



March 9, 2017

To whom it may concern

Company Name	DMG MORI CO., LTD.
Representative	Masahiko Mori Representative Director and President (Securities Code: 6141 Tokyo Stock Exchange, First Section)
Contact	Hirotake Kobayashi Senior Managing Director, Accounting / Finance HQ Executive Officer (Tel: +81-52-587-1811)

**Concerning ISS' Recommendation vs. Proposal 4 on this Year's Agenda
Regarding "Authorization of the Board of Directors to determine matters concerning offering
for disposition of treasury stock by way of third-party allotment"**

It was recently brought to our attention that Institutional Shareholder Services Inc. ("ISS"), a proxy advisory firm in the United States, has recommended that shareholders vote against "Proposal 4: Authorization of the Board of Directors to determine matters concerning offering for disposition of treasury stock by way of third-party allotment" which DMG MORI CO., LTD. ("we" or the "Company") has submitted to the 69th Annual General Meeting of Shareholders, scheduled for March 22, 2017.

Our analysis of ISS' recommendation to vote against this proposal is that ISS has misinterpreted some of the facts. Accordingly, we would like to explain our perspective below by providing shareholders with accurate information on the subject.

We provided both ISS and major institutional investors with a detailed explanation of this proposal via the Convocation Notice for this year's Annual General Meeting, a "timely disclosure" release, and through materials used during shareholder engagements. However, it seems that ISS has either ignored this information or analyzed the proposal based not on the content of the Convocation Notice but rather on speculations and assumptions.

Given your position as an adherent to the Stewardship Code and a company that executes its fiduciary duty, we hope that you will carefully consider our proxy materials before exercising your voting rights. We humbly request that you review this information and vote in favor of this proposal.

<ISS Analysis vs. Our Refutation>

A vote AGAINST “Proposal 4” is warranted because:

DMG MORI fails to provide a convincing justification for the donation of treasury shares to the Mori Manufacturing Research and Technology Foundation, and fails to explain its benefits for common shareholders.

	Summary of ISS analysis	Our refutation (These points are noted in the Convocation Notice)
General	DMG MORI fails to provide a convincing justification for the donation of treasury shares to the Mori Manufacturing Research and Technology Foundation, and fails to explain its benefits for common shareholders.	<p>◆ We have already provided an explanation (based on a detailed example) of how the foundation’s CSR activities can help increase corporate value over the medium-to long-term by contributing to the development of our industry.</p> <p>◆ The foundation’s CSR activities will be funded by dividend proceeds, which will contribute to lessening the company’s tax burden (in comparison to a situation in which the company conducts CSR activities by itself.) This will allow us to guarantee final profits (and therefore shareholder profits), and align the interests of the foundation and shareholders.</p> <p>◆ Supplementary Points Regarding the Acquisition and Use of Treasury Stock: In 2015, we acquired 12,797,000 of our common shares from DMG MORI AG (hereafter, “AG”), a company with which we have a relationship of capital and business collaboration and which is accounted for as an affiliated company. This was in accordance with Article 135, Clause 3 of the Companies Act. We considered a number of options for how to use these shares, including M&A and stock options, but ultimately arrived at the conclusion that the most valid course of action would be to use them to support the CSR activities of the foundation. We then decided to add this proposal to the agenda.</p> <p>◆ We plan to review they way of using the rest of these treasury stocks under the assumption that we cancel these stocks.</p>

