsidiaries	**−10,418**	**−490**

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 100% of the shares in TECNO CONTROL S.R.L., Strambino (Italy), from DMG MORI COMPANY LIMITED, Nagoya (Japan). The acquisition of this company is intended to consolidate the sales and service business in Italy. The consideration for this acquisition amounted to € 2,140 K. The purchase price was paid to the vendor in the 2016 financial year. 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 costs associated with the acquisition of the company amounting to € 51 K were accounted for as an expense for the period. The acquisition of intangible and tangible assets are shown in the fixed assets movement schedule 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's sales revenues. 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 profit 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 100% of the shares in MORI SEIKI International SA, Le Locle (Switzerland), and in MORI SEIKI Europe AG, Winterthur (Switzerland), from DMG MORI COMPANY LIMITED, Nagoya (Japan). Both companies were then merged with DMG MORI Europe AG, Winterthur (Switzerland). The merger is intended to consolidate the sales and service businesss for our products as well as those of DMG MORI COMPANY LIMITED in Switzerland.

The consideration for the acquisition of the shares in MORI SEIKI Europe AG was € 6,407 K and corresponded to the fair value. The acquired assets and liabilities were accounted at their respective fair value. Details are provided in the table below. Payment of the purchase price is 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 are shown in the fixed assets movement schedule in the 'Change of consolidation group' column.

The consideration for the acquisition of the shares in MORI SEIKI International SA was € 12,847 K and corresponded to the fair value. The acquired assets and liabilities were accounted at the fair value. Details are provided in the table below. Payment of the purchase price is 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 are shown in the fixed assets movement schedule in the 'change in the group of consolidated companies'.

The receivables acquired in the context of the company mergers consist predominantly of trade receivables and have 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. amount to € 1,708 K. The best estimation of the contractual cash flows made at the time of acquisition, which is not expected, amounts to € 37 K. The fair value for the other two companies corresponds to the gross contract value. The capitalised goodwill from mergers is not tax-deductible.

The consideration for the purchase of shares in the three companies will be paid by cash transfer.

	TECNO CONTROL S.R.L. € K	MORI SEIKI Europe AG € K	MORI SEIKI International SA € K
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 group of consolidated companies has changed compared to the previous year as explained above. When compared with the consolidated financial statements of 31 December 2015, the results of operations, net worth and financial position were not significantly affected in this regard.

Business Combinations 2015

No business combinations took place in the financial year 2015.

Acquisition of non-controlling interest stakes

In December 2016, DMG MORI acquired an interest of 40% in DMG MORI Europe AG, Winterthur (Switzerland), from DMG MORI COMPANY LIMITED, Nagoya (Japan) and increased its holdings from 60% to 100%. 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 as of 31 December 2016.

	31 Dec. 2016 € K
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 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 an increase in retained earnings of € 670 K.

An overview of all companies of the DMG MORI group, divided into fully consolidated companies, joint ventures and associated companies, is presented in the list of pages 169 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 at the average rate of exchange of the euro as of the reporting date, and all revenue and expenses pursuant to IAS 21.40 at the transaction exchange rate in euro – 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 directly in equity. 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 reporting date.

Foreign exchange differences from receivable or payable monetary items from / to foreign business operations, whose fulfilment is neither planned nor probable and thus are part of the net investment in these foreign business operations, are not recognised as affecting net income for the period. The foreign exchange differences are initially recognised in other comprehensive income and transferred from equity to the income statement upon their sale.

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:

CURRENCIES		Exchange rate on reporting date = 1 €		Average exchange rate = 1 €	
	ISO-CODE	31 Dec. 2016	31 Dec. 2015	2016	2015
Australian dollars	AUD	1.45960	1.48970	1.48557	1.48361
Brazilian real	BRL	3.43050	4.31170	3.85714	3.70242
Canadian dollars	CAD	1.41880	1.51160	1.46297	1.42361
Swiss franc	CHF	1.07390	1.08350	1.09028	1.07518
Chinese renminbi	CNY	7.32020	7.06080	7.31992	6.99236
Czech crowns	CZK	27.02100	27.02300	27.04085	27.30531
British pound	GBP	0.85618	0.73395	0.81587	0.72841
Indian rupees	INR	71.59350	72.02150	74.03252	71.44871
Japanese yen	JPY	123.40000	131.07000	121.25846	134.52308
Korean won	KRW	1,269.36000	1,280.78000	1,279.98385	1,259.67308
Mexican pesos	MXN	21.77190	18.91450	20.54580	17.68576
Malaysian ringgits	MYR	4.72870	4.69590	4.57392	4.33787
Polish zloty	PLN	4.41030	4.26390	4.36590	4.19092
Russian rubles	RUB	64.30000	80.67360	73.87562	69.04266
Singapore dollars	SGD	1.52340	1.54170	1.52558	1.52878
Taiwan dollars	TWD	34.04532	35.75405	35.61428	35.35192
US dollars	USD	1.05410	1.08870	1.10205	1.11298

Sources: European Central Bank, Frankfurt / Main

NOTES TO INDIVIDUAL ITEMS IN THE INCOME STATEMENT

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:

	2016 € K	2015 € K
Germany	737,069	762,079
EU (excluding Germany)	815,179	777,793
USA	159,092	154,443
Asia	390,315	417,701
Other countries	164,054	192,705
	2,265,709	**2,304,721**

A breakdown and explanation of the sales revenues from the sale of goods and provision of services are given in segment reporting on page 102 et seq. and in the 'Segmental Reporting' chapter of the Group Management Report on page 64 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

INCOME UNRELATED TO ACCOUNTING PERIOD	2016 € K	2015 € K
Retransfer of provisions	12,751	11,195
Retransfer of value adjustments	2,480	3,915
Profit on asset disposals	1,931	1,422
Receipt of payments for written off receivables	39	46
Other income unrelated to accounting period	3,780	2,494
	20,981	19,072
OTHER OPERATING INCOME		
Gains on currency and exchange rates	39,171	65,928
Refund of expenses and on-debiting	22,423	24,286
Compensation for damages	1,116	1,099
Letting and leasing	444	961
Bonuses and allowances	513	205
Others	12,104	18,348
	75,771	110,827
Total	**96,752**	**129,899**

The release of provisions and the value adjustments involve a number of provisions and value adjustments which were set up in previous years and have not been fully used. A breakdown of the reversed provisions can be found in the schedule of provisions.

On balance, exchange rate and currency gains occurred in the financial year 2016 in the amount of € 436 K (previous year: € 4,673 K).

Income from the refund of expenses and ondebiting mainly include income from the on-debiting of marketing expenses to DMG MORI COMPANY LIMITED of € 10,210 K (previous year: € 12,496 K).

Other income includes € 651 K (previous year: € 380 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 2016, the total remuneration of the Executive Board from direct and indirect remuneration amounted to € 10,498 K (previous year: € 14,588 K). Direct remuneration of Executive Board members accounted for € 9,873 K (previous year: € 13,584 K), of which the fixed remuneration accounted for € 2,134 K (previous year: € 2,851 K), the STI for € 4,638 K (previous year: € 5,740 K). The individual performance remuneration was € 371 K (previous year: € 3,590 K). The value of the LTI amounted to € 2,665 K (previous year: € 1,276 K). Benefits in kind accounted for € 65 K (previous year: € 127 K). In the financial year, severance payments for former members of the Executive Board have been recognised as expenses in the amount of € 7,933 K. In addition to direct remuneration, indirect remuneration in the form of pension commitments amounting to € 625 K (previous year: € 1,004 K) was spent. Former members of the Executive Board and their surviving dependants received € 1.088 K (previous year: € 605 K). Pension provisions for former members of the Executive Board and their surviving dependants amounted to € 35,330 K (previous year: € 11,584 K).

The remuneration structure for the Executive Board and the Supervisory Board is explained on pages 31 of the Group Management Report. An individual and detailed presentation of Executive Board remuneration in the financial year is set out on pages 33 of the remuneration report.

Advances and loans to officers were not granted, nor were any contingent liabilities assumed in favour of officers. No contingent liabilities for the benefit of these persons have been accepted. 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 2016, pension plan expenses in the group, including employer's contributions to statutory pension insurance, amounted to € 27,524 K (previous year: € 26,410 K). This includes employers' contributions to statutory pension insurance amounting to € 22,991 K (previous year: € 22,498 K).

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

	Average number		At the balance sheet date	
	2016	2015	**31 Dec. 2016**	31 Dec. 2015
Wage earners	1,660	1,803	1,592	1,798
Salary earners	5,442	5,231	5,372	5,344
Trainees	294	282	318	320

11. DEPRECIATION

A distribution of depreciation of intangible assets and tangible assets is provided in the asset movement schedule on page 98 et seq.

12. OTHER OPERATING EXPENSES

EXPENSES UNRELATED TO ACCOUNTING PERIOD	**2016 € K**	2015 € K
Losses from the disposal of fixed assets	1,569	276
Other taxes	578	173
Other expenses unrelated to accounting period	2,953	1,474
	5,100	1,923
OTHER OPERATIONAL EXPENSES		
Freight out, packaging	59,154	57,704
Corporate communication, trade fairs and other advertising expenses	48,786	55,738
Other external services	46,682	39,140
Travelling and entertainment expenses	45,373	48,265
Exchange rate and currency losses	38,735	61,255
Rental and leases	35,232	34,205
Sales commissions	28,543	32,608
Expenses for temporary employment and contractors	24,355	29,046
Cost of preparation of accounts, legal and consultancy fees	21,742	26,036
Other Personnel costs	15,814	15,904
Stationery, post and telecommunication expenses	10,777	11,352
Transfer to provisions	10,459	8,444
Impairment on receivables	7,838	8,902
Insurance	7,188	7,670
Other taxes	5,266	5,436
Licences and trademarks	2,138	1,757
Investor and Public Relations	2,132	2,813
Monetary transactions and capital procurement	2,072	2,527
Others	42,583	31,218
	454,869	480,020
Total	**459,969**	**481,943**

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. Expenses for trade exhibitions and other joint marketing activities are also recharged proportionally to DMG MORI COMPANY LIMITED (see page 128'other operational income').

Exchange rate and currency losses in connection with exchange rate and currency gains can be seen in other operating income. On balance, exchange rate and currency gains occurred in an amount of € 436 K (previous year: € 4,673 K).

The additions to provisions resulted primarily from expenses for warranties. Sales commissions increased 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 expenses contain losses from the disposal of subsidiaries in the amount of € 13,232 K.

The other expenses include 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 (details see on page 135).

The administration and sales costs are included proportionately in other operating expenses and personnel costs.

In the financial year 2016, € 1,629 K (previous year: € 1,601 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 pages 31 seq. of the Remuneration Report.

13. FINANCIAL INCOME

Interest earned and other income of the DMG MORI group amounted to € 2,846 K (previous year: € 41,397 K). The change from the previous year results from income in the amount of € 37,841 K from the sale of the shares in DMG MORI COMPANY LIMITED. The previous year included a dividend distribution from DMG MORI COMPANY LIMITED in the amount of € 2,446 K.

14. FINANCIAL EXPENSES

Interest expenses of € 8,051 K (previous year: € 7,987 K) are related primarily to interest expenses for group financial debts and factoring of the group.

Finance expenses include an interest component of € 814 K (previous year: € 775 K) from allocations to pension provisions. In addition, € 100 K (previous year: € 195 K) from the interest accrued on long-term other provisions have been taken into account. Additionally, this item includes the impairment of a financial asset ('available for sale') in the amount of € 3,535 K that has been recognised in the reporting year.

The other financial expenses recognise the costs in amount of € 580 K from scheduled amortisation of the transaction costs for the newly established syndicated credit line in 2016 of DMG MORI AKTIENGESELLSCHAFT.

In the previous year, the scheduled amortisation of transaction costs resulted in expenses of € 838 K as well as extraordinary expenses due to the early repayment of the syndicated loan facility in the amount of € 559 K.

15. SHARE OF PROFITS AND LOSSES FROM COMPANIES ACCOUNTED FOR AT EQUITY

Profits from companies accounted for at equity amount to € 681 K in total (previous year: € 640 K).

This essentially includes the proportional income from the interest in DMG MORI Finance GmbH for the financial year 2016 in an amount of € 449 K (previous year: € 412 K) as well as income amounting to a total of € 296 K (previous year: € 92 K), representing the proportional result for the reporting year from the interest held in Magnescale Co. Ltd., Kanagawa (Japan). In addition, the proportional losses of the DMG MORI Australia Pty. Ltd., Clayton Victoria (Australia), for the financial year in the amount of € 64 K (previous year: € 137 K) have been recognised.

16. INCOME TAXES

This account represents current and deferred tax expenditure and income that break down as follows:

	2016 € K	2015 € K
Current taxes	**51,504**	**57,115**
Tax expense for the current financial year	45,013	52,792
Tax income for previous periods	−1,014	−355
Tax expense for previous periods	7,505	4,678
Deferred taxes	**−4,868**	**561**
Losses brought forward	3,573	−2,361
Temporary differences	−8,441	2,922
	46,636	**57,676**

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.

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 the 2016 financial year, 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: 13.8%), the overall tax rate was 29.8% (previous year: 29.6%). The result is the tax rate applicable for the valuation of deferred taxes for domestic companies. The essential tax rates applicable in foreign countries are between 19% and 34%.

In the 2016 financial year and in the previous year, an amount of € 1,014 K (previous year: € 355 K) resulted from ongoing tax income for previous years. This additionally includes current tax expenses in the amount of € 7,505 K (previous year: € 4,678 K) related to the previous years.

The reporting year did not have any current taxes in relation to the termination of business units or nonoperative business activities. Due to the continuation of the accounting methods no additional tax expense or income arose. Significant errors made in the past were not available and thus had no impact.

Business combinations resulted in deferred tax assets in the amount of € 193 K (previous year: zero). The income tax on the other comprehensive income amounts to € 2,577 K (previous year: € 78 K) and concern the changes in the fair values of derivative financial instruments, as well as the revaluation of defined benefit plans, all of which are included in the other comprehensive income.

