

# ANNUAL REPORT 2013 FISCAL YEAR ENDED MARCH 31, 2013

**OPERATIONAL REVIEW** 



Mori Seiki has kept supporting the entire manufacturing world as a leading machine tool company. This process has encompassed a long history of development and challenges. Now, we aim to be the No. 1 machine tool company for our customers. We ceaselessly pursue the best technology and service, and seek to provide new value while unlocking the unlimited potential of machine tools for customers.

# Global One To be the No. 1 machine tool company for 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.









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#### Disclaimer

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, it is possible that actual results may differ significantly from these forecasts. There are various risks or factors, such as facts that are not included here, or premises that may be objectively inaccurate, which may prevent these predictions from coming true. Among these, we identify the major assumptions as follows, while noting that the risks and factors are not limited to these: (1) economic conditions in key markets (Japan, the Americas, Europe, Asia, and so on); (2) sudden fluctuations in demand for investment in plant and equipment; (3) significant changes in the yen's exchange rate against the U.S. dollar, euro and other currencies; (4) significant changes in the cost of natural resources or raw materials; (5) future trends in Japan's relationships with the United States and China; (6) changes in the international situation resulting from the increased risk of terrorism and other factors; and (7) damage resulting from natural disasters such as hurricanes and earthquakes.

# Machine Tools that Enrich Our Life

Our daily life consists of a variety of activities including eating, moving, communicating, and maintaining health. Machine tools are fundamental to successfully pursuing these activities and are found in virtually every facet of life today as we know it.

Products often taken for granted in every day life may not seem to have a corollary to machine tools, but in fact are linked to machine tools in terms of production of the product.

Clearly, machine tools are integral to our daily life.



#### Machine Tools—a Fundamental Component in the Product Life-Cycle

Every product has a unique life-cycle. In the general sense, products start with material extraction from natural resources which are refined and then manufactured into a product. At each stage of the life-cycle, three components-machine tools, tooling, and materials—combine together to play the major role. For instance, production of mining equipment involves the heavy interaction of these three components as does the actual machining of the material mined by this equipment. This is a repeating cycle. Whatever the finished product is and however much it may evolve, the composition pattern will never change. In other words,

the machine tool will continue to be an integral part of our lives, no matter how much the times may change.



#### **Responding to Demand** for Higher Accuracy

Consumers are always seeking products with the best quality. To meet demand for high quality, manufacturers must use very precise and accurate parts. Therefore, the machine tools that produce these parts must be of equally or greater quality.

The accuracy of machine tools has a profound impact on manufactured product quality. Because a machine tool is capable of machining to the micron or sub-micron level, which is not visible to the human eye, it is able to produce components of extremely high precision.

Mori Seiki serves the ever-increasing component accuracy requirements by taking full advantage of our accumulated technologies and expertise.

atomic radius

(0.1 nm)

ø.

carbon nanotube protein

(10 nm)

(1 nm)

Nanotechnology

virus

(1.2 µm)

chnology



Microte 10.10 10<sup>-9</sup> 10.8 10-6 10-3 10 10-5 10-4 10-2 10.1 100 104 10<sup>1</sup> 10<sup>2</sup> 10<sup>3</sup> meters μm mm cm km meters nm m Source: the PATH of PRECISION

Mt. Everest

(8.849 m)

#### Consolidated Financial Highlights

(Billions of yen) 2009/3 2010/3 2011/3 2012/3 2013/3 **Financial Performance** 157.2 66.4 120.4 155.3 148.6 Net sales (Total) 28.3 50.7 Net sales-Japan 78.0 44.5 55.1 Net sales—Overseas 79.2 38.1 75.9 100.2 97.8 Cost of sales 98.3 55.2 80.9 106.0 104.4 Gross profit 58.9 11.2 39.6 49.4 44.2 Selling, general and administrative expenses 53.0 38.1 39.2 42.6 40.0 Operating income 5.9 (26.9)0.3 6.8 4.1 Income before income taxes and minority interests 1.3 (34.6)1.2 6.7 5.6 Net income (2.2)(34.7)1.3 5.6 5.2 Comprehensive income (0.2)3.7 12.0 **Profitability Ratio** Gross profit ratio (%) 37.5 16.9 32.9 31.8 29.7 Operating income ratio (%) 3.8 (40.6)0.3 4.4 2.8 Net income ratio (%) (1.4)(52.2) 1.1 3.6 3.5 4.5 0.2 4.5 2.6 Return on investment (ROI) (%) (21.4)\*1 Return on equity (ROE) (%) 5.3 \*2 (1.7)(32.6) 1.4 6.0 Return on total assets (ROA) (%) (1.3)(23.7)0.8 3.1 2.8 \*3 **Financial Position** Total assets 172.0 185.4 149.2 144.2 186.7 Shareholders' equity 116.8 96.3 93.9 93.2 102.7 \*4 Interest-bearing debt 13.0 25.6 52.0 65.6 58.3 Net interest-bearing debt \*5 (1.5)18.1 44.6 61.0 52.1 54.4 Working capital \*6 27.8 19.9 32.9 30.5 Net working capital \*7 50.0 43.1 58.5 63.8 52.1 Shareholders' equity ratio (%) 78.3 66.8 54.6 50.3 55.0 \*8 Net debt/equity ratio (Times) (0.0)0.2 0.5 0.7 0.5 \*9 **Cash Flows** 8.6 (16.0)(10.2)8.6 21.4 Net cash provided by (used in) operating activities Net cash used in investing activities (11.4)(12.9)(14.1)(22.1)(10.1)Net cash provided by (used in) financing activities (0.5)21.5 24.1 10.9 (10.1)Increase (decrease) in cash and cash equivalents (3.7)(7.0)0.2 (2.9)1.7 Cash and cash equivalents at end of year 14.3 7.3 7.4 4.5 6.3 (13.5) Free cash flow (2.9)(28.9) (24.3)11.3 \*10 Per Share of Common Stock (Yen) Net income (24) 12 -basic (364) 51 47 -diluted 12 50 47 40 Cash dividends 20 20 20 20 4,045 Number of Employees 4,150 3.816 4.107 4,117

\*1 Return on investment (ROI) (%) = Operating income / (Average equity + Average interest-bearing debt) × 100

\*2 Return on equity (ROE) (%) = Net income / Average equity × 100
 \*3 Return on total assets (ROA) (%) = Net income / Average total assets ×100

\*4 Shareholders' equity = Net assets - Stock acquisition rights - Minority interests.

\*5 Net interest-bearing debt = Interest-bearing debt - Cash

\*6 Working capital = Current assets - Current liabilities

\*7 Net working capital = Inventory + Advance payable - Advances received + Accounts receivable, trade - Notes and accounts payable, trade
 \*8 Shareholders' equity ratio (%) = Equity / Total assets × 100

\*9 Net debt/equity ratio (Times) = Net interest-bearing debt / Equity

\*10 Free cash flow = Net cash provided by (used in) operating activities + Net cash used in investing activities





#### Message from the President



## We are pleased to present the 65th Annual Report (from April 1, 2012 to March 31, 2013) of the Mori Seiki Group.

From our founding in 1948 until today, MORI SEIKI CO., LTD. has been creating innovative machine tools and had the pleasure to deliver to customers throughout the world. I would like to sincerely thank our customers for their patronage, which has made our success possible.

We will continue to implement a range of measures targeting further growth in the global machine tool market. In particular, we will strengthen the business and capital collaboration with Germany's GILDERMEISTER AG (DMG), which began in March 2009. By the summer of 2013, we will increase our shareholdings in DMG from 20.1% to 24.9%, after which DMG will raise its shareholdings in Mori Seiki from 5.1% to 10.1%.

Sales integration in China has enhanced a global-scale collaboration structure, both in name and reality, between both companies. In addition, in terms of production, the mutual manufacture of both companies' products has begun, enabling products to be delivered to customers more quickly.

At Mori Seiki, we believe machine tool value is comprised of three factors. The machine tools we strive to create are the culmination of these factors: Products, Solutions, Service and Parts. Product quality is the top customer demand. We conduct development and production on a daily basis to create high-precision, high-rigidity products. Moreover, to provide new value, we suggest total solutions for production issues, providing proactive support both before and after machines are delivered, such as by selecting the optimal machines, peripheral equipment and options for each customer, as well as plant-wide automation. A prompt response through after-sales services following machine delivery and a quick distribution of parts are likewise part of important value for machine tool. We provide these three types of value before machines are delivered to create long-lasting relationships with customers who will use our machines for 10–20 years while making every effort to provide support for longer, more satisfying customer use of machines.

As a trusted professional organization, Mori Seiki and its employees will continue to strive together, in an aim to become the "GLOBAL ONE"—that is, the No. 1 machine tool company for customers.

Business Condition Insights and Fiscal 2012 Initiatives

Mori Seiki aims for sustainable growth and enhanced corporate value in an improving business environment.

Our business and capital collaboration with DMG continues to advance.

In the fiscal year ended March 31, 2013, the business environment was more or less flat. Despite signs of recovery, such as the shift to yen depreciation from the end of 2012 and a rally in the domestic stock market, there were still grounds for concern, such as prolonged concerns over debt problems in Europe and sluggish economic growth in China. As a result, the economy faced continued uncertainty.

