Dear Investors

We announced our financial results for the first quarter of 2017 on May 10.

This document is a summary of Q & A on that.

Agenda

・Management analysis

・Questions (including assumed ones) and Answers

Management analysis

＜Key messages＞

· Order intake shows good performance. Significant contribution of DMG MORI AG (hereafter AG).

· Pfronten Open House in Germany (February) and CIMT in Beijing (April) were successful. Solution Business is penetrating into our customers.

· Domestic sales network is strengthened, with its focus on dealer sales. In addition to Ayama Pfronten Association, DMG MORI Kyoei Kai was launched.

· Additive manufacturing company REALIZER (Germany) joined the group, enhancing our advanced technology.

· The US subsidiary continued to achieve surplus profit. Clean-up of overlapping assets and non-core business was apparently effective in cost improvement.

· First quarter's operating profit exceeded our internal target. The initially announced annual forecasts are now considered the minimum goals.

· We aim at generating free cash flow of JPY 15bn through the financial year as planned and reducing the net debt balance to JPY 115bn.

· Ensuring better response to social demands is our next goal as a leading company in the machine tool industry.

＜Strong Order Trends＞

Financial year 2017 (January - December term) first quarter order intake amounted to JPY 103.4bn, an increase of 8.9% from the same period of the previous year. It showed good performance despite some JPY's appreciation. On the EUR basis, order intake increased by 14.4%. The order intake in Europe – which forms part of the now fully integrated AG – rose sharply, the orders in the US remained at high levels, and China and other Asian markets also show signs of moderate recovery after having bottomed out. We believe that orders in the coming quarters will follow the same trend of the first quarter. The Pfronten Open House held in February and CIMT held in April were well received with our solution proposals that combine peripheral devices and Technology Cycles. We are convinced that our business strategy centered on providing solutions has begun to penetrate into our customers.

＜Important measures＞

As an important measure, we worked on strengthening Japanese domestic sales. In addition to Ayama Pfronten Association, which has been focusing on sales promotion, we have launched the DMG MORI Kyoei Kai. Although once we had a friendly business relationship with domestic dealers, it was estranged since the financial crisis of 2008. We will resume businesses with 187 dealers nationwide, and we will promote sales of our products to customers at every corner in Japan. Through the DMG MORI Kyoei Kai, we aim to increase sales by hundreds of units in volume or billions of JPY a year, ensuring domestic market share improvement.

For quality control, DMG MORI CO's Product Problem Report (PPR) system that has been running for more than 20 years has also been integrated into AG organization and we are beginning to see its effect. PPR is a mechanism that promptly shares product problems occurred at customers within the company and works on quality improvement from the design and manufacturing stage. As a result of its introduction to AG, customer satisfaction has been raised due to early problem solving of AG products.

On the technical side, we integrated a German company, REALIZER GmbH, under the umbrella of the group. We are focusing on Additive Manufacturing, which is expected to be an important technology after 2020, as a part of strengthening our solution business. Additive Manufacturing technology has two major methods; powder nozzle method with a relatively high forming speed, and a Selective Laser Melting method (SLM method) capable of more precise deposition and also capable of dealing with aluminum material. Although we had been ahead of conventional powder nozzle technology, now that we have also gained SLM technology know-how, it has become possible for us to handle a wide range of metal materials and diverse customer needs. We are the only company that has both technologies in the Additive Manufacturing field, and our solution providing will be further strengthened.

＜Financial performance＞

Sales in the first quarter increased by 1.9% year on year, to JPY 97.2bn, while operating profit increased by 78% to JPY 4bn, which is better than our internal plan. Income from the US subsidiary turned to profit as planned, and the cost saving effect from clean-up of overlapping assets and non-core business after the full integration with AG last year definitely contributed to this quarter's profit increase. Because business performance in the first quarter have just started better than our initial expectation, order intake remains strong, we will endeavor to achieve the initial announced annual sales of JPY 380bn and operating profit of JPY 22bn as the lowest line and try to outperform such targets.

On the financial front, cash flows from operation and investments for the first quarter ended in net cash outflows. AG has been increasing its production activity from the first quarter to increase sales in the second quarter and beyond, and working capital tends to increase seasonally in the first quarter. After the second quarter, working capital will be improved. Regarding capital expenditure, we are strictly controlling it to keep it to JPY10bn or less as planned, against JPY17bn of depreciation and amortization expenses in the fiscal year. From the above, we aim to generate free cash flows of JPY 15bn, as initially announced, in the fiscal year, and to reduce the net debt balance to JPY 115bn at the end of December 2017 (JPY 130.8bn at the end of December 2016).