The difference between current and expected income tax expenditure is due to the following:

	2016 € K	2015 € K
Results before income taxes	94,120	217,261
DMG MORI AKTIENGESELLSCHAFT income tax rate in percent	29,8	29,6
Expected tax income / expenditure	28,048	64,309
Tax consequences of the following effects		
Adjustment due to different tax rate	−3,957	−5,394
Effects from the changes in tax rate	702	725
Tax reduction due to the revenues exempt from taxation	−474	−11,674
Tax loss carried forward	3,573	−2,704
Non-recognition of temporary differences / deferred taxes previous years	6,606	2,997
Tax increase due to non-deductible expenses	6,669	5,446
Tax income or expenditure for prior years	6,491	4,323
Other adjustments	−1,022	−352
Income taxes	**46,636**	**57,676**

The change in deferred tax assets on losses carried forward primarily concerns the non-recognition of deferred tax assets on current losses amounting to € 5,695 K (previous year: € 2,135 K) as well as corrections to the deferred tax assets on losses carried forward in the amount of € 3,425 K (previous year: € 0 K). On the other side, previously omitted deferred taxes on losses carried forward in the amount of € 5,547 K (previous year: € 4,839 K) could be capitalised or utilised.

The income tax expense and income are exclusively attributed to the operational business activities within DMG MORI group. The reported income tax expense for the 2016 financial year of € 46,636 K (previous year: € 57,676 K) is € 18,588 K higher (previous year: € 6,633 K lower) than the expected income tax expense of € 28,048 K (previous year: € 64,309 K), which would theoretically result from applying the domestic tax rate of 29.8% for the 2016 financial year (previous year: 29.6%) at the group level. The tax reduction due to tax-free income in the previous year in the amount of € 10,641 K resulted from the sale of all shares in DMG MORI COMPANY LIMITED.

17. ANNUAL PROFIT ATTRIBUTED TO NON-CONTROLLING INTERESTS

A pro-rata annual profit of € 2,664 K (previous year: € 10,189 K) can be attributed to non-controlling interests. The position primarily contains the proportional profits of non-controlling interests in DMG MORI SEIKI CANADA INC., DMG MORI MEXICO S.A. de C.V. and in DMG MORI India Pvt. Ltd. as well as the pro-rata result of DMG MORI Europe AG until the date of acquisition of remaining 40% shares.

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:

		2016	2015
Group result excluding annual net profit attributable to non-controlling interests	€ K	44,820	149,396
Average weighted number of shares (pieces)		78,817,994	78,817,994
Earnings per share	€	0.57	1.90

Earnings result exclusively from continued business. The group result after tax of € 47,484 K was decreased by the result from non-controlling interests in the amount of € 2,664 K. The earnings per share (undiluted) was € 0.57 in the reporting year (previous year: € 1.90). As in the previous year, there were no dilutive effects.

NOTES TO INDIVIDUAL BALANCE SHEET ITEMS

19. INTANGIBLE ASSETS

The goodwill amounts to € 135,417 K (previous year: € 134,335 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.

Intangbile 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 € 24,467 K (previous year: € 29,221 K). Research and development costs immediately recognised as an expense amounted to € 38,525 K in the financial year 2016 (previous year: € 37,660 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.

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 further detail on pages 59 et seq. of the Group Management Report.

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 pages 59 et seq. of the Group Management Report.

The change in currency between the reporting dates amounts to € 19.7 million (previous year: € –4.3 million) and is shown in the consolidated fixed asset movement schedule under 'Other Changes'.

DMG MORI identified an impairment of a power generating facility due to the expectation of lower productivitiy and lower market prices. A review of the recoverable amount resulted in the recognition of an impairment loss of € 4,748 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 5.3%.

The recoverable amount corresponds 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.

The previous year recorded impairments of tangible assets in the amount of € 1.860 K, which result from lower expected income and have been recognised in the segment 'Industrial Services'. There were no write-ups in the financial year.

Land and buildings with a carrying amount of € 44,422 K are mortgaged for the security of financial debt in the amount of € 17,985 K (previous year: € 18,431 K).

Tangible assets include leased assets to the value of € 2,274 K (previous year: € 2,660 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:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Land and buildings	0	0
Technical equipment and machinery	1,035	1,371
Other fixed assets, factory and office equipment	1,239	1,289
	2,274	**2,660**

21. EQUITY INVESTMENTS

The development of group investments is shown in the consolidated fixed asset movement schedule.

The recognition of investments concerns shares in an amount of € 270 K in VR Leasing Frontania GmbH & Co. KG and an interest of € 83 K in Pro-Micron GmbH & Co. KG Modular System. The DMG MORI group does not exercise any significant influence over these companies.

The DMG MORI AKTIENGESELLSCHAFT holds 19% of the shares in DMG MORI Manufacturing USA, Inc., Davis, USA as part of a capital increase through contribution in kind in financial year 2013. There will be no significant influence exerted. The amortised acquisition costs as of 31 December 2016 amounted to € 21,415 K (previous year: € 21,415 K).

Impairment tests were conducted based on future cash flows, which were derived from company planning. This expected increases in sales revenue and EBIT margins. The cash flow calculated was discounted using a WACC rate of 7.58%.

GILDEMEISTER energy solutions GmbH also has an interest in Sonnenstromalpha GmbH & Co. KG, Hamburg. The equity interest amounts to 40% and as at the reporting date, had a fair value of € 21 K as in the previous year. As in the previous year, no impairment losses on equity investments were 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 2016 are set out on pages 169 et seq. DMG MORI AKTIENGESELLSCHAFT is a shareholder with unlimited liability of MITIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bielefeld KG, Bielefeld.

Following DMG MORI COMPANY LIMITED increasing the interest held to 76.03% at the beginning of April 2016, DMG MORI GmbH, Bielefeld, a fully owned subsidiary of DMG MORI COMPANY LIMITED entered into a control and profit transfer agreement with DMG MORI AKTIENGESELLSCHAFT, which was approved by the Annual General Meeting on 15 July 2016. The agreement entered into force following entry into the commercial register on 24 August 2016.

DMG MORI AKTIENGESELLSCHAFT also has entered into control and profit and loss transfer agreements with the following companies:

› DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
› GILDEMEISTER Beteiligungen GmbH.

GILDEMEISTER Beteiligungen GmbH has entered into control and profit and loss transfer agreements with the following companies:

› DECKEL MAHO Pfronten GmbH,
› GILDEMEISTER Drehmaschinen GmbH,
› DECKEL MAHO Seebach GmbH,
› DMG MORI Spare Parts GmbH,
› DMG MORI Software Solutions GmbH (formerly: DMG Electronics GmbH).

In addition, a control and profit and loss transfer agreement was entered into between DECKEL MAHO Pfronten GmbH and SAUER GmbH.

DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER has entered into profit and loss transfer and control agreements with the following subsidiaries:

- › DMG MORI Deutschland GmbH,
- › GILDEMEISTER energy solutions GmbH,
- › DMG MORI Services GmbH.

DMG MORI Services GmbH has entered into a control and profit and loss transfer agreement with the following subsidiaries:

- › DMG MORI Global Service Turning GmbH,
- › DMG MORI Global Service Milling GmbH,
- › DMG MORI Academy GmbH,
- › DMG MORI Microset GmbH (until 31 Dec. 2016),
- › DMG MORI Systems GmbH,
- › DMG MORI Used Machines GmbH.

DMG MORI Deutschland GmbH has entered into control and profit and loss transfer agreements with the following subsidiaries:

- › DMG MORI Stuttgart GmbH,
- › DMG MORI Munich GmbH,
- › DMG MORI Hilden GmbH,
- › DMG MORI Bielefeld GmbH,
- › DMG MORI Berlin GmbH,
- › DMG MORI Frankfurt GmbH,
- › DMG MORI Hamburg GmbH.

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:

	31 Dec. 2016		31 Dec. 2015	
	Equity interest %	Carrying amount € K	Equity interest %	Carrying amount € K
DMG MORI Australia Pty. Ltd.	50.0	0	50.0	1,995
DMG MORI Finance GmbH	42.6	9,816	42.6	9,366
Magnescale Co. Ltd.	44.1	36,272	44.1	35,976
		46,088		**47,337**

The equity interests correspond to the voting rights. The equity interests of the equity accounted companies have not changed from the previous year with one exception. DMG MORI Australia Pty. Ltd. is classified as a joint venture. The book value as of 31 Dec. 2016 has, in contrast to the previous year, been reported as € 0 K because the joint venture DMG MORI Australia Pty. Ltd. is among the disposal group that will be sold in 2017. The book value was therefore reclassified to the item 'Assets held for sale'. 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 discussion of the individual items on the income statement under 'Share of Profits and Losses from companies accounted for at equity' on page 130.

We consider the 44.1% interest held in Magnescale Co. Ltd., Kanagawa (Japan), a subsidiary of DMG MORI COMPANY LIMITED, Nagoya (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 future cash flows, which were derived from company planning. This expected increases in sales revenue and EBIT margins. The cash flow calculated was discounted using a WACC rate of 7.43%.

The most significant items of the balance sheet and the income statement have been combined for all three companies and presented in the following table separately.

MAGNESCALE CO. LTD.	31 Dec. 2016 € K	31 Dec. 2015 € K
Short-term assets	35,867	32,990
Long-term assets	60,936	64,058
Short-term liabilities	15,665	18,181
Long-term liabilities	15,619	16,944
Sales Revenues	73,108	64,725
Net income for the year	671	208

The values of the other associated company, DMG MORI Finance GmbH, are also summarised in the following tables. The previous year also included DMG MORI Australia Pty. Ltd.

	31 Dec. 2016 € K	31 Dec. 2015 € K
Short-term assets	**169,145**	**162,275**
Joint Arrangements	0	8,458
Associates	169,145	153,817
Long-term assets	**204,361**	**164,222**
Joint Arrangements	0	182
Associates	204,361	164,040
Short-term liabilities	**339,214**	**274,539**
Joint Arrangements	0	4,996
Associates	339,214	269,543
Long-term liabilities	**11,223**	**14,081**
Joint Arrangements	0	0
Associates	11,223	14,081

	2016 € K	2015 € K
Sales Revenues	**100,796**	**88,900**
Joint Arrangements	0	12,969
Associates	100,796	75,931
Net income for the year	**1,057**	**1,241**
Joint Arrangements	0	274
Associates	1,057	967

The reconciliation of the carrying amounts at the reporting date is as follows:

	31 Dec. 2016 € K Magnescale Co. Ltd.	31 Dec. 2016 € K DMG MORI Finance GmbH
Carrying amount at 1 January	64,848	22,012
Results after taxes	671	1,057
Carrying amount at 31 December	65,519	23,069
Proportional equity	28,907	9,816
Consolidation / other	7,365	0
Carrying amount at equity accounted interests	36,272	9,816

23. LONG-TERM RECEIVABLES AND OTHER ASSETS

	31 Dec. 2016 € K	31 Dec. 2015 € K
Trade debtors	978	517
Other long-term financial assets	7,673	10,808
Other long-term assets	17,076	38,948
	25,727	**50,273**

Trade debtors are assigned to financial assets. As in the previous year, there were no receivables against associated companies included in the long-term trade debtors. Other long-term financial assets include the following items:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Receivables from factoring	0	1,745
Security deposits and other sureties	470	906
Creditors with debit balances	0	37
Other financial assets	7,203	8,120
	7,673	**10,808**

Other financial assets include the purchase price for acquiring an option on the purchase of shares in a company amounting to € 3,005 K (previous year: € 6,540 K). In the financial year, an impairment of € 3,535 K has been recognised in the financial result.

Other long-term assets include the following items:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Tax refund claims	1,836	1,012
Other assets	15,240	37,936
	17,076	**38,948**

The tax refund claims do not contain receivables for income taxes.

Other assets include assets of project companies operating solar parks in the amount of € 14,695 K (previous year: € 36,486 K). A significant change from the previous year was mainly due to the sale of a project company and its assets in financial year 2016.

The carrying amount of the remaining assets of project companies is allocated to the 'Industrial Services' segment. In the financial year, an impairment of € 3,733 K (previous year: € 0 K) was recognised and disclosed in 'Other operating expense'. DMG MORI identified impairment indicators. The recoverable amount corresponds to the fair value less costs to sell and was derived from a price indication from a potential investor.

In accordance with IFRS 13, DMG MORI has allocated the assets to fair value hierarchy , level 3.

24. INVENTORIES

Inventories are made up as follows:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Raw materials and consumables	202,076	196,365
Work in progress	111,570	125,612
Finished goods and goods for resale	177,994	197,619
Payments on account	13,401	2,663
	505,041	**522,259**

Finished goods and goods for resale include machines in an amount of € 29,480 K (previous year: € 33,620 K) acquired from DMG MORI COMPANY LIMITED for trading purposes. Of inventories shown in the balance sheet on 31 December 2016, € 122,924 K (previous year: € 121,490 K) were recognised at their net realisable value. In the financial year impairment of inventories in an amount of € 23,229 K (previous year: € 15,399 K) were recognised as cost of materials. This includes impairments of inventories in the amount of € 4,900 K, which resulted in relation to the restructuring measures and for which DMG MORI expects that they cannot be used in the future.

In the financial year, revaluations amounting to € 2,930 K (previous year: € 3,845 K) arose primarily resulting from the increase in net realisable values; they also were recognised as cost of materials.

25. SHORT-TERM TRADE DEBTORS

	31 Dec. 2016 € K	31 Dec. 2015 € K
Trade debtors	194,394	192,368
Receivables from at equity accounted companies	4,276	7,054
Receivables from other related parties	166,448	41,308
Receivables from associated companies	188	163
	365,306	**240,893**

The receivables from other related companies include receivables owed by DMG MORI COMPANY LIMITED in the amount of € 21,373 K and receivables owed by DMG MORI GmbH from the granting of loans in the amount of € 120,000 K. The loan bears interest at market rates.

In the reporting year, DMG MORI has continued the unchanged use of factoring progammes. These agreements enabled domestic receivables in the amount of up to € 90,000 K and foreign receivables in the amount of up € 77,500 K to be sold. As of the reporting date, German receivables with a value of € 87,673 K (previous year: € 85,500 K) and foreign receivables with a value of € 57,119 K (previous year: € 67,786 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- and short-term trade debtors and other receivables, which are neither past due nor impaired, presents as follows:

	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
	€ K	€ K	€ K	€ K	€ K	€ K
Receivables						
31 Dec. 2016	366,284	334,913	21,338	3,667	2,586	2,340
Receivables						
31 Dec. 2015	241,410	209,176	21,898	3,412	929	3,795

Trade debtors and accumulated value impairments have developed as follows:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Trade debtors non impaired	364,844	239,210
Trade debtors before impaired	16,917	16,836
Accumulated impairments	15,477	14,636
Trade debtors impaired	1,440	2,200
Trade debtors	**366,284**	**241,410**

Impairments of trade debtors have developed as follows:

	2016 € K	2015 € K
Impairments as at 1 January	14,636	17,230
Allocations (expenses for impairments)	4,726	2,319
Consumption	−1,405	−999
Dissolutions	−2,480	−3,914
Impairments as at 31 December	**15,477**	**14,636**

The additions include impairments of receivables in the amount of € 2,800 K (of which € 2,300 K are non-domestic), which resulted from the restructuring measures. These receivables cannot be expected to be paid.