Inquiries and orders in the machine tool industry remained in a severe state, and the machine tool total order value for fiscal 2012 declined 13.1% compared to the previous fiscal year. However, at the end of the fiscal year under review, our industry's business environment was clearly improving. For our operations, the situation has brightened mainly in the United States and some areas of Europe.

Amid these conditions, Mori Seiki continued to carry out a range of measures this fiscal year focused on medium- to long-term growth.

First, in terms of business collaboration with DMG, in March 2013 we entered into a cooperation agreement that called for increased mutual ownership ratios to strengthen business and capital collaboration. Since recognition of both companies from among their customers has expanded in the global market, the trade name will be changed to DMG MORI SEIKI CO., LTD. during fiscal 2013.

In terms of sales and service, in January 2013 we announced plans to construct the DMG MORI SEIKI Tokyo Solutions Center in Tokyo's Koto Ward. The center, which we expect to complete in spring of 2014, will house a showroom where approximately 30 machine tools will be on display at any given time. Concurrently, we plan to open a school that provides training on the latest machining techniques for customers that purchase 5-axis machines.

As for products, DIXI Machines\* in Switzerland and DMG collaborated to develop the DIXI210, the world's largest ultrahigh-precision machine. In addition, we added the new-model NHX6300, which offers unparalleled rigidity and agility, to the NHX Series of high-precision, high-speed horizontal machining centers.

Finally, on the production front, construction at the Tianjin Factory in China is on track to launch operations in September this year. After completion, we expect our market share in China to grow as a result of shorter delivery times and lower logistics and manufacturing costs.

\*DIXI Machines: A division of Mori Seiki International SA





Mori Seiki orders

#### Interview with the President





\*1: Americas: United States, Canada, Mexico, Argentina, and Brazil \*2: Europe: incl. Russia, Africa and the Middle East Medium- to Long-Term Growth Scenarios

The global economy is at a turning point.

Mori Seiki is further solidifying its competitive advantage in the areas of product development, production systems and sales development, while maintaining a strong leadership position in the industry.

At present, it appears the global manufacturing industry is approaching a historical turning point. Increasing disparities in economic development, financial crises, exchange rate fluctuation, geopolitical risks and other momentous changes continue to occur in the global market amid strong demands on companies to reallocate management resources. As a result, machine tool manufacturers' needs have expanded beyond providing machines to include solutions, service, parts and operator training. In light of these trends, with a policy targeting medium- to long-term growth, Mori Seiki will attempt to further strengthen its business promotion foundation in the areas of product development, production systems and sales development.

With regard to product development, The X-class, our flagship model offering high precision, high quality and high reliability, accounted for more than 40% of orders. We will enhance this model's lineup, while using our collaboration with DMG to focus efforts on new product development, including 5-axis machines Lasertec machines and compact machining centers to realize the further expansion of our solution capabilities.

As for production systems, although our plants in Japan have traditionally served as the "mother plant," we are aggressively engaged in initiatives to build and enhance global bases and promote production development in areas of demand. In November 2012, our North American factory opened in Davis, California, and our Tianjin factory in China will soon start operations. We will attempt to establish a four-pillared global production system to shorten delivery times and hedge various risks.

In terms of sales development, sales integration with DMG is proceeding on track as we establish an unparalleled position in the industry in a variety of ways, including customer numbers, solutions and service provision. This fiscal year, we are scheduled to complete the global integration of our sales service structure with the launch of collaborations in China, Russia, Brazil and Canada.

Based on these management policies, Mori Seiki's scope of business has firmly maintained superiority over the competition from the start in terms of profitability and the financial foundation, as we seek to continue boldly gaining traction in the machine tool industry. Three Strategies to Achieve Management Objectives

We have in place three business strategies to boost earnings power and achieve a stronger financial structure.

We are taking the necessary steps to contribute to customer value creation and deliver satisfaction to customers through our products and services.

Further improvements to the profit ratio and an enhanced financial structure are indispensible for prompt responses to the business environment and market trends in the fast-changing machine tool industry. Defining our objective as becoming the "GLOBAL ONE" for our customers, we will diligently implement three strategies to achieve this objective.

The first strategy calls for establishing strong plants and sales. We will develop production schedules and appropriately implement the progress management, while establishing and managing a flexible manufacturing structure linked to orders, to ensure a stable supply of products and services demanded by customers. In sales, we will move steadily forward with DMG sales integration and promptly provide optimal solutions for our customers by cooperating with our Engineering Department and utilizing Mori Seiki Qualified Products (MSQP).

The second strategy calls for strengthening our collaboration with DMG. Only four years have passed since the business and capital collaboration with DMG began in March 2009, but already DMG MORI SEIKI has established a strong presence in Japan, the United States and Germany, the major markets in the machine tool industry. As for production and development, Mori Seiki and DMG entered into a license agreement to manufacture horizontal machining centers and lathes (Mori Seiki's strengths), and 5-axis machines (DMG's strength) to boost production efficiency.

The third strategy calls for creating unparalleled product quality. Mori Seiki recognizes that one of the most important issues for management is to have the entire Group and all employees work together to improve quality and reliability. We seek the highest quality, in terms of product specifications, functions and design, as well as rapid response capabilities in terms of inquiries and service needs.

We will continue to contribute to customer value creation in the years ahead as we establish a rock-solid business promotion structure by investing all our management resources into these three strategies.





#### Full-year forecast for FY2013 (millions of yen)

	Full-year results for FY2012	Full-year forecast for FY2013	YoY change
Net sales	148,559	155,000	+4%
Operating income	4,134	7,000	+69%
Operating income ratio	2.8%	4.5%	
Net income	5,170	7,000	+35%

#### Special Feature—Business and Capital Collaboration with DMG



# **Globalization Background**

Economic globalization, which began to gain momentum in the latter half of the 20th century, combined with the development of information processing technology to bring about integration in the global manufacturing industry. The industrial products we use in our daily lives, such as cars and smartphones, are assembled with parts purchased from suppliers around the world. Before globalization, one only needed to be aware of domestic competitors, but now there are competitors from different countries and cultures to learn from. At the same time, this heavy dependence on trade is supported by a strong logistics and financial network. The Great East Japan Earthquake and the flooding in Thailand, which impacted the global manufacturing industry—as well as a strong yen that caused major concerns about relocating manufacturing bases—are all evidence of changes in the business environment since the turn of the century.

Looking at today's world, we can categorize competitive companies among the manufacturing industry into two types: those with massive amounts of capital developing business globally, and those that are small in scale but inventive and able to deliver high-quality products to customers around the world. We must meet the needs of both types of customer, and we ourselves, as a leading machine tool company, must grow to continue supporting the global manufacturing industry. Since its founding, Mori Seiki gained deep trust from its customers by providing solid and reliable service and parts. Furthermore, flagship parts, such as spindles and bearings, are produced in-house and we have made efforts to strengthen production capacity and machine quality with the purchase of companies and operating departments, such as the former HITACHI SEIKI, TAIYO KOKI, DIXI Machines and Magnescale.

# Collaborative Relationship with DMG

In 2009, we began a business and capital collaboration with GILDEMEISTER AG (DMG), Europe's top machine tool manufacturer.

The decision to form a corporate alliance between overseas and Japanese machine tool manufacturers was unprecedented in the history of the industry. At the time, some doubted the arrangement's effectiveness, but considering that global competition will continue to intensify in the future, there is clearly strategic value in the early establishment of a corporate structure that would support our customers on a global basis. In fact, since the collaboration began, a variety of environmental changes have taken place, including the Lehman shock, the rise of China, the Great East Japan Earthquake, appreciation of the Yen and the European debt crisis. Despite these developments, the collaboration with DMG has realized steady progress, including the integration of sales and service bases, management of a customer finance company and the joint development of the MILLTAP700 and DIXI210. In particular, the integration of sales and service bases established a collaborative sales structure in key locations in Europe, North America, Japan and Asia. At present, we are also preparing to establish this structure in China, Russia, Brazil and Canada.



# **Collaborative Progress**

In light of performance up to now, MORI SEIKI CO., LTD. is now preparing to become a newly reborn company under the name of DMG MORI SEIKI CO., LTD. Four years of collaboration have enabled us to reconfirm that, regardless of differences between Germany and Japan in terms of history, culture and ways of thinking, Mori Seiki and DMG continue to diligently study products and share common ground by accepting customer comments with sincerity. We are partners with a shared vision of the future of the machine tool industry. Incorporating both company names into the new company name expresses the fact that the collaboration between the two companies is an equitable, 50/50 relationship.

Going forward, Mori Seiki will continue to collaborate with DMG, including plans to promote the establishment of a global production system and the provision of solutions technologies. Customers with bases around the world and customers who operate in a single country must respond to the demands of the present age. We will continue our vigorous push with value propositions that take into account the future of machine tool manufacturers and the importance of strengthening our financial base.

A resolution was passed at the DMG general shareholders' meeting held on May 17, 2013 to change the name of the company to DMG MORI SEIKI AG.



