MORI SEIKI

THE MACHINE TOOL COMPANY

MORI SEIKI

ANNUAL REPORT 2012

FISCAL YEAR ENDED MARCH 31, 2012

2012

Annual report 2012

Being the No. 1 machine tool company for customers.

That is our GLOBAL ONE.

Mori Seiki has always been supporting the basis of manufacturing as one of the general cutting machine tool manufacturers.
The process was always the history of changes and challenges.
And now, what we are aiming for.
That is to be the No. 1 machine tool company for customers.
We always pursue the best technology and service,
and provide new value and unlimited potential of machine tools to the customers.

Mission Statement

As a global corporation continually striving to be the world's largest and most respected international manufacturer of lathes, machining centers, multi-axis turning centers and grinders, we will:

Enable our customers to maximize their advantages and excel in their respective markets by continually striving to provide innovative, accurate and trouble-free machines at competitive prices; Increase our customers' productivity and efficiency through our latest developments in technology as manifested by our increasingly accurate and progressive manufacturing capabilities;
Support our customers with our knowledgeable and responsive sales, applications and service personnel.

As befits a worldwide corporation, we will:

Foster a fair and open corporate culture, utilizing appropriate management initiatives; Emphasize company-wide communication with the recognition of earnest and enthusiastic team-oriented efforts; Respect each other's opinions and continually develop through friendly competition in energetic and cheerful workplaces.

As profitability is a goal of all healthy business organizations and in keeping with the true nature of the machine tool industry, we will:

Work to increase the value of our company, the investment of all shareholders knowledgeable of the true nature of the machine tool industry and the prosperity of our suppliers; Always remember that the pricing of our products and services is an integral factor in the prosperity and perpetuity of the corporation; Generate suitable profits to ensure the cash flow necessary to provide for the healthy operation of our corporation, research and development, stable customer services, employee training and development and the maintenance of safe and efficient manufacturing facilities.

As an industry leader and responsible corporate citizen, we will:

Contribute our fair share to our local community and society; Conserve environmental resources at all times to preserve the global environment; Incorporate the highest standard of ethics while still encouraging an aggressive approach to our business activities.

CONTENTS

Note concerning statements about the future, etc.

This material contains earnings estimates, plans, policies, business strategies, targets, forecasts, and perceptions and judgments about matters of fact concerning the future of Mori Seiki and the Mori Seiki Group. Its predictions, expectations, assumptions, plans, perceptions and judgments are based on information available to Mori Seiki at the time of writing. For this reason, there is a possibility that actual results may differ significantly from these forecasts. There are various risks or factors, such as facts which are not included here, or premises which may be objectively inaccurate, which may prevent these predictions from coming true. Among these, we are able to identify the major assumptions which we are currently making as listed below. (Please note, however, that the risks and factors are not limited to these.)
(1) The economic conditions in key markets (Japan, the Americas, Europe, Asia, etc.) (2) Sudden fluctuations in demand for investment in plant and equipment
(3) Significant changes in the exchange rate against the yen of the U.S. dollar, Euro, etc. (4) Significant changes in the cost of natural resources or raw materials
(5) Future trends in Japan's relationships with the U.S.A. and with China (6) Changes in the international situation resulting from increased risk of terrorism, etc.
(7) Damage from natural disasters such as hurricanes, earthquakes, etc.

To the Shareholders

We are pleased to present the 64th Annual Report (from April 1, 2011 to March 31, 2012) of the Mori Seiki Group.

President Dr. Eng. Masahiko Mori

For the fiscal year (FY 2011), the machine tool industry saw a steady growth in inquires and orders despite concern over the impact of financial instability in Europe and the tight monetary policy in China. This was buoyed by strong demand from overseas, particularly from Asia and the Americas. According to the Japan Machine Tool Builders' Association, the industry's total order value for FY 2011 nearly doubled compared to that for the previous fiscal year. We expect the active overseas demand will also help increase orders for our products in the future.

In this business environment, the Mori Seiki Group made a contribution in kind of all shares of its four consolidated subsidiaries in Europe; MORI SEIKI (UK) LIMITED, MORI SEIKI FRANCE SAS, MORI SEIKI ITALIANA S.R.L. and MORI SEIKI ESPANA, S.A., to DMG MORI SEIKI Europe AG, a joint corporation between Mori Seiki and GILDEMEISTER AG, and in exchange acquired shares in DMG MORI SEIKI Europe AG in March 2012. Through this partnership with Gildemeister, we will expand our sales in the regions. We exhibited our X-class machines at GILDEMEISTER's Pfronten Open House held in February 2012 and received many orders from customers. We have displayed GILDEMEISTER machines at Innovation Days 2012 held at Mori Seiki's Iga Campus in June, and plan to do the same at the International Manufacturing Technology Show (IMTS) to be held in the U.S.A. in September, and at JIMTOF 2012 which will be held in November. Through these efforts, we will further strengthen cooperation between the two companies.

With regard to products, the NTX2000 won one of the "2011 (the 54th) Best Ten New Products Award" sponsored by Nikkan Kogyo Shimbun in January 2012. In March, we launched the NVX5000 Series as the successor to our popular NVX5000 Series of high-rigidity, high-precision vertical machining centers. We will contribute to expand the lineup of our flagship X-class series, with the aim of meeting a wide variety of customer needs including machining of large parts and difficult-to-cut materials, which has been in great demand in the construction machinery, aircraft and energy industries. On the production front, in February 2012 we introduced the Radiation Monitoring and Control Process at our Iga, Nara and Chiba Campuses and Isehara office of our consolidated subsidiary, Magnescale Co., Ltd, and obtained certification from TÜV Rheinland Japan, one of the world's leading independent inspection agencies. The purpose of introducing this process is to eliminate the concern over radioactive contamination in products exported from Japan, and to provide safe, reliable products for customers throughout the world. At the new plants in the Iga Campus, we will seek to improve the efficiency of the parts machining, unit assembly and machine assembly processes to achieve even greater productivity.

Our third medium-term management plan, "GQ-C-SI 123" (Global Quality for Customer with Speed and Innovation 123), started in FY 2011. This management plan outlines the company's objectives to provide high-quality products and services to customers worldwide as quickly as possible. Based on this vision, we aspire to build robust development, manufacturing and sales capabilities by thoroughly implementing strategies such as expanding the range of the X-class machines.

The Mori Seiki Group will continue to expand its businesses on a global basis and actively implement strategies for medium and long-term growth.

Under these circumstances, our consolidated sales were 155,320 million yen (a 29.0% increase from the previous fiscal year), consolidated operating profit was 6,789 million yen (320 million yen; the previous fiscal year), consolidated ordinary profit was 5,915 million yen (566 million yen; the previous fiscal year) and consolidated net profit was 5,619 million yen (1,307 million yen; the previous fiscal year).

Our fundamental policy is to provide long-term stable dividends to our shareholders based on an overall judgment about our future business plan, business results, financial conditions, investment in development of new products and technologies, and investment in plant and equipment. For the year-end dividend, we decided to pay a dividend of 10 yen per share, after taking into account our business results and economic conditions. (Together with the interim dividend, the total dividend per share for the year is 20 yen.)

Mori Seiki will continue to strive for growth in the future, so we look forward to continued support and guidance from you, the shareholders.

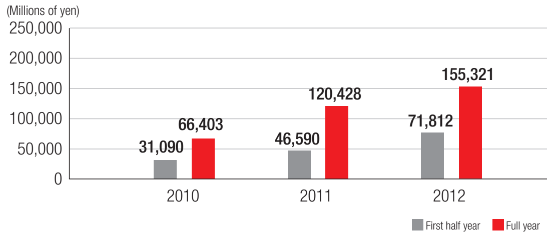
Consolidated Financial Highlights

Fiscal Year Ended 31st March, 2012

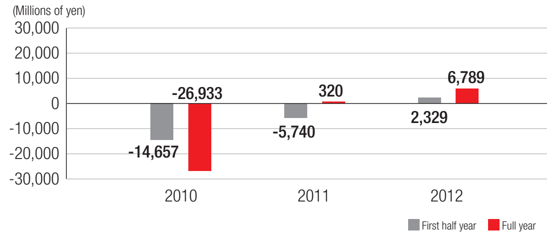
		Millions of yen		Thousands of U.S. dollars
		2012	2011	2012
For the year:				
	Net sales	¥ 155,321	¥ 120,428	$ 1,891,160
	Net income	5,620	1,308	68,428
Per share(Yen and U.S. dollars)				
	Net income (loss):			
	Basic	¥ 51.13	¥ 11.83	$ 0.62
	Diluted	50.22	11.62	0.61
	Net assets	852.31	848.74	10.38
	Cash dividends	20.00	20.00	0.24
At the year end:				
	Total assets	¥ 185,419	¥ 171,950	$ 2,257,628
	Net assets	94,718	95,329	1,153,269

The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥82.13 = U.S.$1.00, the exchange rate prevailing on 31st March, 2012.

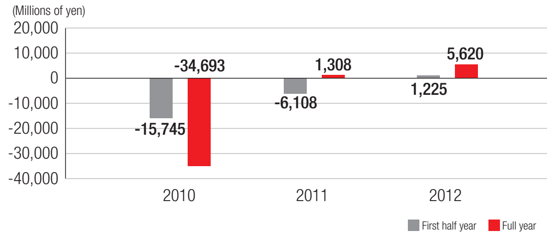
Net sales



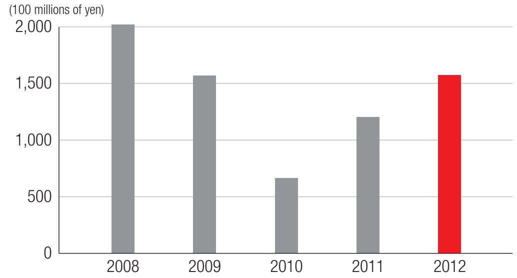
Operating income



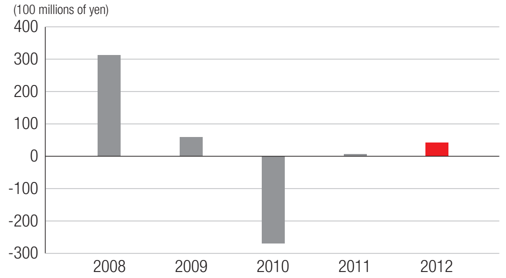
Consolidated (interim) net income in this term



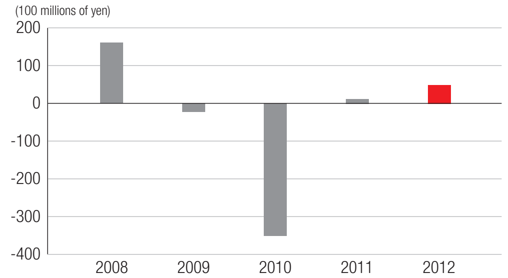
Net sales **155.3** billion yen



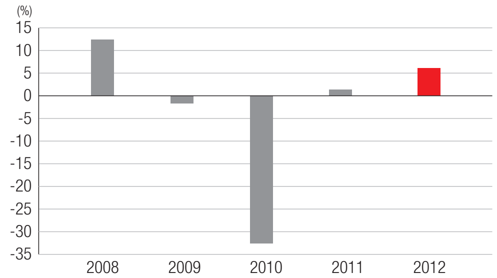
Operating income **6.79** billion yen



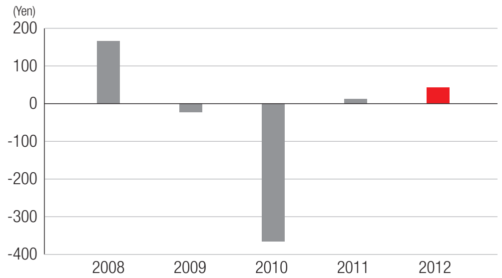
Net income **5.6** billion yen



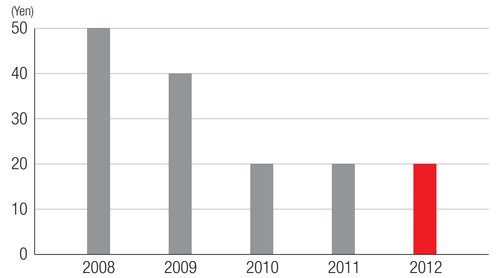
Return on equity **6.0**%



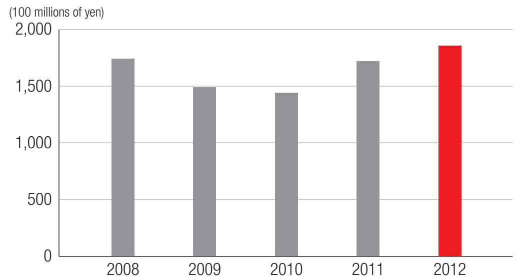
Net income per share **51.13** yen



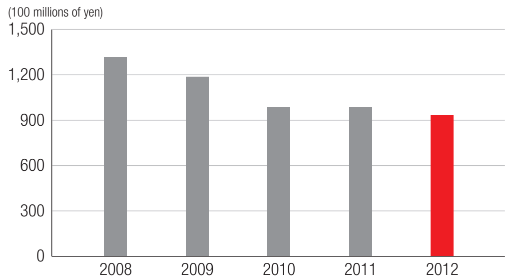
Cash dividends per share **20** yen



Total assets **185.4** billion yen



Net assets **94.7** billion yen



Medium-Term Management Plan

Based on our mission statement, Mori Seiki expects to be the best fit for customers and a worldwide pioneer in the machine tool industry. Our strategy to achieve this vision is implementation of the third medium-term management plan "GQ-C-SI 123," covering the three-year period from FY 2011 to FY 2013.
To realize our goal of "staying a step ahead with innovative solutions," we are promoting active investment and business collaboration.

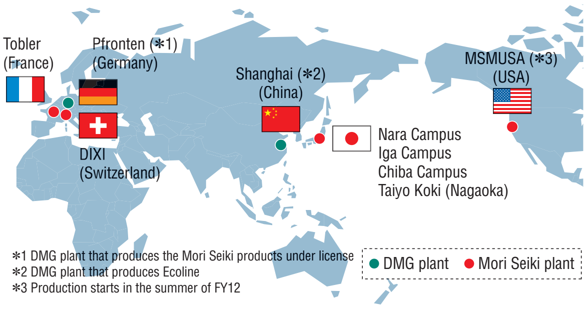
[VISION] We aim to be a company staying a step ahead with innovative solutions.

Global Quality for Customers with Speed and Innovation

10% operating margin in FY 13
20% more productivity
30% more share

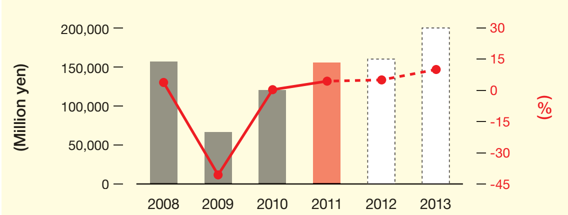
Globalization of Product Bases

While consumption of machine tools is expanding globally, we proceed with globalization of production bases and sales bases. We reduce "risk of exchange fluctuations" by local procurement and production, and minimize "transport lead time and cost" by producing machines in those regions with greatest demand.



Recovery of Sales and Operating Profit Ratio

Both sales and operating profit ratio are increasing.
In FY11, sales increased by 29% from the previous fiscal year, and our operating profit ratio recovered to more than 4%. In FY12, the demand for machine tools have continued to increase steadily.



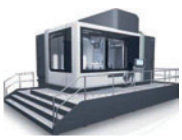
Graph: Trends in sales and operating profit ratio

Launch and Evolution of X-Class

We launched the X-class as cutting-edge models in the fields of lathes, machining centers, and multi-axis machines.
In FY12, we strive to enhance the series and develop machines that satisfy customers' needs and expectations.

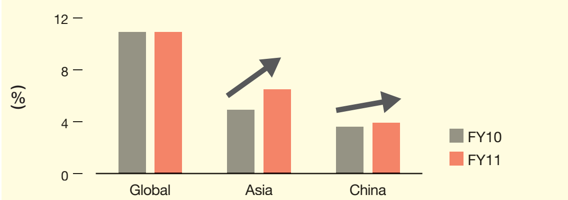
Sales of Gildemeister Products

We started to sell Gildemeister's "LASERTEC" with laser machining technology and "ULTRASONIC" with ultrasonic machining technology. These models have allowed us to provide our customers with new solutions.



Increase of Share in Emerging Countries

We have maintained a global JMTBA share of more than 10% since last fiscal year, and our share in emerging countries in Asia and China is increasing. To further increase share in these promising markets, we will penetrate our brand and expand sales.



Graph: Trends in JMTBA share

Business and capital collaboration with GILDEMEISTER AG

Although Mori Seiki and GILDEMEISTER are based in different countries with different backgrounds and cultures, the two companies are both rooted in a culture of continual and unflagging improvement of products and have both been fostered by customers.
In March 2009, the two companies, both among the top class machine tool builders in the world, joined forces in business and capital collaboration in order to make further progress. This business and capital collaboration has expanded the scale of the company as well as the product lineup. With the world's largest product lineup, which covers everything from lathes to a variety of 5-axis control machines, we are now able to give much more support to our customers than we have been able to in the past.
With the powerful DMG / MORI SEIKI logo that adopts the green and red the two companies aim to increase the synergetic effects of the strengths on both sides. GILDEMEISTER and Mori Seiki will continue to develop through friendly competition to provide even better products and service to the customers.

Progress of the business and capital collaboration

The business and capital collaboration with GILDEMEISTER that was launched in March, 2009, has made significant progress in integrating sales networks, supplying parts, conducting joint development, and providing financial services for our customers. In April, Mori Seiki acquired additional shares issued by GILDEMEISTER. This makes the ratio of the number of shares held by Mori Seiki to the total number of shares issued by GILDEMEISTER 20.1%, further strengthening the collaboration between the two companies.
By making the most of the integrated technical strengths and sales networks, Mori Seiki continues to provide products and service that offer greater productivity for our customers.

Progress of collaboration

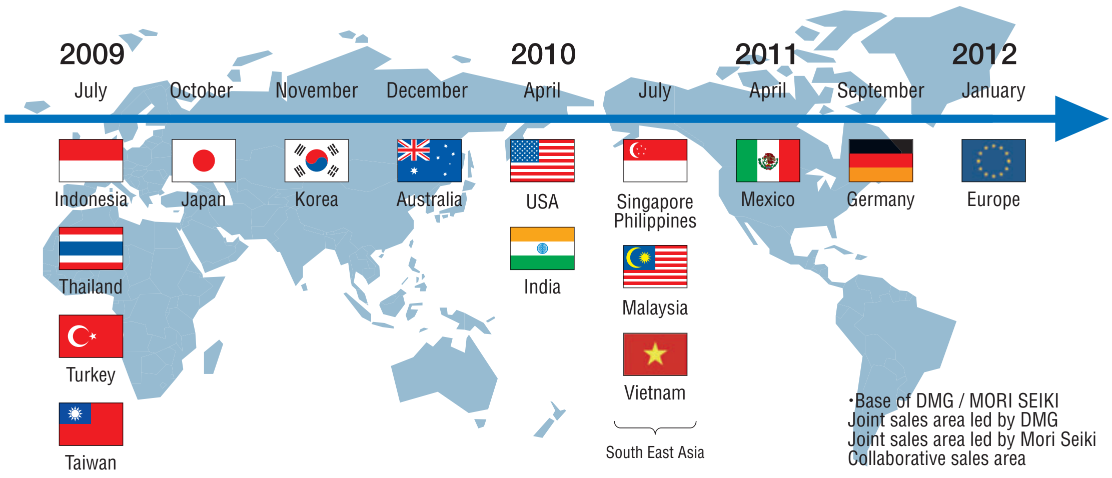
2009	March	Entered Business and Capital Collaboration with GILDEMEISTER
	July	Started joint sales and service in Thailand, Indonesia, Taiwan, Turkey
	September	Started supplying Mori Seiki spindles, ball screws and turrets to GILDEMEISTER
	October	Started joint sales and service in Japan
	November	Started joint sales and service in Korea
	December	Started joint sales and service in Australia
2010	April	Started joint sales and service in the USA and India / Established MG Finance in Europe GILDEMEISTER started supplying machines manufactured in the Shanghai Plant to Mori Seiki as an OEM product
	July	Started joint sales and service in Singapore, the Philippines, Vietnam and Malaysia
	September	Exhibited collaborative efforts with GILDEMEISTER in a joint booth at IMTS
	October	Exhibited collaborative efforts with GILDEMEISTER in a joint booth at JIMTOF / Started supplying large Integrated Mill Turn Machines to GILDEMEISTER
2011	April	Started joint sales and service in Mexico / Increased the investment ratio in GILDEMEISTER from 13.6% to 20.1% Announced a plan to establish a joint company in collaboration with GILDEMEISTER AG and SHEN YANG MACHINE TOOL (GROUP) CO., LTD.
	September	Integrated the sales and service bases in Germany / Released jointly developed MILLTAP 700 Exhibited at EMO Hannover 2011 in the joint booth between Mori Seiki and GILDEMEISTER
2012	January	Integrated the sales and service bases in European countries outside Germany

Cooperative efforts with GILDEMEISTER

1) Sales and service

Mori Seiki and GILDEMEISTER started joint sales and service in Thailand, Indonesia, Taiwan, Turkey, Japan, Korea, and Australia in 2009, followed by India and the United States in 2010. In May, 2011, we collaboratively established a new technical center in Bangalore, India.
Furthermore, in September, 2011, we integrated the sales and service bases in Germany. At the EMO Hannover 2011, European International Machine Tool Fair held from September 19 to 24, 2011, Mori Seiki exhibited in the largest-ever booth collaborating with GILDEMEISTER. It allowed us to impress the European market with our strong ties. In January, 2012, we established the DMG / Mori Seiki Europe Head Quarters in Switzerland, and completed integration in European countries other than Germany. Thanks to the business and capital collaboration, the product lineup covers all types of machines from lathes to a wide variety of 5-axis machines. This world's largest product lineup allows customers to find the best machine that suits their needs.

Business and capital collaboration with GILDEMEISTER AG



2) Production on a global basis

In addition to its existing plants in Japan, Mori Seiki will use GILDEMEISTER's production bases in Europe and Shanghai. A new plant in North America has begun its operation in July, 2012, and another in Tianjin, China, is scheduled to start in autumn of 2013. Deconcentration of the production bases allows us to reduce delivery time and mitigate foreign currency exchange fluctuation risks, as well as to create a solid business structure. Mori Seiki also supplies spindles, ball screws and turrets, which are major machine tool components, to GILDEMEISTER.

3) Procurement on a global basis

Mori Seiki established the Europe Purchasing Department in April, 2011. Through the collaboration with GILDEMEISTER, we procure parts from first-class suppliers in Europe and casting from the competent suppliers in China aiming to establish a well-balanced procurement system by purchasing parts from suppliers both in Japan and overseas. Additionally, we will increase the number of products certified as MSQP (Mori Seiki Qualified Products) and will provide a wide range of peripheral products for our customers.

4) Joint development and production

DuraVertival 635 eco vertical machining centers and Dura Turn 310 V3 eco turning centers, both machines manufactured in GILDEMEISTER's Shanghai Plant, have joined Mori Seiki's product lineup. Mori Seiki in return supplies the NT6600 DCG high-precision, large integrated mill turn centers and NTX1000 high-precision integrated mill turn centers to GILDEMEISTER as an OEM product.

We also jointly developed the compact machining center MILLTAP, and released it at Mechatronics Technology Japan Show in September, 2011. With this next-generation compact machine, we offer enhancement of productivity and efficiency as well as new machining processes.

5) Financial services for customers

To provide financial services for customers, Mori Seiki established a joint leasing company, MG Finance GmbH. We will increase orders from both existing customers and new customers by providing financial service in major European countries.

Outline of GILDEMEISTER AG

Company Name	GILDEMEISTER AG
Primary Business	Manufacture and sales of machine tool equipments
Establishment date	1st October, 1870 (Name of company on establishment: Werkzeugmaschinenfabrik GILDEMEISTER & Comme)
Registered address	Gildemeisterstr. 60 D-33689 Bielefeld Germany
Representative	Rudiger Kapitza CEO
Capital	151.7 million Euro
Employees	6,032 (consolidated)

Business results (January to December 2011)

Sales Revenue	1,687.7 million Euro
Operating Income	112.5 million Euro
Net Income	45.5 million Euro
Total Assets	1,371.8 million Euro

※ Created based on GILDEMEISTER AG Annual Report 2011

Research & Development

Original Technology

"I want to machine with high accuracy", "I want to shorten machining time", "I want to run efficient production." These are the eternal issues for customers involved in machining.

The difficulty level of solutions required for high accuracy, high speed, and high efficiency issues has become extremely high. Mori Seiki seeks to provide solutions continuously by developing technologies to address customers' ever-evolving issues. We will meet customer needs with six original technologies that will rewrite the history of machine tools.

DCG®
Driven at the Center of Gravity

DCG (Driven at the Center of Gravity) "Technology to minimize vibration"

Vibration occurs when rotational moment is generated from moving machine structural parts, and it has had a negative effect on surface quality and machining accuracy.

Our DCG technology, which drives the moving structural parts at their center of gravity, controls residual tool tip vibration, improves accuracy and acceleration, and extends tool life.