The following table shows the expenses for the complete derecognition of receivables as well as income from recoveries of receivables.

	2016 € K	2015 € K
Expenses for full write-off of receivables	3,112	6,583
Income from recoveries on receivables written off	39	46

In the previous year, expenses for derecognised receivables in the amount of € 5,582 K resulted from the complete de-recognition of receivables.

Income from receipt of payments for derecognised receivables are reported under other operating income. Expenses relating to impairments and derecognitions of receivables are reported under other operating expenses. These concern a large number of individual cases.

26. OTHER ASSETS

Other assets include the following items:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Other short-term financial assets	63,353	64,604
Other short-term assets	51,472	52,246
	114,825	**116,850**

Other short-term financial assets include the following items:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Discounted customers' bills	18,217	12,876
Receivables from factoring	14,075	16,821
Creditors with debit balance	7,518	6,024
Security deposits and other security payments	3,342	4,404
Purchase price receivables from asset disposal	3,250	496
Fair market value of derivative financial instruments	913	1,385
Receivables from employees and former employees	790	270
Loans to third parties	472	428
Other short-term financial assets	14,776	21,900
	63,353	**64,604**

No impairments or de-recognition of other financial assets were made either in the financial year or 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:

	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			
			Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	More than 1 year
	€ K	€ K	€ K	€ K	€ K	€ K
Other financial assets						
31 Dec. 2016	71,026	65,595	160	20	18	224
Other financial assets						
31 Dec. 2015	75,412	64,691	862	29	6	322

Other short-term assets include the following items:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Tax refund claims	33,528	35,387
Prepayments	5,339	3,318
Other assets	12,605	13,541
	51,472	**52,246**

Tax refund claims primarily include receivables from value added tax.

27. CASH AND CASH EQUIVALENTS

At the reporting date, bank credit balances amounted to € 396,725 K (previous year: € 552,127 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 93.

28. ASSETS HELD FOR SALE

Effective from 1. January 2017, control 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 control was made by the Executive Board in December 2016.

In the context of the reorientation, these companies will be managed and consolidated by DMG MORI COMPANY LIMITED from the 2017 financial year onwards. There are plans to sell the shares in the respective companies during the first few months of financial year 2017. All companies belong to the 'Industrial Services' segment. The concerned subsidiaries (see details on page 118) were therefore recognised as a disposal group held for sale as of 31 December 2016. 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 reclassifications of intangible assets, tangible assets and financial assets are shown in the consolidated fixed asset movement schedule under 'Other changes'. The disposal group was recognised at its book value. There were no effects on the income statement.

The 'Other comprehensive income' contains cumulative income in the amount of € 1,280 K which is associated with the assets held for sale.

The following tables provide the assets and liabilities in detail:

	31 Dec. 2016 € K
Intangible assets	4,574
Tangible assets	25,783
Equity-accounted investments	1,941
Inventories	23,604
Trade debtors and other receivables	27,956
Deferred tax assets	2,132
Cash and cash equivalents	30,597
Assets held for sale	**116,587**

	31 Dec. 2016 € K
Provisions	9,135
Trade creditors and other liabilities	26,933
Deferred tax liabilities	543
Liabilities in relation to assets held for sale	**36,611**

29. DEFERRED TAXES

Deferred tax assets and liabilities and deferred tax expense are allocated to the following accounts:

	31 Dec. 2016		31 Dec. 2015			
	Assets €K	Liabilities €K	Assets €K	Liabilities €K	2016 Deferred tax expense / income €K	2015 Deferred tax expense / income €K
Intangible assets	18,704	10,149	9,746	10,351	8,227	57
Tangible assets	8,501	4,438	8,083	3,860	–136	–1,261
Financial assets	0	9	3	73	61	–181
Inventories	17,190	1,469	15,336	1,262	1,884	2,269
Receivables and other assets	11,536	6,569	8,957	6,391	2,504	–222
Provisions	11,071	5,467	10,914	3,267	–3,867	–90
Liabilities	11,450	1,368	12,456	1,544	–232	–3,494
Tax loss carried forward	6,306	–	10,729	–	–3,573	2,361
	84,758	29,469	76,224	26,748		
Balancing	–26,494	–26,494	–22,824	–22,824		
Total	**58,264**	**2,975**	**53,400**	**3,924**	**4,868**	**–561**

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: 29.6%).

A determining factor for the valuation of the recoverability of deferred tax assets is the assessment of the probability of sufficient future taxable profits. 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 2016, tax loss asset carry forwards amounted to € 6,306 K (previous year: € 10,729 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. Companies outside of the tax group reported deferred tax assets on losses carried forward in the amount of € 78 K (previous year: € 71 K). Deferred tax assets for tax loss carry forwards are attributable to foreign subsidiaries in an amount of € 6,228 K (previous year: € 10,658 K). In the reporting year, deferred tax assets amounting € 706 K (previous year: € 3,853 K) were recapitalised on tax loss carry forwards, and € 2,795 K (previous year: € 1,203 K) have been offset with current taxable income. The tax losses carried forward amount to a total of € 86,749 K (previous year: € 74,207 K), of which € 60,693 K (previous year: € 31,147 K) were not recognised. Out of the unrecognised tax losses brought forward, € 25,723 K (previous year: € 17,000 K) are available for utilisation for an indefinite period, while € 31,269 K (previous year: € 6,927 K) must be used within the next five years. Moreover, the rest of the tax loss carry forwards not recognised in an amount of € 3,701 K (previous year: € 7,220 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 € 4,321 K (previous year: € 11,832 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 realise the tax assets.

A deferred tax asset of € 3,229 K was capitalized for a Chinese subsidiary in this context. Due to implementing the realignment in the Chinese market, we assume that a sufficiently positive taxable profit will be generated. For passive temporary differences associated with interest in subsidiaries in the amount of € 19,530 K (previous year: € 16,756 K), deferred taxes have been recognised because the requirements of IAS 12.39 are met.

The deferred tax assets recognised directly in equity changed by € 2,577 K to € 11,309 K as of the reporting date (previous year: deferred tax assets amounting to € 8,732 K). These break down into deferred tax assets amounting to € 11,014 K (previous year: € 8,674 K) on actuarial gains and losses recognised in equity, as well as € 295 K relating to the valuation of financial instruments in equity (previous year: deferred tax assets of € 58 K).

30. EQUITY

The movement of individual components in group equity for the financial years 2016 and 2015 is illustrated in the Consolidated Statement of Changes in Group equity on page 96 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 June 2015).

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to a nominal amount of € 102.463.392,20 until 15 May 2019 through the issue of up to 39,408,997 new no-par value bearer shares for contributions in cash and / or in kind (authorised capital). This authorisation can be exercised once or several times in partial amounts.

The 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 authorised, 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 € 5,000,000.00 for the issue of share of company employees and companies affiliated with the company,
b) capital increases through contribution in kind so as to acquire in suitable cases companies, parts of companies or interests in companies, or other assets in return for shares,
c) for capital increases against cash contributions, if the issuing price of the new shares is not significantly lower, in accordance with Section 203, (1) and (2), and Section 186 (3) (4) of the German Stock Corporation Act, than the stock market price on the final effective date of the issuing price determined by the executive board and if the total pro rata amount of the share capital attributable to the new shares, for which the shareholders' pre-emptive rights are excluded, neither on the effective date nor on the date of exercise of this authorisation exceeds 10 percent of the share capital. Shares that are issued or sold during the validity of the authorised 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 authorisation disapplying pre-emptive rights of shareholders pursuant to point b) and c) above may not exceed 20% of the share capital either at the time of the authorisation taking effect or at the time of its utilisation. Included in this 20 per cent limit are those shares that are issued during the term of the aforementioned authorisation from any other authorised capital disapplying the pre-emptive rights of shareholders, excluded from the aforementioned figure is the disapplication of pre-emptive rights to compensate for fractional amounts or the issue of shares to company employees and to affiliated companies.

The Executive Board is authorised, with the approval of the Supervisory Board, to lay down further details for the capital increase and its implementation. The supervisory board is authorised to adjust the articles of association according to each individual utilisation of the authorised capital and, if the authorised 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 authorisation 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 2016, the capital reserves were 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.

REVENUE RESERVES AND OTHER RESERVES

Statutory provision

The disclosure does not affect the statutory reserve of DMG MORI AKTIENGESELLSCHAFT in an amount of € 680,530.

Revenue reserves

Other revenue reserves include prior-period profits generated by the companies included in the Consolidated Financial Statements as far as they were not distributed. Revenue reserves 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 € 295 K (previous year: € 58 K).

A detailed overview on the composition of, or changes in, other reserves in the financial year 2016 and in the previous year is included in the Development of Group Equity.

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.

In the financial year, DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH entered into a control and profit transfer agreement, which was approved by the Annual General Meeting on 15 July 2016. The agreement entered into force on 24 August 2016, the date of entry in the commercial register. The 2016 financial year of DMG MORI AKTIENGESELLSCHAFT closes with a result pre-profit transfer of € 41,096,790.86 (previous year's annual surplus: € 47,059,426.56). The entire profits will be transferred to DMG MORI GmbH. According to IFRS regulations, this is a transaction with equity investors.

The net profit of DMG MORI AKTIENGESELLSCHAFT, in accordance with the German Commercial Code, remains unchanged at € 1,477,896.

A dividend of € 0.60 per share was paid for the financial year 2015 and a dividend of € 0.55 per share was paid for financial year 2014.

Non-controlling equity interests

Non-controlling equity interests include the minority interests in the consolidated equity of the companies included and, as at 31 December 2016, amounted to € 39,905 K (previous year: € 146,575 K). The change from the previous year is a result of the acquisition of the 40% interest in DMG MORI Europe AG in December 2016. DMG MORI increased its share from 60% to 100%. Another effect is a result of the acquisition of 33% of the shares in DMG MORI CANADA INC. of Vancouver (Canada). Thus, DMG MORI increased its share from 67% to 100%.

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.

Surplus funds are determined as the sum of financial debts less cash and cash equivalents.

		31 Dec. 2016	31 Dec. 2015
Cash and cash equivalents	€ K	396,725	552,127
Financial debt	€ K	54,618	51,793
Surplus funds	€ K	342,107	500,334
Total equity	€ K	1,187,663	1,357,474
Equity ratio	%	50.8	59.4
Gearing	%	–	–

Total equity is decreased in absolute terms by € 169,811 K. This is primarily attributable to the distribution of the dividend for the financial year 2015, taking into account the profit transfer to the DMG MORI GmbH, Bielefeld, for the financial year 2016 and the acquisition of the 40% share in DMG MORI Europe AG. The equity ratio as of 31 December 2016 amounted to 50.8% (previous year: 59.4%).

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 contribution-oriented or benefit-oriented systems.

In the case of contribution-based pension plans ('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 2016 financial year amounted to € 4,533 K (previous year: € 3,912 K).

In the case of benefit-oriented pension plans, it is the company's obligation to pay the promised benefits to active and former employees ('defined benefit plans'), 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. Individual defined contribution pension plans are agreed upon for Executive board members of DMG MORI AKTIENGESELLSCHAFT. The corresponding contributions amounted to € 460 K (previous year: € 385 K) in the financial year. Moreover, 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. The calculations as of the end of the financial year are based on the following actuarial assumptions. 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:

	Germany 2016 %	Rest of the world 2016 %	Germany 2015 %	Rest of the world 2015 %
Discount interest rate	1.26	0.62	2.03	0.84
Salary trend	0.00	1.00	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 closing date of high-quality, fixed-interest corporate 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 benefit-oriented 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:

		31 Dec. 2016 € K		31 Dec. 2015 € K	
		Germany	Rest of the world	Germany	Rest of the world
	Cash value of pension commitments not financed by funds	36,840	2,347	35,025	1,681
+	Cash value of funded pension commitments	20,058	25,859	15,242	23,464
–	Current value of pension plan assets	−16,429	−19,803	−16,108	−18,518
=	**Net value of amounts shown in the balance sheet on the reporting date**	**40,469**	**8,403**	**34,159**	**6,627**
	of which pensions	47,574		41,652	
	of which assets (–)	0		−866	
	of which, pursuant to IFRS 5, reclassification to 'Liabilities in relation to assets held for sale'	1,298		0	

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. It is composed of the following stock exchange-listed titles: cash and cash equivalents in the amount of € 172 K or 0.48% (previous year: € 383 K or 1.10%), shares in the amount of € 1,711 K or 4.72% (previous year: € 1,858 K or 5.37%), bonds in the amount of € 3,836 K or 10.59% (previous year: € 3.899 K or 11,26%), real property in the amount of € 1,298 K or 3.58% (previous year: € 1,366 K or 3.95%) as well as qualifying insurance contracts. The non-stock exchange-listed other assets amounted to € 29,216 K or 80.64% (previous year: € 27.120 K or 78.32%). The pension plan assets are valuated with the fair value.

The calculation of the typological interest rate 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 return on plan assets amounts to € 236 K (previous year: € 194 K).

The excess cover (amount recognised as an asset) in the amount of € 866 K has been recognised as part of the other long-term assets in the previous year. There was no excess cover in the reporting year.

The fair value of the pension plan assets can be derived from the following:

		31 Dec. 2016 € K		31 Dec. 2015 € K	
		Germany	Rest of the world	Germany	Rest of the world
	Fair value of the assets at the start of the year	16,108	18,518	7,772	14,115
+	Employer contributions	1,263	2,343	8,227	2,217
+/–	Benefits received / paid	–1,637	–2,519	–264	815
+/–	Interest income from plan assets	322	149	311	207
+/–	Actuarial profits / losses recognised in other comprehensive income	373	–608	62	–386
+/–	Business combinations /disposals / transfers	0	2,094	0	0
+/–	Profit (–) and loss (+) from compensation	0	–335	0	0
+/–	Exchange rate changes	0	161	0	1,550
=	**Fair value of the assets at the end of the year**	**16,429**	**19,803**	**16,108**	**18,518**

Payments from insurance companies are accounted for as benefits received and the benefits actually granted are disclosed as benefits paid.

