DMG Mori Denmark ApS

Snaremosevej 188 A, 7000 Fredericia

Annual report for 2017

(6th Financial year)

Adopted at the annual general meeting on 17 April 2018

Minoru Furuta
chairman

CVR-nr. 34 07 61 54

Contents

Statement by management on the annual report

The supervisory and executive boards have today discussed and approved the annual report of DMG Mori Denmark ApS for the financial year 1 January - 31 December 2017.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2017 and of the results of the company's operations for the financial year 1 January - 31 December 2017.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved at the annual general meeting.

Fredericia, 17 April 2018

Executive board

Carl Frederik Niclas Gedda

Board of directors

Minoru Furuta chairman	Rajeev Anand

Independent auditor's report

To the shareholder of DMG Mori Denmark ApS

Opinion

We have audited the financial statements of DMG Mori Denmark ApS for the financial year 1 January - 31 December 2017, which comprise a summary of significant accounting policies, income statement, balance sheet and notes. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2017 and of the results of the company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the “Auditor's responsibilities for the audit of the financial statements” section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements

Independent auditor's report

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on management's review
Management is responsible for management's review.

Our opinion on the financial statements does not cover management's review, and we do not express any form of assurance conclusion thereon.

Independent auditor's report

In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of management's review.

Kolding, 17 April 2018

KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Nikolaj Møller Hansen
State Authorised Public Accountant
MNE no. mne33220

Company details

The company	DMG Mori Denmark ApS Snaremosevej 188 A Erritsø 7000 Fredericia	
	CVR no.:	34 07 61 54
	Reporting period:	1 January - 31 December 2017
	Incorporated:	23. November 2011
	Domicile:	Fredericia
Board of directors	Minoru Furuta, chairman Rajeev Anand	
Executive board	Carl Frederik Niclas Gedda	
Auditors	KPMG Statsautoriseret Revisionspartnerselskab Jupitervej 4, st. 6000 Kolding	

Financial highlights

Seen over a 5-year period, the development of the Company may be described by means of the following financial highlights:

	2017 TDKK	2016 TDKK	2015 TDKK	2014 TDKK	2013 TDKK
Key figures					
Gross profit/loss	20,424	24,807	25,770	20,733	25,835
Profit/loss before financial income and expenses	1,270	2,333	5,510	2,337	4,039
Net financials	-539	-1,551	-2,576	-1,263	-1,410
Profit/loss for the year	549	558	2,085	787	943
Balance sheet total	53,843	90,812	77,294	70,058	58,078
Investment in property, plant and equipment	0	240	223	0	41
Equity	21,095	20,546	19,988	6,713	5,927
Financial ratios					
Return on assets	1.8%	2.8%	7.5%	3.6%	6.6%
Solvency ratio	39.2%	22.6%	25.9%	9.6%	10.2%
Return on equity	2.6%	2.8%	15.6%	12.5%	17.3%

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and guidelines for 2015. For definitions, see accounting policies.

Management's review

Business activities
The primary activities of the Company are sale of electronically-operated turning lathes as well as spare parts and related services.

The products are sold primarily in Denmark and the Nordic countries.

Business review
The Company's income statement for the year ended 31 December shows a profit of TDKK 549, and the balance sheet at 31 December 2017 shows equity of TDKK 21,095.

Financing
The Company's operations are financed by loans from the parent company.

The parent company will not demand early repayment of the balance due until DMG Mori Denmark ApS has sufficient financial resources to repay the balance without detriment to its ability to continue operations.

Capital resources
The capital resources are mainly presented by equity of TDKK 21,095 and debt capital of TDKK 31,529.

New products
The company did not introduce any new products in 2017.

Investments
The Company did not make any significant investments in 2017.

Special risks apart from generally occurring risks in industry
Financial risks
The Company bears currency and credit risks.

Currency risks
The Company's transactions primarily take place in DKK and EUR where the foreign exchange risks are assessed as low.

Credit risks
The Company, in general, bear the risk of bad debt, which may result in value adjustments or in individual cases may even result in default.

Significant events occurring after end of reporting period
No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Management's review

Net profit (loss) relation to expected development assumed in previous report

The Company expects stable development in 2018 and slightly higher results in revenue and profit compared to 2017. The Company's earnings do, however, depend on the general development in global market trends.