DDM®
Direct Drive Motor

DDM (Direct Drive Motor) "The world's fastest rotary axis drive system"

Until now, drive force has been imparted to rotary axes through worm gears, resulting in adverse effects on drive speed and accuracy. By transferring the drive force directly, without going through a gear, DDM technology has achieved highly efficient drive.

BMT®
Built-in Motor Turret

BMT (Built-in Motor Turret) "A revolution in turret milling"

The milling power of conventional lathes is low, and since there were many parts like gears and belts transmitting the drive power from the motor, heat and vibration spread over a wide area. By placing the motor inside the turret, the BMT reduces temperature increases in the turret to less than 1/10. In addition to minimizing heat and vibration, this increases the transmission efficiency, offering milling power and machining accuracy approaching those of a machining center.

ORC®
Octagonal Ram Construction

ORC (Octagonal Ram Construction) "Octagonal shape for a revolutionary feed"

ORC is a revolutionary feed mechanism, making the ram a perfect octagonal shape. It preserves the advantage of conventional square guides (their damping characteristics) while overcoming the problem of thermal displacement caused by temperature increases in the slideways. Each slideway, located diagonally from another, offsets the other's thermal displacement because distortion in response to heat is symmetrical. For this reason, the center of a moving part can be maintained in the same position, achieving high-precision machining during high-speed travel.

MAPPS Ⅳ

MAPPS Ⅳ (New High-performance Operating System)
"Realization of overwhelming performance and outstanding operability"

MAPPS Ⅳ incorporates a host of operator-oriented functions such as the ESPRIT® CAM software that shortens programming time, a large 19-inch display that enables more intuitive operations, a PC-type keyboard and enhanced maintenance functions, and it provides strong support for the machining processes of customers all over the world.

Magnescale

Magnescale "High-speed, high-precision, high-resolution scales"

Magnescale products are magnetic scales well-suited to machine tools because they enable measurement in various environments where measurement is not possible with optical scales that read contrast grids, for example where there is condensation or in oil. Since they have the same linear expansion coefficient as the cast iron used for the structure of the machine, they expand and contract with the same thermal characteristics as the machine in environments where the temperature changes, making high-accuracy machining possible.

Current Situation and Future Prospects for Product Development

Last term, we launched the X-class that was developed by evolution from our best-selling N Series (28,000 units sold) by meticulously incorporating feedback from thousands of customers to offer high precision, high quality, and high reliability. The X-class lines up new models covering all types of CNC lathes: vertical machining centers, horizontal machining centers, and multi-axis machines. We will further expand the product lineup and strengthen sales in overseas markets by developing products with high levels of rigidity, energy-saving measures, safety standards, and other features by reflecting market needs and through multidirectional analysis of existing products.
The X-class has established new standards in accuracy and machining capability and encompasses model changes to all our core products. During this fiscal year, while enriching the X-class lineup, we will develop machines that address the issues of difficult-to-cut materials and grinding in response to the expanding demand in fields including aircraft, jet engines, power generators, and construction machinery. We also aim to produce results that include continuous high-speed in-machine measurement using lasers and reduction of machining time and improvement of machining accuracy by reviewing the entire process from CAM systems to machine tools.
Mori Seiki has been developing new products to meet customer needs, such as the NHX10000, a high-speed, high-precision horizontal machining center capable of machining large-scale parts with increased efficiency and accuracy.

On the development front in particular, to meet diversifying needs in the machine tool market, we have released new models that are increasingly in demand through the X-class lineup, including construction machines, machines for difficult-to-cut materials in the aircraft and energy industries, machining centers for mass production line of automobile parts, and MILLTAP 700, a compact machining center that is currently being developed in collaboration with GILDEMEISTER with a strong focus on high speed and high cost performance.

In the area of elemental control technologies, we have released the fourth generation of the high-performance operating system MAPPS Ⅳ, now called MAPPS Ⅳ-B. This new system has maximized operability by improving ease of use, reliability, serviceability, and maintainability via feedback from the markets to better support customers.
In addition, we have developed a non-contact in-machine coordinate measurement system, S-Quad, to address demand for machining with greater accuracy and efficiency. S-Quad enables the measurement of large workpieces that are difficult to measure using traditional coordinate measuring machines, and the measurement of contoured shapes and curved surfaces with small curvatures that are difficult to measure by probing. Moreover, measurement results can be reflected in machining immediately, which has enabled us to propose new machining methods to customers.
As for software, we have developed a new multi-pallet transfer control system, MCC-LPS Ⅲ. MCC-LPS Ⅲ incorporates a wide range of functions from machining schedule creation/registration to transfer system status monitoring to various reporting functions to maximize the operation and administration efficiency of the pallet transfer system.
Magnescale, our subsidiary, has newly-developed linear and rotary scales (their leading products), which enables GILDEMEISTER's machines equipped with Siemens' NC to mount Magnescale's high-speed, high-accuracy and high-resolution scales. They also plan to release a laser scale "Z sensor" for semiconductor manufacturing equipment, which is the world's first sensor capable of long-distance (millimeter) measuring at the picometer level.

MAPPS Ⅳ

S-Quad

Linear scales

Research & Development System

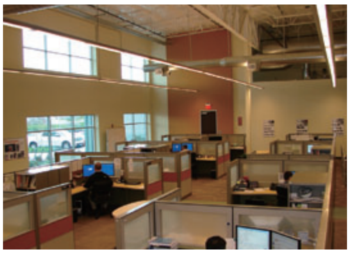
Mori Seiki currently employs about 500 development engineers for research and development of new models, control technology, elemental technology, fixtures, and peripheral equipment.

Based on the notion that “every outcome depends on the concept,” we take on development with emphasis on fundamental conceptual design at DTL (Digital Technology Laboratory) in the United States, Mangescale, BUG, and other R&D sections. These are led from the Development Centers at the Iga, Chiba, and Nara Campuses. After design and verification using the latest digital design techniques, we go through durability evaluation testing before completing the prototype, getting as close as possible to a fully completed product at the design stage. These comprehensive research and development systems constitute the building blocks of our high overall development capability.

With the aim of reducing prototype development periods and the number of prototypes manufactured, all design and development is carried out with digital design techniques using 3D CAD systems. This enabled us to increase the speed of development of new models and release multiple models into the market simultaneously. Beyond handling elementary technology development and analysis for machine tools, including dynamic analysis, DTL also plays a role as the base for analytical technology and application development, and develops programming-related application systems, simulation software, post processors, CL engines, and other products.

Mori Seiki is also developing an operating system that functions as the man-machine interface in collaboration with subsidiary BUG. New developments further include a wide range of control technologies that achieve innovations on the production floor, including the fourth generation NC unit MAPPS Ⅳ, network technologies, and remote maintenance services extending from MAPPS Ⅳ, cell control systems, tool management systems and DDMs (Direct Drive Motors).

We are conducting practical research and development work on fixtures and peripheral devices by designing and manufacturing them. We design and manufacture fixtures by thoroughly checking for possible interference and analyzing fixture parts using 3D CAD systems; these are mainly fixtures for customers and in-house fixtures. We also develop and design-to-order loaders and other peripheral devices for CNC lathes and machining centers. To provide better products to customers, the High-Precision Machining Laboratory runs Mori Seiki products under the same conditions as those found at customers’ locations and constructs mass production systems to verify the accuracy, performance, reliability, and maintainability of the products, and the know-how on mass production systems obtained through these operations is fed back to the development and manufacturing departments.



DTL

Development in Collaboration with Customers and with Universities

[Micro Machining Society]

Mori Seiki and Iriso Seimitsu Co., Ltd., jointly established the Micro Machining Society in May 2009. The aim of this organization is to conduct research on cutting-edge technologies to enhance knowledge and skills and to develop markets, new models, and software, specifically for the micro machining and free-form machining fields so we can provide customers with high-precision products.

[Research in Materials]

The Material Laboratory has started industry/university collaborative research into the use of lotus-type porous metal that combines both light weight and strength for the component parts of machine tools. This metal has excellent properties—not only the absorption of vibration due to its light weight, but also heat dissipation and absorption of sound. We aim to develop machines with excellent vibration absorption and energy-saving characteristics by adopting this material for columns and tables.

Manufacturing

Mori Seiki has built three manufacturing bases in Japan: the Iga Campus in Iga City, Mie Prefecture; the Nara Campus in Yamato-Koriyama City, Nara Prefecture; and the Chiba Campus in Funabashi City, Chiba Prefecture. In addition, our subsidiary Taiyo Koki and Magnescale have their manufacturing bases in Nagaoka City, Niigata Prefecture and in Isehara City, Kanagawa Prefecutre respectively. We have also two overseas production bases in Switzerland and France, and in July 2012 we have begun production of horizontal machining centers at our new production base in California, USA.

Items manufactured at each Campus

Campus	Location	Items manufactured
Iga Campus	Iga City, Mie	Multi-axis turning centers, CNC lathes, 5-axis control vertical machining centers, 5-axis control horizontal machining centers, Vertical machining centers, Horizontal machining centers Integrated Mill Turn Centers (starting in July 2012)
Nara Campus	Yamato-Koriyama City, Nara	5-axis control vertical machining centers, CNC lathes, Compact CNC lathes, Compact machining centers, Loaders/Peripheral equipment
Chiba Campus	Funabashi City, Chiba	Integrated Mill Turn Centers, Compact machining centers (starting in June 2012)
Davis Campus	Davis, California (USA)	Horizontal machining centers (starting in July 2012)
Tianjin Plant	Tianjin, China	CNC machines and peripheral equipment (starting in September 2013)
TAIYO KOKI	Nagaoka City, Niigata	CNC vertical grinding machines, CNC internal grinding machines, CNC cylindrical grinding machines
Magnescale	Isehara City, Kanagawa (Head Office: Minato Ward, Tokyo)	Magnescales, Laserscales, Digital Gauges
DIXI Machines	Le Locle, Switzerland	High-precision horizontal machining centers, 5-axis control vertical machining centers
TOBLER S.A.S	Louvres, France	Standard expanding mandrels, Face drivers, Special chucks, System components

Davis Campus

As the market environment shifts towards multi-item, small-lot production, or even variable-item, variable-lot production, Mori Seiki has pioneered manufacturing methods to tackle the twin challenges of fast delivery and high quality. In the initial process of the manufacturing of machine tools, we have succeeded in increasing our capabilities of parts machining and reducing manufacturing lead time, by increasing both the quality and quantity of our machining equipment. In addition, we have completed an automated system for unmanned operation at night. Also, IT-based process management enables us to share information quickly and efficiently.

At Mori Seiki, we have been strengthening our efforts towards in-house production, to improve the quality and shorten delivery times of our machine tools: to this end we built the Heat Treatment Plant, Casting Plant and Sheet Metal Plant within the Iga Campus, and we also built the Spindle Plant, in which we perform the whole sequence of operations from spindle part machining to assembly and inspection. We are undertaking the in-house manufacture not just of spindles but also of key components that are related to accuracy, including ball screws, turrets and DDM (direct drive motors). We also manufacture the large-diameter bearings that are required for large machine tools to shorten delivery times.
For assembly, we followed the example of the automobile production system and started line production for spindles and lathe turrets in an effort to improve production efficiency. We also plan on adopting line production for MILLTAP 700 that will be mass produced from this year on. We are taking various innovative approaches for higher quality and faster delivery, including assembly progress management using IT and creation of manufacturing environments as clean as a showroom.

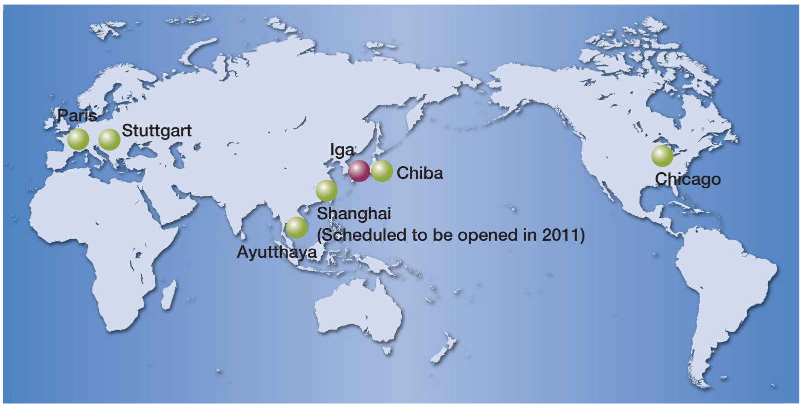
Investment in plant and equipment

In FY 2011, we established the high-precision Bed/Column Precise Processing Plant equipped with air conditioners and a new assembly plant at the Iga Campus, aiming to shorten lead time and to further improve quality. Our subsidiary Magnescale also established new production equipment in the Iga Campus to increase production capacity.
For enhancement of the facilities, we have built a manufacturing plant in the U.S.A. which began its operation this July, and another facility will start operation in Tianjin, China in September of 2013.

Engineering

In the automobile, aircraft, energy, construction/agricultural, and general industrial machinery industries, customer needs have been growing more diverse every year, including mass production of parts while maintaining accuracy, reduced running costs, and short delivery times for multiple-item, small-lot production of high-precision parts.
To solve customers' production issues, the Engineering Department provides innovative solutions for all kinds of technical issues concerning process designs, machines, machining conditions, fixtures, tools, peripheral equipment and software, as well as cell systems that include all of these.

As the trend for production bases that are closely associated with local markets progresses, demand for machine tools is becoming more global. For this reason, to create a system that enables us to provide prompt and optimal engineering support throughout the world, we have sited Engineering Departments with high levels of specialist knowledge in seven places around the world - Iga, Chiba, Paris, Stuttgart, Chicago, Ayutthaya and Shanghai We also have solution centers in Iga and Chiba (Japan) and near major industrial areas in the Americas, Europe, and Asia to provide latest machines and machining technologies and solve machining issues of customers. These solution centers aim to improve customers' productivity by supporting them in three key areas: machining demonstration, test machining, and advanced machining technology. The Engineering Department acts as technical support for the entire sales process, from technical proposals to submission of estimates, contracts, run-off machining, delivery and acceptance inspections, and also handles order placement, run-off machining, and delivery across multiple countries. We also make proposals based on local circumstances and work hard to meet requirements from both global and community-based businesses.



- Global Solution Center (Iga, Mie Japan)
- Chiba Solution Center (Japan)
- Paris Solution Center (France)
- Stuttgart Solution Center (Germany)
- Chicago Solution Center (U.S.A.)
- Ayutthaya Solution Center (Thailand)
- Shanghai Solution Center (China) (Scheduled to be opened in 2011)

Resident Engineering

Since Mori Seiki has been founded, we have been sending our professional engineers to our customers at the beginning of each delivery. For those customers who seek a long-term support, we temporarily transfer application engineers on-site to provide customers with the best possible support. In 2007, the number of transferred engineers was 10, and as we expected service demand would rise, we established the Resident Engineering Department in March 2007.
Resident engineers are carefully selected from application engineers who are capable of operating machines and have such in-depth knowledge of machining that, upon viewing a workpiece, they quickly understand which type of machining process should be used. We send these professionals to our customers long-term to provide them with solutions and support related to production systems and workpieces that are different by industry - such as automobile, construction machinery and aircraft industries. To date, we have sent a total of 30 resident engineers to 16 customers, and we will keep providing exceptional service for our customers around the world.

Responding to Diversified Needs

We also established the Important Customers Technical Sales Section for the purpose of providing technical support. This section mainly deals with customers in the automobile parts industry and customers conducting global business. Projects from overseas are worked on closely with the International Technical Sales Section. We will further strengthen communication by sharing information between local and overseas personnel, personnel at the International Technical Sales Section, and the staff responsible within other departments to further enhance support in China and other Asian countries. As we begin to transfer production overseas, we put forth a strong effort to foster engineers capable of supporting overseas plants.

The DMG Machining Technology Department was established in December 2011 with the goal of rapidly providing high-quality solutions for customers through close communication between full-time Gildemeister engineers and each Gildemeister plant.

In addition, to support CAM in integrated machining, multi-axis machining, and 5-axis simultaneous machining, we offer solutions tailored to customer needs by providing optimal CAMs, paths, and know-hows for test machining of whole multi-axis machines.

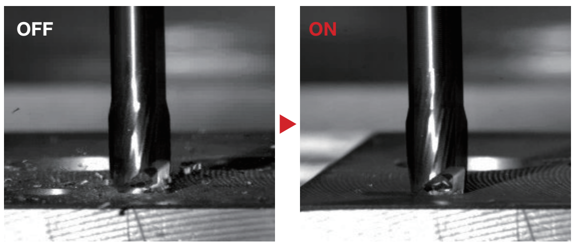
In the future, we will enhance personnel in the Engineering Departments in Japan and overseas so we can respond to further globalization and continue proposing new cutting technologies such as dry cutting and machining with reduced cutting force to reduce the load on the environment.

Latest Machining Technology

Mori Seiki also conducts research and development into cutting technology to improve customers' productivity and efficiency.

ZERO CHIP™

Zerochip is a device that sucks and isolates a large amount of harmful dust generated during machining of graphite and CFRP (Carbon Fiber Reinforced Plastic), commonly used for aircraft parts. Zerochip provides a clean air environment for both operator and machine; it reduces time spent cleaning inside the machine and prevents operators health issues.



When Zerochip is turned on, dust and chips are substantially reduced.

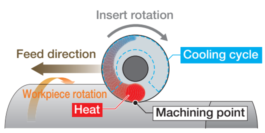
Spinning Tool

The Spinning Tool is an axially-loaded cutting tool that dramatically improves productivity and tool life in turning operation. By suppressing the temperature rise of the tool tip and reducing tool wear compared with conventional processes, it improves productivity up to five* times and extends tool life by up to twenty times*.

* Depending on conditions.

● The Spinning Tool was jointly developed by Kennametal Inc. and Mori Seiki.


Cutting with the Spinning Tool



Tool-tip temperature cooling cycle

Quality Assurance

Mori Seiki takes all factors relating to products and customers, from development to manufacturing to sales to service, as “quality”, and aims to increase the customers’ level of satisfaction.
We have established a system that allows us not only to facilitate in-house processes but also to utilize customer feedback to the fullest even after delivery, thereby sending the valuable information to the related departments and giving customers a detailed follow-up.
In order to achieve the goals of the second medium-term management plan PQR555 that started from FY 2008, we have been working on achieving accuracy of 5 μm, improving the level of customer satisfaction, prompt action in response to product problem reports, implementation of quality inspections in design reviews, and measurement of machined parts.
In the third medium-term management plan that started in 2011, GQ-C-SI 123, we will improve the quality of the entire value chain and improve machine accuracy and design with the aim of achieving a higher level of quality.

Design is an important element in product development, as there is an expression “Every outcome depends on the design.” With this in mind, we carry out durability evaluation tests on the individual machine components such as spindles, turrets, and tables at the designing stage. For new product development, we conduct tests on accuracy, durability and operability, and destructive tests to achieve a build with improved design quality. In order to prevent the occurrence of defective items and their release to later processes, we carry out strict machining accuracy checks for parts manufactured in-house. Moreover, in order not to allow the occurrence or delivery of defective parts, we conduct acceptance inspection for delivered parts, as well as giving thorough quality instructions to our suppliers. In the manufacturing processes, we implement quality auditing to determine whether or not the work is carried out in accordance with the Quality Plan Sheets (QC process tables, operation standard documents, checksheets), and we implement a 100-hour running test on all products before shipment.
Immediately after delivery and acceptance, and one year after delivery, we contact each customer to survey the level of their satisfaction. We have a system for sending feedback from customers to the relevant departments through the Quality Improvement Committee so that measures can be taken immediately.

In a continuing effort to assure our customers of better quality and safety, we became certified by TÜV Rheinland Japan for the Radiation Control Process that we had introduced at our Iga, Nara No.1, No.2, and Chiba Campuses and the Isehara Office of our subsidiary, Magnescale. The purpose of the introduction of the Radiation Control Process is to eliminate the concern over possible radioactive contamination in products exported from Japan, which was raised after the Fukushima No. 1 Nuclear Plant accident in March last year. We now are more confident in providing safe and high-quality products for our customers around the world.

In order to increase the operating rate of the 180,000 Mori Seiki products that are in 67 countries worldwide, we answer customers’ inquiries with a 24-hour, 365-day-a-year system, and we have built a global maintenance service system that ships at least 97% of maintenance parts within 24 hours.
We relocated the global parts center from the Iga Campus (at Iga City, Mie) to the Nara Campus No. 2 Plant (at Yamato-Koriyama City, Nara) in January 2011 to strengthen the customer support system and are now providing service to customers worldwide by working in cooperation with the parts centers in Nara, Dallas (U.S.A.), Stuttgart (Germany), Shanghai and Singapore.

Global Parts Network

1 Global Parts Center
(Japan)

2 European Parts Center
(Stuttgart, Germany)

3 American Parts Center
(Dallas, U.S.A.)

4 China Parts Center
(Shanghai, China)

5 Southeast Asia Parts Center
(Ayutthaya, Thailand)

Developing outstanding human resources are indispensable for quality improvement. Mori Seiki established the Mori Seiki University in order to improve the specialized skills required by each member of staff to carry out their work and management capabilities, and it is strongly promoting staff training concentrating on skills education for engineering staff and management education for management level staff. The Mori Seiki University is providing education services at four locations - Iga in Japan, Chicago in the United States, Stuttgart in Germany and Ayutthaya in Thailand - including continuous training to improve the skill and knowledge levels of Mori Seiki staff, hands-on training for overseas distributors, and various training curriculums to help customers nurture high-level machining technicians at customers.

Also to provide support for human resource development at customers, we have an unprecedented, high-quality online machine tool learning system, EOD (Education On Demand), in 8 languages including Japanese, English, German, Italian, French, Spanish, Chinese and Thai, which allows customers to learn how the machine operates and how to use it on a PC, so they can master the machine operations in advance during the period between placement of an order and delivery of the machine, enabling smooth startup after machine delivery.

CSR (Contributing to society/Protecting the environment)

1) Supporting research activities through MTTRF

MTTRF (Machine Tool Technologies Research Foundation) is a nonprofit organization recognized by the U.S. Government. It operates through contributions from companies, with Mori Seiki as its main sponsor.
At Mori Seiki, various activities are done through MTTRF, such as lending machine tools to universities and research institutions in Japan as well as overseas and holding lectures at the annual general meetings.

Status of machine donation / lending from MTTRF to universities and research institutions (as of March 31, 2012)

Donation / Lending Recipient (University / Research Institute)	Countries
University of California, Berkeley	U.S.A.
University of California, Davis	
Massachusetts Institute of Technology	
University of Wisconsin System	
MTTRF – DRI	
University of British Columbia	Canada
Bremen Institute for Metrology, Automation and Quality Science (BIMAQ)	Germany
Trinity College Dublin	Ireland
Katholieke Universiteit Leuven	Belgium
Swiss Federal Institute of Technology Zurich	Switzerland
Koç University	Turkey
University of Florence	Italy
National University of Singapore	Singapore
Kyoto University	Japan
Kobe University	
Kanazawa University	
Keio University	
Osaka Institute of Technology	
Toyohashi University of Technology	
18 universities and 1 research institutes (DRI, KRI)	Total of 30 units

2) Supporting the WorldSkills Competition

Mori Seiki was first named as an official Sponsor of the 39th WorldSkills competition (Numazu City, Shizuoka, Japan in 2007), and continued to serve the role in the 40th (Calgary, Canada in 2009) and the 41st WorldSkills Competition in London, United Kingdom which took place from October 5th to 8th, 2011.
At the 41st competition, we supplied 26 of the latest main products, NLX2500MC/700 high-rigidity, high-precision CNC lathes and NVX5100/40 high-precision, high-speed vertical machining centers from the X-class.
The WorldSkills competition has been held once every two years since the first competition in 1950 with objectives to improve levels of technical skill in the participating countries and regions, and promote vocational training and friendly international exchange among young engineers. Over 10,000 young engineers have competed in this event throughout its long history. In last year's competition, approximately 1,000 young engineers who have won fierce preliminary contests in 50 countries and regions around the world took the challenge for the title of world's best in 46 categories. During the competition, there were approximately 200,000 participants.
Mori Seiki will continue to support the provision of education for as many young engineers as possible and the improvement of their levels of technical ability in regard to machine tools.


Scene from the 41st competition in 2011 (London, the United Kingdom)

Gold Sponsor
worldskills London 2011
Showcasing skills that shape our world

3) DMG/MORI SEIKI Scholarship Fund

In reaction to Great East Japan Earthquake, Mori Seiki established the "DMG/MORI SEIKI Scholarship Fund" together with GILDEMEISTER aiming at providing support for education with the students at national colleges of technology in the disaster-stricken regions in June 2011, and we received a letter of appreciation from the Institute of National Colleges of Technology in Japan. We are willing to continue long-term support for young, talented people who will eventually play important roles in the Japanese manufacturing industries.