The increase over the previous year of contributions paid resulted from the deposit to reinsurance policy in the financial year. Revenues or losses from compensation due to employees leaving subsidiaries in Switzerland.

Out of the obligations for pensions in the amount of € 85,104 K (previous year: € 75,412 K), an amount of € 56,898 K (previous year: € 50,266 K) is allocable to domestic group companies; this represents around 67% of the total amount (previous year: around 67%) and € 28,205 K or 33% (previous year: € 25,146 K or 33%) are attributed to foreign group companies. The changes in the fair value compared to the previous year are due to an adjustment of the fair value of the pension plan assets and the change in the number of pensioners.

Pension provisions for former members of the Executive Board and their surviving dependants have been formed in the amount of € 35,330 K (previous year: € 11,584 K).

The increase on the previous year results from the amount for an active member of the Executive Board in the past financial year, being recognised as part of the item for former members of the Executive Board in 2016.

In financial year 2016, total expense amounted to € 4,029 K (previous year: € 4,357 K), which breaks down into the following components:

		2016 € K	2015 € K
	Current service cost	3,114	3,109
+	Retroactive service cost	431	503
+/–	Profit (–) and loss from settlements / reductions	–243	0
+/–	Net interest component	727	745
=	**Total expense for benefit-oriented pension plans**	**4,029**	**4,357**

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:

	Defined benefit obligation				Fair value of plan assets				Net liability (net asset) from benefit-oriented plans			
	2016		2015		**2016**		2015		**2016**		2015	
	Germany € K	Rest of the world € K	Germany € K	Rest of the world € K	Germany € K	Rest of the world € K	Germany € K	Rest of the world € K	Germany € K	Rest of the world € K	Germany € K	Rest of the world € K
As at 1 January	**50,266**	**25,146**	**51,001**	**18,691**	**−16,108**	**−18,518**	**−7,772**	**−14,115**	**34,158**	**6,628**	**43,229**	**4,576**
Included in profit and loss												
Current service cost	650	2,464	619	2,490	0	0	0	0	650	2,464	619	2,490
Retroactive service cost	606	−175	802	−299	0	0	0	0	606	−175	802	−299
Effects from compensations	0	−243	0	0	0	0	0	0	0	−243	0	0
Interest expense (income)	984	214	985	278	−322	−149	−311	−207	662	65	674	71
Exchange rate changes	0	236	0	1,954	0	−161	0	−1,550	0	75	0	404
	2,240	**2,496**	**2,406**	**4,423**	**−322**	**−310**	**−311**	**−1,757**	**1,918**	**2,186**	**2,095**	**2,666**
Included in other comprehensive income Loss (profit) from remeasurements												
Actuarial losses (profits) from:												
financial assumptions	4,950	1,874	−358	1,153	0	0	0	0	4,950	1,874	−358	1,153
experience adjustments	2,455	−224	−144	−785	0	0	0	0	2,455	−224	−144	−785
demographic adjustments	0	−2,173	0	0	0	0	0	0	0	−2,173	0	0
Effect on plan assets (excluding interest income)	0	0	0	0	−373	608	−62	386	−373	608	−62	386
	7,405	**−523**	**−502**	**368**	**−373**	**608**	**−62**	**386**	**7,032**	**85**	**−564**	**754**
Other												
Contributions paid by the employees	0	0	0	0	−1,263	−1,244	−8,227	−1,121	−1,263	−1,244	−8,227	−1,121
Payments achieved	−3,013	−1,501	−2,639	1,664	1,637	1,420	264	−1,911	−1,376	−81	−2,375	−247
Effects from compensations	0	−335	0	0	0	335	0	0	0	0	0	0
Effects from business combinations / disposals / transfers	0	2,923	0	0	0	−2,094	0	0	0	829	0	0
	−3,013	**1,087**	**−2,639**	**1,664**	**374**	**−1,583**	**−7,963**	**−3,032**	**−2,639**	**−496**	**−10,602**	**−1,368**
As at 31 December	**56,898**	**28,206**	**50,266**	**25,146**	**−16,429**	**−19,803**	**−16,108**	**−18,518**	**40,469**	**8,403**	**34,158**	**6,628**

The cash value of the provisions had changed as follows:

		2016 € K		2015 € K	
		Germany	Rest of the world	Germany	Rest of the world
	Benefit obligation opening balance	**50,266**	**25,146**	**51,001**	**18,691**
−	Benefits paid	−3,013	−2,601	−2,639	568
+	Past service costs and interest expense	2,240	2,503	2,406	2,469
+	Profit from plan reductions	0	1,100	0	1,096
+/−	Effects from compensations	0	−578	0	0
+/−	Effects from business combinations / disposals / transfers	0	2,923	0	0
+/−	Actuarial profits (+) or losses (−) recognised in the other comprehensive income	7,405	−523	−502	368
+/−	Currency adjustment	0	236	0	1,954
=	**Benefit obligation closing balance**	**56,898**	**28,206**	**50,266**	**25,146**

Over the past five years, the funded status, consisting of the cash value of all pension obligations and the fair value of plan assets, has changed as follows:

	2016 € K	2015 € K	2014 € K	2013 € K	2012 € K
Cash value of all pension commitments	85,104	75,412	69,692	57,900	55,561
Current value of the pension plan assets of all funds	−36,232	−34,626	−21,887	−19,479	−17,957
Funding status	48,872	40,786	47,805	38,421	37,604

Payments to beneficiaries from pension plans not financed by funds in 2017 are expected in an amount of € 2,575 K (previous year for 2016: € 2.487 K), while payments to funded pension plans in the financial year 2017 are estimated to amount of about € 1,003 K (previous year for 2016: € 1,101 K).

The average weighted duration of pension obligations in Germany is around thirteen years and in Switzerland between eighteen and twenty-three years. 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 performance-oriented obligation in the following amounts.

The effects on the entitlement present value is as follows:

PRESENT VALUE OF THE ENTITLEMENT OBLIGATIONS	Effects on the entitlements per 31 Dec. 2016 € K	in %
	85,104	
In the case of		
Reduction of the discount rate by 0.25%	87,979	3.38
Increase of the discount rate by 0.25%	82,411	−3.16
Reduction of the pension trend by 0.25%	83,360	−2.05
Increase of the pension trend by 0.25%	86,918	2.13

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:

	31 Dec. 2016		31 Dec. 2015	
	Total € K	of which short-term € K	Total € K	of which short-term € K
Tax provisions	**49,889**	**49,889**	**47,788**	**47,788**
Obligations arising from personnel	97,833	72,137	97,274	71,817
Risks arising from warranties and retrofitting	35,663	29,601	35,134	28,098
Obligation arising from sales	33,822	32,935	40,119	37,582
Legal and consultancy fees and costs of preparation of accounts	5,394	5,394	6,889	6,889
Other	34,947	34,798	24,974	24,321
Other provisions	**207,659**	**174,865**	**204,390**	**168,707**
Total	**257,548**	**224,754**	**252,178**	**216,495**

Tax provisions include current taxes on income and returns of € 41.860 K (previous year: € 39.154 K), for 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.

Provisions for personnel expenses in the group include obligations for profit-sharing and staff bonuses of € 41,371 K (previous year: € 45,017 K), part-time retirement payments of € 2,871 K (previous year: € 3,105 K), holiday pay of € 14,858 K (previous year: € 14,165 K) and anniversary payments of € 9,956 K (previous year: € 9,380 K). Most of the provision should be paid in the coming year. The provisions for anniversary bonuses and part-time retirement are discounted and carried 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 2016, liquid assets of € 2,049 K (previous year: € 1,060 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 at the reporting date and taking into account possible price increases on the closing 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.

The other obligations primarily include provisions for installations 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. For the short-term provisions, it can be assumed that a significant part of the obligations will be fulfilled in financial year 2017.

The movement in the other provisions is illustrated in the analysis of provisions:

	1 Jan. 2016 € K	Transfers € K	Used € K	Retransfers € K	Change in the group of consolidated companies € K	Other Changes € K	31 Dec. 2016 € K
Tax provisions	**47,788**	**23,488**	**21,101**	**2,041**	**197**	**1,558**	**49,889**
Obligations arising from personnel	97,274	61,790	53,458	5,957	581	−2,397	97,833
Risks arising from warranties and retrofitting	35,134	15,495	12,593	1,707	495	−1,161	35,663
Obligation arising from sales	40,119	20,191	23,367	1,868	1,272	−2,525	33,822
Legal and consultancy fees and costs of preparation of accounts	6,889	4,860	5,549	497	57	−366	5,394
Other	24,974	25,196	12,518	2,722	910	−893	34,947
Other provisions	**204,390**	**127,532**	**107,485**	**12,751**	**3,315**	**−7,342**	**207,659**
Total	**252,178**	**151,020**	**128,586**	**14,792**	**3,512**	**−5,784**	**257,548**

The other changes include currency adjustments and transfers.

Obligations arising from personnel include provisions for the long-term incentive, a remuneration component with a long-term incentive effect, totalling € 9,601 K (previous year: € 9,678 K). A detailed description of the long-term incentive can be found in the 'Remuneration report' chapter of the group Management Report on page 31.

The provisions for obligations associated with personnel contain the following provisions for LTI: The tranche disbursed in 2016 resulted in a provision in the amount of € 388 K for the reporting year. The tranche disbursed in 2015 resulted in a provision in the amount of € 1,718 K, the tranche disbursed in 2014 resulted in a provision in the amount of € 2,930 K and the 2013 tranche with a term of 4 years resulted in an appropriation in the amount of € 4,565 K.

33. FINANCIAL DEBTS

Details of short-term and long-term financial debts are listed in the following tables:

	31 Dec. 2016 € K	of which due within 1 year € K	of which due within 1 to 5 year € K	of which due after 5 years € K
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

	31 Dec. 2015 € K	of which due within 1 year € K	of which due within 1 to 5 year € K	of which due after 5 years € K
Bank loans and over drafts [1]	46,829	5,772	40,194	863
Discounted bills of exchange	4,964	4,964	0	0
	51,793	**10,736**	**40,194**	**863**

1) of which secured by mortgages: € 18,431 K

Financial debts increased in comparison with the previous year by € 2,825 K. The use of overdraft loans rose slightly by € 561 K to € 3,618 K (previous year: € 3,057 K) as well as the utilisation for discounted bills of exchange issued by customers.

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 € 773.0 million (previous year: € 726.4 million). This mainly comprises a syndicated credit line amounting to € 500.0 million (previous year: € 450.0 million), guarantee credit lines amounting to € 53.2 million (previous year: € 53.3 million) and factoring agreements, another part of the financing portfolio, 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 € 41.4 million (previous year: € 55.6 million).

As of 31 December 2016, long-term loans had been drawn down to € 41.4 million (previous year: € 43.8 million). As at the reporting date, € 3.6 million (previous year: € 3.1 million) in short-term financing commitments had been utilised.

As of 31 December 2016, the international share in liabilities to banks was about 92% (previous year: about 97%) in total. The average cost of borrowing amounts to 1.4% (previous year: 1.7%).

Set out below are the major liabilities to credit institutions:

	31 Dec, 2016				31 Dec, 2015			
	Currency	Book value € K	Ramaining period in years	Effective interest rate %	Currency	Book value € K	Ramaining period in years	Effective interest rate %
Loan	EUR	1,375	up to 10	3,54 – 6,25	EUR	3,157	up to 11	3,54 – 6,25
Loan	CHF	40,041	up to 3	1,25 – 1,90	CHF	40,614	up to 4	1,25 – 1,90
Overdrafts	various	3,618	up to 1	3,93 – 11,50	various	3,057	up to 1	4,10 – 20,40
		45,034				**46,828**		

From 31 December 2016, DMG MORI group has access to a new syndicated credit line with a total volume of € 500 million and a five-year term (matures in February 2021). It comprises a usable revolving cash tranche of € 200 million and an aval tranche of € 300 million. The contract con-cluded in February 2016 fully replaced the

syndicated credit line expiring in August 2016 ahead of its maturity. The new 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 markup. This interest markup may change depending on the company's key figures. The new syndicated credit line also requires the DMG MORI group to comply with a customary covenant. The covenant was complied with as of 31 December 2016. 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 2016.

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. are main guarantors for the credit line.

As at the reporting date, open credit lines amount to € 441.8 million (previous year: € 376.5 million). These comprise free cash lines of € 207.2 million (previous year: € 208.8 million) and additional open lines of credit (bank guarantees, bills of exchange, factoring) of € 234.6 million (previous year: € 167.7 million).

In addition to the granted mortgage, loans advanced by SAUER GmbH in the amount of € 849 K (previous year: € 890 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 liabilities are shown as follows:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Trade creditors	0	0
Other long-term financial liabilities	1,590	4,870
Other long-term liabilities	4,012	4,098
	5,602	**8,968**

Trade creditors are classed as financial liabilities.

Other long-term financial liabilities include the following items:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Liabilities from finance lease arrangements	1,484	1,464
Other long-term financial liabilities	106	3,406
	1,590	**4,870**

Liabilities arising from finance leases amount to € 1.484 K (previous year: € 1,464 K) and show the discounted value of future payments from finance leases.

In other long-term financial liabilities, the fair value of long-term liabilities corresponds to the values shown on the balance sheet.

	31 Dec. 2016 € K	31 Dec. 2015 € K
Deferred income	2,744	2,924
Liabilities relating to social insurance	244	141
Other long-term liabilities	1,024	1,033
	4,012	**4,098**

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 an amount of € 2,744 K (previous year: € 2,924 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 2016. Deferred income will be amortised in accordance with the depreciation procedure for subsidised capital assets and recognised in the income statement.

In the reporting year, liabilities for project companies are included in other long-term liabilities in an amount of € 624 K (previous year: € 665 K).