#### [ Outline of GILDEMEISTER AG (DMG) ]

Name	GILDEMEISTER AG
Business Operations	Manufacture and sales of machine tools
Established	October 1, 1870 (Name at establishment: Werkzeugmaschinenfabrik GILDEMEISTER & Comme)
Head Office	Gildemeisterstr. 60 D-33689 Bielefeld Germany
Representative	Rüdiger Kapitza, CEO
Capital	€151.7 million
Number of Employees	6,496 (consolidated)

Business Results (January 2012 to December 2012)				
Sales Revenue	€2,037.4 million			
Operating Income	€132.9 million			
Net Income	€82.4 million			
Total Assets	€1,615.3 million			

Source: Based on the 2012 GILDEMEISTER AG annual report.

#### [ Collaborative Progress ]

2009	March	DMG and Mori Seiki business collaboration begins
	April	Mori Seiki acquires 5% of DMG shares
	July	Collaborative sales and service begin in Thailand, Indonesia, Taiwan and Turkey
	October	Collaborative sales and service begin in Japan
	November	Collaborative sales and service begin in South Korea
		Dr. Masahiko Mori, President of Mori Seiki, is appointed to the DMG supervisory board, and Dr. Rudiger Kapitza, CEO of GILDEMEISTER AG, is appointed Senior Executive Operating Director of Mori Seiki
		Joint establishment of MG Finance
2010	March	Collaborative sales and service begin in Australia
	April	Collaborative sales and service begin in the United States and India
	July	Collaborative sales and service begin in Singapore, Malaysia, Vietnam and the Philippines
	September	Collaboration on a booth at the IMTS exhibition
2011	January	Collaborative sales and service begin in Africa
	April	Collaborative sales and service begin in Mexico
		Mori Seiki acquires additional DMG shares, increasing its holding to 20.1%
	August	DMG acquires additional Mori Seiki shares, increasing its holding to 5.1%
	September	Collaborative sales and service begin in Germany
		MILLTAP700, the first jointly developed machine, is announced at EMO Hannover 2011
2012	January	Establishment of DMG MORI SEIKI Europe AG in Switzerland Collaborative sales and service begin in Europe
2013	March	Announcement of the mutual acquisition of additional shares

Special Feature—Business and Capital Collaboration with DMG

# For even greater customer satisfaction



Complete global integration of sales and service

2 Launch a joint development model one and after

3 Shorten delivery times and hedge risks with joint production

#### Joint Sales and Service Network

By integrating our sales and service network with DMG, we expect more efficient sales promotions to result from the increased number of customers, as well as the ability to precisely ascertain market needs. Up to now, we have completed integration in Europe, North America, Japan and major regions in Asia. In fiscal 2013, we are proceeding with preparations aimed at integration in other areas. As a result, we will have completed the global integration of sales and services. Regardless of where our customers are located, we will provide every customer with the most appropriate products from a wide range of lineups offered by both companies. In addition, in line with promoting integration, we will also expand the direct selling systems established by both companies up to now. We acquired and restructured Tyler Machine Tool Co., Inc. in of the United States and Micron S.p.A. of Italy. Thus, we have strengthened the link between production and sales, enabling the creation of an even closer relationship with customers. Communicating with customers directly, we will provide even higher levels of sales, support and optimal solutions.

Note: Tyler Machine Tool Co., Inc. was acquired on April 1, 2013; Micron S.p.A was acquired on May 7, 2013.

#### Joint Development

DMG possesses a variety of 5-axis machines and technologies, while Mori Seiki possesses a variety of horizontal machining centers, lathes and technologies. Mutually incorporating the specializations of both companies, we anticipate even further technological developments. This will also enable lower development costs per model. Up to now, we announced the next-generation compact machining center MILLTAP700 and the DIXI210, the world's largest ultrahigh-precision machine. In September 2013, we plan to announce new machines at the International Machine Tool Fair EMO Show held in Germany. We are jointly developing new products not extant in the lineups of either company, while incorporating the strengths of both companies to consolidate duplicate machines in the market. In addition to machines, we will promote the joint development of standardized parts and units. While keeping costs low, both companies will maximize the operability of their lineups to meet customer needs. We will also standardize development procedures to promote improved efficacy in future joint development.



MILLTAP700

DIXI210

#### Joint Production

While some machine models developed by DMG are to be manufactured at Mori Seiki plants, some other machines developed by Mori Seiki will be manufactured at DMG plants. We have enhanced our production systems for the mutual manufacture of both companies' products. As a result, we can reduce time required delivering products to customers, and we expect to see a reduction in logistics costs. The countries in which either DMG or Mori Seiki operates a production base are Japan, Germany, Italy, Switzerland, Poland, the United States and China. With these countries, we are nearing the completion of our global production system. At present, DMG is constructing the Ulyanovsk Factory in Russia, and Mori Seiki is building the Tianjin Factory in China. We will attempt to optimize production and shipping with the completion of both plants. Currently, the DMG Pfronten Factory in Germany is manufacturing Mori Seiki's NHX4000 horizontal machining center and production of the NLX2500 lathe is set to begin at the Bergamo Factory in Italy. At Mori Seiki, we plan to produce the DMG 5-axis machine DMU50 at the Iga Campus. Going forward, we will continue to strengthen our joint production system.



#### TOPICS 01 November 2012

#### Grand Opening of North American Factory

Mori Seiki celebrated the grand opening of its new North American Factory in Davis, California, the first non-Japanese production base under its brand name. The factory will conduct manufacturing focused on its horizontal machining centers to supply customers in the United States and neighboring countries.



 North American Factory Overview

 Location
 Davis. California (USA)

 Site area
 Approximately 89,000 mf

 Start of operations
 July 2012

 Production items
 Horizontal machining centers NHX4000, NHX5000, and others

 Production capacity
 80 units/month

 Number of employees
 200

#### A Model Factory with Cutting-Edge Equipment

The cutting-edge equipment at the North American Factory enables it to function as a model for plant automation. With this factory, Mori Seiki has established a four-pillared global production system with bases in Japan and North America, together with the bases of our partner, DMG in Europe and China (Shanghai). We will continue to provide customers with even better products and services as we seek to reduce our exposure to foreign exchange volatility and cut logistics costs.

#### TOPICS 03 November 2012

# Debut of Four New Lineups in the NLX Series

# A Diverse Variation Achieving High Precision and High Rigidity

A new lineup has been added to the NLX Series of high-rigidity, high-precision CNC lathes. At the Japan International Machine Tool Fair (JIMTOF), held in November 2012, we launched sales of the 6-inch chuck NLX1500, 8-inch NLX2000, 12-inch NLX3000, and the NLX4000, a large lathe for machining of large workpieces.



#### TOPICS 02 June 2012

Construction Completed at the Bed/Column Precise Processing Plant



# Promoting Strict Temperature Control and Reduction of Manpower

At the Bed/Column Precise Processing Plant, machine and tool standardization and process revisions succeeded in achieving shorter product lead times and reducing manpower. In addition, we worked to improve energy conservation efficiency with measures such as our original air-conditioning system, which enables room temperatures to be maintained year-round at an accuracy of  $\pm 0.5^{\circ}$ C ( $\pm 0.9^{\circ}$ F), and the external placement of hydraulic units that vent heat.

#### TOPICS 04 January 2013

#### DIXI Machines\* and DMG Jointly Develop the World's Largest Ultrahigh-Precision Machine DIXI210

DIXI Machines and DMG collaborated to develop the DIXI210, the world's largest ultrahigh-precision machine, which achieves volumetric accuracy of 35  $\mu$ m acrross the entire machine envelope. \* DIXI Machines: A division of Mori Seiki International SA

#### Realizing Precision that Surpasses CMMs

While other companies' high-precision 5-axis machines in the same class offer volumetric accuracy of approximately 100  $\mu$ m, the DIXI210 achieves an accuracy of 35  $\mu$ m. In machining area of 1,850 mm × 2,100 mm × 1,250 mm, the DIXI210 boasts precision that surpasses CMMs with one-third the machining errors of other companies.

#### TOPICS 05 January 2013

Launch of a Horizontal Machining Center Equipped with Unparalleled Rigidity and Agility: the NHX6300



# Optimal for High-Precision Machining of Large Workpieces

The NHX6300, a horizontal machining center equipped with unparalleled rigidity and agility, was designed specifically for the No. 50 taper spindle with a palette size of  $630 \times 630$  mm. This machine, developed for the faster, higher-precision machining of large workpieces, employs thick beds and other structures to attain the high rigidity necessary for heavy-duty cutting.

#### TOPICS 07 August 2012

#### Tianjin Factory Construction Ground-Breaking Ceremony

A ground-breaking ceremony was held at the construction site of the Tianjin Factory in Tianjin City in China. Scheduled for completion in autumn 2013, the plant will manufacture horizontal machining centers. It will also supply plants in Japan and the United States by serving as a production base for parts.

#### TOPICS 08 January 2013

#### Construction of the DMG MORI SEIKI Tokyo Solutions Center Announced

The Tokyo Solutions Center, currently under construction in the Shiomi district of Tokyo's Koto Ward, will include a global exhibition hall on the first floor where 25 to 30 machine tools will be displayed regularly. The NC School will also offer courses teaching cutting-edge machining technology. In addition, the center will serve as a support base for customers in and around Tokyo, as well as those in the Tohoku region and neighboring countries in Asia.