4) Cutting Dream Contest

Mori Seiki holds the "Cutting Dream Contest" every year for companies, universities, technical colleges, and research institutions, with the aim of improving and exchanging technology and techniques throughout the machining industry. We received many applicants for the 8th contest held in 2011 and exhibited the pieces and commended the award winning pieces in our latest machines exhibition show, “Innovation Days 2011” in November. This contest is held not only in Japan, but also in the U.S.A. since 2006 and in Europe since 2007, where it has also won acclaim. Mori Seiki will continue to hold this event to support the development of cutting technologies and improvement of technical skillsaround the world.
Innovation Days 2011 “the Next-generation Machines Show”

5) Mori Seiki Eco-Policy

ISO14001 Certificate

1. **Treat resources and energy with respect**
   The use of resources such as electrical power and paper, and the use of fossil fuel energy such as heavy oil, will be reduced. Recycling and reduction of waste will be promoted.
2. **Manufacture products that are environmentally-friendly**
   Promote the development of environmentally-friendly products that increase the recycle rate of parts while reducing noise with the aim of reducing the use of energy and resources and to extend service lives.
3. **Increase employees’ awareness of environment preservation**
   All employees will be educated and trained to increase awareness and to practice environment preservation activities. All related companies are requested to do the same.
4. **Environmental goals will be set and appraised periodically**
   Environmental goals and results will be checked periodically and efforts will be made for continued improvements in environment management.
5. **Cooperate with environmental policies as a member of society**
   Laws on the environment and other related matters will be observed. Our own management standards will set and pursue satisfactory environment preservation activities.
6. **The utmost will be done to make available any information on environment preservation**
   We are working together as a whole company to preserve the environment.

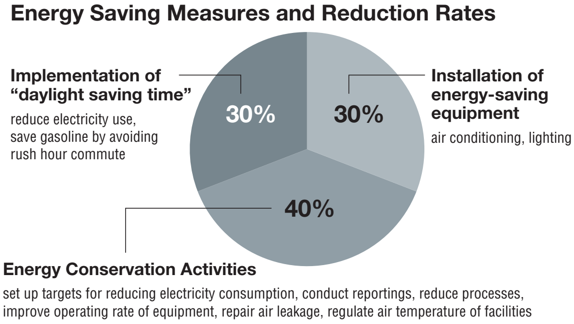
6) Mori Seiki Energy Solution Park

Photovoltaic systems, wind power systems and secondary battery made by GILDEMEISTER were installed at Mori Seiki’s Iga Campus in order to reduce environmental load and to secure power supply in an emergency. The photovoltaic systems are a solar tracking type which can achieve 1.3 times more electrogenic capacity than a fixed type. The vertical axis wind power generator is silent, lightweight, and does not get affected by wind direction.
The generated energy is stored in Redox flow batteries to provide power for EV, PHV, a part of our assembly plant offices, and disaster countermeasures offices inside the assembly plants in an emergency situation. We will continue to make efforts to reduce environmental load, while validating the potential for utilization of those green energy sources.

7) Approach to Energy Saving

We have been engaging in various energy-saving activities as the countermeasures against a possible nationwide power shortage caused by the aftermath of the Great East Japan Earthquake, and successfully reduced total electricity consumption of our three campuses by 20% compared to that in the previous year. As a result we received an honorable mention as an environmentally-friendly company, from the Japan Machine Tool Builder’s Association.

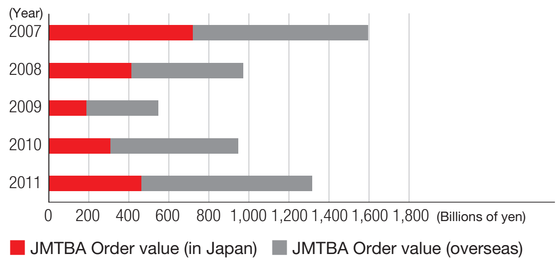
Energy Saving Measures and Reduction Rates



General Condition of the Market

In FY2011, the industry's total order value released by the Japan Machine Tool Builders' Association amounted to 1.3262 trillion yen (up 35.5% from last year), marking two-consecutive years of increase and the first total order value beyond one trillion yen in three years. The demand for machine tools rose for the second year in a row: a 37.1% increase from last year to 421.6 billion yen for domestic demand and a 34.8% increase from last year to 904.6 billion yen for foreign demand.

Trends in the industry's total order value released by the Japan Machine Tool Builders' Association



JMTBA: The Japan Machine Tool Builders' Association

Foreign demand that has been steadily increasing in China and North America was a driving factor for a continuous recovery in 2011. Along with demands for post-disaster reconstruction since the Great East Japan Earthquake and the Thailand flooding, the order value had been about 100 billion yen per month throughout the year.
Domestic demand increased by 37.1% from last year to 421.6 billion yen, indicating a gradual increase in trend for the general machinery and automobile industries. However, the recovery in overall domestic demand was slow, and the condition for equipment investment remained severe.
Foreign demand rose by 34.8% from last year to 904.6 billion yen. Demand in China which had been steadily increasing until last summer started to slow down around the mid-year due to its tight monetary policy. In Germany, investment in plant and equipment has recovered among export-related companies in the first half of the year due to euro depreciation, and Russia and Eastern Europe has also been recovering. However, Europe is the slowest in demand recovery among major three regions because of the European debt crisis triggered by the Greek government-debt crisis. In North America, brisk investment in plant and equipment among manufacturers was seen despite concerns over an economic downturn.

Outline of Business

Under these circumstances, our consolidated sales for the FY2011 ended with 155,321 million yen. In Japan, orders for machine tools have been on the rise, with the number of inquiries from the automobile industry steadily and continuously increasing. Sales were 130,668 million yen (up 27.2% from previous fiscal year) and operating profit was 4,390 million yen (previous fiscal year: 754 million yen).
In the Americas, orders from a broad range of industries including the automobile, aircraft, natural resources, energy and construction machinery remained at a high level. Sales were 45,686 million yen (up 44.2% from previous fiscal year) and operating profit was 1,188 million yen (previous fiscal year: 1,245 million yen).
In Europe, the number of inquiries increased steadily despite the uncertainty about the future economy associated with financial instability. Sales were 35,207 million yen (up 29.0% from previous fiscal year) and operating profit was 836 million yen (previous fiscal year: 382 million yen).
In China and other Asian countries, orders mainly from the automobile industry remained on an upward trend. The number of inquiries in China increased steadily despite the concern over negative impacts of its tight monetary policy. Sales were 24,395 million yen (up 12.5% from previous fiscal year) and operating profit was 305 million yen (previous fiscal year: 37 million yen).

As for our future order environment, orders from the Americas and Asian countries as well as domestic customers are expected to continuously increase despite growing concerns over the stagnant European economy and exchange rate fluctuations. We, the Mori Seiki Group, will continue to improve the development, manufacturing, sales and service systems so that we can provide the best products and services to our customers in a timely manner, and to implement various measures to further improve our financial structure.

Current Strategic Status and Prospects

Mori Seiki has been implementing the medium-term management plan to achieve our vision, which is "to be the best partner for customers as well as a worldwide pioneer in the machine tool industry." In our third medium-term management plan "GQ-C-SI 123" (Global Quality for Customers with Speed and Innovation 123), which covers the three-year period from FY 2011 to FY 2013, we aim to be "a company staying a step ahead with innovative solutions" as our basic policy in an effort to continuously grow while appropriately responding to a changing market environment. "GQ-C-SI" in the name of "GQ-C-SI 123" consists of each initial letter of "Global Quality for Customers with Speed and Innovation," and "123" represents three numerical sales targets to be achieved: an operating margin of more than 10%, a 20% increase in efficiency and 30% greater market share in each region compared with FY2011.
In order to achieve these numerical goals, we are promoting the following three strategies:

1. Establishment of Strong Plant and Sales

We will ensure a stable supply of products and service that meet our customers' demands and needs. At our plants, we establish the production system that is directly linked to incoming orders by steadily preparing the production schedule and managing the progress. In the first year, we achieved a monthly production capacity of 500 units. We are also establishing a new manufacturing plant in the U.S.A. where we have been achieving solid sales results, aiming to reduce lead time for our customers. The plant has begun its operation in July 2012. As for sales, we will aggressively promote to integrate our sales network with that of GILDEMEISTER, and will promptly provide optimal solutions for our customers through the collaboration with the Engineering Department and the utilization of Mori Seiki Qualified Products (MSQP).

2. Reinforcement of Collaboration with GILDEMEISTER

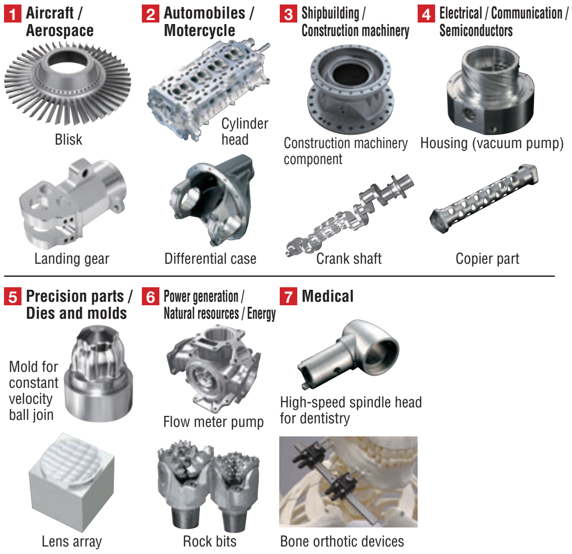
Mori Seiki has been participating in a business and capital collaboration with GILDEMEISTER for three years since March 2009. We have successfully established a strong presence in the European market which is the main sales ground of GILDEMEISTER by implementing the integration of sales force of both sides this year. As for production and development, Mori Seiki and GILDEMEISTER entered into a license agreement to manufacture horizontal machining centers (a strength of Mori Seiki), and 5-axis machining centers (a strength of GILDEMEISTER) at each production site with the aim of improving production efficiency. We will continue to develop high qualityproducts that satisfy our customers by concentrating our management resources on each specialty area.

3. Creation of Unparalleled Product Quality

We are making every effort to improve quality and to increase customer reliability. We aim to bring joy and satisfaction to our customers not only though specifications, functions, external appearances of our products, but also through our satisfactory customer services including prompt inquiry response and actions to meet their needs. Each and every organization and employee of the Mori Seiki Group is committed to achieve our top-priority goal which is to "improve product quality and reliability year by year."

Machine tools which enrich your life

Most of the components, dies and molds which make up many industrial products such as automobiles, trains and mobile phones that we take for granted in our daily lives are manufactured by machine tools. And the industrial machines themselves, which assemble parts into various products, are also produced by machine tools.
Machine tools are referred to as “mother machines,” or sources of all machines because of their role: “machines which make machines.” It is no exaggeration to say that machine tools make our lives convenient.



Mori Seiki’s Products

CNC lathes

The lathe, which is based on the principle of the potter’s wheel, rotates a workpiece (material) attached to the spindle and performs cutting by placing a cutting tool against the workpiece. This is a representative model of machine tools and is the starting point for Mori Seiki’s machine tools. Mori Seiki started manufacture and sale of high-speed precision lathes in 1958 and started manufacture and sale of numerically controlled machine tools (CNC lathes) in 1968. Since then, we have delivered over 100 different models of lathes.


NLX2500MC


NVL1350

Machining centers

Machining centers use rotary tools that are attached to the spindle, and perform machining for a great variety of workpieces from round and rectangular items to complex shapes that are mounted on the table driven at high speeds. These are equipped with the Automatic Tool Changer (ATC) and can handle a wide range of machining from chamfering, drilling, boring and tapping. They are divided into vertical and horizontal types according to differences in the orientation of the spindle and the drive axes.


MILLTAP 700


NHX5500


NVX5080 II

Multi-axis machines

This machine features the integration of the turning function for lathes and milling for machining centers. It is equipped with the combination of our original technology, including thorough measures against thermal displacement and equipping of the 3D interference check function as standard.

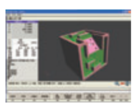

NZX2000


NTX2000

Application systems

We have a wide range of application systems that increase customers’ productivity and efficiency: the MAPPS IV high-performance operating system that combines the best hardware in the industry and advanced application/network systems to achieve maximum ease of use; as well as the MORI-AP Series of the automatic conversational programming systems.


MAPPS IV


MORI-APM

About Mori Seiki (Corporate Profile / As of 31st March, 2012)

MORI SEIKI CO., LTD.

President	Masahiko Mori
Capital	41,100 million yen
Shareholders' Equity	95,700 million yen (Individual) / 93,200 million yen (Consolidated)
Total Assets	175,100 million yen (Individual) / 185,400 million yen (Consolidated)
Business Operations	Manufacture and Sale of Machine Tools
Employees	2,692 (Individual) / 4,045 (Consolidated)
Head Office	2-35-16 Meieki, Nakamura-ku, Nagoya City, Aichi 450-0002, Japan TEL : +81-(0) 52-587-1811
URL	http://www.moriseiki.com

Office / Campus Information

- **Nagoya Head Office**
  2-35-16 Meieki, Nakamura-ku, Nagoya City, Aichi, 450-0002, Japan
  TEL : +81-52-587-1811
- **Tokyo Branch**
  18th floor, Shinagawa Intercity Tower A, 2-15-1 Konan Minato-ku, Tokyo, 108-6018, Japan
  TEL : +81-3-5460-3570
- **Nara Campus**
  362 Idono-cho, Yamato-Koriyama City, Nara, 639-1183, Japan
  TEL : +81-743-53-1121
- **Nara Campus No.2 Plant**
  106 kitakoriyama-cho, Yamato-Koriyama City, Nara, 639-1160, Japan
  TEL : +81-743-53-1125
- **Iga Campus**
  201 Midai, Iga City, Mie, 519-1414, Japan
  TEL : +81-595-45-4151
- **Chiba Campus**
  488-19 Suzumi-cho, Funabashi City, Chiba, 274-0052, Japan
  TEL : +81-47-410-8800

Organizational Structure

Introduction of Group Companies

TAIYO KOKI CO., LTD.

TAIYO KOKI
THE GRINDING MACHINE COMPANY

Location	Nagaoka City, Niigata
Establishment	14th March, 1986
Capital	700 million yen
Business	Development, manufacture and sale of machine tools (grinding machines)
URL	www.taiyokoki.com/

MORI SEIKI INTERNATIONAL SA (DIXI)

DIXI machines

Location	Neuchatel, Switzerland
Establishment	February 2006
Capital	100 million Swiss Francs
Business	Manufacture and sale of jig borers and machining centers
URL	www.moriseiki.com/dixi

TOBLER S.A.S.

tobler

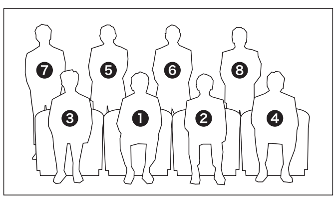
Location	Louvres, France
Establishment	1945
Capital	2.86 million Euro
Business	Manufacture and sale of machine tool accessories
URL	www.moriseiki.com/tobler/

Magnescale Co., Ltd.

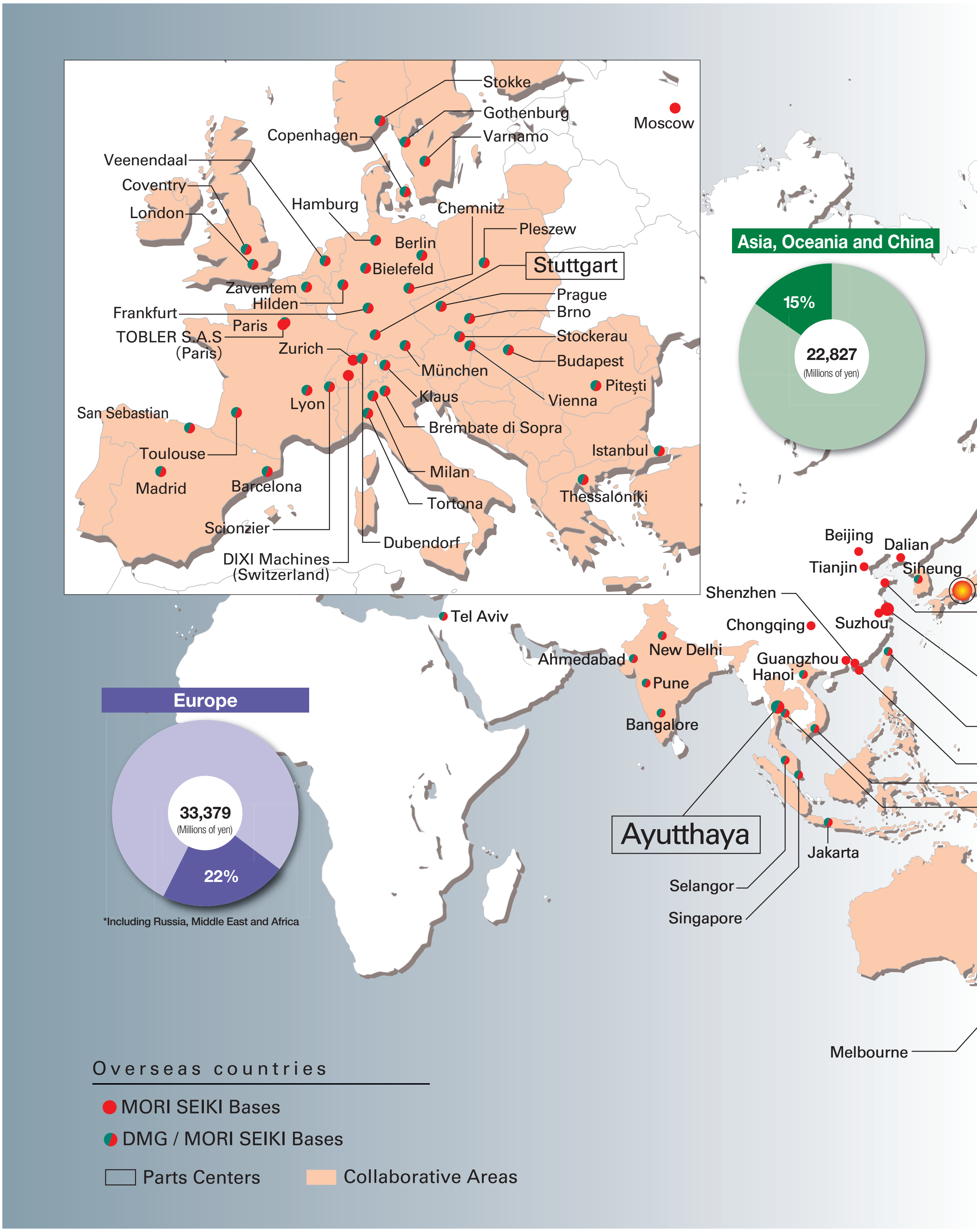
Magnescale

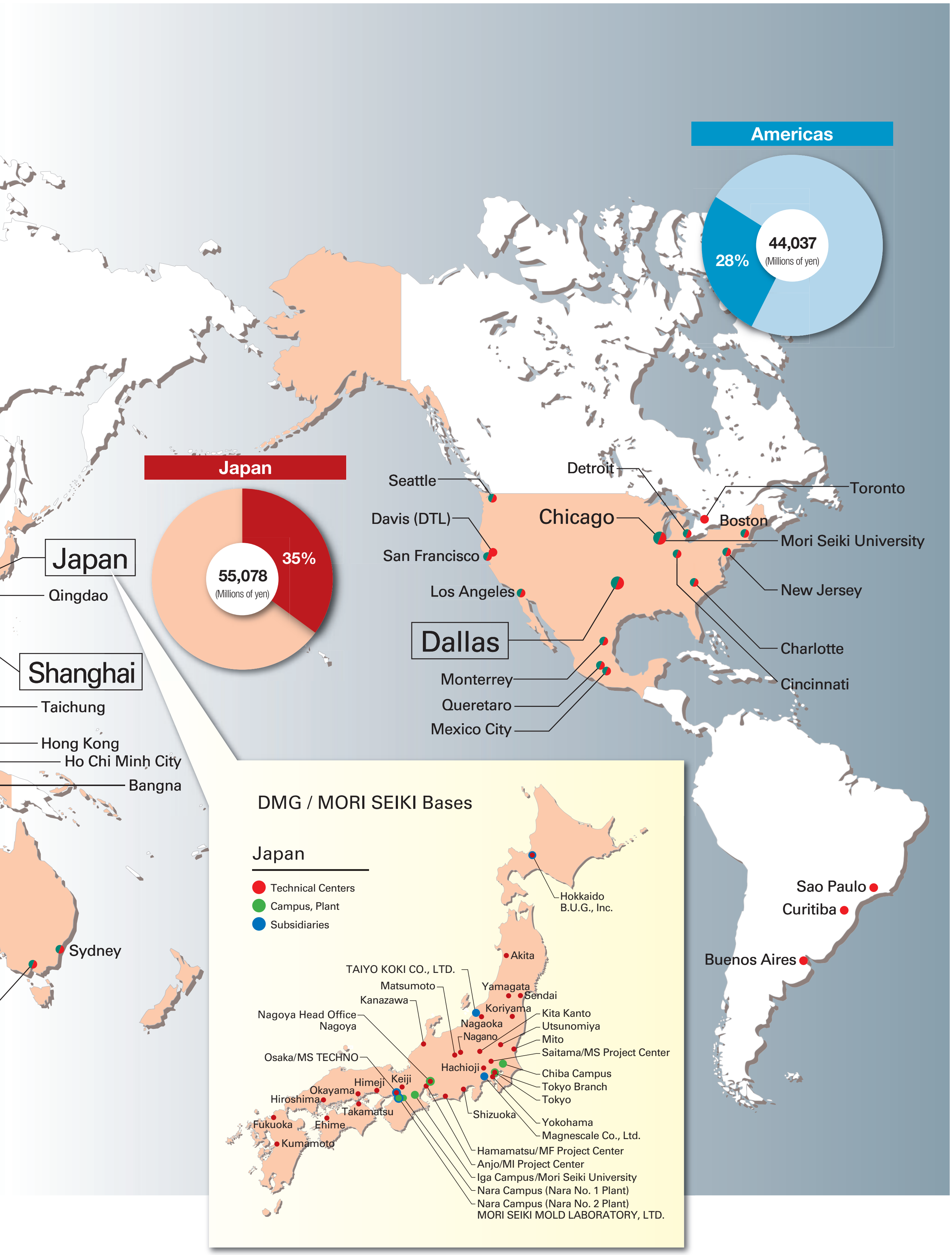
Location	(Head office) Minato Ward, Tokyo (Isehara Plant) Isehara City, Kanagawa
Establishment	31st March, 2010
Capital	One billion yen
Business	Manufacture and sale of measurement devices (Magnescale, Laserscale and Digital Gauge, etc.), control devices and related systems
URL	www.mgscale.com/

Masahiko Mori	President Dr. Eng.	…①
Tatsuo Kondo	Vice President	…②
Hiroaki Tamai	Senior Executive Managing Director	…③
Naoshi Takayama	Managing Director	…④
Hisao Sato	Director	…⑤
Morikuni Uchigasaki	Corporate Auditor	…⑥
Yoshito Kato	External Auditor	…⑦
Michiyoshi Kuriyama	External Auditor	…⑧



About Mori Seiki (Global network & Proportion of sales revenue by region)





Americas
28%
44,037
(Millions of yen)
Japan
35%
55,078
(Millions of yen)
Japan
Qingdao
Shanghai
Taichung
Hong Kong
Ho Chi Minh City
Bangna
Sydney
Seattle
Davis (DTL)
San Francisco
Los Angeles
Detroit
Chicago
Dallas
Monterrey
Queretaro
Mexico City
Toronto
Boston
Mori Seiki University
New Jersey
Charlotte
Cincinnati
Sao Paulo
Curitiba
Buenos Aires
DMG / MORI SEIKI Bases
Japan
Technical Centers
Campus, Plant
Subsidiaries
Hokkaido B.U.G., Inc.
Akita
TAIYO KOKI CO., LTD.
Matsumoto
Kanazawa
Yamagata
Sendai
Koriyama
Nagaoka
Nagano
Nagoya Head Office
Nagoya
Kita Kanto
Utsunomiya
Mito
Saitama/MS Project Center
Osaka/MS TECHNO
Hachioji
Chiba Campus
Tokyo Branch
Tokyo
Himeji
Keiji
Okayama
Hiroshima
Takamatsu
Shizuoka
Fukuoka
Ehime
Kumamoto
Yokohama
Magnescale Co., Ltd.
Hamamatsu/MF Project Center
Anjo/MI Project Center
Iga Campus/Mori Seiki University
Nara Campus (Nara No. 1 Plant)
Nara Campus (Nara No. 2 Plant)
MORI SEIKI MOLD LABORATORY, LTD.

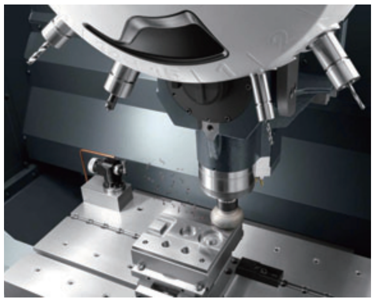
Highlights Of The Year

The following are Mori Seiki's major topics during the Fiscal Year 2011.