Accounting policies

The annual report of DMG Mori Denmark ApS for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied are consistent with those of last year.

The annual report for 2017 is presented in TDKK

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow has been prepared. The cash flows of the entity are included in the cash flow statement of the consolidated financial statements of DMG Mori AG.

Basis of recognition and measurement
Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Gross profit
In pursuance of section 32 of the Danish Financial Statements Act, the company does not disclose its revenue.

Gross profit reflects an aggregation of revenue, changes in inventories of finished goods and work in progress and other operating income less raw materials and consumables and other external expenses.

Accounting policies

Revenue
Income from the sale of goods, comprising the sale of machinery, spare parts and services, is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Revenue is measured at the fair value of the agreed consideration, excluding VAT and other indirect taxes. Revenue is net of all types of discounts granted.

Raw materials and consumables
Expenses for raw materials and consumables include the raw materials and consumables used in generating the year's revenue.

Other external expenses
Other external expenses include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs
Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

Amortisation, depreciation and impairment losses
Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Financial income and expenses
Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, realised and unrealised gains and losses transactions, denominated in foreign currencies and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year
Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, including changes arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets
Goodwill
Goodwill is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over the estimated useful life, which is estimated at 20 years.

Accounting policies

Tangible assets
Other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

	Useful life	
Other fixtures and fittings, tools and euqipment	3-5	years

Gains or losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Impairment of fixed assets
The carrying amount of intangible assets, property, plant and equipment is reviewed for impairment, other than what is reflected through normal amortisation and depreciation, on an annual basis.

Where there are indications of impairment, an impairment test is performed for each individual asset or group of assets, respectively. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

Stocks
Stocks are measured using the FIFO method. Where the net realisable value is lower than the cost, inventories are recognised at this lower value.

The cost of goods for resale, raw materials and consumables comprises the purchase price plus delivery costs.

The net realisable value of stocks is calculated as the selling price less costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

Receivables
Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss for that individual asset is recognised.

Accounting policies

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received, using the effective interest rate of individual receivables or portfolios of receivables as discount rate.

Prepayments
Prepayments comprise costs incurred concerning subsequent financial years.

Equity
Dividend
Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability at the date of declaration by the annual general meeting.

Income tax and deferred tax
Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss allowed for carry forward are measured at the value to which the asset is expected to be realised, either by elimination in tax on future income or by offsetting against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the income statement, with the exception of items taken directly to equity.

Liabilities
Liabilities are measured at amortised cost, which is usually equivalent to nominal value.

Accounting policies

Financial Highlights

Definitions of financial ratios.

Return on assets $$\frac{\text{Profit/loss before financials x 100}}{\text{Total assets}}$$

Solvency ratio $$\frac{\text{Equity at year end x 100}}{\text{Total assets}}$$

Return on equity $$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$$

Income statement 1 January - 31 December

	Note	2017	2016
		TDKK	TDKK
Gross profit		**20,424**	**24,807**
Staff costs	1	-17,740	-20,780
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-1,414	-1,694
Profit/loss before financial income and expenses		**1,270**	**2,333**
Financial expenses	3	-539	-1,551
Profit/loss before tax		**731**	**782**
Tax on profit/loss for the year	4	-182	-224
Net profit/loss for the year		**549**	**558**
Distribution of profit	5		

Balance sheet 31 December

	Note	2017 TDKK	2016 TDKK
ASSETS			
Goodwill		17,609	18,847
Intangible assets	6	**17,609**	**18,847**
Other fixtures and fittings, tools and equipment		130	306
Tangible assets	7	**130**	**306**
Fixed assets total		**17,739**	**19,153**
Finished goods and goods for resale		11,193	8,058
Stocks		**11,193**	**8,058**
Trade receivables		14,914	6,619
Receivables from subsidiaries		7,640	6,392
Other receivables		1,975	758
Deferred tax asset	9	0	56
Receivables		**24,529**	**13,825**
Cash at bank and in hand		**382**	**49,776**
Current assets total		**36,104**	**71,659**
ASSETS TOTAL		**53,843**	**90,812**