#### TOPICS 06 November 2012

Joint Exhibition at Four Major International Trade Fair



#### Hosted Largest Booth at JIMTOF 2012

At the 2012 Japan International Machine Tool Fair (JIMTOF), our 2,340-m<sup>2</sup> booth, the largest among corporate exhibitors, featured the worldwide debut of the NLX Series lineup and 32 machine tools, including eight new models. In the future, we will continue to jointly host booths at exhibitions around the world, including the four major international machine tool trade fairs, or JIMTOF (Japan), CIMT (China), EMO (Germany), and IMTS (United States). This will enable us to showcase DMG MORI SEIKI's leading proprietary technologies in one location and identify the most ideal solutions for our customers.



#### TOPICS 09 Spring 2013

#### Establishment of a Global, Direct Sales System

As part of its commitment to expand its direct sales system, Mori Seiki acquired former overseas distributors Tyler Machine Tool Co., Inc. of the United States on April 1, 2013 and Micron S.p.A. of Italy on May 7, recognizing them as Group companies. This move will further reinforce collaboration between manufacturing and sales, which in turn will make it possible for us to build closer connections with our customers. Going forward, we will closely monitor our customers' feedback so that we can offer the best possible solutions and support for their business.

#### Three Values for Customers



# **Products** Creativity, state-of-the-art functionality, and unrelenting quality

Machine tools are industrial equipment absolutely essential to the production activities of our customers, while performance is the No. 1 specification that our customers demand. Since it was founded, Mori Seiki has provided its customers with creative, high-precision, durable and reliable machine tools together with industry-leading services. Our unwavering commitment is to deliver products that are easy to use and help customers maximize their profitability. In the years ahead, we will continue to supply high-quality, highly competitive products, based on our approach to continual improvement.

#### The World's Largest Product Lineup

Mori Seiki offers the world's most extensive lineup to meet customer needs. We propose optimal products to customers from among a range of different sizes and specifications in our lineup, including combined lathes, machining centers and multi-axis machines. Launched in 2010, the X-class offers high precision, high quality and high reliability, and has grown into a flagship model accounting for more than 40% of our orders. Going forward, we will make continual improvements and refinements to ensure that we can provide even more attractive products to our customers. Our partnership with DMG will enable us to expand our lineup even further, including 5-axis machines, compact machining centers, Lasertec machines, and ultrasonic machines. Mori Seiki will continue to market the unit best suited to our customers' machining work and production format needs.







5-axis / Multi-axis machines Multi-axis turning centers





Lasertec machines

Machining centers

Ultrasonic machines

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#### Products

Service & Parts

#### Highly Efficient Manufacturing System

For parts machining, we have established a system fully capable of flexibly accommodating variable-item, variable-lot production. This includes the standardization of equipment specifications and the opening of a new Bed/Column Precise Processing Plant featuring cutting-edge facilities that can maintain a certain temperature throughout the year. This has enabled us to significantly cut lead times as well as the number of tools and fixtures that we use. Mori Seiki undertakes exclusive, in-house manufacture of key components to ensure accuracy, such as spindles and ball screws. We have an integrated line for spindles and ball screws ranging from parts machining to assembly and inspection, and using our own Heat Treatment Plant and Casting Plant, are working to further boost quality and provide faster deliveries.



For assembly, Mori Seiki has implemented a digital manufacturing system that closely monitors production progress in real time using a network. We were also the first in the industry to roll out cell production for our machine tool assembly. In this manner, we strive continually to improve our manufacturing methods to achieve higher quality and faster deliveries, including the use of a production line for our unit assembly work, following the example of the automobile industry.

#### Comprehensive Quality Control

During the new product development phase, we implement precision, durability, operability and destructive tests to enhance design quality. Parts manufactured in-house undergo rigorous accuracy testing, while for delivered parts Mori Seiki conducts acceptance inspections as well as give thorough instructions on quality to our suppliers. In the manufacturing process, we implement quality auditing to determine whether work is carried out in accordance with the Quality Plan Sheet (involving items such as QC process tables, operation standard documents and check sheets), and we implement a 100-hour running test on all products prior to shipment.

We obtained certification from TÜV Rheinland Japan for our Radiation Control Process to eliminate

concerns over potential radioactive contamination in products export from Japan, which were raised following the Fukushima nuclear power plant accident in March 2011. This, together with our extensive array of other tests, provides our customers with additional peace of mind when using our products. Immediately after delivery and acceptance, and one year after delivery, we contact each customer directly to survey the level of their satisfaction. We have a system in place to send customer feedback to relevant departments through the Quality Improvement Committee so that measures can be taken immediately.

#### Capital Investment

To achieve more efficient production and logistics processes, and to diversify risks such as natural and other disasters, Mori Seiki is working to establish a global production system and better clarify the roles of our plants in Japan. Furthermore, we invest in the right equipment at our campuses and plants to make our production system as efficient as possible. For example, our new Bed/Column Precise Processing Plant and second assembly plant at our Iga Campus, our North American Factory, our first stand-alone overseas production base, and our Tianjin Factory (slated for completion this year) each feature the latest, most cutting-edge equipment. Mori Seiki ensures that each of our business sites offers the most optimal production environment, which includes introducing innovations to our production system and plant equipment, and taking steps to significantly reduce power consumption.

#### **Production System**

Iga Campus :	A vertically integrated mother plant that produces key components
Nara Campus :	A turnkey plant focused on the automobile industry
Chiba Campus :	A mass production plant for general-purpose machine tools
North American Factory :	A cutting-edge automated plant
Tianjin Factory :	A factory that will manufacture machining centers for the China market and serve as a processing site for casted products for export to lacen Netth America and Europa

# Solutions Total support to increase customers' productivity

The value required of machine tools has until now focused predominantly on the performance of the main unit. However, customer needs for machine tools are growing more diverse and sophisticated. This includes the 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 accommodate these needs, machine tools have added many features and achieved high performance, which has led to ever more complex programming and processing technologies. As a result, support provided both before and after machine delivery is extremely critical for enable customers to take full advantage of a machine tool's performance and enhance productivity. Mori Seiki provides its customers with a full range of solutions to help address their production and technical challenges. This support ranges from process design, machining conditions, fixtures, tools, peripheral equipment and software to total factory automation solutions.

#### Global Engineering System

Mori Seiki has established engineering departments with high levels of specialist knowledge in eight locations around the world. The departments function as technical support during the entire sales process, from the technical proposal to submission of estimate, contract, run-off machining, delivery, and acceptance inspection. The departments also work together closely on the increasing number of orders, run-off machining, and deliveries across multiple countries and regions resulting from globalization. We will make proposals that take into the account the local conditions of each delivery destination and work hard to meet the needs of both global corporations and community-based companies.

#### MSPQ: Complete Support Using a Host of Peripheral Equipment

Peripheral equipment for our products that passes a rigorous quality, performance and maintenance review process receives the Mori Seiki Quality Products (MSQP) designation. Using this system, customers can select the right peripheral equipment for their product from MSQP and have it delivered together with the machine unit. With some regions excepted, MSQP are also covered under the same warranty and service program as our machine. Our ability to propose, select, deliver and maintain a host of peripheral equipment ensures that our customers can use our products with peace of mind well into the future.

#### Solutions Center

Our Solutions Center features expansive, well-organized spaces featuring the latest machine tools and facilities. Here, Mori Seiki works closely with our customers to resolve a variety of machining challenges. To improve customers' productivity, each Solutions Center is located close to a major industrial area. This enables our customers around the world to view closely our machines and machining work whenever they need to. Each Solutions Center fully supports customers in three key areas: demonstration machining, test machining and advanced machining technologies. This ensures that we provide the same consistent services around the world.





Mori Seiki Qualified Products (MSQP)

#### Demonstration machining:

Customers can view a demonstration machining that they are considering to purchase, to ensure the one they select best suits their needs. These demonstrations help customers to confirm actual operations prior to purchase. All of the machine tools on display at the Solutions Center are continually ready for use for demonstration machining.

#### Test machining:

A range of CAM as well as equipment to measure three dimensionality, roundness and roughness are used with customers onsite to perform test machining and measurements in accordance with the requested workpieces and workpiece drawings. Through test machining, our highly experienced engineers propose the best machining method, tool, fixture and cutting conditions.

#### Advanced machining technologies:

Together with our customers, we continually research and develop cutting-edge technologies to improve machining efficiency, extend the service life of tools and improve cutting conditions. This has enabled us to develop a number of new machining technologies, including S-Quad, Zerochio<sup>®</sup>, Spinning Tool, and InvoMilling.

#### roducts

Solutions

Service & Parts

## Resident Engineering Service

Since it was founded. Mori Seiki has sent its professional engineers to customers at the beginning of each delivery. For customers who seek long-term support, we temporarily transfer engineers on-site to provide customers with the best support possible. Reflecting the increase in requests for the transfer of our engineers, we established the Resident Engineering Department in March 2007. Resident engineers are carefully selected from engineers who can operate machines and possess in-depth knowledge of machining that allows them, after viewing a workpiece, to quickly understand which type of machining process should be used. We send these professionals to our customers for long periods of time to provide solutions and support related to production systems and workpieces that differ by industry, such as the automobile, construction machinery and aircraft industries. To date, we have sent a total of 40 resident engineers to 18 customers. Given the advancements in machine tool functions amid the growing complexity of programming and machining technologies, resident engineers play an increasingly important role, which is expected to grow in the years ahead.