2011	April	Established Mori Seiki Sales and Service Co., Ltd. for domestic sales and service
	May	Establishment Mori Seiki Renewable Energy Co.,Ltd. ※Photo①
	June	Started accepting orders for DMU 60 eVo and LASERTEC 210 Shape, 5-axis control machining centers Released the simultaneous 5-axis NC cutting simulation Opened the DMG/MORI SEIKI USA Houston Technical Center Established the DMG/MORI SEIKI Scholarship Fund
	August	Started accepting orders for NVX7000, a high-rigidity large vertical machining center and NHX10000, a high-speed large vertical machining center Equipped SIEMENS NC on NMV5000 DCG
	September	Exhibited at EMO Hannover 2011as DMG/MORI SEIKI ※Photo② Started accepting orders for NZX1500, NZX2500, and NZX-S1500, high-efficiency multi-axis turning centers Started accepting orders for MILLTAP 700, the next-generation compact machining center jointly developed with GILDEMEISTER AG ※Photo③,④
	October	The Awards Ceremony for the 8th Cutting Dream Contest Started accepting orders for NHX8000, a high-rigidity large horizontal machining center
	November	Established the Shanghai Solution Center ※Photo⑤ Held the Innovation Day 2011 “The Next-Generation Machines Show” at Iga Campus ※Photo⑥ Started accepting orders for NVL1350T and NVL1350MC, large vertical lathes
	December	Started accepting orders for DMU 65 monoBLOCK and LASERTEC 65 Shape, 5-axis control machining centers
2012	January	Changed the name of Akishino Mold Laboratory, Ltd. to Mori Seiki Mold Laboratory, Ltd.
	February	Acquired Certification of Radiation Monitoring and Control Process Completed building the Bed/Column Precise Processing Plant at Iga Campus Started accepting orders for CL2000E and CL2000TE, compact CNC lathes
	March	Started accepting orders for the NVX5000 Ⅱ Series

① Renewable Energy

② EMO Hannover 2011



③ MILLTAP 700

④ MILLTAP 700

⑤ Shanghai Solution Center

⑥ Innovation Day 2011

History of Mori Seiki

MORI SEIKI THE MACHINE TOOL COMPANY *MORI SEIKI CO., LTD.*

1948		Started manufacturing and sales of textile machinery in Yamato-Koriyama City, Nara Prefecture
1958		Stopped producing textile machinery, and started manufacturing and sales of machine tools (high-speed precision lathes)
1960		Started export of high-speed precision lathes
1968		Started manufacture and sales of numerically controlled lathes
1970		Constructed Iga Plant and started operation
1976		Achieved No. 1 share in the NC lathe market in Japan
1981		Started manufacturing and sales of vertical machining centers
1982		Established Mori Seiki GmbH
1983		Started manufacturing and sales of horizontal machining centers
		Started full operations at Iga No. 1 Plant
1984		Introduced CAD
1986		Acquired Yoshida Machine Tool Co., Ltd., and transferred all Yoshida Steel Works employees to Mori Seiki
		Established Nara Plant at 362 Idono-cho, Yamato-Koriyama City and started operations
1992		Started operations at the Iga No. 2 Plant
1999	**June**	Acquired ISO9001 certification
2000	**May**	Started use of CAPS-NET
	October	Established Digital Technology Laboratory (DTL) in the United States
2001	**January**	Acquired ISO14001 certification
	May	Made Taiyo Koki Co., Ltd. a subsidiary
	November	Received the SME LEAD Award in the US, the first Japanese company to do so
2002	**October**	Renamed Mori Seiki Kosan as Mori Seiki Hitech Co., Ltd. and took over operations from Hitachi Seiki Started operations as part of the Mori Seiki Group
	November	Acquired OHSAS18001 certification
2003	**August**	Established Mori Seiki Mid-American Sales Inc. (started direct sales in America)
	September	The NV4000 DCG high-precision vertical machining center with newly developed DCG (Driven at the Center of Gravity)
		Started manufacture and sales of the NH4000 DCG high-precision horizontal machining center which uses DCG and DDM (Direct Drive Motor)
	October	Started operations at the Chiba Campus
2004	**June**	Started manufacturing and sales of the NL Series of high-rigidity, high-precision CNC lathes equipped with BMT (Built-in Motor Turret)
	October	Relocated the Head Office to Nagoya
2005	**May**	Started manufacturing and sales of the NT Series of high-precision, high-efficiency integrated mill turn centers equipped with ORC (Octagonal Ram Construction)
2006	**February**	Completed the Chiba Campus No. 2 Plant
	March	Completed the Iga Campus Casting Plant
2007	**January**	Purchased DIXI Machines in Switzerland
	April	Established Mori Seiki University
	May	Established Akishino Mold Laboratory, Ltd.
2008	**January**	Purchased Sandvik Tobler S.A.S. in France
	October	Business and Capital Collaboration with BUG Inc.
2009	**March**	Business and Capital Collaboration with Germany's GILDEMEISTER AG
	May	Opened the Tokyo Branch
	October	Started sales and service for DMG brand products in Japan
2010	**March**	Established Magnescale Co., Ltd.
	April	Started joint sales and service with GILDEMEISTER in U.S.A. and India
	July	Started joint sales and service with GILDEMEISTER in Philippines, Malaysia and Vietnam
	September	Launched the X class
2011	**March**	Subscribed for shares in GILDEMEISTER AG through an allocation of new shares to a third party, and subscribed for new shares in GILDEMEISTER AG
	April	Established Mori Seiki Sales and Service Co., Ltd. for domestic sales and service
	June	Established the DMG / MORI SEIKI Scholarship Fund
	September	Started accepting orders for MILLTAP 700, the next-generation compact machining center jointly developed with GILDEMEISTER AG
2012	**February**	Acquired Certification of Radiation Monitoring and Control Process
		Completed building the Bed/Column Precise Processing Plant at Iga Campus

Results Summary(Net Sales)

Sales Trends by Geographical Segment

In Japan, 55,078 million yen ($670,620 thousand) increased by 23.7% from the previous year.
In the Americas, 44,037 million yen ($536,186 thousand) increased by 48.3% from the previous year.
In Europe, 33,379 million yen ($406,417 thousand) increased by 28.8% from the previous year.
In China and Asia, 22,827 million yen ($277,937 thousand) increased by 12.5% from the previous year.

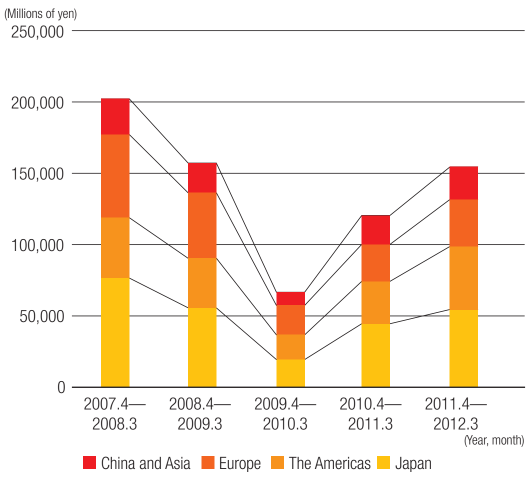
Sales to Third Parties

Sales to Third Parties based on the reportable segments in accordance with the new accounting standard which is applied for the year ended 31st March, 2012 are summarized as follows:

Fiscal Year	Japan	The Americas	Europe	China and Asia	TOTAL
2007.4.1—2008.3.31	¥ 76,716	¥ 42,068	¥ 58,104	¥ 25,372	**¥ 202,260**
2008.4.1—2009.3.31	¥ 55,205	¥ 34,700	¥ 46,359	¥ 20,939	**¥ 157,203**
2009.4.1—2010.3.31	¥ 19,086	¥ 17,398	¥ 20,577	¥ 9,342	**¥ 66,403**
2010.4.1—2011.3.31	¥ 44,531	¥ 29,696	¥ 25,912	¥ 20,289	**¥ 120,428**
2011.4.1—2012.3.31	¥ 55,078	¥ 44,037	¥ 33,379	¥ 22,827	**¥ 155,321**
	$ 670,620	$ 536,186	$ 406,417	$ 277,937	**$ 1,891,160**

(Millions of yen / Thousands of U.S. dollars)

Trends in sales to third parties



(Note)

The accompanying U.S. dollars in the above have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥82.13 = U.S. $1.00, the exchange rate prevailing on 31st March, 2012.

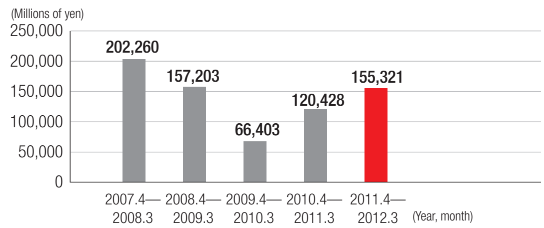
Results Summary(Business Results and Financial Situation)

Business results

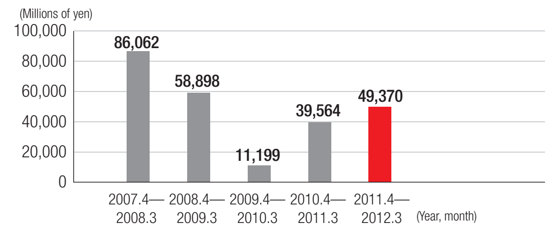
For the fiscal year 2011, net sales were 155,321 million yen ($1,891,160 thousand) increased by 29.0% from the previous fiscal year, operating income was 6,789 million yen ($82,662 thousand: operating income was 320 million yen in the previous fiscal year), and net income was 5,620 million yen ($68,428 thousand: net income was 1,308 million yen in the previous fiscal year).

	Millions of yen					Thousands of U.S. dollars
Fiscal Year	2011.4—2012.3	2010.4—2011.3	2009.4—2010.3	2008.4—2009.3	2007.4—2008.3	2011.4—2012.3
Net sales	¥ 155,321	¥ 120,428	¥ 66,403	¥ 157,203	¥ 202,260	$ 1,891,160
Cost of sales	105,951	80,864	55,204	98,305	116,198	1,290,040
Gross profit	49,370	39,564	11,199	58,898	86,062	601,120
Selling, general and administrative expenses	42,581	39,244	38,132	52,976	54,759	518,458
Operating income (loss)	6,789	320	(26,933)	5,922	31,303	82,662
Income (loss) before income taxes and minority interests	6,702	1,185	(34,641)	1,282	27,708	81,602
Income taxes						
Current	917	199	739	1,728	12,895	11,165
Prior year	–	–	–	–	254	–
Deferred	(111)	(290)	56	1,428	(1,592)	(1,351)
	806	(91)	795	3,156	11,557	(9,814)
Income (Loss) before minority interests	5,896	1,276	(35,436)	(1,874)	16,151	71,788
Minority interests in net income(loss) of consolidated subsidiaries	276	(32)	(743)	279	176	3,360
Net income (loss)	¥ 5,620	¥ 1,308	¥ (34,693)	¥ (2,153)	¥ 15,975	$ 68,428

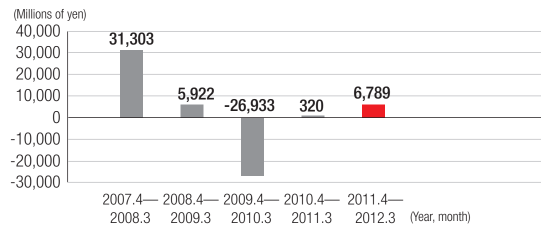
Net sales (Five years)



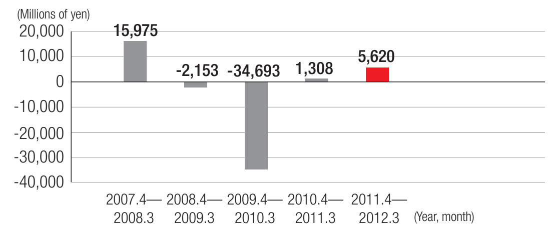
Gross profit (Five years)



Operating income (Five years)



Net income (Five years)



Results Summary(Financial Situation)

Assets, liabilities and net assets

- Assets

Current assets decreased by 0.2% compared to the previous fiscal year to 86,029 million yen ($1,047,473 thousand). Fixed assets increased by 15.9% compared to the previous fiscal year to 99,390 million yen ($1,210,155 thousand). That was mainly because investments in securities increased by 12,939 million yen ($157,547 thousand). As a result, total assets increased by 7.8% compared to the previous fiscal year to 185,419 million yen ($2,257,628 thousand).

- Liabilities

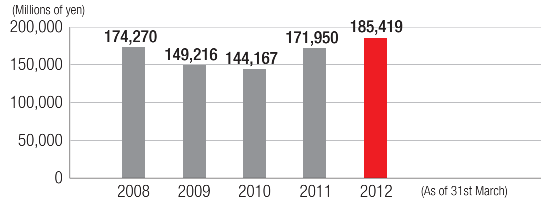
Current liabilities decreased by 19.9% compared to the previous fiscal year to 53,094 million yen ($646,463 thousand). That was mainly because short-term bank loans decreased by 16,394 million yen ($199,610 thousand). Fixed liabilities increased by 264.5% compared to the previous fiscal year to 37,607 million yen ($457,896 thousand). That was mainly due to an increase of 30,000 million yen ($365,275 thousand) in Bonds payable. As a result, total liabilities increased by 18.4% compared to the previous fiscal year to 90,701 million yen ($1,104,359 thousand).

- Net assets

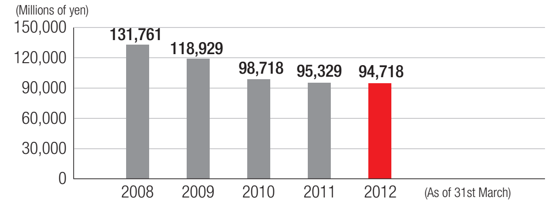
Total net assets decreased by 0.6% compared to the previous fiscal year to 94,718 million yen ($1,153,269 thousand). The major reason for the decrease was that of 3,343 million yen ($40,704 thousand) in translation adjustments, we paid cash dividend of 2,212 million yen ($26,933 thousand) while posting a net income of 5,620 million yen ($68,428 thousand) and increase of 1,197 million yen ($14,575 thousand) in treasury stock.

	Millions of yen					Thousands of U.S. dollars
	31st March,					31st March,
	2012	**2011**	**2010**	**2009**	**2008**	**2012**
Current assets:						
Cash and deposits	**¥ 4,550**	¥ 7,418	¥ 7,516	¥ 14,453	¥ 17,984	**$ 55,400**
Notes and accounts receivable:						
Trade	**31,736**	32,086	16,666	16,634	38,428	**386,412**
Allowance for doubtful receivables	**(200)**	(139)	(115)	(139)	(127)	**(2,435)**
Notes and accounts receivable, net	**31,536**	31,947	16,551	16,495	38,301	**383,977**
Inventories	**43,273**	38,838	33,061	37,915	38,745	**526,884**
Deferred income taxes	**2,158**	2,062	534	1,714	3,281	**26,275**
Other current assets	**4,512**	5,913	5,072	8,196	3,665	**54,937**
Total current assets	**86,029**	86,178	62,734	78,773	101,976	**1,047,473**
Property, plant and equipment, net	**55,562**	54,421	57,657	54,540	53,809	**676,513**
Investments and other assets:						
Total investments in securities	**36,417**	23,585	13,030	8,672	11,687	**443,407**
Deferred income taxes	**370**	374	1,569	284	1,115	**4,505**
Other assets, net	**7,041**	7,392	9,177	6,947	5,683	**85,730**
Total investments and other assets	**43,828**	31,351	23,776	15,903	18,485	**533,642**
Total assets	**185,419**	171,950	144,167	149,216	174,270	**2,257,628**
Current liabilities:						
Short-term bank loans	**28,778**	45,172	18,550	10,298	696	**350,396**
Current portion of long-term debt	**2,917**	278	271	16	–	**35,517**
Accounts payable, trade	**10,702**	11,451	6,087	3,374	11,517	**130,306**
Accrued income taxes	**323**	231	645	1,371	11,407	**3,933**
Deferred income taxes	**47**	16	36	114	79	**572**
Allowance for product warranties	**838**	915	845	1,192	1,555	**10,203**
Allowance for bonuses to directors and corporate auditors	**42**	–	–	25	164	**511**
Allowance for bonuses to employees	**196**	124	235	–	–	**2,386**
Other current liabilities	**9,251**	8,117	8,314	7,952	11,734	**112,639**
Total current liabilities	**53,094**	66,304	34,983	24,342	37,152	**646,463**
Long-term liabilities:						
Long-term debt	**33,882**	6,567	6,825	2,665	2,583	**412,542**
Deferred income taxes	**1,419**	1,387	1,228	939	643	**17,277**
Deferred income taxes on land revaluation reserve	**1,485**	1,699	1,699	1,699	1,699	**18,081**
Accrued retirement benefits	**342**	309	312	642	–	**4,164**
Asset retirement obligations	**64**	62	–	–	–	**779**
Other long-term liabilities	**415**	293	402	–	432	**5,053**
Total long-term liabilities	**37,607**	10,317	10,466	5,945	5,357	**457,896**
Total net assets	**94,718**	95,329	98,718	118,929	131,761	**1,153,269**
Total liabilities and net assets	**¥ 185,419**	¥ 171,950	¥ 144,167	¥ 149,216	¥ 174,270	**$ 2,257,628**

Total assets (Five years)



Total net assets (Five years)



Results Summary(Cash flow)

Cash flow

Cash and cash equivalents at the end of the fiscal year 2011 were 4,533 million yen ($55,193 thousand), a decrease of 2,881 million yen ($35,079 thousand) from the previous fiscal year.

Cash flows from operating activities

Net cash provided in operating activities was 8,617 million yen ($104,919 thousand: 10,240 million yen was used in the previous fiscal year).

The main increasing factors are 6,702 million ($81,602 thousand) and 7,185 million yen ($87,483 thousand) income before income taxes and minority interests and depreciation and amortization, and 1,461 million yen ($17,789 thousand) decrease in accounts receivable. The main decreasing factors are an increase in inventories respectively of 8,369 million yen ($101,899 thousand) and 3,257 million yen ($39,657 thousand) decrease in gain on charge in investments in subsidiaries.

Cash flows from investing activities

Net cash used in investing activities was 22,080 million yen ($268,842 thousand: 14,055 million yen was used in the previous fiscal year). This is mainly due to proceeds from transfer of business of 1,132 million yen ($13,783 thousand), purchase of stocks of subsidiaries and affiliates of 11,655 million yen ($141,909 thousand), and purchase of tangible fixed assets of 8,209 million yen ($99,951 thousand).

Cash flows from financing activities

Net cash provided in financing activities was 10,873 million yen ($132,388 thousand: 24,107 million yen was provided in the previous fiscal year). The main decreasing reason is net decrease in short-term bank loans of 16,394 million yen ($199,610 thousand) and cash dividends of 2,212 million yen ($26,933 thousand).

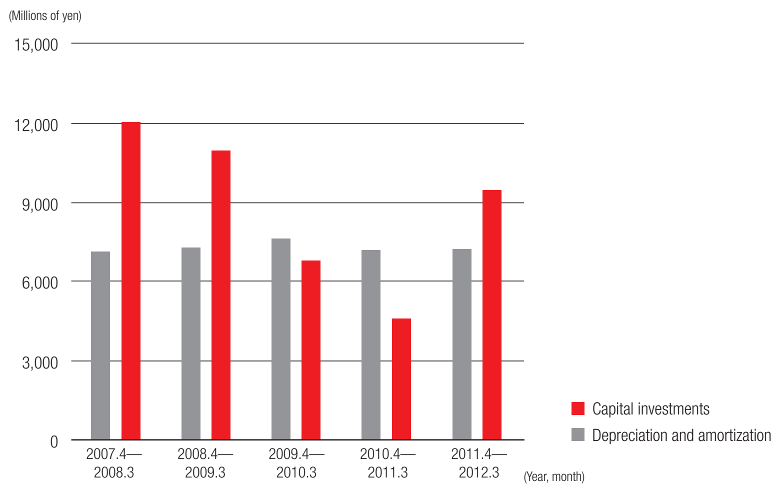
	Millions of yen		Thousands of U.S. dollars
	31st March,		31st March,
	2012	**2011**	**2012**
Cash flows from operating activities	**¥ 8,617**	¥ (10,240)	**$ 104,919**
Cash flows from investing activities	**(22,080)**	(14,055)	**(268,842)**
Cash flows from financing activities	**10,873**	24,107	**132,388**
Cash and cash equivalents at the end of the fiscal year	**4,533**	7,414	**55,193**

Depreciation, and Amortization in Property, Plant and Equipment, Net Income(loss) and Capital Investments

Total depreciation and amortization for the fiscal year 2011 was 7,185 million yen ($87,483 thousand), increased by 13 million yen ($158 thousand). Furthermore, total amount of investments in property, plant and equipment was 9,500 million yen ($115,670 thousand) mainly because of construction such as a new machining plant in Japan, partial renewal and enhancement of productive equipments.

Fiscal Year	Depreciation and amortization	Net income (loss)	Capital investments
2007.4—2008.3	¥ 7,130	¥ 15,975	¥ 12,041
2008.4—2009.3	¥ 7,290	¥ (2,153)	¥ 10,960
2009.4—2010.3	¥ 7,629	¥ (34,693)	¥ 6,800
2010.4—2011.3	¥ 7,172	¥ 1,308	¥ 4,581
2011.4—2012.3	**¥ 7,185**	**¥ 5,620**	**¥ 9,500**
	$ 87,483	**$ 68,428**	**$ 115,670**

(Millions of yen / Thousands of U.S. dollars)



(Note)

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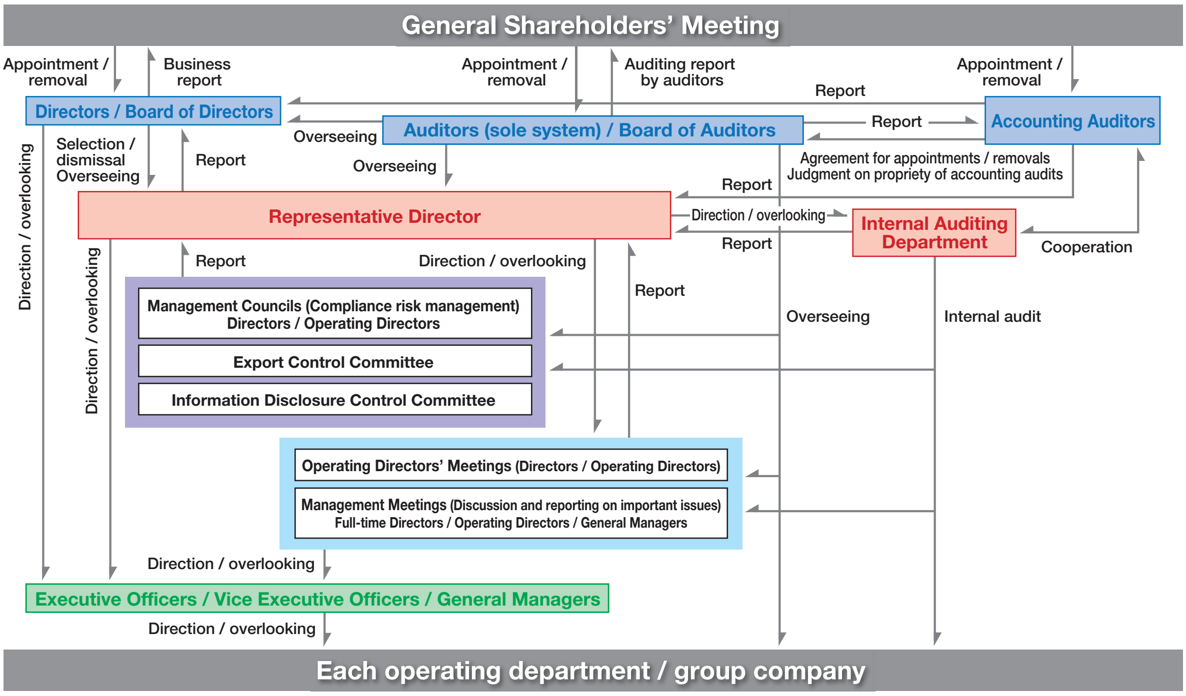
Corporate Governance

(1) Basic Concept for Corporate Governance

In order to increase the transparency of management for shareholders, investors, and society as a whole, including business partners, employees and local communities; and to ensure fair, effective corporate management, Mori Seiki has identified the reinforcement of its corporate governance and the strengthening of its management oversight functions as its top priority.
We will continue to improve our corporate values for long-term stability, and will endeavor to ensure that our business activities are rooted in an even greater sense of corporate ethics.

(2) Outline of the system of corporate governance, and reason for adopting the system of corporate governance

Mori Seiki has adopted an auditing system.
As of 15th June, 2012, the Board of Directors consists of five Directors and the Board of Auditors consists of three auditors, two of whom are external auditors.
The Board of Directors meets regularly and whenever necessary to debate important management issues, and to make decisions through lively discussions in which directors state their opinions freely. Also, by making the term served by Board members to one year, we have a system in which the mission and responsibilities of the Directors are made clear. We instituted Management Councils with the President as Chairman in 2006, and Operating Directors' Meetings in 2009 to speed up the decision-making process and to improve the soundness of our administration. In addition, Management Meetings attended by the Directors, Operating Directors and General Managers are convened once a month to completely share and manage the progress on important issues and basic strategies, strengthening the corporate governance of the Group as a whole.
In recent years, international concern about measures to prevent the proliferation of weapons of mass destruction and the excess stockpiling of conventional weapons has been growing. To address this, the Mori Seiki Group has set up an Export Control Committee, with the President as chairperson. This committee formulates the internal regulations (Compliance Program), reviews and changes the contents of the regulations to ensure compliance with export control laws, and conducts rigorous discussions on matters such as the propriety of exports of our products.
In 2005, as part of the establishment of our internal control system, we established an Information Disclosure Control Committee, with the Executive Officer of the Administrative HQ as its chairperson, which acts as an advisory body to decide rules for the disclosure of information, in order to improve the transparency and soundness of our management.
In accordance with the auditing policy, the auditors attend meetings of the Board of Directors, Operating Directors' Meetings, Management Meetings and other key meetings, where they express their opinions. In addition to this, they peruse documents about important decisions, and conduct strict audits in every department at the Head Office, as well as each Campus, Technical Center and consolidated Group company.
Through this process we have sought to achieve a fast decision-making process with a small number of Directors and energize the Board of Directors, we have revamped our management by, for example, establishing a compliance system, and we have established an efficient corporate governance system with an increased level of fairness and transparency in management.
The corporate governance system of Mori Seiki is as follows.