35. TRADE CREDITORS AND OTHER SHORT-TERM LIABILITIES

Short-term financial liabilities are shown as follows:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Trade creditors	236,024	269,105
Liabilities to at equity accounted companies	2,003	1,813
Liabilities to other related companies	273,326	89,809
Liabilities to associated companies	6	26
Other short-term financial liabilities	34,365	30,335
	545,724	**391,088**

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 € 216,319 K. The transfer of profits to DMG MORI GmbH resulted in a liability in the amount of € 41,097 K.

Other short-term financial liabilities are shown as follows:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Liabilities from factoring	12,472	10,836
Fair market values of derivative financial instruments	5,310	2,360
Debtors with credit balance	3,406	3,366
Liabilities from finance lease arrangements	901	676
Other short-term financial liabilities	12,276	13,097
	34,365	**30,335**

The fair value of derivative financial instruments involves the fair value for forward exchange contracts amounting to € 5,310 K (previous year: € 2,360 K), mainly in USD, GBP and JPY. Liabilities arising from finance leases amounted to € 901 K (previous year: € 676 K) and show the discounted value of future payments from finance leases. These are primarily liabilities arising from finance leases for buildings.

Short-term liabilities arising from finance leases are recognised without future interest payable. All future payments arising from finance leases amount to € 2,630 K (previous year: € 2,399 K).

Other financial liabilities include liabilities from bills of exchange amounting to € 8,332 K (previous year: € 8,613 K).

The minimum lease payments for the respective lease agreements are as follows:

TOTAL FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2016 € K	31 Dec. 2015 € K
Due within one year	1,041	798
Due within one and five years	1,589	1,528
Due in more than five years	0	73
	2,630	**2,399**
INTEREST PORTION INCLUDED IN MINIMUM LEASE PAYMENTS		
Due within one year	140	121
Due within one and five years	105	138
Due in more than five years	0	0
	245	**259**
NET PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	901	677
Due within one and five years	1,484	1,390
Due in more than five years	0	73
	2,385	**2,140**

During the financial year 2016, DMG MORI group acted as a lessor in the context of finance lease contracts. The minimum lease payments for 2017 from these subleases amount to € 182 K; the payments due in the following years amount to € 531 K. The contracts are predominantly related to the letting of tool machines.

As at 31 December 2016, the DMG MORI group was also the lessor for operating lease agreements. The minimum lease payments in 2017 from these subleases amount to € 307 K (previous year for 2016: € 651 K). Over the next one to five years, there will be no minimum leasing payments due (previous year: € 307 K). These agreements mainly cover the leasing of machine tools.

Other short-term liabilities include the following items:

	31 Dec. 2016 € K	31 Dec. 2015 € K
Tax liabilities	26,008	27,404
Liabilities relating to social insurance	5,270	6,061
Payroll account liabilities	2,721	2,274
Deferred income	7,805	7,226
Other liabilities	965	923
	42,769	**43,888**

Tax liabilities refer to liabilities arising from value added tax amounting to € 12,051 K (previous year: € 15,435 K) as well as liabilities arising from wage and church tax in the amount of € 9,157 K (previous year: € 8,795 K).

36. LIABILITIES IN RELATION TO ASSETS HELD FOR SALE

Effective from 1. January 2017, the control 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 118) were therefore recognised as a disposal group held for sale as of 31 December 2016. All assets and liabilities of these companies have been reclassified in the balance sheet item 'Liabilities in relation to assets held for sale'. The disposal group was recognised at its book value. The details of the debts are listed in the table on page 138.

The liabilities are disclosed in the segment reporting of the 'Industrial Services' business segment.

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:

CONTINGENCIES	31 Dec. 2016 € K	31 Dec. 2015 € K
Guarantees	1,659	2,015
Warranties	93	41
Other contingencies	5,106	4,742
	6,858	**6,798**

The guarantees primarily include advance payment guarantees to foreign group companies. Other contingencies comprise, in particular, guarantees for framework agreements and performance guarantees.

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 (finance lease arrangements and operating lease arrangements) are broken down below by due dates. The agreements have terms from two to fortythree years and some include options to extend or purchase options.

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2016 € K	31 Dec. 2015 € K
Due within one year	26,672	27,614
Due within one and five years	30,191	34,987
Due within more than five years	4,073	4,804
	60,936	**67,405**

Of which operating lease arrangements account for:

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2016 € K	31 Dec. 2015 € K
Due within one year	25,631	26,816
Due within one and five years	28,602	33,459
Due within more than five years	4,073	4,731
	58,306	**65,006**

Operating lease agreements relating to the financing of buildings exist for DECKEL MAHO Pfronten GmbH in an amount of € 1.6 million and for FAMOT Pleszew Sp.z o.o., Pleszew (Poland), in an amount of € 2.3 million. The operating lease agreements for the buildings include a purchase option upon expiry of the basic rental period.

Other operating lease agreements also exist for machines at FAMOT Pleszew Sp.z o.o., Pleszew (Poland), in an amount of € 1.0 million and at DECKEL MAHO Pfronten GmbH in an amount of € 0.8 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 € 26.2 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 thirty-eight years.

There are no permanent subtenancy 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 reporting date, forward exchange rate contracts were held by the DMG MORI group primarily in USD, GBP, JPY, PLN and CHF.

The nominal and fair values of derivative financial instruments existing at the reporting date are set out below:

	31 Dec. 2016				31 Dec. 2015	
	Nominal value	Asset	Debt	Fair market value Total	Nominal value	Fair market value Total
	€ K	€ K	€ K	€ K	€ K	€ K
Forward exchange contracts as cash flow hedges	55,560	285	1,242	−957	23,300	−198
Forward exchange contracts held for trading purposes	155,692	628	4,068	−3,440	152,424	−777
	211,252	913	5,310	−4,397	175,724	−975

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 reporting 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 value of forward exchange contracts are recognised in the balance sheet as other long-term or current financial assets or other long-term and current financial liabilities.

At the close of the reporting period, the DMG MORI group also held forward exchange transactions 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 rate contracts, as at the reporting date, the DMG MORI group had a deficit risk amounting to € 913 K (previous year: € 1.385 K).

As of the balance sheet date, existing forward exchange transactions in cash flow hedges with a nominal volume of € 55,560 K have a residual term of up to one year (previous year: € 23,300 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 transactions held for trading purposes with a nominal volume of € 761 K had a remaining term of over one year (previous year: € 0 K).

The cash flows from these forward exchange transactions will eventuate within the next fifteen months. For the most part, it must be assumed that these changes in value will also be recognised as income in the profit and loss statement within the same period.

In financial year 2016, expenses arising from the fair value recognition of financial instruments attributable to cash flow hedges in an amount of € 992 K (previous year: € 198 K) were allocated to equity and not recognised in the income statement and an amount of € 198 K (previous year: € 1,579 K) was removed from equity and recognised in net profit or loss as an expense (previous year: expense) for the reporting period. Forward exchange contracts were recognised in the income statement as exchange rate and currency profits or exchange rate and currency losses. As was the case in the previous year, forward exchange contracts during the financial year resulted in insignificant ineffectivenesses.

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 table provides an overview of financial assets and financial liabilities, which are subject to netting agreements or similar agreements.

	Gross amounts of financial instruments in the balance sheet 31 Dec. 2016 € K	Potential offsetting assets subject to global netting agreements 31 Dec. 2016 € K	Net amount 31 Dec. 2016 € K
Financial assets			
Forward exchange contracts	913	913	0
Financial liabilities			
Forward exchange contracts	5,310	913	4,397

	Gross amounts of financial instruments in the balance sheet 31 Dec. 2015 € K	Potential offsetting assets subject to global netting agreements 31 Dec. 2015 € K	Net amount 31 Dec. 2015 € K
Financial assets			
Forward exchange contracts	1,385	1,267	118
Financial liabilities			
Forward exchange contracts	2,360	1,267	1,093

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 centralises 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 pages 79 ff in the risk and opportunity report.

Currency risks

In its global business activities, the DMG MORI group is exposed to currency risks. Transaction risks arise through changes in the value of future foreign currency payments due to exchange rate fluctuations in the individual financial statement. 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 presents the possible impact on the reserve for derivatives resp. other revenues in equity as well as the impact on earnings as of 31 December 2016 or 31 December 2015. The reserve for derivatives resp. other revenues in equity and the fair value of forward exchange transactions with a hedge relationship would have been € 211 K higher (lower) (previous year: € 1,266 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 € 768 K lower (higher) (previous year: € 4,160 K higher (lower)).

	Profit or loss		Net equity	
	Increase	**Decrease**	**Increase**	**Decrease**
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**
31 December 2015				
USD (10% change)	1,904	−1,904	1,111	−1,111
JPY (10% change)	661	−661	0	0
GBP (10% change)	2,074	−2,074	59	−59
RUB (10% change)	−479	479	96	−96
	4,160	**−4,160**	**1,266**	**−1,266**

The following table shows the net currency risk from transactions in € K for major currencies as at 31 December 2016 and 2015:

CURRENCY	**31 Dec. 2016**			31 Dec. 2015		
	USD € K	JPY € K	GBP € K	USD € K	JPY € K	GBP € K
Currency risk from balance sheet items	45,446	−12,010	15,160	37,532	−5,977	5,195
Currency risk from pending transactions	22,187	936	11,493	14,781	2,764	5,060
Transaction-related currency items	67,633	−11,074	26,653	52,313	−3,213	10,255
Financially hedged item through derivatives	−66,633	12,011	−25,404	−52,081	2,666	−10,187
Open currency items	1,000	937	1,249	232	−547	68
Change in foreign currency items through a 10% revaluation of the euro	−100	−94	−125	−23	55	−7

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.

The interest sensitivities are shown below:

	Profit or loss	
	Increase by 100 basis points € K	Decrease by 5 basis points € K
31 December 2016		
Variable-rate instruments	2,484	–197
Profit sensitivity (net)	**2,484**	**–197**
	Increase by 100 basis points € K	Decrease by 5 basis points € K
31 December 2015		
Variable-rate instruments	3,963	–275
Profit sensitivity (net)	**3,963**	**–275**

As of 31 December 2016, the DMG MORI group has no net deficit, so that interest rate increases would present an opportunity for higher interest yield. 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 (previous year: interest income of € 4.0 million). 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 € 197 K (previous year: € 275 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:

	Nominal volume	
	31 Dec. 2016 € K	31 Dec. 2015 € K
Fixed-rate instruments		
Financial assets	0	0
Financial liabilities	–41,173	–43,762
	–41,173	**–43,762**
Variable-rated instruments		
Financial assets	396,725	552,127
Financial liabilities	–148,288	–155,837
	248,437	**396,290**

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. Thus, financial instruments with a fixed interest rate are not subject to any risks arising out of interest rate changes as defined in IFRS 7. The fair value of forward exchange contracts is not altered significantly by changes in the interest rate.

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 standby credits of € 52.3 million (previous year: € 55.6 million). The new syndicated credit line was obtained in February 2016 and has a term of five tears. Thus, the syndicated loan due to expire in August 2016 was replaced in full (for details, please see page 148). Loan facilities have not been cancelled either in financial year 2016 or in the previous year. The financing agreements for the syndicated loan obligate the DMG MORI group to comply with customary covenants. The covenant was complied with as of 31 December 2016.

As of 31 December 2016, DMG MORI group has access to cash and cash equivalents amounting to € 396.7 million (previous year: € 552.1 million) and available lines of credit in the amount of € 207.2 million (previous year: 208.8 million) and additional available credit lines (sureties, bills of exchange and factoring) in the amount of € 288.9 million (previous year: € 271.9 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:

		Cashflows 2017		Cashflows 2018 – 2021		Cashflows 2022 ff.	
	Book value 31 Dec. 2016 € K	Interest € K	Repayment € K	Interest € K	Repayment € K	Interest € K	Repayment € K
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**

This includes all instruments that were held as at 31 December 2016 and 31 December 2015 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 2016 and 31 December 2015 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 € 285 K (previous year: € 146 K) as well as the proportion of liabilities from derivatives in the amount of € 1,242 K (previous year: € 344 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.

		Cashflows 2016		Cashflows 2017 – 2020		Cashflows 2021 ff.	
	Book value 31 Dec. 2015 € K	Interest € K	Repayment € K	Interest € K	Repayment € K	Interest € K	Repayment € K
Liabilities to banks	46,828	806	5,772	2,003	40,193	242	863
Liabilities arising from leases	2,140	121	677	138	1,390	0	73
Discounted customers' bills	4,964	0	4,964	0	0	0	0
Trade creditors	360,753	0	360,753	0	0	0	0
Other financial liabilities	30,705	0	27,298	0	3,358	0	49
Subtotal	**445,390**	**927**	**399,464**	**2,141**	**44,941**	**242**	**985**
Liabilities from derivatives	2,360	0	2,360	0	0	0	0
	447,750	**927**	**401,824**	**2,141**	**44,941**	**242**	**985**

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 receivables ensures the continuous monitoring and mitigation of risks and, in this way, minimises 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 € 3,112 K (previous year: € 6,583 K). The previous year saw expenses from the full derecognition of receivables in the amount of € 5,582 K. Further details on financial risk assessment can be found in the section, 'Risk and Opportunity Report' in the management 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 balance sheet date is € 855,450 K (previous year: € 890,364 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, equity-accounted companies and associated companies.

The same disclosure applies to trade creditors (see page 150). Details of other financial assets and liabilities are shown on the tables on page 135, 137, 149 and 150.

	Carrying amount 31 Dec. 2016	Valuation in accordance with IAS 39 Amortised cost	Fair value recognised in equity	Fair value through profit and lost	Fair value at 31 Dec. 2016
	€ K	€ K	€ K	€ K	€ K
ASSETS					
Financial assets	21,415	21,415			0
Cash and cash equivalents	396,725	396,725			396,725
Trade debtors	366,284	366,284			366,284
Factoring receivables	14,075	14,075			14,075
Other financial assets	53,033	53,033			53,033
Other financial assets in the category					
Available for sale*	3,005		3,005		3,005
Derivative financial assets					
Derivatives without hedge relation	628			628	628
Derivatives with hedge relation	285		285		285
EQUITY AND LIABILITIES					
Liabilities to banks	45,034	45,034			46,171
Discounted customers' bills	9,584	9,584			9,584
Trade creditors	511,359	511,359			511,359
Factoring liabilities	12,472	12,472			12,472
Liabilities from finance leases	2,385	2,385			2,385
Other financial liabilities	15,788	15,788			15,788
Derivative financial liabilities					
Derivatives without hedge relation	4,069			4,069	4,069
Derivatives with hedge relation	1,242		1,242		1,242
Of which aggregated in measurement categories acc. to IAS 39:					
Loans and receivables	830,117	830,117			830,117
Assets in the category					
available for sale	24,420	21,415	3,005		3,005
Derivatives held for trading	628			628	628
Derivatives in cash flow hedge	285		285		285
Liabilities in the category					
measured at amortised cost	596,622	596,622			597,758
Derivatives held for trading	4,069			4,069	4,069
Derivatives in cash flow hedge	1,242		1,242		1,242

*) This value was recorded under the category 'held to maturity' in the previous year; this change leaves the accounting unaffected.

