To shareholders and investors,

The financial statements for CY2016/6 were released on August 5, 2016.
This material includes Q&A from investors.

CY2016 1H (Jan – Jun, 2016)：Management Analysis and Discussion

At the beginning of 2016, we expected around 15% of decline in global demand for machine tools. In reality, the decline was even larger, and the order intake of JMTBA for the first half (January to June) declined by 22.0% on year-on-year basis. On the other hand, as for our group, the order intake decreased by 9.8% in JPY terms, or by 2.9% in EUR terms, compared to the same period in the last year.

We achieved better results compared to the industry as a whole due to the robust demand in Europe, thanks to the integration with the German company (hereinafter referred to as "AG"), and also due to the recovery in the US market share, following the switch to the direct sales there. Those effects compensated the order decrease in Japan or in Asia to some extent.

As for the financial results, our operating profit was less than previously forecasted. The main reasons are: the loss of profitability in the export from Japan due to the sharp appreciation of JPY and the lower factory utilization to adjust our inventory. In the meantime, our U.S. operation managed to improve the profitability as planned and put their expenses under control as planned.

With regard to the full-year forecast (January to December, 2016), we do not make major changes in our assumption on the market demand. Yet, because our exposure to foreign exchanges is significant after integration with AG, we plan to announce it when we are more confident with future exchange rate trend. We have started the cost-cutting programs, assuming that strong JPY situation continues. On CO side, we have already decided the closure of Chiba factory (Japan), DIXI (Switzerland) and sell-off of TOBLER (France). In the course of cooperation with AG, we have re-arranged the production capacity and we are less susceptible to currency fluctuations. With these measures, we will ensure the profit growth in 2017.

The Domination and Profit and Loss Transfer Agreement (hereinafter referred to as "the DPLTA") is approved at the Annual General Meeting of Shareholders of AG, held on July 15th. Due to a completion of DPLTA commercial register, the synergy of the group in the real sense will be visible. We believe that we should revise our mid-term plan "Vision2020", which we announced in August last year, due to the changing economic environment including foreign exchanges as well as additional measures of the DPLTA.

We will officially review the forecast for 2016, forecast for 2017 and mid-term plan (Vision2020) in the 3Q result briefing, scheduled on November 7th.

Followings are selected questions and answers.

<Business environment, financials>

Q : *How is the business and order situation by region?*

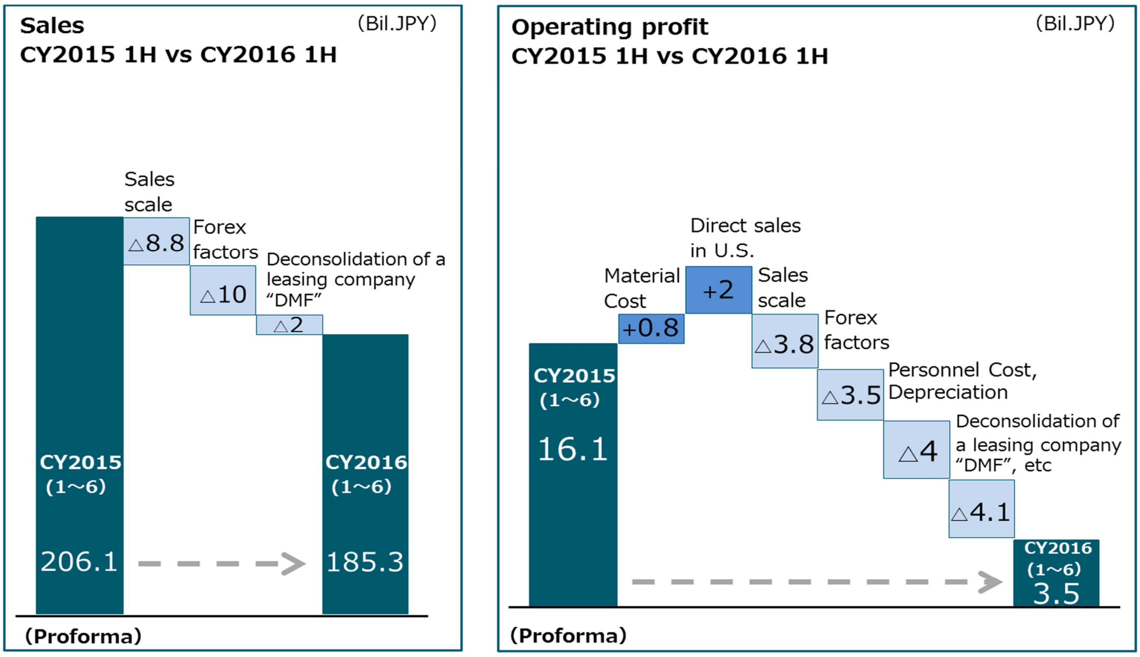
A : Our order intake amounted to JPY 185.3 billion, or EUR 1,487 million, which are 9.8 % decrease in JPY terms and 2.9 % decrease in EUR terms compared to the same period of the last year, respectively. In Europe, although German market was in the adjusting period, other markets such as France, Spain and Italy were in good situation and the order amount was almost at the same level as the last year in local currency basis. In the U.S., although the market itself was not strong, we maintained or surpassed the order intake level compared to the last year, as we have established the direct sales organization.