(3) Maintenance of an internal control system and risk management system

Mori Seiki implements the following "Basic Policy on Internal Controls" decided by the Board of Directors.

• A system to ensure that the business conduct of Directors and employees conforms to all relevant laws and articles.

Mori Seiki clarifies the criteria for the actual behavior of its Directors, Operating Directors and managerial staff through the mission statement, the 10 tenets of the "Mori Seiki Way", the employee handbook, the export control program, and all of the codes of conduct, stipulations and rules relating to the environment, occupational health and safety, quality management systems and so on.

We have established a Management Council chaired by the President, and this council serves as a mechanism for putting these behavioral codes of conduct in order, promoting compliance, educating the managerial staff, and taking cross-sectional control.

We deal undaunted as an organization with organized violence by antisocial groups, and the basic policy behind our approach is to eradicate antisocial power.

• A system for the storage and management of information concerning the business conduct of Directors

Mori Seiki manages and saves the information on daily decision making and business conduct obtained through the minutes of general meetings of shareholders, the minutes of Board of Directors Meetings, the minutes of Management Councils, the minutes of Operating Directors' Meetings, the minutes of Management Meetings, and the internal electronic decision-making system. The Directors and Auditors can view this information either in document form or in electromagnetic media at all times.

We have provided "regulations on the storage and management of information concerning the business conduct of Directors", and have clarified the system for the storage and management of information concerning business conduct.

Corporate Governance

•Regulations to manage risks of loss, and other systems

Mori Seiki practices environmental/occupational health and safety/quality risk management in accordance with a management system, risk management relating to the reliability of financial reports, risk management in accordance with the export control program, and risk management in daily business in accordance with the internal electronic decision-making system.
We established a Management Council chaired by the President, where the President appoints the Director with overall responsibility and the Director with responsibility in each category, and we are working to build a system where this council comprehensively and generally manages risk throughout the Group as a whole.

•A system to ensure that the Directors' business is conducted efficiently

Mori Seiki seeks to make the conduct of the Directors' business more efficient by using the following business management system. We have also introduced an Operating Director system in order to support Directors and facilitate fast decision making and efficient conduct of business.

1) Fast decision making using the internal electronic decision-making system
2) Reports on conduct of Directors, Operating Directors and executives in Board of Directors Meetings, Management Councils, Operating Directors' Meetings and Management Meetings and monitoring of the execution of duties by Auditors
3) Drafting the medium-term management plan according to Board of Directors Meetings, Management Councils, Operating Directors' Meetings and Management Meetings, setting the business result targets and budgets for each operating department based on the medium-term management plan, and implementing business result management on a monthly and quarterly basis by utilizing IT
4) Reviewing business results on a monthly basis through Board of Directors Meetings, Management Councils, Operating Directors' Meetings and Management Meetings, and implementing strategies for improvement

•A system to ensure that the corporate group consisting of Mori Seiki and its affiliated companies conducts business in an appropriate manner

Mori Seiki ascertains and assures the propriety of the business of its subsidiaries and affiliates through the internal electronic decision-making system, use of the weekly report system and various scheduled meetings on a consolidated basis, regular and random visits by the President and responsible Directors, and periodic internal auditing of subsidiaries.
With Mori Seiki's Administrative HQ and Accounting/Finance HQ as the departments responsible for the internal control of the Group, we are making progress with consultation and sharing information about internal controls among Mori Seiki and each of the companies in the group, and building a constitution, including systems for efficiently transmitting directions and requests.

•Matters concerning employees who were appointed by auditors to assist them with their duties and the independence of these employees from Directors

Mori Seiki currently has one staff member assisting the Auditors. Personnel changes, evaluations, etc. of the assisting staff member must be agreed to by the Auditors, and exchanges of opinions with Auditors are held periodically in order to achieve a system in which the audits are more effective and in which their independence is assured.

•A system in which Directors and employees report to the auditors, and systems for other reports to the auditors

At Mori Seiki, the Auditors attend important regular meetings including the Board of Directors Meetings, Management Councils, Operating Directors' Meetings, and Management Meetings, listen to the decisions and reports, and, if necessary, request a report from the Directors, Operating Directors or managerial staff.
The Directors, Operating Directors and managerial staff must immediately report any fact that could significantly harm the company to the Board of Auditors or the Auditors upon discovery of the fact, and the "regulations to ensure effectiveness of audits conducted by the Auditors" have been prepared to make the details of these regulations clear. It shall also be understood that the Board of Auditors, or the Auditors, can request reports from the Directors, Operating Directors or managerial staff.

•**A system to ensure that other audits conducted by the Auditors are carried out effectively**

At Mori Seiki, the Board of Auditors, or the Auditors, have regular and temporary exchanges of opinion with both the President and the Accounting Auditors.

We will continue to maintain this system as we look ahead.

(4) Status of the internal audit and the audit conducted by the Auditors

As part of our internal audit, we have set up an Internal Auditing Department with three full-time working staff, under the direct supervision of the President, which checks that the business operations of the Mori Seiki Group are conducted appropriately and effectively. Regarding our adoption of a system of internal control and reporting (with reference to the "J-SOX" Act, Japan's equivalent of the Sarbanes-Oxley Act), we established the J-SOX Section in the Internal Auditing Department in October 2005 prior to the approval of the bill, promoted the construction of an internal control system, and we have already completed preparations for reliably operating this system within the Group both in Japan and overseas.

With regard to the audit conducted by the Auditors, currently the Board of Auditors is comprised of one Corporate Auditor and two External Auditors who attend the Board of Directors Meetings, Operating Directors' Meetings and Management Meetings in accordance with the policy determined by the Board of Auditors and the auditing plan, and hear the status of execution of relevant work from the Directors, Operating Directors, Internal Auditing Department and so on. They also peruse documents about important decisions, and examine the status of work and assets in every department at the Head Office, as well as each Campus, Technical Center and consolidated Group company.

The Auditors provide guidance for and auditing of the Directors on matters involving corporate governance, compliance, risk management, and overall business management.

The Auditors and the Internal Auditing Department cooperate closely with each other, and the Internal Auditing Department provides the Auditors with regular reports about the status of internal controls.

The Auditors, Internal Auditing Department, and Accounting Auditors make conscientious effort in conducting proper and strict accounting audits by holding meetings every quarter and whenever necessary to actively exchange their opinions and information.

(5) External Directors and External Auditors

Mori Seiki has two External Auditors.

The External Auditors have no special financial interest in relation to Mori Seiki, whether in terms of personal/business relations, trade or otherwise, and maintain a highly independent status.

Each of the External Auditors debate and decide the auditing policy, the auditing plan, the auditing method, and the allocation of duties, in the Board of Auditors in cooperation with the Corporate Auditor, and auditing is implemented throughout the year based on this. They also exchange opinions regularly with the top management and Directors, and conduct audits by visiting actual sites such as plants and group companies. Information is shared with the Accounting Auditor by holding regular meetings.

Mori Seiki has sought to secure a robust auditing system with a team of three Auditors including two External Auditors, and has strengthened monitoring of the management functions. The two External Auditors are designated as Independent Directors, and in our judgment implementing the auditing from an independent and fair standpoint by External Auditors gives us a governance system that functions adequately to secure objectivity and neutrality without appointing External Directors. Therefore, we are maintaining the present system.

Financial Section

Consolidated Balance Sheets

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	**2011**	**2012**
Current assets:			
Cash and cash deposits *(Notes 4 and 19)*	**¥ 4,550**	¥ 7,418	**$ 55,400**
Notes and accounts receivable *(Note 19)*:			
Trade	**31,736**	32,086	**386,412**
Allowance for doubtful receivables	**(200)**	(139)	**(2,435)**
Notes and accounts receivable, net	**31,536**	31,947	**383,977**
Marketable securities *(Notes 6 and 19)*	**102**	101	**1,242**
Inventories *(Note 5)*	**43,273**	38,838	**526,884**
Deferred income taxes *(Note 10)*	**2,158**	2,062	**26,275**
Other current assets	**4,410**	5,812	**53,695**
Total current assets	**86,029**	86,178	**1,047,473**
Property, plant and equipment *(Note 7)*:			
Land *(Note 13)*	**18,718**	18,340	**227,907**
Buildings and structures	**66,438**	66,320	**808,937**
Machinery, equipment and vehicles	**35,491**	33,531	**432,132**
Leased assets *(Notes 18 and 23)*	**4,897**	4,699	**59,625**
Construction in progress	**1,371**	476	**16,693**
	126,915	123,366	**1,545,294**
Accumulated depreciation	**(71,353)**	(68,945)	**(868,781)**
Property, plant and equipment, net *(Note 25)*	**55,562**	54,421	**676,513**
Investments and other assets:			
Investments in securities *(Notes 6, 19 and 26)*:			
Unconsolidated subsidiaries and affiliates	**25,784**	1,595	**313,941**
Other	**10,633**	21,990	**129,466**
Total investments in securities	**36,417**	23,585	**443,407**
Deferred income taxes *(Note 10)*	**370**	374	**4,505**
Other assets:			
Goodwill *(Note 25)*	**1,066**	1,576	**12,979**
Other *(Note 20)*	**5,975**	5,816	**72,751**
Total other assets	**7,041**	7,392	**85,730**
Total investments and other assets	**43,828**	31,351	**533,642**
Total assets *(Note 25)*	**¥ 185,419**	¥ 171,950	**$ 2,257,628**

See accompanying notes to consolidated financial statements.

(Note)

The consolidated financial statements have been translated from yen amounts into U.S. dollar amounts, solely for convenience, as a matter of arithmetic computation only, at ¥82.13 = U.S.$1.00, the exchange rate prevailing on 31st March, 2012.

Consolidated Balance Sheets

Liabilities

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Current liabilities:			
Short-term bank loans *(Notes 9 and 19)*	**¥ 28,778**	¥ 45,172	**$ 350,396**
Current portion of long-term debt *(Note 9)*	**2,917**	278	**35,517**
Accounts payable, trade *(Note 19)*	**10,702**	11,451	**130,306**
Accrued income taxes *(Note 10)*	**323**	231	**3,933**
Accrued expenses	**1,690**	1,734	**20,577**
Deferred income taxes *(Note 10)*	**47**	16	**572**
Advances received	**981**	1,337	**11,945**
Allowance for product warranties	**838**	915	**10,203**
Allowance for bonuses to employees	**196**	124	**2,386**
Allowance for bonuses to directors and corporate auditors	**42**	–	**511**
Other current liabilities	**6,580**	5,046	**80,117**
Total current liabilities	**53,094**	66,304	**646,463**
Long-term liabilities:			
Long-term debt *(Notes 9 and 19)*	**33,882**	6,567	**412,542**
Deferred income taxes *(Note 10)*	**1,419**	1,387	**17,277**
Deferred income taxes on land revaluation reserve *(Notes 10 and 13)*	**1,485**	1,699	**18,081**
Accrued retirement benefits *(Note 8)*	**342**	309	**4,164**
Asset retirement obligations *(Notes 11 and 23)*	**64**	62	**779**
Other long-term liabilities	**415**	293	**5,053**
Total long-term liabilities	**37,607**	10,317	**457,896**
Contingent liabilities *(Note 14)*			
Net assets			
Shareholders' equity *(Note 12)*:			
Common stock:			
Authorized – 200,000,000 shares in 2012 and 2011			
Issued – 118,475,312 shares in 2012 and 2011	**41,132**	41,132	**500,816**
Capital surplus	**53,863**	53,863	**655,826**
Retained earnings *(Note 27)*	**15,313**	11,911	**186,448**
Treasury stock, at cost *(Note 12)*			
9,090,403 shares in 2012			
7,893,507 shares in 2011	**(11,743)**	(10,545)	**(142,981)**
Total shareholders' equity	**98,565**	96,361	**1,200,109**
Accumulated other comprehensive income (loss) *(Note 22)*:			
Net unrealized holding gain on securities *(Notes 6 and 10)*	**2,133**	1,463	**25,971**
Net unrealized gain on derivative instruments	**105**	476	**1,279**
Land revaluation reserve *(Notes 10 and 13)*	**1,759**	1,545	**21,417**
Translation adjustments	**(9,332)**	(5,989)	**(113,625)**
Accumulated other comprehensive loss, net	**(5,335)**	(2,505)	**(64,958)**
Stock acquisition rights *(Note 12)*	**466**	469	**5,674**
Minority interests	**1,022**	1,004	**12,444**
Total net assets	**94,718**	95,329	**1,153,269**
Total liabilities and net assets	**¥ 185,419**	¥ 171,950	**$ 2,257,628**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net sales *(Notes 25 and 26)*	**¥ 155,321**	¥ 120,428	**$ 1,891,160**
Cost of sales *(Notes 8, 12 and 15)*	**105,951**	80,864	**1,290,040**
Gross profit	**49,370**	39,564	**601,120**
Selling, general and administrative expenses *(Notes 8, 12 and 16)*	**42,581**	39,244	**518,458**
Operating income *(Notes 25 and 26)*	**6,789**	320	**82,662**
Other income (expenses):			
Interest and dividend income	**286**	225	**3,482**
Interest expense	**(543)**	(421)	**(6,611)**
Loss on revaluation of investments in securities *(Note 6)*	**(201)**	(497)	**(2,447)**
Foreign exchange gain, net	**49**	891	**597**
(Loss) gain on sales and disposal of property plant and equipment, net	**(73)**	108	**(889)**
Loss on impairment of property, plant and equipment *(Notes 7 and 25)*	**(4)**	–	**(49)**
Equity in loss of affiliates	**(265)**	(328)	**(3,227)**
Business restructuring expenses *(Notes 15 and 20)*	**(2,222)**	(282)	**(27,055)**
Gain on reversal of stock acquisition rights *(Note 12)*	**8**	1,406	**97**
Gain on business transfer *(Note 26)*	**576**	–	**7,013**
Gain on liquidation of a subsidiary	**135**	–	**1,644**
Gain on change in equity in investments in subsidiaries *(Note 26)*	**3,257**	–	**39,657**
Loss on disaster *(Note 15)*	**(600)**	(88)	**(7,305)**
Retirement benefit expenses *(Note 8)*	**(88)**	–	**(1,071)**
Other, net	**(402)**	(149)	**(4,896)**
Income before income taxes and minority interests	**6,702**	1,185	**81,602**
Income taxes *(Note 10)*:			
Current	**917**	199	**11,165**
Deferred	**(111)**	(290)	**(1,351)**
	806	(91)	**9,814**
Income before minority interests	**5,896**	1,276	**71,788**
Minority interests in net income (loss) of consolidated subsidiaries	**276**	(32)	**3,360**
Net income	**¥ 5,620**	¥ 1,308	**$ 68,428**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Income before minority interests	**¥ 5,896**	¥ 1,276	**$ 71,788**
Other comprehensive income (loss):			
Land revaluation reserve	**214**	–	**2,606**
Net unrealized holding gain (loss) on securities *(Note 6)*	**1,116**	(289)	**13,588**
Net unrealized loss on derivative instruments	**(476)**	(468)	**(5,796)**
Translation adjustments	**(92)**	(766)	**(1,120)**
Share of other comprehensive (loss) income of affiliates accounted for by the equity method	**(3,006)**	20	**(36,600)**
Other comprehensive loss, net	**(2,244)**	(1,503)	**(27,322)**
Comprehensive income (loss)	**¥ 3,652**	¥ (227)	**$ 44,466**
Comprehensive income (loss) attributable to:			
Shareholders of the Company	**¥ 3,400**	¥ (190)	**$ 41,398**
Minority shareholders of consolidated subsidiaries	**252**	(37)	**3,068**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

	Number of shares of common stock in issue	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities
Balance at 1st April, 2010	118,475,312	¥ 41,132	¥ 53,863	¥ 12,821	¥ (10,544)	¥ 1,750
Net income	–	–	–	1,308	–	–
Cash dividends	–	–	–	(2,212)	–	–
Purchases of treasury stock	–	–	–	–	(1)	–
Sales of treasury stock	–	–	(0)	–	0	–
Decrease resulting from initial consolidation of subsidiaries	–	–	–	(6)	–	–
Net changes of items other than shareholders' equity	–	–	–	–	–	(287)
Balance at 1st April, 2011	**118,475,312**	**41,132**	**53,863**	**11,911**	**(10,545)**	**1,463**
Net income	**–**	**–**	**–**	**5,620**	**–**	**–**
Cash dividends	**–**	**–**	**–**	**(2,212)**	**–**	**–**
Purchases of treasury stock	**–**	**–**	**–**	**–**	**(1)**	**–**
Sales of treasury stock	**–**	**–**	**(0)**	**–**	**0**	**–**
Decrease resulting from initial consolidation of subsidiaries	**–**	**–**	**–**	**(6)**	**–**	**–**
Increase resulting from initial application of equity method accounting	**–**	**–**	**–**	**–**	**(1,197)**	**–**
Net changes of items other than shareholders' equity	**–**	**–**	**–**	**–**	**–**	**670**
Balance at 31st March, 2012	**118,475,312**	**¥ 41,132**	**¥ 53,863**	**¥ 15,313**	**¥ (11,743)**	**¥ 2,133**

	Millions of yen					
	Net unrealized gain on derivative instruments	Land revaluation reserve	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at 1st April, 2010	¥ 944	¥ 1,545	¥ (5,242)	¥ 1,534	¥ 915	¥ 98,718
Net income	–	–	–	–	–	1,308
Cash dividends	–	–	–	–	–	(2,212)
Purchases of treasury stock	–	–	–	–	–	(1)
Sales of treasury stock	–	–	–	–	–	0
Decrease resulting from initial consolidation of subsidiaries	–	–	–	–	–	(6)
Net changes of items other than shareholders' equity	(468)	–	(747)	(1,065)	89	(2,478)
Balance at 1st April, 2011	**476**	**1,545**	**(5,989)**	**469**	**1,004**	**95,329**
Net income	**–**	**–**	**–**	**–**	**–**	**5,620**
Cash dividends	**–**	**–**	**–**	**–**	**–**	**(2,212)**
Purchases of treasury stock	**–**	**–**	**–**	**–**	**–**	**(1)**
Sales of treasury stock	**–**	**–**	**–**	**–**	**–**	**0**
Decrease resulting from initial consolidation of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(6)**
Increase resulting from initial application of equity method accounting	**–**	**–**	**–**	**–**	**–**	**(1,197)**
Net changes of items other than shareholders' equity	**(371)**	**214**	**(3,343)**	**(3)**	**18**	**(2,815)**
Balance at 31st March, 2012	**¥ 105**	**¥ 1,759**	**¥ (9,332)**	**¥ 466**	**¥ 1,022**	**¥ 94,718**

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities
Balance at 1st April, 2011	**$ 500,816**	**$ 655,826**	**$ 145,026**	**$ (128,394)**	**$ 17,813**
Net income	**–**	**–**	**68,428**	**–**	**–**
Cash dividends	**–**	**–**	**(26,933)**	**–**	**–**
Purchases of treasury stock	**–**	**–**	**–**	**(12)**	**–**
Sales of treasury stock	**–**	**(0)**	**–**	**0**	**–**
Decrease resulting from initial consolidation of subsidiaries	**–**	**–**	**(73)**	**–**	**–**
Increase resulting from initial application of equity method accounting	**–**	**–**	**–**	**(14,575)**	**–**
Net changes of items other than shareholders' equity	**–**	**–**	**–**	**–**	**8,158**
Balance at 31st March, 2012	**$ 500,816**	**$ 655,826**	**$ 186,448**	**$ (142,981)**	**$ 25,971**

	Thousands of U.S. dollars (Note 1)					
	Net unrealized gain on derivative instruments	Land revaluation reserve	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at 1st April, 2011	**$ 5,796**	**$ 18,812**	**$ (72,921)**	**$ 5,710**	**$ 12,225**	**$ 1,160,709**
Net income	**–**	**–**	**–**	**–**	**–**	**68,428**
Cash dividends	**–**	**–**	**–**	**–**	**–**	**(26,933)**
Purchases of treasury stock	**–**	**–**	**–**	**–**	**–**	**(12)**
Sales of treasury stock	**–**	**–**	**–**	**–**	**–**	**0**
Decrease resulting from initial consolidation of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(73)**
Increase resulting from initial application of equity method accounting	**–**	**–**	**–**	**–**	**–**	**(14,575)**
Net changes of items other than shareholders' equity	**(4,517)**	**2,605**	**(40,704)**	**(36)**	**219**	**(34,275)**
Balance at 31st March, 2012	**$ 1,279**	**$ 21,417**	**$ (113,625)**	**$ 5,674**	**$ 12,444**	**$ 1,153,269**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Operating activities:			
Income before income taxes and minority interests	¥ 6,702	¥ 1,185	$ 81,602
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	7,185	7,172	87,483
Loss on impairment of property, plant and equipment	4	–	49
Loss (gain) on sales and disposal of property, plant and equipment, net	73	(108)	889
Loss on revaluation of investments in securities	201	497	2,447
Equity in loss of affiliates	265	328	3,227
Business restructuring expenses	2,222	282	27,055
Gain on reversal of stock acquisition rights	(8)	(1,406)	(97)
Bond issuance cost	148	–	1,802
Gain on business transfer	(576)	–	(7,013)
Gain on change in equity in investments in subsidiaries	(3,257)	–	(39,657)
Increase (decrease) in allowance for bonuses to employees	72	(111)	877
Increase in allowance for bonuses to directors and corporate auditors	42	–	511
Increase in allowance for doubtful receivables	79	31	962
Increase in accrued retirement benefits	133	2	1,619
(Decrease) increase in allowance for product warranties	(77)	69	(938)
Interest and dividend income	(286)	(225)	(3,482)
Interest expense	543	421	6,611
Foreign exchange loss, net	610	911	7,427
Changes in operating assets and liabilities:			
Notes and accounts receivable	1,461	(16,093)	17,789
Inventories	(8,369)	(6,515)	(101,899)
Accounts payable	(786)	5,454	(9,570)
Other, net	3,403	(216)	41,434
Subtotal	9,784	(8,322)	119,128
Interest and dividend income received	286	226	3,482
Interest paid	(539)	(425)	(6,563)
Business restructuring expenses paid	–	(1,183)	–
Income taxes paid	(914)	(536)	(11,128)
Net cash provided by (used in) operating activities	8,617	(10,240)	104,919
Investing activities:			
Purchases of property, plant and equipment	(8,209)	(3,360)	(99,951)
Proceeds from sales of property, plant and equipment	273	1,218	3,324
Increase in investments in securities	(60)	(10,548)	(731)
Increase in investments in affiliates	(11,655)	(1,015)	(141,909)
Proceeds from business transfer *(Note 23)*	1,132	–	13,783
Expenditures for business divestiture *(Note 23)*	(1,505)	–	(18,325)
Acquisition of shares from minority interests in consolidated subsidiaries	(234)	–	(2,849)
Acquisition of shares of subsidiaries resulting in change in scope of consolidation	(50)	–	(609)
Purchases of intangible assets	(1,813)	(800)	(22,075)
Other, net	41	450	500
Net cash used in investing activities	(22,080)	(14,055)	(268,842)
Financing activities:			
(Decrease) increase in short-term bank loans, net	(16,394)	26,623	(199,610)
Proceeds from issuance of bonds	29,852	–	363,473
Cash dividends	(2,212)	(2,212)	(26,933)
Other, net	(373)	(304)	(4,542)
Net cash provided by activities	10,873	24,107	132,388
Effect of exchange rate changes on cash and cash equivalents	(293)	86	(3,568)
Decrease in cash and cash equivalents	(2,883)	(102)	(35,103)
Cash and cash equivalents at beginning of year	7,414	7,256	90,272
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	94	260	1,144
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(92)	–	(1,120)
Cash and cash equivalents at end of year *(Note 4)*	¥ 4,533	¥ 7,414	$ 55,193

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements 31st March, 2012

1. Basis of Preparation of Consolidated Financial Statements

Mori Seiki Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with accounting principles generally accepted in Japan. Its overseas consolidated subsidiaries maintain their accounts and records in conformity with the requirements of their respective countries of domicile.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a format which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

Certain reclassifications of previously reported amounts have been made to the consolidated statement of cash flows for the year ended 31st March, 2011 to conform it to the 2012 presentation.