		Valuation in accordance with IAS 39			
	Carrying amount 31 Dec. 2015	Amortised cost	Fair value recognised in equity	Fair value through profit and lost	**Fair value at 31 Dec. 2015**
	€ K	€ K	€ K	€ K	**€ K**
	21,415	21,415			0
	552,127	552,127			552,127
	241,410	241,410			241,410
	16,821	16,821			16,821
	50,666	50,666			50,666
	6,540		6,540		6,540
	1,239			1,239	1,239
	146		146		146
	46,828	46,828			48,566
	4,964	4,964			4,964
	360,753	360,753			360,753
	10,836	10,836			10,836
	2,140	2,140			2,140
	19,869	19,869			19,869
	2,016			2,016	2,016
	344		344		344
	861,024	861,024			861,024
	27,955	21,415	6,540		6,540
	1,239			1,239	1,239
	146		146		146
	445,391	445,391			447,128
	2,016			2,016	2,016
	344		344		344

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 the EBIT. The essential, non-observable input factors for 2016 are the risk-adjusted discount rate of 4.99% and the annually expected sales revenues 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) would 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 acquisition 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 2016, the group held the financial assets and liabilities presented in the following table and measured at fair value.

The determination and classification 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: Inputs 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).

	31 Dec. 2016			31 Dec. 2015		
	€ K Stage 1	€ K Stage 2	€ K Stage 3	€ K Stage 1	€ K Stage 2	€ K Stage 3
Financial assets						
Measured at fair value						
Other financial assets			3,005			6,540
Derivative financial instruments with hedge relation (not affecting net income)		285			146	
Derivative financial instruments without hedge relation (affecting net income)		628			1,239	
Financial liabilities						
Measured at fair value						
Liabilities to banks		46,171			48,566	
Derivative financial instruments with hedge relation (not affecting net income)		1,242			344	
Derivative financial instruments without hedge relation (affecting net income)		4,069			2,016	

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. There is no active market for financial assets amounting to € 21,415 K (previous year: € 21,415 K); a fair value could not be reliably determined. There are currently no plans to sell these financial assets.

Analogous to the previous year, other financial assets include the purchase price for acquiring a share purchase option. The carrying amount was € 3,005 K (previous year: € 6,540 K).

The amount was € 6,540 K as of 1 January 2016. A net change of € 3,535 K in the fair value was recognised as other financial expenses in the financial year. The amount was € 3,005 K as of 31 December 2016. The previous years did not report fair value fluctuations; the option to repurchase the shares in a company operating a solar park is included in the above table for the first time. The group has classified the option as available for sale and allocated it to stage 3 (refer to page 160 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:

	Profit or loss	
	Increase € K	Decrease € K
31 December 2016		
WACC (1.00% change)	−482	594
Degradation (0.50% change)	−316	338
Market price for electricity (1.00% change)	600	−493

	Profit or loss	
	Increase € K	Decrease € K
31 December 2015		
WACC (1.00% change)	−1,108	1,396
Degradation (0.50% change)	−611	672
Market price for electricity (1.00% change)	1,306	−1,063

The net results of the financial instruments are shown below by valuation categories:

	From interest	From subsequent measurement			From disposal	2016
	€ K	At fair value € K	Foreign currency translation € K	Value adjustment € K	€ K	€ K
Loans and receivables	1,104	0	15,526	−5,319	685	11,996
Assets in the category						
available for sale	0	−611	0	0	0	−611
Liabilities in the category						
valued at amortised acquisition 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**

The results for the category 'available for the sale' are explained on page 161.

	From interest	From subsequent measurement			From disposal	2015
	€ K	At fair value € K	Foreign currency translation € K	Value adjustment € K	€ K	€ K
Loans and receivables	412	0	8,196	−4,942	251	3,917
Assets in the category						
available for sale	0	0	0	0	37,841	37,841
held for trading	0	282	0	0	0	282
Liabilities in the category						
valued at amortised acquisition cost	−5,067	0	−6,539	0	0	−11,606
held for trading	−1,149	4,034	0	0	0	2,885
Total	**−5,804**	**4,316**	**1,657**	**−4,942**	**38,092**	**33,319**

Interests from financial instruments are recognised in interest results.

Allowance on trade debtors is recognised in other operating expenses. The interest result from financial liabilities in the valuation category 'liabilities valued at amortised acquisition cost' are essentially attributable to interest expenses for liabilities to banks. In the financial year 2015, the category 'assets available for sale' included the interest held in DMG MORI COMPANY LIMTED, which had been sold in 2015. As a result of the derecognition of assets, the change in value recognised directly in equity in an amount of € 17,238 K was reclassified from equity to profit and loss. The sale of the interest stake resulted in earnings before taxes of € 37,841 K in the previous financial year, which has been recognised in the financial result.

NOTES ON THE CASH FLOW STATEMENT

41. CASH FLOW STATEMENT

The statement of cash flows pursuant to IAS 7 'Statement 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 receivables and payables, 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 2016, nor in the previous year. The transfer of profits to DMG MORI GmbH in the amount of € 41,097 K did not yet result in cash outflow during 2016.

DMG MORI AKTIENGESELLSCHAFT granted a loan in the amount of € 120,000 K in the financial year 2016. The disbursement of the loan was reported under cash flow from investment activities.

DMG MORI acquired the shares in MORI SEIKI International SA from DMG MORI COMPANY LIMITED in the reporting year. The purchase price for the acquisition of the shares in the amount of € 12,847 K will be paid in 2017. The acquisition included payment instruments in the amount of € 5,444 K, which were recognised in the cash flow from investment activities.

DMG MORI acquired the shares in MORI SEIKI Europe AG from DMG MORI COMPANY LIMITED in the reporting year. The purchase price for the acquisition of the shares in the amount of € 6,407 K will be paid in 2017. No payment instruments have been acquired as part of this transaction.

DMG MORI acquired the shares in TECNO CONTROL S.R.L. from DMG MORI COMPANY LIMITED in the reporting year. The purchase price for the acquisition of shares in the amount of € 2,140 K was paid in 2016. Payment instruments in the amount of € 266 K have been acquired and recognised in the cash flow from investment activities.

The purchase price for the acquisition of the 40% non-controlling interest in DMG MORI Europe AG in the amount of € 140,356 K had not been paid in 2016.

DMG MORI sold the shares in GILDEMEISTER energy storage GmbH to an investor for a purchase price of € 3,250 K during the reporting year. The purchase price has not yet resulted in a cash inflow in 2016. Payment instruments in the amount of € 339 K have also been transferred.

The shares in DMG MORI MICROSET GmbH have been sold for a purchase price of € 1,000 K, which resulted in a cash inflow in January 2017. Payment instruments in the amount of € 1 K were also transferred.

The sale of the shares in Simon Solar S.r.l. resulted in a purchase price in the amount of € 10 K, which resulted in a cash inflow in 2016.

There was a cash inflow amounting to € 153,744 K from the sale of the shares in DMG MORI COMPANY LIMITED in the financial year 2015.

Joint ventures were 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 SEGMENTAL REPORTING

42. EXPLANATORY NOTES ON THE SEGMENTS

Within the scope of segmental reporting, pursuant to the IFRS 8 regulations, the business activities of the DMG MORI group are categorised into the business segments of 'Machine Tools', 'Industrial Services' and 'Corporate Services'. Decisive 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 102 et seq.

The 'Machine Tools' segment includes the group's new machine business with the Turning, Milling, Advanced Technologies (ULTRASONIC / LASERTEC / ADDITIVE MANUFACTURING), Software Solutions and Automation business areas.

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,
› DMG MORI ECOLINE AG, Winterthur, Switzerland,
› 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,
› DMG MORI ECOLINE AG, Winterthur, Switzerland,
› 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,

the products of

› DMG MORI SOFTWARE SOLUTIONS GmbH, Pfronten,
› ISTOS GmbH, Bielefeld

and the products of

› DMG MORI Systems GmbH, Wernau / Hüfingen.

All machines produced are classified as cutting machine tools, resulting in high alignment levels between business segments. GILDEMEISTER Beteiligungen GmbH is the parent company of all production plants and along with GILDEMEISTER Partecipazioni S.r.l., Brembate di Sopra (taly), is also part of this segment. The group's corporate IT activities are also pooled here.

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

The Services division, which covers all areas with its products and services, is directly related to machine tools. It includes the business activities of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, and its subsidiaries. DMG MORI Management GmbH, Bielefeld, was established in December 2016. Commencing with the 2017 financial year, it will serve as the operative management company of the sales and service locations of the group. In the course of the restructuring, DMG MORI AKTIENGESELLSCHAFT will assume management of the home market in Germany, the EMEA region (Europe, Middle East, Africa) as well as the markets in China and India from 1 January 2017. DMG MORI COMPANY LIMITED will be 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 will be sold to DMG MORI COMPANY LIMITED, who will consolidate and report on them from the 2017 financial year onwards. DMG America Inc., Itasca (USA) and DMG Asia Pte. Ltd., Singapore will be exempt; the shares in these two subsidiaries will not be sold.

In the Services division we combine marketing activities and LifeCycle services for both our machines and 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. We have revised our pricing structure for the service business effective on 1 September 2016. The new 'Smart Pricing Concept' offers our customers a high level of service quality at fair prices. DMG MORI offers an exclusive best-price guarantee for spare and wear parts, free shipping for orders placed in the online shop and customer-focused service prices by way of transparent flat service call-outs. Another area is the key accounting for major international customers, which is concentrated cross-region and cross-product. With effect from 31. December 2016, the shares held in DMG MORI MICROSET GmbH were sold to a strategic investor. The company was deconsolidated on 31 December 2016 (details see page 123 et seq.).

The Energy Solutions division includes the business activities of GILDEMEISTER energy solutions GmbH and the companies responsible for sales, service and production in Italy and Spain. In this area, we focus on the following business sectors:, Energy Efficiency, Service and Components. In the area of 'components', DMG MORI group is specialised on the manufacturing and marketing of cast iron and steel components, in particular for mechanical engineering and wind energy plants. The shares in GILDEMEISTER energy storage GmbH, which offered products for energy storage, have been deconsolidated on 31 December 2016 because they were sold to a strategic investor on the same date (details see page 123 et seq.).

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 in an amount of € 44,292 K (previous year: € 44,292 K), to the 'Industrial Services' segment in an amount of € 91,125 K (previous year: € 90,043 K), and to the 'Corporate Services' segment in an amount of € 0 K (previous year: € 0 K). 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 € 5,430 K (previous year: € 3,813 K). EBT includes effects in the amount of € 8.2 million from the commenced restructuring of the Shanghai site and further measures in the context of optimising production capacities. EBT for the 'Industrial Services' segment includes income from the reversal of provisions amounting to € 6,943 K (previous year: € 5,385 K). Income from electricity generation by solar parks in the amount of € 533 K (previous year: € 774 K) has been recognised as sales revenue and an amount of € 4,020 K (previous year: € 4,341 K) as other operating revenue. The implementation of the 'Smart Pricing concept' from 1. September 2016 onwards resulted in a decline in sales in the amount of € 11.0 million, which was fully recognised in income.

In addition, EBT includes effects related to the restructuring measures in the amount of € 50.7 million (see further explanations in the management report on page 54).

The 'Corporate Services' segment recognises expenses in the amount of € 580 K from the schedules amortisation of the transaction costs for the new syndicated credit line of DMG MORI AKTIENGESELLSCHAFT established in 2016. An amount of € 838 K from the scheduled amortization of the transaction costs of financing instruments and an amount of € 559 K from the unscheduled reversal of transaction costs was included in the previous year. The sale of shares in DMG MORI COMPANY LIMITED in financial year 2015 generated income of € 37,841 K , which has been reported in the financial results. In the reporting year, in the segment results severance payments in the amount of € 7,933 K have been recognised in expenses .

There were no significant non-cash expenses in the other two segments.

In financial year 2016 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 subgroups.

Long-term assets are mainly attributable to fixed assets; they do not include financial instruments or deferred tax claims. As of 31 December 2016, the region of 'Rest of Europe' contains long-term assets in Italy in an amount of € 131,677 K (previous year: € 139,930 K) as well as in Russia in the amount of € 110,553 K (previous year: € 75,991 K). In the region of Asia in Singapore, sales revenues with third parties were generated in an amount of € 225,004 K (previous year: € 231,433 K).

OTHER EXPLANATORY NOTES

44. AUDITOR'S FEES AND SERVICES

The fees and charges recognised as expenses in financial year 2016 for the auditor of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, relate to auditing services amounting to € 1,371 K (previous year: € 1,323 K) and other confirmation services of € 713 K (previous year: € 836 K). These also include tax advisory services amounting to € 427 K (previous year: € 448 K) and other services amounting to € 874 K (previous year: € 1,030 K).

45. EVENTS OCCURRING AFTER THE REPORTING DATE

The control over subsidiaries and a joint venture was transferred to DMG MORI COMPANY LIMITED on 1 January 2017. From 1 January 2017, the following companies are no longer part of the consolidated financial statements of DMG MORI AG:

- 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 SDN. BHD.,
- DMG MORI Vietnam Co. LTD.,
- DMG MORI Mexico S.A. de C.V.

The assets and debts that will be disposed off from the DMG MORI group are listed under item 'Long-term assets held for sale' and 'Liabilities in relation with assets held for sale'. The transfer of shares for a purchase price of approx. € 50 million will not result in an effect on the results.

In February 2017, DMG MORI acquired a majority interest of 50.1% in REALIZER GmbH, Borchen. The purchase price for this share is within a single-digit million range. With regard to the acquisition of further shares, the purchase price is subject, among others, to contractually agreed terms and conditions. This strategic acquisition strengthens the position of DMG MORI in additive manufacturing.