Chinese market remained rather weak, while Japanese and Asian market saw two digits decline in demand.

Q : *What are the breakdown of sales and profit/loss changes in the first half?*

A : The total sales in the 1st half decreased by JPY 20.8 billion compared to the previous year, to JPY 185.3 billion. The breakdown are JPY 8.8 billion from sales scale, JPY 10 billion from forex factors, and JPY 2 billion from deconsolidation of a leasing company “DMF”.

As for the operating result, the operating profit in the 1st half was JPY 3.5 billion, or JPY 12.6 billion decrease compared to the operating profit of JPY 16.1 billion in the same period of the last year. The positive factors are: JPY 800 million from the saving of material cost, JPY 2 billion from the effect of direct sales in U.S., which totals to JPY 2.8 billion. The negative factors are: JPY 3.8 billion from the scale effect, JPY 3.5 billion from forex effect, JPY 4 billion from increase in fixed costs such as personnel cost and depreciation, and another JPY 4.1 billion from factors such as deconsolidation of the leasing company, cost increase due to the PPA (Purchase Price Allocation) following the consolidation of AG and the low-utilization of the production capacity.



sales / profit change analysis

Note: The consolidation of AG started in April 2015. The revenue/ profit analysis for the 1st half of 2016 is done based on the assumption that the consolidation of AG has started since January 2015 ("proforma" basis). The figures excludes the one-off items such as "gain from step acquisition", which arose at the time of consolidation of AG in April 2015.

Q : *What about the current year forecast (in real term basis, excluding the one-off items such as closure of factories)?*

A : We are still analyzing the foreign exchange expectation. The most significant change in the assumption is in exchange rate expectation, compared with the previous forecast in which we expected the total revenue of JPY 410 billion and operating profit of JPY 25 billion. We assumed the foreign exchanges of USD/JPY =111 and EUR/JPY = 126, respectively. With regard to exchange sensitivities, JPY 1.0 change against USD will result in the JPY 500 million difference in revenue and slightly below JPY 300 million difference in operating results. JPY 1.0 change against EUR will result in the JPY 2 billion difference in revenue and slightly below JPY 300 million difference in operating results. If we assume exchange rate of USD/JPY = 100 and EUR/JPY =110 in the second half, the average rate through the year will be USD/JPY = 105 and EUR/JPY =117, respectively. This would possibly mean the JPY 21 billion decline in revenue and JPY 4 billion decline in operating profit. Also, other than exchange rates, we should take into account the decline in demand and sales in Japanese and Asian markets.

Q : *Some more details about the restructuring cost, such as closure of factories?*

A. We have already decided the closure of Chiba factory (Japan), DIXI (Switzerland) and sell-off of TOBLER (France). The productivity in existing factories has improved, including the synergies with AG. For instance, Iga factory, which is one of our main factories, has now some extra space, and we could transfer all the functions of Chiba factory to Iga. We think it is important to establish more robust profitability and financial position by merging production capacity to utilize business resources more efficiently, to reduce the logistics cost and to put inventory levels under strict control.

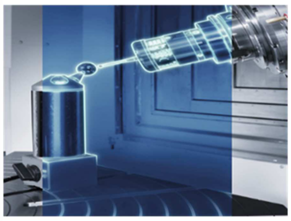
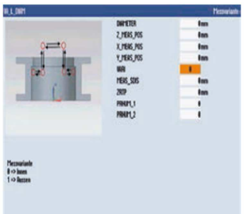
Q : *What is your prospect for 2017?*
A : We have just started to make 2017 business plan. So, we comment only about the overall direction. We think it is still early to determine market environment and demand for the next year, and hence, we are considering measures to improve the profitability. We expect around JPY 2 billion impact from the already mentioned restructuring, JPY 2 billion from improvement in US operation, JPY 2 -3 billion from the reduction of machine models and standardization of components and JPY 1 billion from improvement in production. These measures total to JPY 8 billion. We will further analyze our expenses and intend to realize JPY 10 billon cost reduction in 2017. In other words, even in the same business environment, we plan to achieve JPY 10 billion increase in profit.