Balance sheet 31 December

	Note	2017 TDKK	2016 TDKK
LIABILITIES AND EQUITY			
Share capital		818	818
Retained earnings		20,277	19,728
Equity	8	**21,095**	**20,546**
Provisions for deferred tax	9	126	0
Provisions total		**126**	**0**
Prepayments received from customers		8,267	3,848
Trade payables		1,363	829
Payables to subsidiaries		20,787	49,660
Other payables		2,205	15,929
Short-term debt		**32,622**	**70,266**
Debt total		**32,622**	**70,266**
LIABILITIES AND EQUITY TOTAL		**53,843**	**90,812**

Contingent assets, liabilities and other financial obligations	10
Related parties and ownership	11

Notes to the annual report

		2017	2016
		TDKK	TDKK
1	**Staff costs**		
	Wages and salaries	15,828	19,184
	Pensions	1,192	1,213
	Other social security costs	178	224
	Other staff costs	542	159
		17,740	**20,780**
	Average number of employees	24	27

According to section 98 B(3) of the Danish Financial Statements Act, renumeration to the Executive Board has not been disclosed.

2	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Depreciation intangible assets	1,238	1,238
	Depreciation tangible assets	176	456
		1,414	**1,694**

3	**Financial expenses**		
	Financial expenses, group entities	360	953
	Other financial expenses	179	598
		539	**1,551**

4	**Tax on profit/loss for the year**		
	Deferred tax for the year	182	204
	Adjustment of deferred tax concerning previous years	0	20
		182	**224**

Notes to the annual report

		2017	2016
		TDKK	TDKK
5	**Distribution of profit**		
	Retained earnings	549	558
		549	**558**

6 Intangible assets

	Goodwill
Cost at 1 January 2017	24,755
Cost at 31 December 2017	24,755
Impairment losses and amortisation at 1 January 2017	5,908
Amortisation for the year	1,238
Impairment losses and amortisation at 31 December 2017	7,146
Carrying amount at 31 December 2017	**17,609**
Depreciated over	20 years

Goodwill relates to activities in former branches of DMG and Mori Seiki, which were transferred to the Company in connection with the establishment of the Company in 2011/12. The goodwill is depreciated over 20 years, as it is assessment to be the time it will take to establish a similar business with the same rights.

7 Tangible assets

	Other fixtures and fittings, tools and equipment
Cost at 1 January 2017	2,247
Cost at 31 December 2017	2,247

Notes to the annual report

7 Tangible assets (continued)

	Other fixtures and fittings, tools and equipment
Impairment losses and depreciation at 1 January 2017	1,941
Depreciation for the year	176
Impairment losses and depreciation at 31 December 2017	2,117
Carrying amount at 31 December 2017	**130**
Depreciated over	3-5 years

8 Equity

	Share capital	Retained earnings	Total
Equity at 1 January 2017	818	19,728	20,546
Net profit/loss for the year	0	549	549
Equity at 31 December 2017	**818**	**20,277**	**21,095**

9 Provisions for deferred tax

	2017 TDKK	2016 TDKK
Deferred tax at 1 January 2017	-56	280
Deferred tax adjustment	182	-224
Deferred tax at 31 December 2017	**126**	**56**

Deferred tax asset mainly relates to intangible assets and tax losses carried forward.

Notes to the annual report

10 Contingent assets, liabilities and other financial obligations

Rent obligations falling due within one year amounts to TDKK 101.

Lease obligations (operating leases) falling due within five years amount to TDKK 749. The lease obligations falling due within one year amounts to TDKK 596.

11 Related parties and ownership

Related party disclosures

DMG Mori Denmark ApS is part of the consolidated financial statements of DMG Mori Seiki Europe AG, registered office, and the consolidated financial statements of DMG Mori Aktiengesellchaft, registered office, which are the smallest and largest groups, respectively, in which the Company is included as a subsidiary.

The consolidated financial statements of DMG Mori Aktiengesellchaft can be obtained by contacting the company at the following address.

DMG MORI AKTIENGESELLSCHAFT
Gildemeisterstraße 60
D-33689 Bielefeld

Related party transactions
Pursuant to section 98c(7) of the Danish Financial Statements Act, the Company has not disclosed related party transactions as these have been carried out on an arm's length basis.