(Example of DMG MORI SEIKI automation system)

#### Three Values for Customers



# Service & Parts Maintaining machine production performance for 10 to 20 years or longer

Machine tools are products that can be used for 10 or even 20 years.

Put simply, Mori Seiki considers speedy onsite after-sales services and prompt parts distribution to be among the key values in regard to machine tools. It is important to create strong partnerships to build relationships with customers that last many years.

We position technical centers, service centers and parts centers around the globe to achieve smooth coordination and a quick response to customer requests. As necessary, we pursue speedy resolutions to problems through onsite service personnel dispatched from technical centers and parts provided by parts centers under the direction of service centers.

Mori Seiki makes every effort to provide support that demonstrates the consistently high performance of machines purchased by our customers.

#### Our Parts Centers Ensure a Rapid Supply System

Mori Seiki has established large-scale parts centers in five locations (Japan, the United States, Germany, China and Thailand) to provide customers around the world with the best possible after-service. Maintaining several hundreds of thousands of parts around the world allows us to conduct rapid parts shipments while cooperating with each location. For example, shipping parts by air from Europe when it is the middle of the night in North America ensures a backup system that takes advantage of time differences. Furthermore, we have introduced a system that enables parts to be searched for and ordered online inside the center. As a result, this enables the person in charge to smoothly arrange orders and deliver parts to customers even more quickly. We aim to ship parts within 24 hours after receiving an order, and currently this objective is achieved more than 90% of the time. We will conduct accurate parts management and enhance our global system to respond even more quickly to customer requests.

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#### Continuous Operation of Service Centers

Service centers respond collectively to customer inquiries 24 hours a day, 365 days a year. To resolve problems by the shortest route, on a daily basis we enter into our databases information on customers and machines delivered as well as the histories of customer machine service. This information appears on a monitor automatically as soon as the phone is picked up at the service center, facilitating a smooth response. In addition, using a GPS-equipped mobile phone, the service center can determine which representative should be dispatched most quickly, creating a system that responds rapidly to customer requests.

In regard to customer troubleshooting, Mori Seiki has put in place a system that enables remote support from a service center via the Internet, ranging from alarm diagnostics to the time operations have been restored, significantly shortening downtime after a problem has occurred.

Our specialists are familiar with lathes, vertical and horizontal machining centers and multi-axis machines, providing customer support and resolving issues quickly, 24 hours a day, 365 days a year.

#### Supporting Customers with Lectures and Practical Training

At Mori Seiki University, established to boost individual skills, we hold a range of courses to teach customers methods of machine tool operation. While helping to nurture customers' high-level machining technicians, we also support smooth start-ups when machines are introduced. Customers can select the courses that meet their needs, such as basic operating methods for machine tools and general research into technical skills adapted for practical use. Because demand has increased in recent years, we opened a school in January 2013 to educate operators on the use of 5-axis machines.

Moreover, we have established an Education On Demand system that provides online training enabling machine movement and operation using a computer. Training can be conducted at work or home 24 hours a day using a computer without the need to choose people, time or a place.

Mori Seiki will continue to support machine tool operator training for skilled candidates, preparing new facilities and education by veteran lecturers.

#### Technical Centers Located Around the World

Technical centers around the world are bases for field service. By directly visiting customers, listening to their needs and disseminating this feedback internally, we can provide machines that better incorporate customer needs. Each member of our staff works closely as an engineer with the customer, promptly providing proposals for solutions that meet customer needs. Furthermore, we have introduced a system where persons in charge can search technical information and past history using information terminals to achieve uniformity in the quality of our global service. Our collaboration with DMG has significantly increased the number of technical centers. We also plan to further expand our support structure so that we can provide even more meticulous support that is closer to customers.

#### Two-Year Service Free of Charge is Guaranteed

Mori Seiki's two-year warranty provides machine repairs free of charge for two years. The warranty applies to all machines installed after April 1, 2007, and guarantees provision of repair parts, service and maintenance free of charge for two years on machines delivered in Japan.

Service & Parts

Solutions









# **Maximizing Customer Profits**

Based on the notion that "every outcome depends on the concept," Mori Seiki conducts development focused on basic concept design mainly at the Iga, Chiba and Nara Development Centers, and other R&D sections including the Digital Technology Laboratory (DTL) in the United States, Magnescale Co., Ltd., and B.U.G. MORI SEIKI CO., LTD. Joint development with DMG is getting up to speed, and we are strengthening our ties with each other so that we can provide our customers with more creative proposals.

#### Development Strategies

Up to now, machine performance largely accounted for the value demanded from machine tools. However, in recent years, proposals such as machining technologies and peripheral equipment aimed at improving productivity—as well as the provision of services for customer machines that run non-stop—have also become important values. In particular, highly efficient cutting technologies for new materials and difficult-to-cut materials such as carbon fiber reinforced plastic (CFRP) are among the lightweight materials and super heat-resistant alloys used for energy and aircraft parts. While continuing to shift the bases of



production overseas to Asia and China, we are providing solutions that include support for onsite operator training and launch of multiple production centers overseas. Other services in demand include technologies to find and quickly deliver parts, even for old machines, technologies that inform us in a timely fashion when parts need to be replaced, and technologies for installing new spindles into old machines. Until now, the Engineering and Service Departments had been mainly responsible for providing solutions and services, but it is extremely important for the Development Department—the root of machine designing—to also focus on solutions and services when conducting machine development.

Mori Seiki has drafted a roadmap for the future to identify which technologies will be necessary for machines, services and solutions by 2020. We are making steady progress with development based on this roadmap by checking progress quarterly and reconfirming objectives.

#### Joint Development with DMG

At present, DMG and Mori Seiki have approximately 200 machine products combined, but in the future we intend to consolidate them to no more than 100 models. A total of 100 machines should be able to cover almost everything the market demands from cutting machine tools, whether large or small in size, or high end or commodity type in value.

DMG possesses a rich variety of technologies, such as the 5-axis machining center, while Mori Seiki has lathe and horizontal machining center variations and technologies it shares with DMG. In this way, with both companies sharing and



incorporating their respective areas of expertise, we think we can provide products with an even higher level of perfection. Furthermore, joint development is not limited only to machines; we have also begun to standardize parts and units. Going forward, we will review development procedures to pursue development efficiency.



#### Our Strengths

In April 2013, B.U.G., Inc (located in Hokkaido), our subsidiary of a development company making operating software for machine tools, became a wholly owned subsidiary of Mori Seiki. It researches and develops software with high competitiveness equipped with high operability and functionality, including next-generation operating software MAPPS.

Also, at Digital Technology Laboratory (DTL) in California, we are conducting finite element analysis on machines using a supercomputer as well as developing software for automation systems that will organically link DMG and Mori Seiki machines.



Scales, sensors and other measurement devices are becoming an increasingly important part of machine tools. Measuring the condition of each part of a machine tool is one direction of machine tool technology in the future. For example, sensors will be used to detect the position, pressure, temperature and vibration of each part of the machine tool, and then provide feedback on the results to machine control devices.

At present, our focus is on the development of improved precision, machine durability and other elemental technologies of machine tools. How precisely can we make the spindles turn? How straight can we make the feed-shaft move? How long can we make the spindle and feed-shaft last? Design and manufacturing technology differentiation is becoming ever more important for machine structures and spindles able to cut without chattering vibration to realize these ends. These elemental technologies, which differ from supplementary technologies resulting from software such as manufacturing expertise, cannot be easily imitated, making this a simple point of differentiation from other companies in demonstrating our competitive edge. In 2012, in addition to departments that develop machines, we established an Experiment Department to thoroughly develop elemental technologies and their attendant value in pursuit of extending the limits of elemental technologies.

#### Future Development Policies

Mori Seiki believes that it is extremely important to develop a new generation of human resources capable in providing with proposals that assist our customers in generating profit, demonstrate leadership and respond to the demands of global customers. To this end, we proactively assign young employees to positions in an attempt to invigorate development overall.

We have started to proactively visit customers so that the customers' perspectives are reflected in design development. We are eager to listen directly to comments from our customers regarding actual machine operating



conditions and environment, as well as challenging situations experienced by customers and their requests for future improvement of the machines. By collecting nearly 1,000 such comments and requests, we will incorporate our customers' voices into improvements to existing models as well as into development of newly designed models.

Mori Seiki will continue to respond to customer requests with an inexhaustible quest for technology, making daily progress on customer issues while steadily executing our mission statement, "We will enable our customers to maximize their advantages and excel in their respective markets by continually providing innovative, accurate and trouble-free machines at competitive prices."

#### Machine Tool Technologies Research Foundation (MTTRF)

#### Supporting Research Activities through MTTRF

Machine Tool Technologies Research Foundation (MTTRF) is a nonprofit organization recognized by the U.S. government that operates through contributions from Mori Seiki and other companies in Japan and overseas.

Mori Seiki engages in a range of activities through MTTRF, universities and research institutions in Japan as well as overseas, and by holding lectures at the annual meetings. We will actively support research activities through the MTTRF to promote the technological development of industrial society.



#### DMG MORI SEIKI Scholarship Fund

Italy

#### Support for Students at National Colleges of Technology Affected by the Great East Japan Earthquake

University of Florence

The DMG MORI SEIKI Scholarship Fund was launched to provide assistance in the aftermath of the Great East Japan Earthquake. Managed by the Institute of National Colleges of Technology, Japan, the fund aims to support the education of students at these colleges in disaster-stricken regions. The fund provides each student with 50,000 JPY per month (600,000 JPY per year) over 10 years. We will continue to support students at the national colleges of technology, with the expectation that they will become the human resources who will shape the future of Japanese manufacturing.