The provisional individual financial statement of REALIZER GmbH prepared under commercial law reported a balance sheet total of € 2.1 million and equity of € 0.9 million as of 31 December 2016. The provisional sales revenues amounted to € 2.7 million. Due to the purchase only in February 2017, it was not possible to perform an analysis and assessment of the purchase price components and purchase price allocation.

With effect from 28 February 2017, the shares in DMG MORI Systems GmbH, Wernau, were sold to a strategic investor. Potential effects from the sale of the shares on the group's net assets, financial position and results of operations are negligible.

No other significant events occurred after the reporting date. No other events occurred before the financial statements were authorised for issue by the Executive Board on 7 March 2017.

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 Australia Pty. Ltd. (financial year ending 31 March) is classified as a joint venture. 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, 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, Nagoya, the ultimate parent company within the DMG MORI group.

The acquisition and the assessment of the purchase prices for equity interests in companies held by DMG MORI COMPANY LIMITED are based on neutral valuation reports (for details see 'Business Combinations').

The sale of shares in DMG MORI COMPANY LIMITED in financial year 2015 generated deposits amounting to € 153,744 K. The shares were acquired by DMG MORI COMPANY LIMITED. The transaction has been accounted for in goods and services provided.

DMG MORI AKTIENGESELLSCHAFT granted a loan in the amount of € 120,000 K to DMG MORI GmbH in the reporting year 2016. The loan was fully disbursed and is bearing interest at a market rate of 1.00%.

Following DMG MORI COMPANY LIMITED increasing the interest held to 76.03% at the beginning of April 2016, DMG MORI GmbH, Bielefeld, a fully owned subsidiary of DMG MORI COMPANY LIMITED entered into a control and profit transfer agreement with 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.

In the reporting year, provisions for doubtful receivables in connection with outstanding balances for other related companies amounted to € 262 K (previous year: € 254 K) and for associated companies € 0 K (previous year: € 12 K). In financial year 2016, expenses for uncollectible or doubtful receivables from other related companies were recognised in the amount of € 922 K (previous year: € 369 K) and from associated companies in the amount of € 0 K (previous year: € 12 K). Expenses for uncollectible or doubtful receivables from joint ventures amounted to € 9 K (previous year: € 71 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:

GOODS AND SERVICES RENDERED	2016 € K	2015 € K
Associates	113,406	97,719
Joint ventures	4,464	4,217
DMG MORI COMPANY LIMITED	51,824	192,872
Other related companies	**130,315**	**152,981**

GOODS AND SERVICES RECEIVED	2016 € K	2015 € K
Associates	6,139	8,222
Joint ventures	128	15
DMG MORI COMPANY LIMITED	168,219	98,410
Other related companies	**137,254**	**207,544**

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 two 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 pages 31 ff of the Management Report. The management in key positions comprises the members of the Executive and Supervisory Board.

Remuneration is explained in the section on employee expenses (page 128 f.); 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. An amount of € 7,933 K in severance payments relating to former members of the Executive Board has been recognised in expenses. During the financial year, the Institute for Manufacturing Excellence GmbH, where Prof. Klinkner is a managing partner, was paid consultancy fees of € 1,726 K (previous year: € 1,529 K). As of 31 December 2016, there were no outstanding liabilities (previous year: € 109 K).

47. STATUTORY NOTIFICATION PURSUANT TO SECTION 26 WPHG

The statutory notifications pursuant to Section 26 WpHG are stated in the 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 2016 and has been made permanently accessible on our website at www.dmgmori.com.

49. SHAREHOLDER STRUCTURE

According to voting right notifications received by 31 December 2016, DMG MORI COMPANY LIMITED, Nagoya (Japan), held a direct voting share of 76.03% in the share capital of DMG MORI AKTIENGESELLSCHAFT. According to further voting right notifications received by 31 December 2016, the following two shareholders also held in excess of 3% of voting rights: As of the cut-off date for its most recent voting rights notification, Elliott International Limited and affiliated companies held 5.07% of the share capital. As of the cut-off date for its most recent noting rights notification, Bank of America Corporation and affiliated companies held a total of 5.84% of the share capital, with their holdings comprised as follows: Voting rights share on the basis of (financial / other) instruments pursuant to Sec 25(1)(1) WpHG: 5.35% and voting rights share pursuant to Sec 25(1)(2) WpHG: 0.23% and voting rights shares pursuant to Sec. 21 and 22 WpHG: 0.26%.

DMG MORI GROUP COMPANIES PRODUCTION PLANTS, SALES AND SERVICE COMPANIES	National Currency	Equity [1]	€ K	Participation quota in %
SUBSIDIARIES (FULLY CONSOLIDATED COMPANIES)				
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 [3/7/8]			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 die Sopra (Bergamo), Italy [5]			94,600	100.0
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy [9]			33,823	100.0
GRAZIANO Tortona S.r.l., Tortona, Italy [9]			29,726	100.0
DMG MORI Global Service Turning S.r.l., Brembate di Sopra (Bergamo), Italy [9]			1,520	100.0
GILDEMEISTER ENERGY SERVICES ITALIA S.r.l., Milan, Italy [9]			1,502	100.0
CARLINO FTV 3.2 S.R.L., Bozen, Italy [9]			12,303	100.0
DECKEL MAHO Seebach GmbH, Seebach [3/5/6]			43,000	100.0
DMG MORI Software Solutions GmbH, Pfronten [3/5/6] (previously: DMG Electronics GmH)			1,100	100.0
DMG MORI Spare Parts GmbH, Geretsried [3/4/5/6]			25,000	100.0
ISTOS GmbH, Bielefeld [3/4/5]			1,000	100.0
Ulyanovsk Machine Tools OOO, Ulyanovsk, Russia [5]	RUB K	6,822,442	106,103	100.0
MITIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bielefeld KG, Bielefeld [3]			73	100.0
MITIS Grundstücks-Vermietungsgesellschaft mbH, Bielefeld [3]			143	100.0
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [2/3/4]			276,422	100.0
DMG MORI Management GmbH, Bielefeld [3/4/10]			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 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 Systems GmbH, Wernau [3/4/14/15]			2,600	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]			450,301	100.0
antiquitas Verwaltungsgesellschaft mbH Klaus, Austria [16]			6,121	100.0
DMG ECOLINE GmbH, Klaus, Austria [22]			2,573	100.0

DMG MORI GROUP COMPANIES PRODUCTION PLANTS, SALES AND SERVICE COMPANIES	National Currency	Equity [1]	€ K	Participation quota in %
DMG MORI ECOLINE Holding AG, Winterthur, Switzerland [16]			123,140	100.0
DMG MORI ECOLINE AG, Winterthur, Switzerland [27]			2,207	100.0
FAMOT Pleszew Sp. z o.o., Pleszew, Poland [27]	PLN K	292,406	66,301	100.0
DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China [27]	CNY K	97,595	13,332	100.0
DMG MORI Sales and Service Holding AG, Winterthur, Switzerland [16]	CHF K	295,648	275,304	100.0
DMG MORI Management AG, Winterthur, Switzerland [17]	CHF K	5,135	4,782	100.0
DMG MORI Europe AG, Winterthur, Switzerland [17]			260,456	100.0
DMG MORI Balkan GmbH, Klaus, Austria [18] (previously: DMG MORI Austria International GmbH)			1,508	100.0
DMG MORI Austria GmbH, Klaus, Austria [19]			12,597	100.0
DMG MORI Netherlands B.V., Veenendaal, Netherlands [18] (previously: DMG MORI BENELUX B.V.)			5,680	100.0
DMG MORI BeLux BVBA – SPRL., Zaventem, Belgium [18] (previously: DMG MORI Benelux BVBA – SPRL.)			3,141	100.0
DMG MORI Czech s.r.o., Brno, Czech Republic [18]	CZK K	218,017	8,068	100.0
DMG MORI DENMARK ApS, Copenhagen, Denmark [18]	DKK K	20,649	2,778	100.0
DMG MORI FRANCE SAS, Paris, France [18]			15,158	100.0
DMG MORI Hungary Kft., Budapest, Hungary [18]			5,820	100.0
DMG MORI IBERICA S.L., Ripollet, Spain [18]			11,759	100.0
DMG MORI Italia S.r.l., Milan, Italy [18]			40,857	100.0
TECNO CONTROL S.R.L., Strambino, Italy [21]			768	100.0
DMG MORI MIDDLE EAST FZE, Dubai, United Arab Emirate [18] (previously: DMG MORI SEIKI MIDDLE EAST FZE)	AED K	7,387	1,908	100.0
DMG MORI Israel Ltd., Tel Aviv, Israel [18]	ILS K	0	0	100.0
DMG MORI POLSKA Sp. z o.o., Pleszew, Poland [18]	PLN K	39,420	8,938	100.0
DMG MORI Schweiz AG, Winterthur, Switzerland [18]	CHF K	12,234	11,392	100.0
DMG / MORI GREECE M.E.P.E., Thessaloniki, Greece [18]			501	100.0
DMG MORI Sweden AB, Gothenburg, Sweden [18]	SEK K	77,458	8,109	100.0
DMG MORI NORWAY AS, Langhus, Norway [18]	NOK K	9,325	1,026	100.0
DMG MORI Finland Oy Ab, Tampere, Finland [18]			2,281	100.0
DMG MORI UK Limited, Luton, Great Britain [18]	GBP K	21,559	25,181	100.0
DMG MORI ROMANIA S.R.L., Bucharest, Romania [18]	RON K	15,601	3,437	100.0
DMG MORI BULGARIA EOOD., Sofia, Bulgaria [18]	BGN K	1,027	525	100.0
DMG MORI Istanbul Makine Ticaret ve Servis Limited Sirketi, Istanbul, Turkey [18]	TRY K	21,023	5,671	100.0
DMG MORI Rus OOO, Moscow, Russia [18]	RUB K	2,736,162	42,553	90.0
DMG Egypt for Trading in Machines Manufactured LLC, Cairo, Egypt [18]	EGP K	200	10	100.0
Mori Seiki Egypt for Trading in Machines & Equipments LLC, Cairo, Egypt [18]	EGP K	200	10	100.0
DMG MORI Africa for Trading in Machines & Services (S.A.E.), Cairo, Egypt [28] (previously: DMG Mori Seiki Egypt for Machines Trading & Services)	EGP K	−4,867	−255	100.0

DMG MORI GROUP COMPANIES PRODUCTION PLANTS, SALES AND SERVICE COMPANIES	National Currency	Equity [1]	€ K	Participation quota in %
DMG MORI SEIKI CANADA INC., Toronto, Canada [17]	CAD K	17,539	12,362	51.0
DMG MORI CANADA INC., Vancouver, Canada [26] (previously: DMG MORI SEIKI ELLISON CANADA INC.)	CAD K	18,943	13,351	100.0
DMG MORI BRASIL COMERCIO DE EQUIPAMENTOS INDUSTRIAIS LTDA., Sao Paulo, Brazil [17]	BRL K	−8,993	−2,622	51.0
DMG MORI Singapore Pte. Ltd., Singapore [17]	SGD K	20,495	13,454	51.0
DMG MORI MALAYSIA SDN. BHD., Shan Alam / Selangor, Malaysia [23]	MYR K	8,937	1,890	100.0
DMG MORI Vietnam Co. Ltd., Hanoi, Vietnam [23]	VND K	9,214,874	385	100.0
DMG America Inc., Itasca. USA [17]	USD K	40,338	38,267	100.0
DMG MORI MEXICO S.A. de C.V., Queretaro, Mexico [24]	MXN K	186,160	8,550	51.0
DMG Asia Pte. Ltd., Singapore [17]			24,010	100.0
DMG MORI Machine Tools Spare Parts (Shanghai) Ltd., Shanghai, China [17]	CNY K	32,934	4,499	100.0
DMG MORI Taiwan Co. Ltd., Taichung, Taiwan [17]	TWD K	106,890	3,140	100.0
DMG MORI KOREA CO., LTD., Siheung-si / Gyeonggi-do, Korea [17]	KRW K	26,724,666	21,054	100.0
DMG MORI India Private Limited, Bangalore, India [17]	INR K	314,180	4,388	51.0
DMG MORI Machine Tools Trading Co., Ltd. Shanghai, China [10] (previously: DMG MORI SEIKI Machine Tools Trading Co., Ltd.)	CNY K	76,058	10,390	100.0
GILDEMEISTER energy solutions GmbH, Würzburg [3/4/10/11]			52,100	100.0
GILDEMEISTER energy efficiency GmbH, Stuttgart [25]			49	60.0
GILDEMEISTER ENERGY SERVICES IBERICA, SOCIEDAD LIMITADA, Madrid, Spain [25]			32	100.0
Rena Energy S.r.l., Milan, Italy [25]			1,162	100.0
Winch Puglia Foggia S.r.l., Milan, Italy [25]			1,961	100.0
Cucinella S.r.l., Milan, Italy [25]			543	100.0
GILDEMEISTER TURKEY SOLAR ENERJI ANONIM SIRKETI, Istanbul, Turkey [25]	TRY K	8	2	100.0
GILDEMEISTER LSG Beteiligungs GmbH, Würzburg [25]			7	51.0

DMG MORI GROUP COMPANIES PRODUCTION PLANTS, SALES AND SERVICE COMPANIES	National Currency	Equity [1]	€ K	Participation quota in %
Jointly-controlled entities (joint ventures)				
DMG MORI Australia Pty. Ltd., Clayton Victoria, Australia	AUD K	5,039	3,452	50.0
Associates				
DMG MORI Finance GmbH, Wernau			23,693	42.6
Magnescale Co. Ltd., Kanagawa, Japan	JPY K	6,710,000	54,376	44.1
Magnescale Europe GmbH, Wernau [20]			1,879	44.1
Magnescale Americas, Inc., Davis, USA [20]	USD K	1,053	999	44.1

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 Magnescale Co. Ltd.
21) equity investment of DMG MORI Italia S.r.l.
22) equity investment of antiquitas Verwaltungsgesellschaft mbH
23) equity investment of DMG MORI Singapore Pte. Ltd.
24) equity investment of DMG America Inc.
25) equity investment of GILDEMEISTER energy solutions GmbH
26) equity investment of DMG MORI SEIKI CANADA INC.
27) equity investment of DMG MORI ECOLINE Holding AG
28) equity investment of DMG Egypt for Trading in Machines Manufactured LLC (50%) and of Mori Seiki Egypt for Trading in Machines & Equipments LLC (50%)

In final assembly at DECKEL MAHO in Seebach, the high-tech machines of DMG MORI are configured specifically for the customer and checked for all quality standards before shipment.