The accompanying consolidated financial statements have been translated from yen amounts into U.S. dollar amounts, solely for convenience, as a matter of arithmetic computation only, at ¥82.13 = U.S.$1.00, the exchange rate prevailing on 31st March, 2012. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. In addition, significant affiliates over which substantial control is significantly affected by the consolidated group in various ways have been accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

For consolidation purposes, the financial statements of seven consolidated subsidiaries whose fiscal year end date differ from that of the Company have been included in consolidation on the basis of a full fiscal year, for the year ended 31st March. One subsidiary's fiscal year end is 30th September and that of the other six subsidiaries is 31st December.

Among those equity-method affiliates whose fiscal year end date differs from that of the Company, year-end financial statements are used for four affiliates and the provisional interim closing financial statements as of the Company's fiscal year end date are used for one affiliate.

(2) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Gain or loss resulting from such translation adjustments is credited or charged to income as incurred. The balance sheet accounts of the overseas consolidated subsidiaries have been translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding minority interests which have been translated at their historical rates.

The differences resulting from translation are presented as components of net assets in the accompanying consolidated balance sheets. Revenues, expenses and cash flows are translated at the average rates for the year.

(3) Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any changes in their value and which were purchased with an original maturity of three months or less.

(4) Allowance for doubtful receivables

The allowance for doubtful receivables is calculated based on the actual historical ratio of bad debts and an estimate of certain uncollectible amounts determined after an analysis of specific individual receivables.

(5) Marketable securities and investments in securities

The accounting standard applicable to financial instruments requires that securities be classified into three categories: trading securities, held-to-maturity debt securities or other securities.

Trading securities are carried at market value, and gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at market value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method.

Investments in investment limited partnerships are stated at the net value of equities based on the most recent financial statements available prepared according to the financial reporting dates specified in the respective partnership agreements.

(6) Derivatives

Derivatives are stated at fair value.

(7) Inventories

Merchandise, finished goods and work-in-process of the Company and its domestic consolidated subsidiaries are stated at lower of cost or net selling value, cost being determined by the gross average method.

Merchandise, finished goods and work-in-process of overseas consolidated subsidiaries are stated at lower of cost or net selling value, cost being determined by the first-in, first-out method.

Raw materials are stated at lower of cost or market value, cost being determined by the moving average method.

Supplies are stated at lower of cost or market value, cost being determined by the last purchase price method.

(8) Property, plant and equipment (Other than leased assets)

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries, except for buildings (other than structures attached to the buildings) acquired on or subsequent to 1st April, 1998, is calculated by the declining-balance method over the estimated useful lives of the respective assets.

Depreciation of buildings (other than structures attached to the buildings) of the Company and its domestic consolidated subsidiaries acquired on or subsequent to 1st April, 1998 is calculated by the straight-line method. Depreciation of property, plant and equipment of the overseas subsidiaries is calculated by the straight-line method.

The estimated useful lives of property, plant and equipment are summarized as follows:

Buildings and structures	7 to 50 years
Machinery, equipment and vehicles	2 to 17 years

(9) Research and development costs and computer software (Other than leased assets)

Research and development costs are charged to income when incurred.

Expenditures relating to software developed for internal use are charged to income when incurred unless these contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over the useful life of the software, generally 5 years. Expenditures relating to software developed for sales in the market are capitalized as assets and amortized by the straight-line method over the prospective sales period, generally 3 years.

(10) Leased assets

Leased assets under finance lease contracts that transfer ownership to the lessee are depreciated by the same depreciation methods as applied to equivalent assets owned by the Company and its consolidated subsidiaries using the economic useful lives of the leased assets.

Leased assets under finance lease contracts that do not transfer ownership to the lessee are depreciated to the residual value of zero by the straight-line method using the terms of the contracts as the useful lives.

Finance lease transactions commencing on or before 31st March, 2008 other than those in which the ownership of the leased assets is transferred to the lessee are accounted for in the same manner as operating leases.

(11) Goodwill

Goodwill is amortized by the straight-line method over periods ranging from 5 to 10 years.

(12) Bond issuance cost

Bond issuance cost is charged to income as incurred.

(13) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(14) Allowance for product warranties

Allowance for product warranties is calculated based on the actual historical ratio of repair costs per corresponding product sales, to provide for future repairs during free charge product warranty periods.

(15) Allowance for bonuses to employees

For two domestic consolidated subsidiaries, allowance for bonuses to employees are provided for based on the estimated amount to be paid to employees after the balance sheet date for their services rendered during the current period.

(16) Allowance for bonuses to directors and corporate auditors

Allowance for bonuses to directors and corporate auditors is calculated based on the estimated amount of bonuses to be paid to directors and corporate auditors in the Company and one domestic consolidated subsidiary.

(17) Accrued retirement benefits

Accrued retirement benefits is calculated based on the estimated amount of the retirement benefit obligation and the fair value of the pension plan assets at 31st March, 2012 and 2011 to provide retirement benefits for employees in certain overseas consolidated subsidiaries.

Actuarial gain or loss is amortized by the straight-line method over a certain period within the average remaining years of service, mainly nine years, of the eligible employees.

In addition to the above, the plan assets of a multi-employer pension plan covering all employees in which certain of the Company's domestic subsidiaries participate are partially irrecoverable. As a result, one domestic consolidated subsidiary expects to provide an additional contribution to the pension plan and recorded a certain amount of additional accrued retirement benefits at 31st March, 2012 based on an estimate of the associated loss on their plan assets.

(18) Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the gain or loss on the underlying hedged items is recognized.

The Company uses forward foreign exchange contracts principally in order to manage certain risks arising from fluctuations in foreign exchange rates. The Company evaluates the effectiveness of its hedging activities by comparing cumulative changes in cash flows on the hedging instruments with those of the related hedged items.

Hedging instruments	Forward foreign exchange contracts
Hedged items	Forecasted transactions in foreign currencies

(19) Consolidated taxation system

Effective the year ended 31st March, 2012, the Company and certain domestic consolidated subsidiaries have adopted the consolidated taxation system.

3. Supplemental Information

Accounting standards for accounting changes and error corrections

Effective the year ended 31st March, 2012, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No.24 issued on 4th December, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 issued on 4th December, 2009).

4. Cash and Cash Equivalents

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in cash and cash deposits in the consolidated balance sheets at 31st March, 2012 and 2011 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and cash deposits	¥ 4,550	¥ 7,418	$ 55,400
Time deposits with an original maturity in excess of three months included in cash and deposits	(17)	(4)	(207)
Cash and cash equivalents at end of year	¥ 4,533	¥ 7,414	$ 55,193

5. Inventories

Inventories at 31st March, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Merchandise	¥ 4,216	¥ 2,516	$ 51,333
Finished goods	12,048	9,906	146,694
Work in process	7,571	7,131	92,183
Raw materials and supplies	19,438	19,285	236,674
Total	¥ 43,273	¥ 38,838	$ 526,884

6. Securities

Held-to-maturity debt securities for which market value as of 31st March, 2012 and 2011 was available are summarized as follows:

	Millions of yen					
	2012			2011		
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
Securities whose fair value exceeds their carrying value:						
Government securities	¥ 202	¥ 202	¥ 0	¥ 304	¥ 304	¥ 0
Total	¥ 202	¥ 202	¥ 0	¥ 304	¥ 304	¥ 0

	Thousands of U.S. dollars		
	2012		
	Carrying value	Fair value	Unrealized gain
Securities whose fair value exceeds their carrying value:			
Government securities	$ 2,460	$ 2,460	$ 0
Total	$ 2,460	$ 2,460	$ 0

Marketable securities classified as other securities as of 31st March, 2012 and 2011 are summarized as follows:

	Millions of yen					
	2012			2011		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 8,697	¥ 5,289	¥ 3,408	¥ 12,246	¥ 8,760	¥ 3,486
Subtotal	8,697	5,289	3,408	12,246	8,760	3,486
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	1,209	1,341	(132)	8,902	10,073	(1,171)
Subtotal	1,209	1,341	(132)	8,902	10,073	(1,171)
Total	¥ 9,906	¥ 6,630	¥ 3,276	¥ 21,148	¥ 18,833	¥ 2,315

	Thousands of U.S. dollars		
	2012		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	$ 105,892	$ 64,398	$ 41,494
Subtotal	105,892	64,398	41,494
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	14,721	16,328	(1,607)
Subtotal	14,721	16,328	(1,607)
Total	$ 120,613	$ 80,726	$ 39,887

The Company recorded loss on revaluation of investments in securities of ¥201 million ($2,447 thousand) and ¥497 million on marketable equity securities classified as other securities for the years ended 31st March, 2012 and 2011, respectively.

A loss is recorded when the market value of a security declines by 50% or more from its acquisition cost, or when market value declines by 30% or more, but less than 50%, if the decline is deemed to be irrecoverable individually.

(Supplemental information)
In prior years, when the market value of other securities with a quoted market price declined by 30% or more from their acquisition cost, a loss had been recorded. However, a loss was recorded for the year ended 31st March, 2012 as a result of a consideration of the recoverability of individual securities when the market value of the other securities declined by 30% or more but less than 50% from their acquisition cost due to the necessity of more conservative considerations of recoverability of market value as volatility in equity markets has emerged related to changes in the current economic environment. The effect of this change on operating results was nil for the year ended 31st March, 2012.

7. Loss on Impairment of Property, Plant and Equipment

Loss on impairment of property, plant and equipment was recorded for the year ended 31st March, 2012 related to the following assets:

Company	Location	Classification	Millions of yen	Thousands of U.S. dollars
Taiyo Koki Co.,Ltd.	Nagaoka City, Niigata Prefecture, Japan	Land, buildings and others	¥ 4	$ 49

In June 2009, Taiyo Koki Co., Ltd., a domestic consolidated subsidiary, recognized a loss on impairment of land, buildings and others originally acquired as parts storage but which became idle assets as they were not expected to be used in the future. Taiyo Koki Co., Ltd. remeasured the fair value at 31st March, 2012 and recognized an additional loss on impairment. Such idle assets were grouped individually making the head office and the factory, including sales offices, as one unit. Recoverable amounts on land, buildings and others are measured at net selling value based on the appraisal value.

There was no loss on impairment of property, plant and equipment recorded for the year ended 31st March, 2011.

8. Retirement Benefits

The Company and seven domestic consolidated subsidiaries have established an employees' defined contribution pension plan.

In addition to the above, two domestic consolidated subsidiaries participate in a small- and medium-sized enterprise mutual aid plan and a multi-employer pension plan covering all of their employees and other. Furthermore, certain overseas consolidated subsidiaries have established a defined benefit plan, a benefit plan for a lump-sum payment, or an employees' defined contribution pension plan.

Since the portion of pension assets belonging to a multi-employer pension plan could not be reasonably calculated, the required contribution amount is recognized as retirement benefit expenses. The multi-employer pension plan's pension assets, which are calculated based on the proportion of contributions to the pension plan made by subsidiaries, amounted to ¥869 million ($10,581 thousand) and ¥876 million at 31st March, 2012 and 2011, respectively.

The following table sets forth the funded and accrued status of the retirement benefit plans for employees and the amounts recognized in the accompanying consolidated balance sheets at 31st March, 2012 and 2011 for the defined benefit pension plans of certain consolidated subsidiaries:

	Millions of yen		Thousands of U.S. dollars
	2012	**2011**	**2012**
(1) Retirement benefit obligation	**¥ (1,409)**	¥ (1,190)	**$ (17,156)**
(2) Plan assets at fair value	**928**	808	**11,299**
(3) Unfunded retirement benefit obligation (1) + (2)	**(481)**	(382)	**(5,857)**
(4) Unrecognized actuarial loss	**227**	73	**2,764**
(5) Accrued retirement benefits (3) + (4)	**¥ (254)**	¥ (309)	**$ (3,093)**

In addition to the above, Taiyo Koki Co., Ltd., a domestic consolidated subsidiary, recognized an additional retirement benefit obligation of ¥88 million ($1,071 thousand) for its estimated proportional liability as a result of the pension assets of a multi-employer pension plan in which it participates being partially irrecoverable at 31st March, 2012.

The Company and other consolidated subsidiaries did not record such additional obligation.

The retirement benefit expenses for the years ended 31st March, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2011**	**2012**
Service cost	**¥ 86**	¥ 66	**$ 1,047**
Interest cost	**25**	23	**304**
Expected return on plan assets	**(29)**	(28)	**(353)**
Contributions to the pension plan	**847**	840	**10,314**
Contributions to a small- and medium-sized enterprise mutual aid plan	**11**	11	**134**
Contributions to a mutual aid plan defined by the Order for Enforcement of the Income Tax Act	**14**	14	**170**
Contributions to the multi-employer pension plan	**40**	34	**487**
Total	**¥ 994**	¥ 960	**$ 12,103**

In addition to the above, Taiyo Koki Co., Ltd., a domestic consolidated subsidiary, recognized additional retirement benefit expenses of ¥88 million ($1,071 thousand) for its estimated proportional cost as a result of pension assets of a multi-employer pension plan in which it participates being partially irrecoverable. These were recorded as a component of other expenses for the year ended 31st March, 2012

The Company and other consolidated subsidiaries did not record such additional expenses.

The assumptions used in accounting for the retirement benefit obligation for the years ended 31st March, 2012 and 2011 are summarized as follows:

	2012	**2011**
(1) Discount rates	2.80%	3.00%
(2) Expected rates of return on plan assets	3.50%	4.00%

Estimated benefits are allocated by the straight-line method.

9. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans consist of bank overdrafts and loans under commitment lines. The weighted-average interest rates on short-term bank loans were 0.40% and 0.44% at 31st March, 2012 and 2011, respectively.

For effective financing purposes, the Company and two domestic consolidated subsidiaries concluded committed bank overdraft agreements with three banks at 31st March, 2012 and 2011. The status of such agreements at 31st March, 2012 and 2011 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2011**	**2012**
Lines of credit of bank overdrafts	**¥ 16,050**	¥ 38,550	**$ 195,422**
Bank overdrafts utilized	**(5,828)**	(20,632)	**(70,961)**
Available credit	**¥ 10,222**	¥ 17,918	**$ 124,461**

For effective financing purposes, the Company concluded committed line-of-credit agreements with 22 banks at 31st March, 2012 and 2011. The status of such agreements at 31st March, 2012 and 2011 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2011**	**2012**
Committed lines of credit	**¥ 50,000**	¥ 50,000	**$ 608,791**
Short-term loans utilized	**(22,950)**	(24,540)	**(279,435)**
Available credit	**¥ 27,050**	¥ 25,460	**$ 329,356**

Long-term debt at 31st March, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	**2011**	**2012**
Bonds:			
Zero coupon yen convertible bonds with stock acquisition rights due 2013	**¥ 2,583**	¥ 2,583	**$ 31,450**
0.37% yen bonds due 2015	**15,000**	—	**182,637**
0.55% yen bonds due 2017	**15,000**	—	**182,637**
Finance lease obligations:			
Finance lease agreements	**4,216**	4,262	**51,335**
Subtotal	**36,799**	6,845	**448,059**
Less current portion	**(2,917)**	(278)	**(35,517)**
Long-term debt, net	**¥ 33,882**	¥ 6,567	**$ 412,542**

The aggregate annual maturities of long-term debt subsequent to 31st March, 2012 are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2013	¥ 2,917	$ 35,517
2014	353	4,298
2015	15,339	186,765
2016	246	2,995
2017	15,189	184,939
2018 and thereafter	2,755	33,545
Total	¥ 36,799	$ 448,059

On 13th June, 2005, the Company issued ¥11,615 million of zero coupon yen convertible bonds with stock acquisition rights. An outline of these bonds is as follows:

Type of shares to which stock acquisition rights apply	Common stock of the Company
Issue price of stock acquisition rights	Nil
Exercise price of stock acquisition rights	¥1,312.3
Principal amount of bonds in the aggregate	¥11,615 million
Total amount of the shares issued upon exercise of stock acquisition rights	¥9,006 million
Exercisable period	27th June, 2005 to 29th May, 2012

Exercise of stock acquisition rights shall be deemed as payment by the bondholders of the full amount required to be paid upon exercise of the stock acquisition rights, rather than as redemption of the bond at its face value.

10. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.49% for the years ended 31st March, 2012 and 2011. The overseas subsidiaries are subject to the income tax regulations of the respective countries in which they operate.

The reconciliation of the differences between the statutory tax rate and effective tax rates for the years ended 31st March, 2012 and 2011 as a percentage of income before income taxes and minority interests is as follows:

	2012	2011
Statutory tax rate	40.49%	40.49%
Increase (decrease) in income taxes resulting from:		
Permanent non-deductible expenses	4.19	20.22
Permanent non-taxable income	(0.52)	(44.81)
Per capita portion of inhabitants' taxes	0.70	5.95
Temporary differences relating to investments in subsidiaries	(12.45)	23.42
Reversal of valuation allowance	(21.41)	(52.81)
Decrease of deferred tax assets resulting from changes in the statutory tax rates	1.41	—
Other, net	(0.39)	(0.15)
Effective tax rates	12.02%	(7.69)%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at 31st March, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current			
Deferred tax assets (reflected in current assets):			
Inventories	¥ 924	¥ 355	$ 11,250
Elimination of unrealized gain on inventories	80	184	974
Allowance for doubtful receivables	2	2	24
Accrued enterprise taxes	69	62	840
Tax loss carryforwards	512	759	6,234
Other	726	923	8,840
Deferred tax assets, subtotal	2,313	2,285	28,162
Less: valuation allowance	(155)	(223)	(1,887)
Deferred tax assets, total	¥ 2,158	¥ 2,062	$ 26,275
Offset of deferred tax liabilities	—	—	—
Deferred tax assets, net	¥ 2,158	¥ 2,062	$ 26,275
Deferred tax liabilities (reflected in current liabilities):			
Other	¥ (47)	¥ (16)	$ (572)
Deferred tax liabilities, total	(47)	(16)	(572)
Offset of deferred tax assets	—	—	—
Deferred tax liabilities, net	¥ (47)	¥ (16)	$ (572)
Non-current			
Deferred tax assets (reflected in investments and other assets):			
Inventories	¥ 687	¥ 575	$ 8,365
Loss on devaluation of listed equity securities	882	927	10,739
Shares of subsidiaries transferred by contribution in kind	1,188	—	14,465
Depreciation	747	898	9,095
One-time write-off applied to assets	18	31	219
Allowance for doubtful receivables	16	18	195
Tax loss carryforwards	7,691	13,070	93,644
Other	566	720	6,892
Deferred tax assets, subtotal	11,795	16,239	143,614
Less: valuation allowance	(11,425)	(15,865)	(139,109)
Deferred tax assets, total	370	374	4,505
Offset of deferred tax liabilities	—	—	—
Deferred tax assets, net	¥ 370	¥ 374	$ 4,505
Deferred tax liabilities (reflected in long-term liabilities):			
Unrealized gain on derivative instruments	¥ —	¥ (324)	$ —
Reserve for depreciation for tax purposes	(86)	(102)	(1,047)
Unrealized holding gain on securities	(1,071)	(504)	(13,040)
Other	(262)	(457)	(3,190)
Deferred tax liabilities, total	(1,419)	(1,387)	(17,277)
Offset of deferred tax assets	—	—	—
Deferred tax liabilities, net	¥ (1,419)	¥ (1,387)	$ (17,277)
Deferred tax liabilities on land revaluation reserve (reflected in long-term liabilities):			
Deferred tax liabilities on land revaluation reserve	¥ (1,485)	¥ (1,699)	$ (18,081)

(Supplemental information)
Following the promulgation on 2nd December, 2011 of the “Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures” (Act No.114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No.117 of 2011), Japanese corporation tax rates will be reduced and the special reconstruction corporation tax will be imposed for the fiscal years beginning on or after 1st April, 2012.

The Company and its domestic subsidiaries changed the statutory tax rate used to measure deferred tax assets and liabilities from 40.49% to 37.75% for temporary differences expected to be settled or realized in the fiscal years beginning 1st April, 2012 until 31st March, 2015 and from 40.49% to 35.38% for temporary differences expected to be settled or realized in the fiscal years beginning 1st April, 2015.

As a result of these changes, the net amount of deferred tax liabilities (net of deferred tax assets) decreased by ¥60 million ($731 thousand), deferred income tax increased by ¥95 million ($1,157 thousand) and net unrealized holding gain on securities increased by ¥154 million ($1,875 thousand) at 31st March 2012 and for the year then ended. Deferred income taxes on land revaluation reserve decreased and land revaluation reserve increased by ¥214 million ($2,606 thousand) at 31st March, 2012.

11. Asset Retirement Obligations

(1) Outline of asset retirement obligations
Asset retirement obligations consist of restoration cost related to lease contracts of domestic technical centers and other.

(2) Calculation method for asset retirement obligations
Expected useful life is 20 years from contract start date and discount rate is 2.179%.

(3) Changes in the balance of asset retirement obligations for the years ended 31st March, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2011**	**2012**
Balance at beginning of the year (*)	**¥ 62**	¥ 61	**$ 755**
Other adjustments	**2**	1	**24**
Balance at end of the year	**¥ 64**	¥ 62	**$ 779**

(*) Balance at beginning of the year ended 31st March, 2011 was calculated after the adoption of “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No.18 issued on 31st March, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No.21 issued on 31st March, 2008).

12. Shareholders’ Equity

The Corporation Law of Japan (the “Law”) provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of capital stock. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

The legal reserve of the Company included in retained earnings is nil at 31st March, 2012 and 2011.

Common stock and treasury stock
Movements in common stock and treasury stock for the years ended 31st March, 2012 and 2011 are summarized as follows:

	Number of Shares			
	1st April, 2011	Increase	Decrease	31st March, 2012
Common stock	118,475,312	–	–	118,475,312
Treasury stock	7,893,507	1,196,905	9	9,090,403

	Number of Shares			
	1st April, 2010	Increase	Decrease	31st March, 2011
Common stock	118,475,312	–	–	118,475,312
Treasury stock	7,892,985	720	198	7,893,507

Stock option plans

The Company and two domestic consolidated subsidiaries have stock option plans. The following stock option plans for certain executive officers, employees of the Company and certain consolidated subsidiaries and the stock option plan of the domestic consolidated subsidiaries were approved at annual general meetings of the shareholders.

Expenses or gain related to stock options for the years ended 31st March, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2011**	**2012**
Cost of sales	**¥ (1)**	¥ 94	**$ (12)**
Selling, general and administrative expenses	**6**	248	**73**
Gain on reversal of stock acquisition rights	**8**	1,406	**97**

The stock option plans of the Company and its domestic consolidated subsidiaries at 31st March, 2012 and 2011 are summarized as follows:

Company	Date of approval	Number of options granted	Exercisable period
The Company	18th June, 2008	4,155,000	From 1st July, 2010 up to and including 30th June, 2013
The Company	17th June, 2009	2,250,000	From 1st July, 2011 up to and including 30th June, 2014
Taiyo Koki Co., Ltd.	19th June, 2009	59,900	From 18th July, 2011 up to and including 17th July, 2014
B.U.G., Inc.	13th December, 2007	42,110	From 21st December, 2009 up to and including 21st December, 2013
B.U.G., Inc.	28th March, 2008	18,340	From 1st April, 2010 up to and including 1st April, 2014
B.U.G., Inc.	17th January, 2011	52,670	From 1st July, 2014 up to and including 30th June, 2018

Movements in stock option and exercise price as of and for the year ended 31st March, 2012 are summarized as follows:

Company	The Company		Taiyo Koki Co., Ltd.	B.U.G., Inc.		
Date of approval	18th June, 2008	17th June, 2009	19th June, 2009	13th December, 2007	28th March, 2008	17th January, 2011
Not vested:						
Outstanding as of 1st April, 2011	–	210,000	55,100	10,000	6,000	52,670
Granted	–	–	–	–	–	–
Forfeited	–	–	1,600	–	–	1,470
Vested	–	210,000	53,500	–	–	–
Outstanding as of 31st March, 2012	–	–	–	10,000	6,000	51,200
Vested:						
Outstanding as of 1st April, 2011	1,086,000	–	–	–	–	–
Vested	–	210,000	53,500	–	–	–
Exercised	–	–	–	–	–	–
Forfeited	17,000	–	–	–	–	–
Outstanding as of 31st March, 2012	1,069,000	210,000	53,500	–	–	–
Exercise price (Yen)	¥ 1,502	¥ 1,061	¥ 643	¥ 2,000	¥ 2,000	¥ 400
Weighted average exercise price (Yen)	—	—	—	—	—	—
Weighted average fair value per stock at the granted date (Yen)	174	219	284	(Note) –	(Note) –	(Note) –
Exercise price (U.S. dollars)	$ 18.29	$ 12.92	$ 7.83	$ 24.35	$ 24.35	$ 4.87
Weighted average exercise price (U.S. dollars)	—	—	—	—	—	—
Weighted average fair value per stock at the granted date (U.S. dollars)	2.12	2.67	3.46	(Note) –	(Note) –	(Note) –

(Note) B.U.G., Inc. is a private company and, therefore, the fair value of stock options is calculated based on the intrinsic value of the stock options. As the intrinsic value of stock options per share is zero, the disclosure of the weighted average fair value per stock at the grant date has been omitted in the above table.