#### Cutting Dream Contest

#### Contributing to the Development of Cutting Technologies and Techniques

Each year. Mori Seiki holds the Cutting Dream Contest for companies, universities, technical colleges and research institutions to improve technologies and techniques and deepen exchanges in machining industry. This contest is held not only in Japan but also in the United States 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 the improvement of techniques around the world.



WorldSkills Competition Support as an Official Supplier



The WorldSkills competition has been held every other year since the first competition in 1950, with the objectives of improving the level of technical skills among participating countries and regions and promoting vocational training and friendly international exchange among young engineers. Since 2007, Mori Seiki has been chosen three times in succession as an official supplier of machine tools for the competition.

We will continue to co-sponsor this competition and support technological improvements, as well as the education of an even greater number of young engineers in regard to machine tools.



#### Public Relations Magazine "Tsunagari" Disseminating Information from the Perspective of Connections

This magazine, based on the concept of "Tsunagari" (connections), was first published in January 2012. Taking as its basic concept the "Tsunagari" that support society and corporations, the publication sheds light on the history and processes that create things, while exploring the content of an ideal society from the perspective of "Tsunagari" and a comprehensive viewpoint. The magazine will continue to feature an emotionally engaging design as an important element linking things and people.

# Nara Piano Friends Special Co-Sponsorship of a Music Event Held in Nara

Mori Seiki was the special co-sponsor of a new music festival held in Nara Prefecture called "Nara Piano Friends", which put the piano in the leading role. We will continue to support regional cultural activities.

# 

Mori Seiki IIT Scholarship Program

Establishment of Indian

Institutes of Technology

In 2008, in conjunction with the University of

Tokyo, the Mori Seiki ITT Scholarship Program

Indian Institutes of Technology in Hyderabad.

As these students deepen their knowledge

of machinery, electricity, aeronautics and

other specializations, many of them are expected to play active roles in the future of

India, Japan and the rest of the world.

was created to support students at the

Scholarship Program



#### Mori Seiki's Energy Solution Park Promotion of Using Environmental Energy

To reduce the environmental burden and ensure power supplies in an emergency, wind power systems and secondary battery systems were introduced at the Iga Campus with the installation of DMG's WindCarrier wind power system and CellCube secondary battery system. In addition to these systems, Nissan Leaf electric vehicles and Toyota Prius PHV plug-in hybrids were introduced at the campus to transport customers to and from the site. We will continue our efforts to reduce the environmental burden while validating the potential for further use of environmental energy including the SunCarrier photovoltaic system.



#### Fukan Laboratory Supporting Research Activities

Fukan Laboratory, a general incorporated foundation, was established in January 2010. Continuing the work of the University of Tokyo Fukan Laboratory by taking a comprehensive view of knowledge, technology, economics and society, we have reaffirmed our current position as we consider tomorrow's actions and create a place where people can gather to enthusiastically take on future challenges. We will continue to endorse these activities by providing a wide range of support.

#### Corporate Governance

#### (1) Basic Concept for Corporate Governance

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 and 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 seek to ensure that our business activities are rooted in an even stronger sense of corporate ethics.

#### (2) Outline of the System of Corporate Governance, and Reason for Adopting the System of Corporate Governance

As of June 17, 2013, the Board of Directors consisted of five directors and the Board of Auditors consisted 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 active discussions at which opinions are stated freely. In addition, by limiting the term served by Board members to one year, we have put in place a system the clarifies the mission and responsibilities of the directors. We instituted Management Councils with the President as chairperson in 2006, and Operating Directors' Meetings in 2009 to speed up the decision-making process and 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 fully 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 has grown concerning measures to prevent the proliferation of weapons of mass destruction and the excess stockpiling of conventional weapons. To address this concern, the Mori Seiki Group has set up an Export Control Committee, with the President as chairperson. This committee formulates the internal regulations (the 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 set up an Information Disclosure Control Committee, with the executive officer of the Administrative Headquarters as its chairperson, to act as an advisory body deciding rules for the disclosure of information, 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, they read 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 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 completely and unreservedly oppose dealing with antisocial groups related to organized violence, 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 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 storage and management of information on business conduct.

#### $\cdot$ 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 related 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 have established the Management Council chaired by the President, where the President appoints a director with overall responsibility and a 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 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 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 at 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 ensures the propriety of the business of its subsidiaries and affiliates through an internal electronic decision-making system, use of the weekly report system and a number of 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 Headquarters and Accounting/Finance Headquarters as the departments responsible for the internal control of the Group, we are achieving 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 the auditors to assist them with their duties and the independence of these employees from the directors

Mori Seiki currently has one staff member assisting the auditors. Personnel changes, evaluations, and other matters related to the assisting staff member must be agreed to by the auditors, and exchanges of opinions with the auditors are held periodically to achieve a system in which the audits are effective and their independence is ensured.

#### · 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 such a fact, and regulations to ensure the effectiveness of audits conducted by the auditors have been prepared to make clear the details of these regulations. In addition, 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, engage in regular and temporary exchanges of opinion with both the President and the accounting auditors.

We plan to maintain this system in the years 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 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 U.S. 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 have already completed preparations for reliable operation of this system within the Group both in Japan and overseas.

With regard to the audit conducted by the auditors, currently the Board of Auditors comprises 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 about the status of execution of relevant work from the directors, operating directors, the Internal Auditing Department and so on. They also read 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, the Internal Auditing Department, and the accounting auditors make conscientious efforts in conducting proper and strict accounting audits by holding meetings each 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 debates and decides the auditing policy, auditing plan, auditing method, and allocation of duties, within the Board of Auditors in cooperation with the corporate auditor, and auditing is implemented throughout the year based on this. The external auditors also exchange opinions regularly with the top management and directors, and conduct audits by visiting 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 the appointment of external directors.

Therefore, we maintain the present system.

#### **Business and Other Risks**

Among the 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 as of the end of fiscal 2012.

#### (1) 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 was 34.1% for Japan, 32.1% for the Americas, 18.1% for Europe, and 15.7% for China/Asia. In any of the regions where the Group sells and provides its products and services, its business results may be adversely affected if demand declines for its products and services due to deterioration in economic trends.

#### (2) Sudden Fluctuations in Demand for Investment in Plant and Equipment

The economies of emerging countries such as those in Asia, the BRICs economies and central Europe are expanding, and the machine tool markets in Japan, the Americas and Europe have continued to experience stable growth over the medium and long term. However, the machine tool industry can be easily affected by economic fluctuations. The Mori Seiki Group's business results also tend to be greatly affected by investment in plant and equipment in line with the fluctuations in economic conditions. For example, in the case of the financial crisis that originated in the United States during fiscal 2008, investment in plant and equipment declined in all regions simultaneously. Therefore, both product prices and numbers of units sold could drop suddenly and substantially because of unforeseeable events, which may have adverse effects on the activities, business results and financial status of the Group.

#### (3) Influence of Market Competition

Since a number of companies have entered the machine tool industry and some of these companies focus on supplying low-cost products, the Mori Seiki Group is exposed to fierce competition in each market, and it is difficult to set advantageous prices for products. The Group is promoting measures to develop products that set themselves apart from the competition by strengthening technical capabilities, such as reducing the cost of raw materials, and enhancing sales capabilities. However, if it proves difficult to continue these promotional measures, or to expand market share or maintain profitability, there may be adverse effects on the activities, business results and financial status of the Group.

#### (4) Corporate Mergers and Acquisitions, and Capital and Business Collaboration

The Mori Seiki Group views mergers, acquisitions, and capital and business collaboration as important strategies to strengthen its business base. Looking ahead, depending on the success or failure of the corporate mergers, acquisitions, and capital and business collaborations in which the Group is engaged, there may be adverse effects on the activities, business results and financial status of the Group.

#### (5) Significant Changes in the Yen's Exchange Rate against the U.S. Dollar, the Euro and Other Currencies

The business activities, business results and financial status of the Mori Seiki Group have been affected adversely by fluctuations in the foreign currency market. Asset and liability transactions denominated in foreign currencies are impacted by fluctuations in exchange rates on conversion into yen. Fluctuations in exchange rates also affect the prices of products and services and sales transactions that are denominated in foreign currencies. To reduce these effects, the Group attempts to achieve a balance among domestic and Asian transactions denominated in yen, U.S. transactions denominated in U.S. dollars, and European transactions denominated in euros. Nevertheless, the activities, business results and financial status of the Group may be adversely affected.

#### (6) Significant Changes in the Cost of Natural Resources or Raw Materials

If the Mori Seiki Group faces a situation in which prices of raw materials increase significantly beyond expectations, its business results may be affected adversely. The Group has in place a policy to cover the soaring costs of raw materials by lowering the costs through negotiation with suppliers and by passing on rises in product prices, but if costs continue to increase substantially or if measures such as cost negotiations with suppliers do not succeed, the activities, business results and financial status of the 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 activities, business results and financial status of the Mori Seiki Group. The machine tools that constitute the core business of the 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 international conditions, it may have adverse effects on the activities, business results and financial status of the 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 future fluctuations in the business environment in these industries may adversely affect the activities, business results and financial status of the Group.