“The innovative machines of DMG MORI are manufactured according to the state-of-the-art standards of line production and cluster assembly.”

CORPORATE DIRECTORY

• Supervisory Board mandate pursuant to Section § 100 AktG (German Companies Act)
* Member of comparable domestic and foreign control bodies of business enterprises

Supervisory Board

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

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

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

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

Prof. Dr. Edgar Ernst,
Bonn, born in 1952,
President of 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, Hanover, Member of the Supervisory Board

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

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

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

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

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

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

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

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

Executive Board

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

Dipl.-Kfm. Björn Biermann,
Bielefeld

Dipl.-Kfm. Dr. Maurice Eschweiler,
Bielefeld

Dipl.-Kfm. Dr. Rüdiger Kapitza,
Vaduz, Liechtenstein,
Chairman until 6 April 2016,
• LEISTRITZ AG, Nürnberg,
Chairman of the Supervisory Board
* Zumtobel AG, Dornbirn, Austria,
Member of the Supervisory Board

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 assets, financial position and profit or loss of the group, and the group management 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, 7 March 2017
DMG MORI AKTIENGESELLSCHAFT
The Executive Board

Dipl.-Kfm. Christian Thönes

Dipl.-Kfm. Björn Biermann

Dipl.-Kfm. Dr. Maurice Eschweiler

AUDITOR'S REPORT

We have audited the consolidated financial statements prepared by the DMG MORI AKTIENGESELLSCHAFT, Bielefeld, comprising the consolidated income statement, consolidated statement of other comprehensive income, the consolidated balance sheet, consolidated cash flow statement, the development to group equity and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January to 31 December 2016. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB) are the responsibility of the Company's Executive Board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, 7 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Tonne
Wirtschaftsprüfer

Bröker
Wirtschaftsprüfer

DMG MORI GROUP		IFRS							
		2010	2011	2012*	2013	2014	2015	**2016**	Changes against previous year in %
Sales revenues	€ K	**1,376,825**	**1,687,657**	**2,037,362**	**2,054,219**	**2,229,013**	**2,304,721**	**2,265,709**	**–2**
Domestic	€ K	499,124	632,578	722,126	676,483	779,218	762,079	737,069	–3
International	€ K	877,701	1,055,079	1,315,236	1,377,736	1,449,795	1,542,642	1,528,640	–1
% International	%	64	63	65	67	65	67	67	
Total work done	€ K	**1,373,542**	**1,743,556**	**2,055,065**	**2,060,978**	**2,262,302**	**2,351,957**	**2,262,352**	**–4**
Cost of materials	€ K	768,148	952,693	1,129,323	1,086,677	1,190,026	1,211,417	1,157,498	–4
Personnel costs	€ K	333,150	384,704	440,408	465,232	506,145	545,457	571,971	5
Depreciation	€ K	29,456	33,605	40,913	46,345	49,883	57,181	65,720	15
Financial result	€ K	–38,045	–46,076	–13,740	–13,449	–7,892	30,763	–10,507	–134
Earnings before taxes	€ K	**6,532**	**66,893**	**120,097**	**135,014**	**175,313**	**217,261**	**94,120**	**–57**
Annual profit / loss	€ K	**4,300**	**45,539**	**82,359**	**93,205**	**121,065**	**159,585**	**47,484**	**–70**
Adjusted results									
EBITDA	€ K	**74,436**	**146,102**	**173,828**	**193,944**	**232,512**	**243,039**	**169,666**	**–30**
EBIT	€ K	**44,980**	**112,497**	**132,915**	**147,599**	**182,629**	**185,858**	**103,946**	**–44**
EBT	€ K	**6,532**	**66,893**	**120,097**	**135,014**	**175,313**	**217,261**	**94,120**	**–57**
Profit share of shareholders in DMG MORI AG	€ K	**4,205**	**46,846**	**77,294**	**85,077**	**110,575**	**149,396**	**44,820**	**–70**
Fixed assets	€ K	**365,339**	**403,925**	**500,697**	**718,447**	**810,927**	**742,773**	**749,526**	**1**
Intangible assets	€ K	112,757	132,354	184,598	192,817	213,981	209,911	195,276	
Tangible assets	€ K	201,807	218,025	263,174	317,341	395,232	463,733	486,370	
Financial assets	€ K	50,775	53,546	52,925	208,289	201,714	69,129	67,880	
Current assets incl, deferred tax and deferred income	€ K	**992,188**	**967,883**	**1,117,800**	**1,291,598**	**1,418,882**	**1,541,102**	**1,589,652**	**3**
Inventories	€ K	410,289	451,986	486,259	483,840	495,297	522,259	505,041	
Receivables incl. deferred tax assets + prepaid expenses	€ K	470,130	410,746	458,213	436,609	490,589	466,716	687,886	
Cash and cash equivalents	€ K	111,769	105,151	173,328	371,149	432,996	552,127	396,725	
Equity	€ K	**412,893**	**655,158**	**775,355**	**1,164,441**	**1,266,151**	**1,357,474**	**1,187,663**	**–13**
Subscribed capital	€ K	118,513	151,744	151,744	200,234	204,927	204,927	204,927	
Capital provisions	€ K	80,113	257,177	257,177	480,383	498,485	498,485	498,485	
Revenue provisions	€ K	207,704	234,137	281,825	389,442	427,982	507,487	444,346	
Non-controlling interests	€ K	6,563	12,100	84,609	94,382	134,757	146,575	39,905	–73
Outside capital	€ K	**944,634**	**716,650**	**843,142**	**845,604**	**963,658**	**926,401**	**1,151,515**	**24**
Provisions	€ K	179,289	196,703	254,371	258,984	276,644	293,830	305,122	
liabilities + deferred income	€ K	765,345	519,947	588,771	586,620	687,014	632,571	846,393	
Balance Sheet total	€ K	**1,357,527**	**1,371,808**	**1,618,497**	**2,010,045**	**2,229,809**	**2,283,875**	**2,339,178**	**2**
Employees (annual average)		5,187	5,576	6,149	6,410	6,815	7,034	7,102	1
Employees (31 Dec.)		5,232	5,810	6,267	6,497	6,918	7,142	6,964	–2
Trainees		213	222	229	225	248	320	318	–1
Total employees		**5,445**	**6,032**	**6,496**	**6,722**	**7,166**	**7,462**	**7,282**	**–2**

* adjusted due to first-time adoption of IAS 19 (rev, 2011)

DMG MORI GROUP		2010	2011	2012*	2013	2014	2015	2016	Changes against previous year in %
Efficiency ratios									
Profit on sales (EBIT) = EBIT / Sales revenues	%	3.3	6.7	6.5	7.2	8.2	8.1	4.6	−43
Profit on sales (EBT) = EBT / Sales revenues	%	0.5	4.0	5.9	6.6	7.9	9.4	4.2	−55
Profit on sales (Annual result) = Annual result / Sales revenues	%	0.3	2.7	4.0	4.5	5.4	6.9	2.1	−70
Equity return = Annual result / Equity (as of 01 Jan.)	%	1.1	11.0	12.6	12.0	10.4	12.6	3.5	−72
Return on total assets = EBT + interest on borrowed capital / average total assets	%	3.7	8.5	9.2	8.1	8.8	10.1	4.6	−54
ROI – Return on Investment = EBT / average total capital	%	0.5	4.9	8.0	7.4	8.3	9.6	4.1	−57
Sales per employee = Sales revenues / average number of employees (exc. trainees)	€ K	265.4	302.7	331.3	320.5	327.1	327.7	319.0	−3
EBIT per employee = EBIT / average number of employees (exc. trainees)	€ K	8.7	20.2	21.6	23.0	26.8	26.4	14.6	−45
ROCE – Return on capital employed = EBIT / Capital Employed	%	5.6	14.4	15.3	13.8	15.7	16.1	9.0	−44
Balance Sheet ratios									
Capitalisation ratio of fixed assets = fixed assets / total assets	%	26.9	29.4	30.9	35.7	36.4	32.5	32.0	−2
Working intensity of current assets = current assets / total assets	%	69.5	67.1	65.7	61.3	60.8	64.6	65.0	1
Equity ratio = equity / total capital	%	30.4	47.8	47.9	57.9	56.8	59.4	50.8	−14
Borrowed capital ratio = borrowed capital / total assets	%	69.6	52.2	52.1	42.1	43.2	40.6	49.2	21
Assets and liabilities structure = fixed assets / current assets	%	38.7	43.9	47.1	58.4	59.8	50.3	49.3	−2
Capital structure = equity / outside capital	%	43.7	91.4	92.0	137.7	131.4	146.5	103.1	−30

DMG MORI GROUP

		2010	2011	2012*	2013	2014	2015	**2016**	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)	%	19.6	20.0	28.5	60.2	62.5	83.4	45.9	−45
2nd class liquidity = (liquid funds + short-term receivables) / short-term liabilities (up to 1 year)	%	93.4	89.1	94.8	121.2	124.4	144.1	117.5	−18
3rd class liquidity = liquid funds + short-term receivables + inventories) / short-term liabilities (up to 1 year)	%	148.3	150.8	149.2	175.7	175.9	202.9	157.6	−22
Net financial liabilities = bank liabilities + bond / borrower's note – liquid funds	€ MILLION	208.4	−71.2	−161.0	−356.4	−380.8	−500.3	−342.1	−32
Gearing = net financial liabilities / equity	%	50.5	–	–	–	–	–	–	–
Working Capital = current assets** – short-term borrowed capital**	€ MILLION	295.7	283.6	299.0	466.6	525.5	681.1	574.3	−16
Net Working Capital = inventories + payments on account – customer prepayments + trade debtors** – trade creditors** – notes payable	€ MILLION	354.4	271.3	221.3	196.8	189.5	261.6	270.0	3
Capital Employed = equity + provisions + net financial liabilities	€ MILLION	800.6	780.7	868.7	1,067.0	1,161.9	1,151.0	1,150.7	0
Structural analysis ratios									
Turnover rate of raw materials and consumables = cost for raw materials and consumables / average inventories of raw materials and consumables		3.9	4.3	5.0	4.8	5.5	5.5	5.1	−7
Turnover rate of inventories = sales revenues / inventories		3.4	3.7	4.2	4.2	4.5	4.4	4.5	2
Turnover rate of receivables = sales revenues (incl. 19% VAT on domestic revenues) / average trade debtors**		5.4	6.9	9.8	10.1	10.3	9.8	10.0	2
Total capital-sales ratio = sales revenues / total capital (incl. deferred tax and deferred income)		1.0	1.2	1.3	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		67.7	52.6	37.2	36.1	35.6	37.4	36.7	−2
Productivity ratios									
Intensity of materials = Cost of materials / Total work done	%	55.9	54.6	55.0	52.7	52.6	51.5	51.2	−1
Intensity of staff = Personnel costs / Total work done	%	24.3	22.1	21.4	22.6	22.4	23.2	25.3	9

* adjusted due to first-time adoption of IAS 19 (rev. 2011) ** without finance apportionments

DMG MORI GROUP

		2010	2011	2012*	2013	2014	2015	**2016**	Changes against previous year in %
Cash flow & Investments									
Cash flow from current operations	€ MILLION	74.6	161.0	168.7	171.1	170.6	142.7	124.0	−13
Cash flow from investment activity	€ MILLION	−40.3	−80.6	−63.0	−160.1	−145.3	18.9	−198.3	−1,150
Cash flow from financing activity	€ MILLION	−8.3	−86.7	−39.2	189.5	39.0	−44.3	−52.5	19
Free Cashflow = cash flow from current operation + cash flow from investment activity (exc. Cash flow from financial investments and payments to plant, property and equipment which are financed with loans)	€ MILLION	45.3	95.2	99.1	67.3	86.1	32.0	42.5	33
Investments	€ MILLION	50.0	89.7	74.5	213.5	159.0	130.6	88.1	−33
Share & valuation									
Market capitalisation	€ MILLION	761.2	586.6	917.6	1,824.6	1,852.2	3,001.4	3,401.8	13
Company value = Market capitalisation + bank liabilities + bond liabilities / borrowers' note + bills of exchange + other liabilities + pension provisions − liquid funds	€ MILLION	1,066.0	600.5	867.8	1,585.0	1.597.5	2,624.0	3,187.4	21
Earnings per share = result after minority interests / number of shares	€	0.09	0.85	1.32	1.33	1.41	1.90	0.57	−70
Price-to-earnings ratio (P / E) = market capitalisation / EBT		116.5	8.8	7.6	13.5	10.6	13.8	36.1	162
Company value-EBITDA-ratio = company value / EBITDA		14.3	4.1	5.0	8.2	6.9	10.8	18.8	74
Company value-EBIT-ratio = company value / EBIT		23.7	5.3	6.5	10.7	8.7	14.1	30.7	117
Company value sales ratio = company value / sales revenues		0.8	0.4	0.4	0.8	0.7	1.1	1.4	27

[1] Since 01 January 2012 including notes payable

Group Management Report of 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 differ materially from the results stated, expected, anticipated, intended, planned, aimed at, estimated or projected in these statements. DMG MORI AKTIENGESELLSCHAFT neither intends to nor does DMG MORI AKTIENGESELLSCHAFT assume any separate obligation to update any forward-looking statements to reflect any change in events or developments occurring after the reporting period. Forward-looking statements must not be understood as a guarantee or assurance of the future developments or events contained therein.

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

FINANCIAL CALENDAR

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

Subject to alteration

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CONTACT

DMG MORI AKTIENGESELLSCHAFT
Gildemeisterstraße 60
D-33689 Bielefeld
Phone: +49 (0) 52 05 / 74 - 0
Fax: +49 (0) 52 05 / 74 - 3273
E-Mail: info@dmgmori.com

www.dmgmori.com

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Latest information: Twitter-Account @DMG MORI AG

DMG MORI AKTIENGESELLSCHAFT

Gildemeisterstraße 60
D-33689 Bielefeld

Local Court HRB 7144

Phone: +49 (0) 52 05 / 74 - 0
Fax: +49 (0) 52 05 / 74 - 3273
E-Mail: info@dmgmori.com

www.dmgmori.com