<p>Cash donation of JPY 5.25 billion</p>	<p>As the company plans to conduct a share repurchase of 3.5 million common shares which is the same size as the placement in question, the placement has no dilutive impact in terms of the number of outstanding shares.</p> <p>However, if this is viewed as a JPY 5.25 billion donation from DMG MORI to the foundation, the net effect will be a reduction in the value of DMG MORI.</p>	<p>◆ISS' notion of viewing this as a donation to the foundation is completely divorced from our explanations and the content of the materials we disclosed. In reality, the purpose of this transaction is to avoid the dilution of share value. It is not a donation.</p> <p>◆ISS alludes to the fact that a cash donation of JPY 5.25 billion would lead to a reduction in value of DMG Mori. This analysis, however, is exceedingly short-sighted. We have explained in detail to institutional investors and ISS that we generate a yearly free cash flow of JPY 15 billion to 20 billion yen and also intend to return profits to shareholders and reduce our interest-bearing debt. We find no evidence that ISS has considered these strategies for increasing corporate value over the medium-to long-term in its analysis.</p>
<p>The rationality of a cash donation</p>	<p>The whole scheme could be viewed as an investment project where the initial payment is JPY 5.25 billion, followed by payments of amounts equivalent to dividends in perpetuity. So the primary factor in analyzing the proposal is the expected return for common shareholders. In addition, replacing shares held by market participants with shares allocated to the foundation would reduce liquidity, exacerbating shareholder concerns.</p> <p>The relationship between the foundation's activities and an increase in DMG MORI's value is not clear at all.</p> <p>There doesn't seem to be any reason why the company couldn't do that itself, without the need for a separate organization.</p>	<p>◆This scheme is not an investment project, but a plan by which we can stably promote CSR activities (specifically, 1. the development of machine tool technologies and expansion of the industry, 2. the development of superior human resources, and 3. improving corporate trust and the morale of employees) on a certain scale well into the future. ISS' analysis is entirely divorced from the content of our disclosure materials and explanations to date.</p> <p>◆The disposition of treasury stock represents 2.63% of the total number of issued shares. ISS has asserted that this will reduce liquidity, but this argument lacks a rational base.</p> <p>◆We have already provided an explanation (based on a detailed example) of how the foundation's CSR activities can help increase corporate value over the medium-to long-term. Regarding the necessity of creating a separate organization (the foundation), we have already explained in disclosure materials</p>

		and at engagements that the foundation's CSR activities will be funded by dividend proceeds, which will contribute to lessening the company's tax burden (in comparison to a situation in which the company conducts these activities by itself) and ensure the stable continuation of CSR efforts over the medium-to long-term. This will allow us to guarantee final profits (and therefore shareholder profits), and align the interests of the foundation and shareholders.
Share repurchase	<p>That approach is as if the company takes the share repurchase as a hostage to secure shareholder approval for the placement, which does not appear a sound way of establishing constructive dialogue between shareholders and corporations.</p> <p>It does not appear that buybacks are urgently needed.</p>	<p>◆ We held a number of engagements with major institutional investors as part of our efforts to introduce this scheme. We received a great deal of support from these investors regarding the connection between the foundation's CSR activities and increases in corporate value over the medium-to long-term, as well as enacting a share repurchase to deal with the prospect of dilution. ISS' claim that "It does not appear that buybacks are urgently needed" does not reflect the market's interpretation of the issue.</p> <p>◆ We already make a point to hold constructive engagements with our shareholders. There is no reason to view these dialogues as inappropriate based on mere speculations.</p>
Concerns about management entrenchment	The foundation will certainly function as a management-friendly shareholder in case of a hostile takeover bid or activist campaign. The company notes that SMTB will vote the shares to increase the long term value of DMG MORI, with consideration to securing stable dividend cash flow for the foundation. However, SMTB has not disclosed the specific voting policies to be applied to the shares in trust, and it is difficult to escape the impression that the establishment of the foundation can serve as a management entrenchment tool.	<p>◆ The foundation is not a stable, or management-friendly, shareholder. The treasury stock will be held in a trust by Sumitomo Mitsui Trust Bank. We will have no claim on the voting rights. Sumitomo Mitsui Trust Bank will exercise the rights with an emphasis on the long-term improvement of corporate value. According to the contract, neither we nor the foundation have any mandate to exercise these voting rights.</p> <p>◆ ISS is mistaken in its assertion that Sumitomo Mitsui Trust Bank has not disclosed detailed voting policies to be applied to the shares in the trust (SMTB is a signee of the Stewardship Code and has</p>