13. Land Revaluation

Effective 31st March, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the applicable tax effect on revaluation gain, has been stated as a component of net assets; "Land revaluation reserve" amounted to ¥1,759 million ($21,417 thousand) and ¥1,545 million at 31st March, 2012 and 2011, respectively. The applicable tax effect has been stated as a component of long-term liabilities; "Deferred income taxes on land revaluation reserve" amounted to ¥1,485 million ($18,081 thousand) and ¥1,699 million at 31st March, 2012 and 2011, respectively. The fair value of the revalued land was less than its carrying value by ¥3,678 million ($44,783 thousand) and ¥3,062 million at 31st March, 2012 and 2011, respectively.

14. Contingent Liabilities

At 31st March, 2012 and 2011, the Company had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Guarantees of lease payments by customers	¥ 2,276	¥ 1,640	$ 27,712
Guarantees of loans of an affiliate	2,469	2,281 (*)	30,062

(*) This represents guarantees of bank loans of MG Finance GmbH amounting to ¥2,281 million out of which ¥1,140 million was reguaranteed and the amount of the guarantee in substance was ¥1,141 million at 31st March, 2011.

15. Loss on Devaluation of Inventories

Cost of sales included a loss on devaluation of inventories of ¥1,479 million ($18,008 thousand) and ¥1,170 million for the years ended 31st March, 2012 and 2011, respectively. Furthermore, loss on devaluation of inventories is included in business restructuring expenses in the amount of ¥1,271 million ($15,475 thousand) and in loss on disaster in the amount of ¥211 million ($2,569 thousand) for the year ended 31st March, 2012, which were recorded as components of other expenses for the year.

16. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Research and development costs	¥ 3,506	¥ 4,809	$ 42,688

17. Derivative Financial Instruments

The estimated fair value of the derivatives positions outstanding which do not qualify for deferral hedge accounting at 31st March, 2012 and 2011 is summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2012			2011			2012		
Forward foreign exchange contracts	Contract value (notional principal amount)	Estimated fair value	Loss on derivative	Contract value (notional principal amount)	Estimated fair value	Gain on derivative	Contract value (notional principal amount)	Estimated fair value	Loss on derivative
Selling:									
U.S. dollars	¥ 195	¥ (3)	¥ (3)	¥ —	¥ —	¥ —	$ 2,374	$ (36)	$ (36)
Euro	1,326	(21)	(21)	4,947	728	728	16,145	(256)	(256)
Total	¥ 1,521	¥ (24)	¥ (24)	¥ 4,947	¥ 728	¥ 728	$ 18,519	$ (292)	$ (292)

The estimated fair value of the derivatives positions outstanding which qualify for deferral hedge accounting at 31st March, 2011 is summarized as follows:

	Millions of yen		
	2011		
Forward foreign exchange contracts for accounts receivable, trade (forecasted transactions)	Contract value (notional principal amount)	Contract value (notional principal amount) over 1 year	Estimated fair value
Selling			
Euro	¥ 4,990	¥ —	¥ 800
Total	¥ 4,990	¥ —	¥ 800

There were no derivatives positions outstanding which qualify for deferral hedge accounting at 31st March, 2012.

18. Leases

(1) Finance leases

The Company and its consolidated subsidiaries lease plants (buildings and structures), offices (buildings and structures) and manufacturing facilities (machinery and equipment).
Finance lease transactions commencing on or before 31st March, 2008 other than those in which the ownership of the leased assets is transferred to the Company and its domestic consolidated subsidiaries are accounted for in the same manner as operating leases.
The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the property leased to the Company and its domestic consolidated subsidiaries at 31st March, 2012 and 2011, which would have been reflected in the accompanying consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its domestic consolidated subsidiaries were capitalized.

	Millions of yen						Thousands of U.S. dollars		
	2012			**2011**			**2012**		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Category: Machinery, equipment and vehicles	**¥ 5,323**	**¥ 4,797**	**¥ 526**	¥ 7,279	¥ 5,691	¥ 1,588	**$ 64,812**	**$ 58,407**	**$ 6,405**

Lease payments of the Company and a domestic consolidated subsidiary relating to finance lease transactions accounted for as operating leases amounted to ¥1,127 million ($13,722 thousand) and ¥1,396 million for the years ended 31st March, 2012 and 2011, respectively.
Depreciation related to leased property of the Company and a domestic consolidated subsidiary is calculated by the straight-line method over the respective lease terms assuming a nil residual value and amounted to ¥1,046 million ($12,736 thousand) and ¥1,299 million for the years ended 31st March, 2012 and 2011, respectively.
Interest expenses for finance leases amounted to ¥28 million ($341 thousand) and ¥58 million for the years ended 31st March, 2012 and 2011, respectively under the interest method mentioned above.

Future minimum lease payments subsequent to 31st March, 2012 under finance leases other than those which transfer the ownership of the leased property to the Company and a domestic consolidated subsidiary are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending 31st March,		
2013	**¥ 501**	$ 6,100
2014 and thereafter	**57**	694
Total	**¥ 558**	$ 6,794

(2) Operating leases
Future minimum lease payments subsequent to 31st March, 2012 under operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending 31st March,		
2013	**¥ 1,818**	$ 22,136
2014 and thereafter	**8,168**	99,452
Total	**¥ 9,986**	$ 121,588

19. Financial Instruments

Status of financial instruments

(1) Policy for financial instruments

The Company and its consolidated subsidiaries (the “Group”) raise necessary capital partly by issuing the bonds, borrowings from banks and liquidation of receivables for mainly operations related to the manufacturing and sales of machine tools based on demand for funds from operating activities. The Group manage surplus funds by investing only in short-term deposits and others and do not enter into speculative transactions. The purpose of derivative transactions is avoiding the risks as described hereinafter, and transactions are not carried out for speculative purposes.

(2) Types of financial instruments and related risk

Notes and accounts receivable, trade are operating claims and are exposed to credit risk of customers. In addition, as a result of the business of the Group, which operates globally, trade receivables denominated in foreign currencies are exposed to currency rate fluctuation risk, which is hedged using forward exchange contracts limited to the necessary amounts, reviewing actual export performance. Most operating claims are settled within three months.

Marketable securities and investments in securities are mainly shares of companies, with which the Group has business relationship, and are exposed to market price fluctuation risk.

Accounts payable, trade are operating obligations and mostly are payables within three months. A portion of these is denominated in foreign currencies, and is exposed to currency rate fluctuation risk. However, the portion is within the range of balances of accounts receivable denominated in the same currencies.

Short-term bank loans and bonds are mainly utilized for short-term operating capital and capital expenditure. The repayments dates of short-term bank loans and the bonds extend up to four years and six months from the balance sheet date. Monthly cash flows are reviewed and refundings are repeated within one month so as to realize efficient financing. A portion of short-term bank loans has some financial covenants. Bonds with fixed interest rate are not exposed to interest rate fluctuation risk.

Accounts payable, trade and short-term bank loans are exposed to liquidity risk.

Derivative transactions are forward foreign exchange contracts entered into in order to avoid the risk arising from fluctuations in foreign currency exchange rates related to operating claims.

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that counterparties may default)

The Group regularly monitors the credit information related to customer operating claims and manage collection dates and outstanding balances in accordance with credit control policy.

To minimize the counterparty risk when entering into derivative transactions, counterparties are limited to financial institutions with high credit ratings.

The maximum amount of credit risk as of the end of the fiscal year reflects the amounts recorded in the consolidated balance sheets for financial assets that are exposed to credit risk.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

The Company hedges risks arising from fluctuations in foreign exchange rates, which are relevant to operating claims and are analyzed by currency and settlement month, by using forward foreign exchange contracts. The foreign-currency denominated operating claims that are expected to be most likely resulting from forecasted export transactions are hedged by using forward foreign exchange contracts depending on circumstances in the foreign currency exchange market.

The fair value of marketable securities and investments in securities and the financial position of the issuers are regularly reviewed.

For derivative transactions, the finance department of the Company enters into and manages transactions, and the responsible director approves them based on internal regulations. The consolidated subsidiaries do not enter into derivative transactions.

(c) Monitoring of liquidity risk (the risk of being unable to make payment on payment date)

The finance department of the Company prepares and updates funding plans in a timely manner based on reports submitted by each department to manage liquidity risk.

(4) Supplementary explanation of the fair value of financial instruments

The fair value of financial instruments is based on the market price, and when no market price exists, a rationally calculated amount is used. These calculations include variable factors, so the resulting amount may fluctuate if different underlying assumptions are applied. The amounts of the contracts related to derivative transactions listed in the following section do not in themselves indicate the market risk of derivative transactions.

Fair value of financial instruments

The amounts recorded in the consolidated balance sheets, the fair value and the difference at 31st March, 2012 and 2011, are summarized as follows. Financial instruments for which it is deemed extremely difficult to determine the fair value are not included. (Please refer to Note 2 below.)

	Millions of yen						Thousands of U.S. dollars		
	2012			2011			2012		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets									
Cash and deposits	**¥ 4,550**	**¥ 4,550**	**¥ —**	¥ 7,418	¥ 7,418	¥ —	**$ 55,400**	**$ 55,400**	**$ —**
Notes and accounts receivable, trade	**31,736**	**31,736**	**—**	32,086	32,086	—	**386,412**	**386,412**	**—**
Marketable securities and investments in securities:									
Held-to-maturity debt securities	**202**	**202**	**0**	304	304	0	**2,460**	**2,460**	**0**
Other securities	**9,906**	**9,906**	**—**	21,148	21,148	—	**120,613**	**120,613**	**—**
Total assets	**¥ 46,394**	**¥ 46,394**	**¥ 0**	¥ 60,956	¥ 60,956	¥ 0	**$ 564,885**	**$ 564,885**	**$ 0**
Liabilities									
Short-term bank loans	**¥ 28,778**	**¥ 28,778**	**¥ —**	¥ 45,172	¥ 45,172	¥ —	**$ 350,396**	**$ 350,396**	**$ —**
Accounts payable, trade	**10,702**	**10,702**	**—**	11,451	11,451	—	**130,306**	**130,306**	**—**
Bonds included in long-term debt	**30,000**	**30,020**	**20**	—	—	—	**365,274**	**365,518**	**244**
Total liabilities	**¥ 69,480**	**¥ 69,500**	**¥ 20**	¥ 56,623	¥ 56,623	¥ —	**$ 845,976**	**$ 846,220**	**$ 244**
Derivative transactions									
Subject to hedge accounting	**¥ —**	**¥ —**	**¥ —**	¥ 800	¥ 800	¥ —	**$ —**	**$ —**	**$ —**
Not subject to hedge accounting	**(24)**	**(24)**	**—**	728	728	—	**(292)**	**(292)**	**—**
Total derivative transactions(*)	**¥ (24)**	**¥ (24)**	**¥ —**	¥ 1,528	¥ 1,528	¥ —	**$ (292)**	**$ (292)**	**$ —**

(*) The value of assets and liabilities arising from derivatives is shown at net value.

Note 1:Methods to determine the fair value of financial instruments and other matters related to securities and derivative transactions are summarized as follows:

Cash and deposits

Since a portion of deposits represents time deposits with maturities within one year, their carrying value approximates fair value.

Notes and accounts receivable, trade

Since most of them are settled in a short time period, their carrying value approximates fair value.

Marketable securities and investments in securities

The fair value of marketable securities and investments in securities is based on quoted exchange market prices for equity and debt securities.

Short-term bank loans

Since most of them are repaid within one month in accordance with financing plans, their carrying value approximates fair value.

Accounts payable, trade

Since most of them are settled in a short time period, their carrying value approximates fair value.

Bonds

The fair value of bonds is determined based on market price.

Note 2: Financial instruments for which it is extremely difficult to determine the fair value are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	**2011**	**2012**
Investments in unconsolidated subsidiaries	**¥ 192**	¥ 220	**$ 2,338**
Investments in affiliates	**7,666**	1,375	**93,340**
Investments in unlisted stocks	**545**	550	**6,636**
Investments in limited liability partnership	**82**	89	**998**
Total	**¥ 8,485**	¥ 2,234	**$ 103,312**

Note 3: Redemption schedule for monetary claims and investments in securities with maturities subsequent to 31st March, 2012 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and cash deposits	**¥ 4,550**	**¥ —**	**¥ —**	**¥ —**	**$ 55,400**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable, trade	**31,201**	**535**	**—**	**—**	**379,898**	**6,514**	**—**	**—**
Marketable securities and investments in securities:								
Held-to-maturity debt securities	**102**	**100**	**—**	**—**	**1,242**	**1,218**	**—**	**—**
Total	**¥ 35,853**	**¥ 635**	**¥ —**	**¥ —**	**$436,540**	**$ 7,732**	**$ —**	**$ —**

20. Business Restructuring Expenses

Taking into account its collaboration with GILDEMEISTER ("DMG") AG, the Company reconsidered its structuring of production, development and sales to operate the business more solidly. Consequently, devaluation of inventories of discontinued products, cost related to sales integration in Europe, cost for liquidation of a subsidiary, loss on impairment of a patent and other costs were recorded as business restructuring expenses for the year ended 31st March, 2012.

Loss on impairment of a patent for the year ended 31st March, 2012 is summarized as follows:

			Millions of yen	Thousands of U.S. dollars
Company	**Use**	**Classification**	**2012**	**2012**
The Company	Research and development	Patent included in "Other" under other assets	**¥ 150**	**$ 1,826**

The Company recognized a loss on impairment of a patent acquired for future research and development since the profitability and possibility of usage of this patent was uncertain due to a focus on improving its the main product "X class" in terms of future research and development activities.

The Company basically groups assets by operating department. The assets are grouped by sales office in the sales department and by plant in the manufacturing department. Idle assets not expected to be used in the future are grouped individually. The recoverable amount of the patent is measured based on its estimated cash flows in the future, using their value in use.

Business restructuring expenses for the year ended 31st March, 2011 included mostly office relocation costs associated with organizational restructuring.

21. Related Party Transaction

Transactions with related parties

Related party transactions for the year ended 31st March, 2012 are summarized as follows:

Type	Name	Country	Currency	Capital stock or investment in capital	Business activity	Equity ownership percentage	Relation to the related party	Nature of transaction	Transaction amount (Millions of yen)	Transaction amount (Thousands of U.S. dollars)
Affiliate	MG Finance GmbH	Germany	EUR	4,950 thousand	Finance and leasing	33.0%	Sale of the Company's products	Loan guarantees	¥ 2,469	$ 30,062
Affiliate	GILDEMEISTER AG	Germany	EUR	156 million	Manufacturing and selling machine tools	Company: Holds 20.1% of affiliate Affiliate: Holds 5.1% of the Company	Business and capital alliance Concurrently serving directors	Underwriting of capital increase (*1)	¥ 10,385	$ 124,446
Affiliate	DMG MORI SEIKI Europe AG	Switzerland	CHF	76 million	Sales and service of DMG's and the Company's products	40.0%	Sales of the Company's products Concurrently serving directors	Contribution in kind of subsidiary shares (*2)	¥ 8,782	$ 106,928

(*1) The Company and an overseas consolidated subsidiary acquired 5,256,117 shares of GILDEMEISTER AG which includes 1,367,540 shares as allotment to shareholders and remaining shares as forfeited shares and others.

(*2) The Company has executed the contribution in kind of all shares of four consolidated subsidiaries in Europe to DMG MORI SEIKI Europe AG and in exchange obtained respective shares in DMG MORI SEIKI Europe AG.

Related party transaction for the year ended 31st March, 2011 is summarized as follows:

Type	Name	Country	Currency	Capital stock or investment in capital	Business activity	Equity ownership percentage	Relation to the related party	Nature of transaction	Transaction amount (Millions of yen)
Affiliate	MG Finance GmbH	Germany	EUR	4,950 thousand	Finance and leasing	33.0%	Sale of the Company's products	Loan guarantees(*)	¥2,281

(*) This represents guarantees of bank loans of MG Finance GmbH amounted to ¥2,281 million out of which ¥1,140 million was reguaranteed and the amount of guarantee in substance was ¥1,141 million.

Note on significant affiliate company accounted for using the equity method

The following is a summary of the financial statements of GILDEMEISTER AG at 31st December, 2011 and the nine-month period then ended from the second quarter to the fourth quarter, in which the Company recorded equity earnings.

	Millions of Euro
Total current assets	€ 908
Total long-term assets	463
Total current liabilities	636
Total long-term liabilities	80
Total net assets	655
Net sales	1,310
Income before income taxes	66
Net income	45

22. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects of other comprehensive income (loss) for the year ended 31st March, 2012.

	Millions of yen	Thousands of U.S. dollars
Net unrealized holding gain on securities:		
Amount arising during the year	**¥ 1,504**	**$ 18,313**
Reclassification adjustments for loss realized in statements of income	**201**	**2,447**
Amount before the adjustment of tax effect	**1,705**	**20,760**
Tax effect	**(589)**	**(7,172)**
Net unrealized holding gain on securities	**1,116**	**13,588**
Net unrealized loss on derivative instruments:		
Reclassification adjustments for gain realized in statement of income	**(800)**	**(9,741)**
Tax effect	**324**	**3,945**
Net unrealized loss on derivative instruments	**(476)**	**(5,796)**
Land revaluation reserve:		
Tax effect	**214**	**2,606**
Land revaluation reserve	**214**	**2,606**
Translation adjustments:		
Amount arising during the year	**(278)**	**(3,385)**
Reclassification adjustments for loss realized in statement of income	**186**	**2,265**
Translation adjustments	**(92)**	**(1,120)**
Share of other comprehensive loss of affiliates accounted for by the equity method:		
Amount arising during the year	**(2,983)**	**(36,321)**
Tax effect	**(23)**	**(280)**
Share of other comprehensive loss of affiliates accounted for by the equity method	**(3,006)**	**(36,601)**
Other comprehensive loss, net	**¥ (2,244)**	**$ (27,323)**

23. Supplemental Information on the Consolidated Statements of Cash Flows

(1) Non cash transaction

The Company and its consolidated subsidiaries recorded leased assets and lease obligations related to new finance lease transactions in the amounts of ¥303 million ($3,689 thousand) and ¥306 million for the years ended 31st March, 2012 and 2011, respectively.

The Company recorded asset retirement obligations in the amount of ¥62 million for the year ended 31st March, 2011.

(2) Business transfer

MORI SEIKI G.m.b.H., a consolidated subsidiary of the Company, which managed sales and service operations in Germany transferred a portion of its business to DMG MORI SEIKI Deutschland GmbH. The Company recorded ¥1,132 million ($13,783 thousand) as proceeds from business transfer in the statement of cash flows for the year ended 31st March, 2012. In addition, inventories, property, plant and equipment and others decreased by ¥365 million ($4,444 thousand) resulting from this business transfer.

(3) Contribution in kind

During the year ended 31st March, 2012, the Company executed a contribution in kind of all shares of its four subsidiaries to DMG MORI SEIKI Europe AG. Detail of assets and liabilities decreased resulting from the contribution in kind are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 7,178**	**$ 87,398**
Long-term assets	**1,826**	**22,233**
Total assets	**¥ 9,004**	**$ 109,631**
Current liabilities	**¥ 6,874**	**$ 83,697**
Long-term liabilities	**117**	**$ 1,424**
Total liabilities	**¥ 6,991**	**$ 85,121**

Current assets included cash and cash equivalents of ¥1,505 million ($18,325 thousand), which were recorded as expenditures for business divestiture in the statement of cash flows for the year ended 31st March, 2012.

24. Amounts per Share

Amounts per share at 31st March, 2012 and 2011 and for the years then ended are summarized as follows:

	Yen		U.S. dollars
	2012	**2011**	**2012**
Amounts per share:			
Net assets	**¥ 852.31**	¥ 848.74	**$ 10.38**
Net income:			
Basic	**51.13**	11.83	**0.62**
Diluted	**50.22**	11.62	**0.61**
Cash dividends	**20.00**	20.00	**0.24**

Net assets per share are computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end. Basic income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year, and diluted net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options.

Cash dividends per share represent the cash dividends proposed by the Board of Directors of the Company as applicable to the respective fiscal years.

An outline of dilutive shares not included in the calculation of "Net income per share (diluted)" for the years ended 31st March, 2012 and 2011 because they do not have dilutive effect is as follows:

Stock acquisition rights issued by the Company:
Type: 2 types
Number of stock acquisition rights issued by the Company as part of a stock option plans: 12,790 units and 12,960 units at 31st March, 2012 and 2011, respectively.

Stock acquisition rights issued by a domestic consolidated subsidiary:
Type: 1 type
Number of stock acquisition rights issued by a consolidated subsidiary as a part of stock option plan: 535 units and 551 units at 31st March, 2012 and 2011, respectively.

25. Segment Information

(1) Outline of the reportable segments

The reportable segments of the consolidated group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors and corporate officers to make decisions about resource allocation and to assess business performance.

The Group's business is mainly manufacturing and sales of machine tools. The Company and its domestic subsidiaries are responsible for Japan and each independent local entity is responsible for an overseas area. The Group develops their own comprehensive business strategies and operates their businesses.

Accordingly, the Group's reportable segments consist of Japan, the Americas, Europe and China and Asia based on the production and selling system.

(2) Calculation method of net sales, income or loss, assets and other items by each reportable segment

Method of accounting treatments for the reportable segments is almost the same as those described in Note 2. "Summary of Significant Accounting Policies." The amount of segment income (loss) is based on operating income (loss). Inter-segment sales and transfers between segments are based on market prices.

(3) Information on net sales, income or loss, assets and other items by reportable segment

Reportable segment information for the year ended 31st March, 2012 and 2011 are summarized as follows:

	Millions of yen				
	2012				
	Japan	The Americas	Europe	China and Asia	Total
Net sales					
Sales to third parties	¥ 55,078	¥ 44,037	¥ 33,379	¥ 22,827	¥ 155,321
Inter-segment sales and transfers	75,590	1,649	1,828	1,568	80,635
Total	¥ 130,668	¥ 45,686	¥ 35,207	¥ 24,395	¥ 235,956
Segment income	¥ 4,391	¥ 1,188	¥ 836	¥ 305	¥ 6,720
Segment assets	¥ 140,965	¥ 19,778	¥ 43,855	¥ 8,065	¥ 212,663
Other items					
Depreciation and amortization	¥ 5,352	¥ 836	¥ 445	¥ 136	¥ 6,769
Amortization of goodwill	¥ 366	¥ 36	¥ 58	¥ —	¥ 460
Investments in affiliates accounted for by the equity method	¥ 296	¥ —	¥ 23,683	¥ 1,532	¥ 25,511
Increase in property, plant and equipment and intangible assets	¥ 7,156	¥ 1,862	¥ 90	¥ 383	¥ 9,491

	Millions of yen				
	2011				
	Japan	The Americas	Europe	China and Asia	Total
Net sales					
Sales to third parties	¥ 44,531	¥ 29,696	¥ 25,912	¥ 20,289	¥ 120,428
Inter-segment sales and transfers	58,138	1,977	1,374	1,396	62,885
Total	¥ 102,669	¥ 31,673	¥ 27,286	¥ 21,685	¥ 183,313
Segment income (loss)	¥ 754	¥ (125)	¥ (382)	¥ 37	¥ 284
Segment assets	¥ 139,413	¥ 19,430	¥ 29,707	¥ 6,415	¥ 194,965
Other items					
Depreciation and amortization	¥ 5,337	¥ 686	¥ 485	¥ 127	¥ 6,635
Amortization of goodwill	¥ 367	¥ 154	¥ 11	¥ 5	¥ 537
Investment in affiliates accounted for by the equity method	¥ 297	¥ —	¥ 502	¥ 496	¥ 1,295
Increase in property, plant and equipment and intangible assets	¥ 4,269	¥ 152	¥ 138	¥ 22	¥ 4,581

	Thousands of U.S. dollars				
	2012				
	Japan	The Americas	Europe	China and Asia	Total
Net sales					
Sales to third parties	**$ 670,620**	**$ 536,186**	**$ 406,417**	**$ 277,937**	**$ 1,891,160**
Inter-segment sales and transfers	**920,370**	**20,079**	**22,257**	**19,092**	**981,798**
Total	**$ 1,590,990**	**$ 556,265**	**$ 428,674**	**$ 297,029**	**$ 2,872,958**
Segment income	**$ 53,464**	**$ 14,465**	**$ 10,179**	**$ 3,714**	**$ 81,822**
Segment assets	**$ 1,716,364**	**$ 240,813**	**$ 533,971**	**$ 98,198**	**$ 2,589,346**
Other items					
Depreciation and amortization	**$ 65,165**	**$ 10,179**	**$ 5,418**	**$ 1,656**	**$ 82,418**
Amortization of goodwill	**$ 4,456**	**$ 439**	**$ 706**	**$ —**	**$ 5,601**
Investment in affiliates accounted for by the equity method	**$ 3,604**	**$ —**	**$ 288,360**	**$ 18,653**	**$ 310,617**
Increase in property, plant and equipment and intangible assets	**$ 87,130**	**$ 22,672**	**$ 1,096**	**$ 4,663**	**$ 115,561**

(4) Reconciliation of the segment income and operating income in the consolidated statements of income

A reconciliation of segment income and operating income in the consolidated statements of income is summarized as follows:

Operating income	Millions of yen		Thousands of U.S. dollars
	2012	**2011**	**2012**
Segment income	**¥ 6,720**	¥ 284	$ 81,822
Elimination of unrealized gain	**69**	36	840
Operating income in the consolidated statements of income	**¥ 6,789**	¥ 320	$ 82,662

(5) Reconciliation of the segment assets and the total assets in the consolidated balance sheets

A reconciliation of the segment assets and the total assets in the consolidated balance sheets is summarized as follows:

Assets	Millions of yen		Thousands of U.S. dollars
	2012	**2011**	**2012**
Segment assets	**¥ 212,663**	¥ 194,965	$ 2,589,346
Unallocated assets	**10,141**	17,320	123,475
Adjustment of unrealized gain	**(2,803)**	(2,635)	(34,129)
Inter-segment transactions	**(34,582)**	(37,700)	(421,064)
Assets in the consolidated balance sheets	**¥ 185,419**	¥ 171,950	$ 2,257,628

Related information

(1) Sales by product and service

As the sale of only one type of product and service amounted to more than 90% of net consolidated sales, the disclosure of segment information by product and service for the years ended 31st March, 2012 and 2011 has been omitted.