＜Strengthen response to social demands as the No.1 leading company of the machine tool industry＞

We will change our mindset for working, especially in Japan. AG’s average annual working hours per employee is 1,800 hours or less, and the employees manage to fully take their paid leave. DMG MORI CO (Japan) is going to follow the practice. DMG MORI CO's annual working hours have been reduced to 1,980 hours in 2016, but we intend to decrease the number to less than 1,900 hours in 2017. With regard to this term’s paid leave, employees in Japan are expected to fully consume their allocated days off.

DMG MORI group has approximately 12,000 employees worldwide and is trying to expand its diversity. In particular, we are actively promoting our female staff to take an active role in their workplace. Our employees are allowed to take child care leave until their offspring reach 2 years old, and shorter working hours and teleworking for childcare are also available. Additionally, we will establish daycare centers at our main bases in Japan, including Iga Campus, Nara Campus, Nagoya Headquarters and Tokyo Global Headquarters in April 2018, in order to provide a comfortable workplace for women with small children.

Regarding environmental protection, we have been referring to strict environmental standards of Europe to reduce the electricity consumption and CO2 emissions by using solar power generation, to improve the appearance of our facilities inside and outside the plants, as well as to develop better working environment. In addition, we are also working to reduce electricity consumption and CO2 emission at customers' plants by utilizing Technology Cycles to shorten the process time and save standby power. The system products we offer in recent years achieve energy savings of somewhat 45% compared to our conventional products. Since our customers usually use machine tools for 15 to 20 years, we believe that our current efforts will greatly benefit our society in 20 years.

In short, we will continuously respond to requests from the society in a prompt manner, as a leading company in the machine tool industry.

Selected questions & answers

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Q：How was the regional order intake for the first quarter of 2017 (January - March)?
A : Although order intake in the first quarter was also affected by the appreciation of JPY, it increased by 8.9% in JPY basis year-on-year. In EUR basis, it increased by 14.4%. By region, Japan remained weak, down 4% from the same period, the US remained at a high level, while orders in Europe, the Middle East and Africa (EMEA) in particular increased significantly, by 18%. The Chinese market and other Asian markets are also recovering after having bottomed out.

Q：Will there be any change in the outlook for orders for the fiscal year (January - December) due to strong orders in the first quarter?
A : In February, when we released the financial results of 2016, we set the forecast for orders this year to be JPY 385bn, a 4.9% increase from the previous year. Order intake in the first quarter was strong, and the probability to achieve the initial order intake plan is increasing. We will make further efforts to exceed the initial order intake plan. However, only three months have passed since the beginning of this fiscal year, so we keep the JPY 385bn forecast for the fiscal year at this stage.

Q：Tell me about the order trend by industry.
A : Although order intake by industry varies slightly from region to region, general machinery, which accounts for 26% of total orders, and automobiles, which accounts for 19%, are steady. In particular, demands from EMEA's small and medium enterprises are doing well. The demand for the semiconductor production equipment industry has greatly increased, although its portion is not so large, and we can also see increased inquiries from the energy and construction machinery industries, which had been drastically declining for the past two to three years.

Q：What is the trend of average order price per region? Tell me why there are regional differences?
A : The average order price in the first quarter was JPY 32million. USA and Europe exceed the average unit price of the group, while Japan and China are lower than the average. Among them, the average unit price in Japan is the lowest. Differences in average unit price by region depend on the product mix, introduction ratio of peripheral equipment, Technology Cycles, etc. In the USA and Europe, in addition to high orders for 5-axis machines with higher unit prices, the introduction ratio of peripheral equipment and Technology Cycles is high, pushing up the average order price.

Q：What is the impact of foreign exchange rate?

A：The US Dollar in the first quarter was JPY 113.7 (the same period last year: JPY 115.5), the Euro was JPY 121.1 (the same period last year: JPY 127.2), respectively, and thus JPY appreciated. The effect of JPY appreciation on sales revenue was JPY 3.6bn, and the impact on operating profit was JPY 700 million.

Q：Tell me the background for increase or decrease of operating profit.

A：Operating profit in the first quarter was JPY 4bn, an increase of JPY 1.7bn from JPY 2.3bn in the same period last year. Given the decline in sales due to foreign currency effects of JPY 3.6bn and the decrease in sales due to withdrawal from non-core businesses of JPY 1.4bn, the real sales increase will be JPY 6.8bn which contributed JPY 2.7bn to operating profit. In addition, the cost savings effect of the processing of redundant assets etc last year contributed JPY 1.2bn and the synergies with AG another JPY 300 million. These positive factors totaled JPY 4.2bn. Meanwhile, the negative impact of the appreciation of the JPY was JPY 700 million, fixed costs associated with the direct sales of US subsidiary increased in the first quarter, resulted in the cost increase of JPY 900 million, and the cost increase in research & development such as acquisition of additive manufacturing technology was JPY 900million. These negative factors totaled to JPY 2.5bn, and, as a result, operating profit improved by JPY 1.7bn.

Q：Did the US subsidiary keep making profit as planned? What are your prospects for the future?