#### (9) Customer Credit Risks

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

#### (11) Intellectual Property Rights

The Mori Seiki Group continually develops new technology and expertise through R&D and the development of new products, and seeks to utilize intellectual property rights by applying to patent such valuable technology and expertise. However, in the event of invalidity claims by third parties in relation to the intellectual property rights of the Group, or if a lawsuit to stop infringement is filed against the Group, the Group's activities, business results and financial status may be adversely affected.

#### (12) Risks Relating to Lawsuits

The Mori Seiki Group works to achieve the functions and specifications required by its customers and to pursue appropriate quality with due consideration to safety, while aiming for comprehensive quality control on a global basis. Nevertheless, if a serious problem arises with the Group's products, or if a serious accident occurs, complaints about quality are made or a recall is initiated, the Group may be liable to claims for substantial product compensation.

In addition, the Group is expanding its business both in Japan and overseas, and in the course of such business, lawsuits for compensation for damage may be filed against the Group.

Currently, no lawsuits with a major influence on the business results of the Group have been filed against the Group. Nevertheless, if in the future such a lawsuit is filed and a disadvantageous judgment is made against the Group, the activities, business results and financial status of the Group may be adversely affected.

#### (13) Effects of Natural and Other Disasters

Because the Mori Seiki Group is expanding its sales and service centers globally, it is possible that the Group will be affected by disasters resulting from a range of phenomena including unpredictable natural disasters and computer viruses.

The manufacturing bases of the Group in Japan are located in Mie, Nara, Chiba, Kanagawa and Niigata prefectures, and those overseas are located in the United States, Switzerland and France. If any of these manufacturing bases are affected by a natural disaster such as an earthquake or flood and cannot supply products, or if the supply of products is delayed, this could adversely affect the activities, business results and financial status of the Group.

#### (14) Environmental Problems

In the course of its activities, the Mori Seiki Group is subject to a range of environment-related laws and regulations. The Group carries out its activities while paying careful attention to these laws and regulations, but it is possible that the Group could bear a legal or social responsibility related to the environment in regard to activities that are currently being undertaken or activities that were carried out in the past. It should also be noted that costs associated with legal compliance are expected to rise in the future as laws and regulations related to the environment and social requirements related to environmental problems become more strict. As a consequence, depending on trends in laws and regulations related to the environment, the activities, business results and financial status of the Group may be adversely affected.

#### Issues to be Addressed

#### (1) Product Development

Product development in fiscal 2012 included enhancements to our flagship X-class lineup of lathes, machining centers and multi-axis machines. From 2010 to 2011, we received orders of 5,000 units of X-class machines after the new launch, making this our main product and a testament to the X-class precision and cutting capabilities. In fiscal 2013, we plan to add peripheral options such as automation so that the X-class becomes an even more attractive product. In addition, following the joint development of MILLTAP700 with DMG, we have begun joint development of the CTX eco series, a new type of lathe. Aggressive joint development with DMG will make it possible to boost the efficiency of product development at both companies.

#### (2) Quality

Quality applies to all activities, from product planning to sales and service, in which we forge connections with customers through our products. We strive to upgrade quality every day. We have unveiled a new slogan, "Let's make an impression on customers by providing high-quality machines!" This slogan emphasizes the care and attention to detail that we put into our machines. Furthermore, just like our North American Factory, which began production in 2012, the Tianjin Factory in China—set to begin manufacturing in the fall—will focus on ensuring the same level of quality as our domestic factory. The Mori Seiki Group will continue to implement important measures to enhance quality.

#### (3) Trade Controls for Security

Given the recent deterioration in security, particularly in Asian countries, international concern has grown regarding measures to prevent the proliferation of weapons of mass destruction and excess stockpiling of conventional weapons. To address this concern, the Mori Seiki Group has established internal regulations in the form of the Compliance Program to ensure compliance with export control regulations. In addition, to prevent illegal export of our products, we have put into practice strict export management procedures, which include equipping machines with a device that detects and disables the machine if it is relocated from its installed location. We will continue to address security trade issues with top priority.

#### (4) Compliance with Regulations

Management personally directs all employees to engage in corporate activities that are based comprehensively on compliance and corporate ethics. We also conduct ongoing training to boost awareness among directors and employees. In regard to global business development, we are putting in place a system for legal compliance in Japan and overseas. With the Internal Auditing Department continuing to play the key role, we have developed a system that regularly monitors compliance status. Going forward, we will continue our efforts to strengthen internal controls.

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# **Consolidated Balance Sheets**

#### [Assets]

(Millions of yen)

	2009/3	2010/3	2011/3	2012/3	2013/3
Current assets:					
Cash and cash deposits	14,453	7,516	7,418	4,550	6,288
Notes and accounts receivable :					
Trade	16,634	16,666	32,086	31,736	24,824
Allowance for doubtful receivables	(139)	(115)	(139)	(200)	(230)
Notes and accounts receivable, net	16,495	16,551	31,947	31,536	24,594
Marketable securities	_	_	101	102	_
Inventories	37,915	33,061	38,838	43,273	37,941
Deferred tax assets	1,714	534	2,062	2,158	2,742
Other current assets	8,196	5,072	5,812	4,410	3,175
Total current assets	78,773	62,734	86,178	86,029	74,740
Property, plant and equipment:					
Land	15,940	17,152	18,340	18,718	21,774
Buildings and structures	63,882	67,421	66,320	66,438	70,495
Machinery, equipment and vehicles	49,266	33,195	33,531	35,491	39,002
Leased assets	91	4,686	4,699	4,897	5,456
Construction in progress	1,862	1,723	476	1,371	1,883
	131,041	124,177	123,366	126,915	138,610
Accumulated depreciation	(76,501)	(66,520)	(68,945)	(71,353)	(75,822)
Property, plant and equipment, net	54,540	57,657	54,421	55,562	62,788
Investments and other assets:					
Investments in securities :					
Unconsolidated subsidiaries and affiliates	1,413	1,025	1,595	25,784	30,058
Other	7,259	12,005	21,990	10,633	10,796
Total investments in securities	8,672	13,030	23,585	36,417	40,854
Deferred tax assets	284	1,569	374	370	944
Other assets :					
Goodwill	695	2,024	1,576	1,066	667
Long-term loan receivable	_	_	_	_	132
Other	6,252	7,153	5,816	5,975	6,529
Total other assets	6,947	9,177	7,392	7,041	7,328
Total investments and other assets	15,903	23,776	31,351	43,828	49,126
Total assets	149,216	144,167	171,950	185,419	186,654

#### [Liabilities and Net Assets]

(Millions of yen)

	2009/3	2010/3	2011/3	2012/3	2013/3
Current liabilities:					
Short-term bank loans	10,298	18,550	45,172	28,778	23,930
Current portion of long-term debt	16	271	278	2,917	429
Notes and accounts payable, trade	3,374	6,087	11,451	10,702	9,077
Accrued income taxes	1,371	645	231	323	861
Accrued expenses	1,268	1,781	1,734	1,690	1,583
Deferred tax liabilities	114	36	16	47	249
Advances received	1,554	925	1,337	981	1,894
Allowance for product warranties	1,192	845	915	838	833
Allowance for bonuses to employees	_	235	124	196	168
Allowance for bonuses to directors and corporate auditors	25	_	_	42	18
Other current liabilities	5,130	5,608	5,046	6,580	5,212
Total current liabilities	24,342	34,983	66,304	53,094	44,254
Long-term liabilities:					
Long-term debt	2,665	6,825	6,567	33,882	33,986
Deferred tax liabilities	939	1,228	1,387	1,419	1,400
Deferred tax liabilities on land revaluation reserve	1,699	1,699	1,699	1,485	1,485
Accrued retirement benefits	642	312	309	342	222
Asset retirement obligations	_	_	62	64	63
Other long-term liabilities	_	402	293	415	763
Total long-term liabilities	5,945	10,466	10,317	37,607	37,919
Net assets:					
Shareholders' equity:					
Common stock	32,698	41,132	41,132	41,132	41,132
Capital surplus	45,429	53,863	53,863	53,863	53,863
Retained earnings	50,185	12,821	11,911	15,313	18,271
Treasury stock, at cost	(10,589)	(10,544)	(10,545)	(11,743)	(11,743)
Total shareholders' equity	117,723	97,272	96,361	98,565	101,523
Accumulated other comprehensive income:					
Net unrealized holding gain on securities	1,194	1,750	1,463	2,133	2,616
Net unrealized gain on derivative instruments	1,202	944	476	105	186
Land revaluation reserve	1,545	1,545	1,545	1,759	1,759
Translation adjustments	(4,864)	(5,242)	(5,989)	(9,332)	(3,424)
Total accumulated other comprehensive income	(923)	(1,003)	(2,505)	(5,335)	1,137
Stock acquisition rights	829	1,534	469	466	435
Minority interests	1,300	915	1,004	1,022	1,386
Total net assets	118,929	98,718	95,329	94,718	104,481
Total liabilities and net assets	149,216	144,167	171,950	185,419	186,654