(2) Regional information

(a) Net sales for the years ended 31st March, 2012 and 2011 are summarized as follows

Millions of yen											
2012						2011					
Japan	USA	The Americas other than USA	Europe	China and Asia	Total	Japan	USA	The Americas other than USA	Europe	China and Asia	Total
¥ 55,078	**¥ 38,496**	**¥ 5,541**	**¥ 33,379**	**¥ 22,827**	**¥155,321**	¥ 44,531	¥ 25,564	¥ 4,132	¥ 25,912	¥ 20,289	¥120,428

Thousands of U.S. dollars					
2012					
Japan	USA	The Americas other than USA	Europe	China and Asia	Total
$ 670,620	**$ 468,720**	**$ 67,466**	**$ 406,417**	**$ 277,937**	**$1,891,160**

(Note) Net sales are classified by countries or region based on locations of customers.

(b) Property, plant and equipment as of 31st March, 2012 and 2011 are summarized as follows:

Millions of yen									
2012					2011				
Japan	The Americas	Europe	China and Asia	Total	Japan	The Americas	Europe	China and Asia	Total
¥ 43,980	**¥ 5,459**	**¥ 5,200**	**¥ 923**	**¥ 55,562**	¥ 40,924	¥ 5,090	¥ 7,717	¥ 690	¥ 54,421

Thousands of U.S. dollars				
2012				
Japan	The Americas	Europe	China and Asia	Total
$ 535,493	**$ 66,468**	**$ 63,314**	**$ 11,238**	**$ 676,513**

(c) Major customer

Major customer for the year ended 31st March, 2012 is as follows:

Name of customer	Net sales (Millions of yen)	Net sales (Thousands of U.S. dollars)	Reportable segment
Ellison Technologies, Inc.	**¥ 26,946**	**$ 328,090**	The Americas

Major customer for the year ended 31st March, 2011 is as follows:

Name of customer	Net sales (Millions of yen)	Reportable segment
Ellison Technologies, Inc.	¥ 14,841	The Americas

Amortization of goodwill and unamortized balance by reportable segment

Information on amortization and unamortized balance of goodwill by reportable segment for the years ended and at 31st March, 2012 and 2011 are as follows:

	Millions of yen									
	2012					**2011**				
	Japan	The Americas	Europe	China and Asia	Total	Japan	The Americas	Europe	China and Asia	Total
Amortization for the year	**¥ 366**	**¥ 36**	**¥ 58**	**¥ —**	**¥ 460**	¥ 367	¥ 154	¥ 11	¥ 5	¥ 537
Balance at the year end	**1,066**	**—**	**—**	**—**	**1,066**	1,433	37	106	—	1,576

	Thousands of U.S. dollars				
	2012				
	Japan	The Americas	Europe	China and Asia	Total
Amortization for the year	**$ 4,457**	**$ 438**	**$ 706**	**$ —**	**$ 5,601**
Balance at the year end	**12,979**	**—**	**—**	**—**	**12,979**

Loss on impairment of property, plant and equipment by reportable segment

Information on loss on impairment of property, plant and equipment by reportable segment for the year ended 31st March, 2012 is as follows:

	Millions of yen					Thousands of U.S. dollars				
	2012					**2012**				
	Japan	The Americas	Europe	China and Asia	Total	Japan	The Americas	Europe	China and Asia	Total
Loss on impairment of property, plant and equipment	**¥ 4**	**—**	**—**	**—**	**¥ 4**	**$ 49**	**—**	**—**	**—**	**$ 49**

Loss on impairment of a patent was recorded as business restructuring expenses in the amount of ¥150 million ($1,826 thousand) for the year ended 31st March, 2012. The reportable segment in which the loss was recorded was Japan.

There was no loss on impairment of property, plant and equipment for the year ended 31st March, 2011.

26. Business Combinations

Business transfer in the consolidated subsidiary

(1) Overview of the business divestiture

(a) Name of the transferee

DMG MORI SEIKI Deutschland GmbH

(b) Nature of the business

Sales of Mori Seiki products and service operation of MORI SEIKI G.m.b.H. in Germany

(c) The purpose of the business divestiture

It will enable the Company to sell its products through the subsidiary of DMG. DMG has a strong presence in European markets. The Company believes that in order to facilitate sales of high value-added machine tool products, which are the core products of the Company's sales strategy, it will be increasingly important to further develop sales and service functions to maintain a direct contact with customers and satisfy customer needs by delivering enhanced post-sales maintenance services as well as by providing software, customer training and technical assistance. The Company is confident that DMG's direct selling system will enable the Company to satisfy its customers' needs.

(d) Date of business divestiture

30th September, 2011

(e) Overview of other transactions including its statutory form

Business transfer for which consideration received is limited to assets including cash.

(2) Overview of accounting treatment

(a) Amount of gain on business transfer

¥576 million ($7,013 thousand)

(b) Appropriate book value of assets pertaining to the transferred business

Inventories, property, plant and equipment and others of ¥365 million ($4,444 thousand)

(3) Name of reportable segment in which the transferred business was included

Europe

Contribution in kind

(1) Overview of the business divestiture

(a) Overview of the transferee

Name of the transferee : DMG MORI SEIKI Europe AG

Common stock : CHF76 million (after contribution in kind by the Company and DMG)

Location : Zurich, Switzerland

Shareholders : 60% owned by DMG, 40% owned by the Company

Relation to the Company : Affiliate company accounted for by the equity method

(b) Name and nature of the business transferred

Name : MORI SEIKI (UK) LIMITED, MORI SEIKI FRANCE SAS, MORI SEIKI ITALIANA S.R.L., MORI SEIKI ESPANA, S.A.

Nature : Machining center, sales of numerically controlled machine tools and other products and service

(c) Purpose of the transfer

The Company has executed the contribution in kind of all shares of four subsidiaries, which operated sales and service of the Company's group products in Europe, to DMG MORI SEIKI Europe AG, a joint venture between the Company and DMG, and in exchange obtained 40% of shares in DMG MORI SEIKI Europe AG on 26th March, 2012. Likewise, DMG has executed contribution in kind of all shares of some of its subsidiaries in Europe and in exchange obtained 60% of shares in DMG MORI SEIKI Europe AG.

As a result of this contribution in kind, the Company can consolidate its sales and service operations with DMG. DMG has a strong presence in European markets and the Company believes that the consolidation of the two companies' sales and service platforms will facilitate sales growth for the Company's products in the region.

(d) Date of business divestiture

1st January, 2012

(e) Overview of other transactions including its statutory form

The Company and DMG execute the contribution in kind of shares of each own subsidiary to DMG MORI SEIKI Europe AG and in exchange obtain respective shares.

(2) Overview of accounting treatment

This transaction was accounted for as a transfer under "Accounting Standard for Business Divestitures" (ASBJ Statement No.7, 26th December, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Standard for Business Divestitures" (ASBJ Guidance No.10, 26th December, 2008).

(a) Goodwill and gain on change in equity in investments in securities at 1st January, 2012

	Millions of yen	Thousands of U.S. dollars
Goodwill (*)	¥ 1,342	$ 16,340
Gain on change in equity in investments in subsidiaries	3,257	39,657

(*) Goodwill was included in the balance of investments in unconsolidated subsidiaries and affiliates at 31st March, 2012.

(b) Assets and liabilities at 1st January, 2012 related to the transferred business are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 7,178	$ 87,398
Long-term assets	1,826	22,233
Total assets	¥ 9,004	$ 109,631
Current liabilities	¥ 6,874	$ 83,697
Long-term liabilities	117	1,424
Total liabilities	¥ 6,991	$ 85,121

(3) Name of reportable segment in which the consolidated subsidiaries were included

Europe

(4) Estimated amounts of net sales and operating income of the above subsidiaries included in the consolidated statement of income for the year ended 31st March, 2012 amounted to ¥14,821 million ($180,458 thousand) and ¥372 million ($4,529 thousand), respectively.

27. Subsequent Events

(1)Appropriation of retained earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2012, was approved at the annual general meeting of the shareholders of the Company held in 15th June, 2012.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥10.00 ($0.12) per share	**¥ 1,106**	**$ 13,466**

(2)Construction of a new plant

The Company passed a resolution to construct a new plant in Tianjin, China at the Board of Directors meeting held on 7th May, 2012.

(a) Reason for plant construction

To cope with the growing demands for machine tools in China, the Company aims to shorten the delivery time by manufacturing machines at a closer location to customers and reduce logistics cost from Japan as well as manufacturing cost. The Company also will continue operating MORI SEIKI (SHANGHAI) CO., LTD., a wholly owned subsidiary in Shanghai, China, as a base of selling products manufactured at the new plant in Tianjin.

(b) Overview of plant construction

(a) Location	:	West zone, Tianjin Economic-Technological Development Area, Tianjin, China
(b) Site area	:	Approximately 90,000 m^2
(c) Building area	:	Approximately 24,000 m^2 (plan for the first phase)
(d) Date of start of production	:	September, 2013
(e) Total investment	:	Approximately ¥4 billion ($49 million) (plan for the first phase)
(f) Production items	:	NC machine tools and peripheral equipment
(g) Production capacity	:	100 units / month (plan for the first phase)
(h) Employees	:	200 employees (plan for the first phase)

Independent Auditor's Report

The Board of Directors
Mori Seiki Co., Ltd.

We have audited the accompanying consolidated financial statements of Mori Seiki Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at 31st March, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mori Seiki Co., Ltd. and consolidated subsidiaries as at 31st March, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation
We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

15th June, 2012
Osaka, Japan

Ernst & Young Shin Nihon LLC

A member firm of Ernst & Young Global Limited

MEMO

Issues to be Addressed

(1) Product development

Launched in 2010, the X-class series is a new range of machines which has replaced our previous flagship models and set new standards in terms of accuracy and cutting ability.
This year, we plan to further expand the range of the X-class machines by introducing more products to the line-up. We will also develop high-productive machines for mass production lines of parts to satisfy many demands from customers in Japan and overseas. Furthermore, we will strive to develop new technology such as a super-high-speed, continuous in-machine measuring system using laser and a chip disposal system that vacuums chips, which are created at machining point, into the spindle to prevent chips from scattering in the machining chamber.

(2) Quality

Quality includes all activities, from product planning to sales and service, in which we relate to customers through our products. We all work hard to improve quality everyday. For our third medium-term management plan "GQ-C-SI 123" (started in FY 2011), we unveiled a new slogan, "Let's make an impression on customers by providing high-quality machines!" This slogan emphasizes and highlights the care and attention to detail that we put into our machines. In additiona to quality, we will begin manufacturing "NHX series" horizontal machining centers at the new plant in North America from this July. We will strive to ensure that the quality of the machines produced at this new plant will be equivalent to those manufactured in Japan. The Mori Seiki Group will continue to implement important measures to improve quality.

(3) Trade Controls for Security

With recent deterioration in security situation, particularly in the Asian countries, international concern about measures to prevent the proliferation of weapons of mass destruction and the excess stockpiling of conventional weapons has been growing.
To address this, the Mori Seiki Group has established internal regulations (Compliance Program) to ensure compliance with export control laws.
Additionally, to prevent the illegal export of our products, we have become the first in the machine tool industry to install the function that detects and disables a machine if the machine is relocated from the site where it is originally installed.
We will continue to address security trade issues as our top-priority.

(4) Compliance with the Law

Management puts emphasis on the importance of carrying out corporate activities in compliance with the law and instilling corporate ethics to all employees. We also increase directors' and employees' awareness of laws by conducting training and education on a regular basis. To address the dynamic global business environment, we are constantly challenging our current structure and systems to better comply with changing laws and regulations not only within Japan but also globally. As the Internal Auditing Department in the key role, we have developed a system to monitor the status of compliance with laws and regulations, and are constantly working on strengthening internal control.

Business and other risks

Among the various financial and operational facts and statistics disclosed in the Annual Report, the following information has been determined to have importance in influencing the decision-making process for investors. Note that the forecasts and future events stated in this report are those described in the securities report submitted by Mori Seiki on 15th June, 2012.

(1) The economic conditions in key markets (Japan, the Americas, Europe and China/Asia)

The percentage composition by region of the Mori Seiki Group's consolidated net sales for the term under review is 35.5% for Japan, 28.4% for the Americas, 21.5% for Europe, and 14.7% for China/Asia. In any of the regions where the Mori Seiki Group sells and provides its products and services, there is a possibility that the Group's business results may be adversely affected in cases where demand for Mori Seiki products and services decline due to the deterioration of the economic trend.

(2) Sudden fluctuations in demand for investment in plant and equipment

While the economies of emerging countries like those of Asia, the BRICs, and central Europe, are expanding and the machine tool markets in Japan, the Americas, and Europe have also continued to experience stable growth over the medium and long term, it is said that the machine tool industry is by nature easily influenced by the fluctuations of the economy. The Mori Seiki Group's business results also tend to be greatly influenced by investment in plant and equipment in line with the fluctuations of economic conditions. For example, in the instance of the financial crisis that originated in the United States during the 61st term, there was a drop in demand for investment in plant and equipment in all regions simultaneously. Therefore, there is a possibility that both product prices and numbers of units sold could drop suddenly and substantially due to unforeseeable events, which may cause adverse effects on the business activities, business results and financial status of the Mori Seiki Group.

(3) Influence of Market Competition

Since the number of companies entering the machine tool industry is large and there are some overseas companies that supply low-cost products, the Mori Seiki Group is exposed to fierce competition in each market, and it is difficult to set advantageous prices for the products. The Mori Seiki Group is promoting measures to develop products that are differentiated from the competition by strengthening technical capabilities, such as reducing the cost of raw materials, and strengthening sales capabilities. However, if these promotional measures prove to be difficult to maintain or expand market share or maintain profitability in the future, there could be adverse effects on the activities, business results and financial status of the Mori Seiki Group.

(4) Corporate mergers and acquisitions, and capital and business collaboration

The Mori Seiki Group ranks mergers, acquisitions, and capital and business collaboration as an important strategy for strengthening its business base.
Looking ahead, depending on the success or failure of the corporate mergers, acquisitions, and capital and business collaborations that we engage in, there could be adverse effects on the Mori Seiki Group's activities, business results and financial status.

(5) Significant changes in the exchange rate against the yen of the U.S. dollar, Euro, etc.

The business activities, business results, and financial status of the Mori Seiki Group have been adversely affected by fluctuations in the foreign currency market. Asset and liability transactions denominated in foreign currency are impacted by the fluctuations of the exchange rates when converted to Japanese yen. Fluctuations in exchange rates also affect the prices of products and services, and sales transactions that are denominated in foreign currency. In order to reduce these effects, we are attempting to achieve a balance among the domestic and Asian transactions denominated in yen, American transactions denominated in U.S. dollars, and the European transactions denominated in Euros. Regardless, there is a possibility that the activities, business results, and financial status of the Mori Seiki Group will be adversely affected.

Business and other risks

(6) Significant changes in the cost of natural resources or raw materials

If we have to face a situation where prices of raw materials have soared significantly in excess of expectations, the business results of the Mori Seiki Group may be adversely affected. We have a policy for covering the soaring costs of raw materials by lowering the costs through negotiation with the suppliers and by passing on rises to the prices of products, but if the costs continue to soar or if measures such as cost negotiations with suppliers are unsuccessful, the activities, business results, and financial status of the Mori Seiki Group may be adversely affected.

(7) Security trade management

Important changes in regulations and laws in many of the countries and regions in which Mori Seiki operates may have an effect on the business activities, business results, and financial status of the Mori Seiki Group. The machine tools that constitute the core business of the Mori Seiki Group are classified as controlled freight under the laws and regulations relating to export in each country and are subject to control under the framework of international export management. If this control is strengthened due to changes in the international situation, it may have adverse effects on the business activities, business results, and financial status of the Mori Seiki Group.

(8) Dependence on specific fields of industry

The concentration of sales of the Mori Seiki Group in the automobile and related industries is relatively high. This means that fluctuations in the business environment in these industries may adversely affect the activities, business results, and financial status of the Mori Seiki Group in the future.

(9) Customer Credit Risks

The Mori Seiki Group is extremely cautious about the credit risk posed by business partners. However, for example, if the credit status of customers with large transaction values deteriorates due to a worsening of the business results of their business partners, the actualization of this risk could adversely affect the activities, business results, and financial status of the Mori Seiki Group.

(10) Financial Covenants

Financial covenants have been applied to some loans, such as committed line-of-credit agreements. If there is any infringement of the financial covenant in the future, it may adversely affect the activities, business results, and financial status of the Mori Seiki Group.

(11) Intellectual Property Rights

The Mori Seiki Group is constantly developing new technology and know-how through research and development and the development of new products, and we are seeking to utilize intellectual property rights by applying to patent this valuable technology and know-how. However, in the event of invalidity claims by third parties in relation to the intellectual property rights of the Mori Seiki Group, or if a lawsuit to stop infringement is filed against us, the activities, business results, and financial status of the Mori Seiki Group may be adversely affected.

(12) Risks Relating to Lawsuits

The Mori Seiki Group is working to achieve the functions and specifications required by the customers and to pursue appropriate quality with consideration to safety, as we aim for comprehensive quality control on a global basis. Nevertheless, if a serious problem arises with the Mori Seiki Group's products, or if there is a serious accident or there are quality complaints or a recall is initiated, we could be liable to substantial product compensation.

In addition, the Mori Seiki Group is expanding its business both in Japan and overseas, and in the course of carrying on this kind of business, there is the possibility that lawsuits for compensation for damage could be filed against us based on responsibilities that arise during this business.

Currently, no lawsuits that have a major influence on the business results of the Mori Seiki Group have been filed against us, but if such a lawsuit is filed in the future and a disadvantageous judgment is made against us, it may adversely affect the activities, business results and financial status of the Mori Seiki Group.

(13) Effects of Natural Disasters, etc.

The Mori Seiki Group is expanding its sales and service centers globally, so there is the possibility that it will be affected by disasters that may result from many phenomena including unpredictable natural disasters and computer viruses.

The manufacturing bases of the Mori Seiki Group in Japan are in Mie, Nara, Chiba, Kanagawa and Niigata prefectures, and those overseas are in Switzerland, France, and the U.S.A. In the event that any of these manufacturing bases are affected by a natural disaster, such as an earthquake or flood, and rendered unable to supply products, or the supply of products is delayed, the activities, business results, and financial status of the Mori Seiki Group could be adversely affected.

(14) Environmental Problems

In the pursuit of its activities, the Mori Seiki Group is subject to a range of environment-related laws and regulations. The Mori Seiki Group carries on its activities while paying careful attention to these laws and regulations, but it is possible that it could bear a legal or social responsibility relating to the environment in activities that it is currently undertaking or activities that it has undertaken in the past. We may also note that additional costs associated with compliance with the law will arise in the future as laws and regulations relating to the environment and social requirements in relation to environmental problems become stricter. As a consequence, depending on the trend in laws and regulations relating to the environment, the activities, business results and financial status of the Mori Seiki Group may be adversely affected.

STOCK INFORMATION (As of 31st March, 2012)

MORI SEIKI CO., LTD.

Foundation
26th October, 1948

Fiscal Year End
31st March

Number of Shares Issued
110,600,961 shares (Excluding treasury stock of 7,874,351 shares)

Stock Exchange Listings
Tokyo and Osaka Stock Exchanges

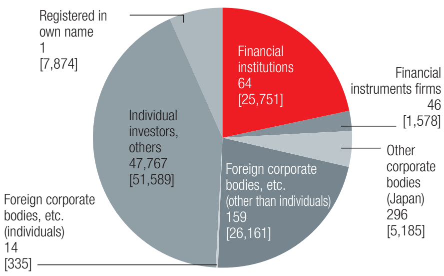
Number of Shares Outstanding
200,000,000 shares

Number of Shareholders
48,347

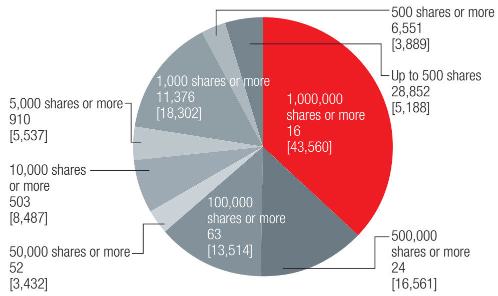
Major shareholders

Shareholder Name	Number of Shares Held (1,000 shares)	Voting Rights(%)
Gildemeister AG (Standing Proxy, Credit Suisse (hong Kong) Limited)	6,042	5.46
The Bank of New York -JASDEC Treaty Account (Standing Proxy, Mizuho Corporate Bank, Ltd. Settlement sales department)	3,625	3.28
Masahiko Mori	3,540	3.20
The Master Trust Bank of Japan, Ltd. (Trust account)	3,325	3.01
The Nomura Trust and Banking Co., Ltd. (Investment trust)	3,164	2.86
Japan Trustee Services Bank, Ltd. (Trust account)	2,681	2.42
Chieko Mori	2,287	2.07
National Mutual Insurance Federation of Africultural Cooperatives (Standing Proxy, The Master Trust Bank of Japan, Ltd.)	1,984	1.79
Masaru Mori	1,965	1.69
Trust & Custody Services Bank, Ltd. (Trust account)	1,380	1.25

Distribution by shareholders [Units: 1,000 shares]



Distribution by number of shares [Units: 1,000 shares]



Contact for investors

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Phone: +81-(0) 52-587-1811

SUMITOMO MITSUI TRUST BANK (Securites Agent Department)
1-4-1 Marunouchi, Chiyoda-ku, Tokyo 168-0063, Japan
Phone: +81-0120-094-777 (free call)

Establishment of the Sponsored American Depositary Receipts (ADR) Program

Mori Seiki established the American Depositary Receipts (ADR) Program on 26th January, 2006 (U.S.A. Eastern Standard Time), to allow the distribution of Mori Seiki shares in the United States in the form of ADRs.

1. Purpose of establishing the ADR program

The purpose is to develop new investors and expand the base of investors, by enhancing investor service and broadening the choices in available investment instruments in the United States capital market. This sponsored program is the first of its kind in the machine tool industry.

2. Details of ADR program

(1) Type of ADR Program: Sponsored Level 1
(2) Trading Market: OTC (over-the-counter) in the United States
(3) Start Date: January 26, 2006 (United States Eastern Standard Time)
(4) Conversion Rate: 1 ADR = 1 ordinary share (1:1)
(5) U.S. CUSIP Number: 617578109
(6) Ticker Symbol: MRSKY
(7) Depositary Bank: The Bank of New York Mellon
The bank of New York Mellon
Tel: +1 (201) 680-6825
U.S. toll free: 888-269-2377 (888-BNY-ADRS)
URL: http://www.adrbnymellon.com
(8) Local Custodian Bank: Sumitomo Mitsui Banking Corporatio

*1. What is an ADR?

ADR is the acronym for American Depositary Receipts, which are U.S. dollar-denominated transferable registered securities that foreign companies can distribute in the United States instead of the underlying stock. They facilitate investment in foreign stock by United States investors. The underlying stock is held in custody(deposit) in the issuing company's home country, and ADRs are issued by the depositary bank in the United States based on the underlying stock.

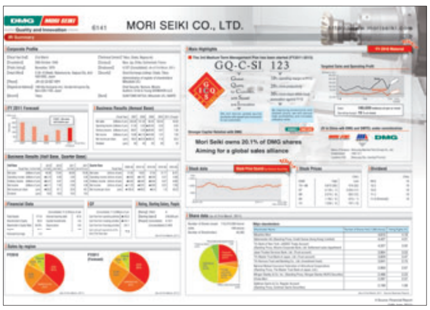
*2. Types of ADR

ADRs are divided into Levels 1-3, depending on whether new stock is issued, whether the stock is listed on United States stock markets, and other conditions. Level 1 offers a convenient means for foreign companies to distribute securities in the United States market, although new stock is not issued and since the company is not listed, stock is traded on the over-the-counter market. By submitting an application for exemption from disclosure to the SEC, as outlined in the 1934 Securities Exchange Act, Rule 12g3-2(b), the company can issue ADRs through disclosure in accordance with Japan's disclosure standards. It is also easy for non-Japanese investors to invest, because disclosure information is filed with the SEC in English.

*3. Sponsored ADRs

The company issuing the underlying stock(sponsor) concludes a depositary agreement with a specific depositary bank, and ADRs are issued by the depositary bank once the issuer, depositary bank and investor rights and obligations have been clarified. In contrast, unsponsored ADRs are issued by the depositary bank based on investor demand, without any involvement at all from the company issuing the underlying stock.

IR Summary



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