<Product, Technology>
Q : *What is the intension to introduce CMX V series (and to terminate ECOLINE series)?*
A : The concepts of CMX V series are “Competitive・Customization・Compact”. The series offer base machines to meet increasingly complex needs from end-users. This innovative model is customizable with in total 283 standard options that were requested from customers in the past. Moreover, customers can mount Technology Cycles for automation and machining of complex work piece. Our aim is to meet the new customers’ demand for entry model as well as the existing customers’ demand for more value-added operation. We will first exhibit the product at IMTS (Chicago show) in September, followed by other exhibitions to show its competitiveness. We plan to produce 1,000 units of the products in 2017.
Ecoline was intended as entry model for customers in emerging markets and had only simplified functions, but lacked in the factors to meet more diversified customer needs. In addition to the fact that the demand for machine tools in emerging markets is stagnant, the needs from customers are shifting to more automated, highly-functional machines, not only in the developed countries but also in emerging countries. As such, we recognize that the concepts of ECOLINE has become out of date and decided to switch to the new product.

CMX V series, to be released in September 2016

Q：*How will Technology Cycles develop in the future?*

A：We split the Technology Cycles into four categories in the presentation: ”Handling Cycles”, ”Measurement Cycles”, ”Shaping Cycles” and ”Monitoring Cycles”. This has clarified how the technology works. We have developed 24 types up until now. We will add further functions, which will contribute to the value adding operation of our customers, and we plan to increase the number of Technology Cycles to around 100 by 2020.

24 DMG MORI Technology Cycles				
	Handling Cycles	Measurement Cycles	Shaping Cycles	Monitoring Cycles
Function	Examples: Loading/unloading and configuration of Pallets, Parts, Tools	Examples: Probing of parts for setting the zero offsets, probing for quality control	Examples: Generation of Geometries on the Part	Examples: Real-time supervision and tuning of the machining process
Examples	Tool Sort Cycle, Steady Rest in Turret Cycle	L-Measurement Probe Cycle	Grinding, Gear Hobbing	ATC, MPC
	 3D quickSET	 L-Measuring	 Grinding  Gear Hobbing	 MPC 2.0

Fields of Software Innovations

＜The Domination and Profit and Loss Transfer Agreement (DPLTA)＞

Q：*What will change once the DPLTA becomes effective?*

A：The DPLTA will enable us to further integrate the two companies in business operation and finance activities to realize synergies. In the business operation, we expect the following synergies: optimization of production sites in CO and AG will lead to reduction of logistics cost and inventories and improved hedge against foreign exchange risk. The standardization of components and units will reduce procurement cost. The supply of in-house components from CO to AG will enhance the utilization of production capacity and assurance of quality. In the area of finance, the following effects are expected: increase in efficiency by Global Cash Management System, the netting of liability with cash position and reduction of interest-bearing debt by maximizing the consolidated Cash Flows.

<Finance>

Q： *Why has the shareholders equity shrunk?*

A: It is mainly because of the accounting treatment in which the difference between the acquisition cost and the net worth shall be deducted from consolidated shareholders' equity after the consolidation of AG in April 2015. Such deduction from equity does not damage the individual entity's equity. However, in consolidation, that results in the deduction from equity and reduces the shareholders' equity ratio. Since April 2015 (after the consolidation of AG) to date, the deduction from equity totaled to JPY 45.6 billion. Although the shareholders' equity ratio as at end of June 2016 was 19.2%, the ratio would be 27.9% if we add back the deducted amount.

Q：*What does the "liability to buy back the shares in AG after the DPLTA" mean? What is the impact on shareholders' equity?*

A：At the time when the DPLTA becomes effective, CO has the obligation to record a liability to buy shares from non-controlling interest (approx. 24%). In the DPLTA, the buy-back price is determined as EUR 37.35 per share, and hence the liability to be recognized is estimated to amount to around EUR 705 million. Out of this amount, approx. EUR 360 million will be deducted from shareholders' equity. The buy-back liability does not involve any cash out, nor increase any interest-bearing debt. The cash outlay occurs only when the company buys the shares from non-controlling interest.

Q： *Why has the company decided to raise fund by perpetual subordinated bond?*

A: Although the shareholder's equity have not decreased in the individual entity, CO and AG, the consolidated equity ratio has decreased due to the accounting treatments as explained in the previous questionnaire. As mentioned there, we expect an additional deduction of equity of around JPY 40 billion when the DPLTA becomes effective. We decided for fund raising by perpetual subordinated loan in order to compensate the deduction of equity.

Under the IFRSs, only perpetual subordinated loan (or bond) is permitted to be recognized in the equity as “hybrid equity”, and can strengthen the equity. Although we have continuously denied any equity finance, some investors are worried about possible equity finance due to the decline in shareholders’ equity ratio. Therefore, we strongly send our message of not resorting to equity finance with this type of fund raising.