		<p>built and disclosed an appropriate process for exercising voting rights).</p> <p>◆ We have explained this issue of proxy voting rights many times in timely disclosure releases, our Convocation Notice, and in shareholder engagement materials. We feel that ISS is ignoring the facts of the situation and trying to manipulate DMG Mori's image.</p>
Governance	<p>ISS Governance Quality Score : 8 (Evaluated on a scale of 1 – 10. A score of 1 indicates lower governance risk, while a 10 indicates higher governance risk.)</p>	<p>◆ We elected 2 independent Outside Directors on our board at the AGM in June 2015, and we plan to largely increase the number of independent Outside Directors on our board at the AGM in March 2017. ISS' Governance Score ignored these facts and its criteria of evaluation are opaque and unclear, and therefore it does not reflect in real time our efforts to improve our governance.</p> <p>As shown below, the percentage of Outsiders on our board will jump from 25% to 44% after the AGM. This is an extremely high percentage that puts DMG Mori in the top 5% of listed Japanese firms for this metric.</p> <ul style="list-style-type: none"> • Pre-AGM = 8 directors (of which 2 are Outsiders) • Post-AGM = 9 directors (of which 4 are Outsiders) <p>※ ISS has determined that all 4 Outsiders qualify as independent</p>

< Closing Remarks >

As explained above, we believe a large part of the ISS report does not consider the materials we disclosed, is based on speculation and assumption, and lacks a rational foundation. We also believe that ISS's attitudes toward the foundation appear to be negative.

On the other hand, we sincerely believe that the foundation's CSR activities will help us in our efforts to continuously increase corporate value. We have explained our view to many institutional investors and have received their support for the proposal detailed above.

We humbly ask that you, as adherents to the Stewardship Code, review our Convocation Notice and the supplementary explanations provided above to ensure your thorough understanding of this issue and then, upon careful consideration, exercise your voting rights.

Thank you very much for your time and consideration.

<Schedule for Annual General Meeting of Shareholders>

Thursday, March 2, 2017 Electronic announcement regarding Notice of Convocation

Wednesday, March 22, 2017 69th Annual General Meeting of Shareholders

<Proxy materials and financial reports>

Notice of Convocation of the 69th Annual General Meeting of Shareholders

https://www.dmgmori.co.jp/corporate/en/ir/stock/pdf/69invite_en.pdf

SR Presentation Materials (Supplementary explanations of our corporate governance framework and agenda items to be raised at the AGM)

https://www.dmgmori.co.jp/corporate/en/ir/ir_library/pdf/20170308_srppt_e.pdf

Summary of Consolidated Financial Statements for the Fiscal Year 2016 ended December 31, 2016 [IFRS basis]

https://www.dmgmori.co.jp/corporate/en/ir/ir_library/pdf/fy2016_4shihanki_kessan_e.pdf

IR presentation materials

https://www.dmgmori.co.jp/corporate/en/ir/ir_library/pdf/fy2016_4shihanki_ex_e.pdf

Consolidated financial results Q&A

https://www.dmgmori.co.jp/corporate/en/ir/ir_library/pdf/fy2016_4shihanki_ex_qa_e.pdf

Notice concerning Disposal, Repurchase and Cancellation of Treasury Stock to Support Mori Manufacturing Research and Technology Foundation's Social Contribution Activities

https://www.dmgmori.co.jp/corporate/en/ir/ir_library/pdf/20170113_manufacturingresearch_e.pdf

Q&A concerning Disposal, Repurchase and Cancellation of Treasury Stock to Support Mori Manufacturing Research and Technology Foundation's Social Contribution Activities

https://www.dmgmori.co.jp/corporate/en/ir/ir_library/pdf/20170113_manufacturingresearch_qa_e.pdf

(Additional) Q&A concerning Disposal, Repurchase and Cancellation of Treasury Stock to Support Mori Manufacturing Research and Technology Foundation's Social Contribution Activities

https://www.dmgmori.co.jp/corporate/en/ir/ir_library/pdf/20170309_manufacturingresearch_e.pdf