A : The US subsidiary has turned to making profit in the first quarter of 2017 compared to the operating loss of JPY1.2bn in the first quarter of 2016. On a whole group basis, the contribution from increased sales volume to operating profit was JPY 2.7bn, of which JPY 2.2bn was due to the increase in volume of US subsidiary. Meanwhile, in the first quarter of last year, the US subsidiary increased sales, engineering, and service personnel to strengthen direct sales. Consequently, in the first quarter of this year, fixed costs increased by about JPY 0.9bn, mainly in personnel expenses. As a result, net improvement of about JPY 1.3bn was gained, and this first quarter, it kept making profit following last year's fourth quarter. In the US, we have secured high orders that exceed the breakeven point, and it is expected that the US subsidiary will continue to secure profitability as originally planned.

Q：Why is the effective tax rate as high as 46% with corporate tax of JPY 1.35bn against income before taxes of JPY 2.9bn? What is the effective tax rate on a yearly basis?

A：DMG MORI GmbH, a special purpose holding company and a consolidated subsidiary, plans a profit for the fiscal year, but in the first quarter it shows a loss of about JPY 1.2bn, a factor that pushes down the profit before tax and boosts the effective tax rate. The effective tax rate, taking this loss into account is around over 30%. There is no change to the effective tax rate of around over 30% in the fiscal year.

Q：Free cash flow in the first quarter is negative of JPY 9.9bn. Will DMG MORI be able to improve the free cash flow to about JPY 15bn as the original plan?

A : The negative free cash flow of JPY 9.9bn in the first quarter was mainly due to JPY 9.4bn increase in working capital. In preparation for increasing sales in the second quarter and beyond, AG has traditionally increased working capital in the first quarter in order to meet increased demand for production. However, working capital will improve after the second quarter, especially in the third and the fourth quarter. Regarding capital expenditure, we are strictly controlling it to keep it to JPY 10bn or less as planned, against JPY 17.0bn in depreciation and amortization expenses in the fiscal year. From the above, we aim to generate a free cash flow of JPY 15bn as initially announced in the fiscal year, and to reduce net debt balance to JPY 115bn at the end of December 2017 (JPY 130.8bn at the end of December 2016).

Q：Net debt increased by JPY 11.4bn from JPY 130.8bn at the end of December 2016 to JPY 142.2bn at the end of March 2017. Can it be reduced to about JPY 115bn at the end of December 2017 as previously announced?

A : The reason that net debt balance at the end of March 2017 increased by JPY 11.4bn as compared with December 2016 was that, in addition to the worsened cash flow of JPY 9.9bn due to the increase in working capital and investment activities, the previous year-end dividend payout of JPY 1.4bn was made. We believe that, as working capital improves with the increase in sales towards the second half of the period, net debt can be reduced to about JPY 115bn at the end of December 2017 as planned.

Q：Why did you acquire REALIZER GmbH?

A : In Additive Manufacturing technology, there are two major technologies of powder nozzle method and selective laser melting (SLM) method. The powder nozzle method is said to be advantageous in that the forming speed is faster. However, it currently cannot deal with aluminum materials. The SLM method is somewhat slower in speed, but finer deposition is possible. In addition, it can be used for aluminum materials, and thus extends its application to automotive and aircraft parts. So far, we have accumulated achievements with powder nozzle method, but we have also entered the SLM method by acquiring REALIZER GmbH. It is only DMG MORI who can offer both types of technology in the area of Additive Manufacturing. In the future, we are able to respond to customers' wide demands as a solution provider.

Q : Tell me about the change in the total number of issued shares (the number of shares after treasury stock cancellation).

A : The number of treasury stock held at the end of December 2016 was 12,924,940. Following the approval at the Annual General Meeting of Shareholders in March this year, 3,500,000 shares were allocated to a trust bank for the purpose of running the Mori Memorial Manufacturing Technology Research Foundation, and 3,500,000 shares of the same number were canceled. As a result, the number of treasury stock at the end of March was 5,924,940, of which 2,429,516 shares are allocated to stock options and mutually owned shares. We have decided to cancel additional 3,490,000 shares this time. The planned cancellation date is June 30th. The total number of treasury stock after the cancellation will be 2,434,940, and the number of treasury stock excluding stock options and mutual shares will be 5,424. The total number of issued shares after the cancellation of treasury stock will be 125,953,683.

We will consider the handling of 3,500,000 shares after additional acquisition of treasury stock, which we have already disclosed.

(Disclaimer)

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- Fluctuations in exchange rates
- Changes to the laws, regulations and government policies in the markets where DMG MORI CO., LTD. conducts its business
- DMG MORI CO., LTD.'s ability to develop and sell new products in a timely fashion
- Instability of governments in the markets where DMG MORI CO., LTD. conducts its business
- Operational changes by the competent authorities or regulations related to anti-trust, etc.