# Consolidated Statements of Operations

2009/3         2010/3         2011/3         2012/3         2013/3           Net sales         157,203         66,403         120,428         155,321         148,559           Cost of sales         98,305         55,204         80,864         105,951         104,393           Gross profit         58,898         11,199         39,564         49,370         44,166           Selling, general and administrative expenses         52,976         38,132         39,244         42,551         40,032           Operating income         59,222         (26,933)         320         6,789         4,134           Other income (expenses):         Interest and dividend income         319         209         225         286         353           Interest expense         (133)         (290)         (421)         (543)         (545)           Gain on sales of investments in securities         (1,211)         (32)         (497)         (201)         -           Foreign exchange gain (loss), net         (2,584)         604         891         49         757           Gain on sales and disposal of property, plant and equipment         (129)         (234)         -         (4)         (108)           Equity in earning (losses) of affiliates					(1	vinions of yen)
Net sales         157,203         66,403         120,428         155,321         148,559           Cost of sales         98,305         55,204         80,864         105,951         104,393           Gross profit         58,898         11,199         39,564         49,370         44,166           Selling, general and administrative expenses         52,976         38,132         39,244         42,581         40,032           Operating income         5,922         (26,933)         320         6,789         4,134           Other income (expenses):         Interest and dividend income         319         209         225         286         353           Interest expense         (133)         (290)         (421)         (543)         (545)           Gain on sales of investments in securities         —         1,007         —         —         6           Loss on revaluation of investments in securities         1,211)         (32)         (497)         (201)         —           Foreign exchange gain (loss), net         (2,584)         604         891         49         757           Gain (loss) on sales and disposal of         property, plant and equipment, net         (129)         (234)         —         (4)         (108) <th></th> <th>2009/3</th> <th>2010/3</th> <th>2011/3</th> <th>2012/3</th> <th>2013/3</th>		2009/3	2010/3	2011/3	2012/3	2013/3
Cost of sales         98,305         55,204         80,864         105,951         104,393           Gross profit         58,898         11,199         39,564         49,370         44,166           Selling, general and administrative expenses         52,976         38,132         39,244         42,581         40,032           Operating income         5,922         (26,933)         320         6,789         4,134           Other income (expenses):         Interest and dividend income         319         209         225         286         353           Interest expense         (133)         (290)         (421)         (543)         (545)           Gain on sales of investments in securities         -         1,007         -         -         6           Loss on revaluation of investments in securities         -         1,007         -         -         6           Loss on sales and disposal of         property, plant and equipment, net         (573)         (89)         108         (73)         (5)           Loss on inpairment of property, plant and equipment         (129)         (234)         -         (4)         (108)           Business restructuring expenses         -         1,406         8         255         6	Net sales	157,203	66,403	120,428	155,321	148,559
Gross profit         58,898         11,199         39,564         49,370         44,166           Selling, general and administrative expenses         5,922         (26,933)         320         6,789         4,134           Operating income         5,922         (26,933)         320         6,789         4,134           Other income (expenses):         Interest and dividend income         319         209         225         286         353           Interest expense         (133)         (290)         (421)         (543)         (545)           Gain on sales of investments in securities         -         1,007         -         -         6           Loss on revaluation of investments in securities         1,211)         (32)         (497)         (201)         -           Foreign exchange gain (loss), net         (2,584)         604         891         49         757           Gain (loss) on sales and disposal of property, plant and equipment         (129)         (234)         -         (4)         (108)           Equity in earnings (losses) of affiliates         (110)         (182)         (328)         (265)         681           Business restructuring expenses         -         (8,714)         (282)         (2,222)         -     <	Cost of sales	98,305	55,204	80,864	105,951	104,393
Selling, general and administrative expenses         52.976         38,132         39.244         42,581         40,032           Operating income         5,922         (26,933)         320         6,789         4,134           Other income (expenses):         Interest and dividend income         319         209         225         286         353           Interest expense         (133)         (290)         (421)         (543)         (545)           Gain on sales of investments in securities         1.211)         (32)         (497)         (201)         -           Foreign exchange gain (loss), net         (2,584)         604         891         49         757           Gain (loss) on sales and disposal of	Gross profit	58,898	11,199	39,564	49,370	44,166
• Operating income         5.922         (26,933)         320         6,789         4,134           • Other income (expenses):         Interest and dividend income         319         209         225         286         353           Interest expense         (133)         (290)         (421)         (543)         (545)           Gain on sales of investments in securities         -         1,007         -         -         6           Loss on revaluation of investments in securities         (1,211)         (32)         (497)         (201)         -           Foreign exchange gain (loss), net         (2,584)         604         891         49         757           Gain (loss) on sales and disposal of         property, plant and equipment, net         (573)         (89)         108         (73)         (5)           Loss on impairment of property, plant and equipment         (129)         (234)         -         (4)         (108)           Equity in earnings         (losse) of affiliates         (110)         (182)         (328)         (265)         681           Business restructuring expenses         -         1,406         8         25         Gain on business transfer         -         -         3257         -           Loss on	Selling, general and administrative expenses	52,976	38,132	39,244	42,581	40,032
Other income (expenses):         319         209         225         286         353           Interest expense         (133)         (290)         (421)         (543)         (545)           Gain on sales of investments in securities         -         1,007         -         -         6           Loss on revaluation of investments in securities         (1,211)         (32)         (497)         (201)         -           Foreign exchange gain (loss), net         (2,584)         604         891         49         757           Gain (loss) on sales and disposal of property, plant and equipment, net         (573)         (89)         108         (73)         (5)           Loss on impairment of property, plant and equipment         (129)         (234)         -         (4)         (108)           Equity in earnings (losses) of affiliates         (110)         (182)         (328)         (265)         681           Business restructuring expenses         -         (8,714)         (282)         (2,222)         -           Gain on business transfer         -         -         1,406         8         25           Gain on change in equity in investments in subsidiaries         -         -         3,257         -           Loss on disaster </td <td>Operating income</td> <td>5,922</td> <td>(26,933)</td> <td>320</td> <td>6,789</td> <td>4,134</td>	Operating income	5,922	(26,933)	320	6,789	4,134
Interest and dividend income         319         209         225         286         353           Interest expense         (133)         (200)         (421)         (543)         (545)           Gain on sales of investments in securities         -         1,007         -         -         6           Loss on revaluation of investments in securities         (1,211)         (32)         (497)         (201)         -           Foreign exchange gain (loss), net         (2,584)         604         891         49         757           Gain (loss) on sales and disposal of property, plant and equipment, net         (573)         (89)         108         (73)         (5)           Loss on impairment of property, plant and equipment         (129)         (234)         -         (4)         (108)           Equity in earnings (losses) of affiliates         (110)         (182)         (328)         (265)         681           Business restructuring expenses         -         (8,714)         (282)         (2,222)         -           Gain on versal of stock acquisition rights         -         -         1,406         8         25           Gain on business transfer         -         -         -         3,257         -           Loss on	Other income (expenses):					
Interest expense         (133)         (290)         (421)         (543)         (545)           Gain on sales of investments in securities         -         1,007         -         -         6           Loss on revaluation of investments in securities         (1,211)         (32)         (497)         (201)         -           Foreign exchange gain (loss), net         (2,584)         604         891         49         757           Gain (loss) on sales and disposal of property, plant and equipment, net         (573)         (89)         108         (73)         (5)           Loss on impairment of property, plant and equipment         (129)         (234)         -         (4)         (108)           Equity in earnings (losses) of affiliates         (110)         (182)         (328)         (265)         681           Business restructuring expenses         -         (8,714)         (282)         (2,222)         -           Gain on reversal of stock acquisition rights         -         -         1,406         8         25           Gain on business transfer         -         -         -         3,257         -           Loss on disaster         -         -         -         554           Retirement benefit expenses	Interest and dividend income	319	209	225	286	353
Gain on sales of investments in securities       -       1,007       -       -       6         Loss on revaluation of investments in securities       (1,211)       (32)       (497)       (201)       -         Foreign exchange gain (loss), net       (2,584)       604       891       49       757         Gain (loss) on sales and disposal of property, plant and equipment, net       (573)       (89)       108       (73)       (5)         Loss on impairment of property, plant and equipment       (129)       (234)       -       (4)       (108)         Equity in earnings (losses) of affiliates       (110)       (182)       (328)       (265)       681         Business restructuring expenses       -       (8,714)       (282)       (2,222)       -         Gain on versal of stock acquisition rights       -       -       1,406       8       255         Gain on liquidation of a subsidiary       -       -       -       3,257       -         Loss on disaster       -       -       -       3,257       -         Loss on disaster       -       -       -       3,257       -         Loss on disaster       -       -       -       88       (105)         Other, net <td>Interest expense</td> <td>(133)</td> <td>(290)</td> <td>(421)</td> <td>(543)</td> <td>(545)</td>	Interest expense	(133)	(290)	(421)	(543)	(545)
Loss on revaluation of investments in securities         (1,211)         (32)         (497)         (201)         —           Foreign exchange gain (loss), net         (2,584)         604         891         49         757           Gain (loss) on sales and disposal of property, plant and equipment, net         (573)         (89)         108         (73)         (5)           Loss on impairment of property, plant and equipment         (129)         (234)         —         (4)         (108)           Equity in earnings (losses) of affiliates         (110)         (182)         (328)         (265)         681           Business restructuring expenses         —         (8,714)         (282)         (2,222)         —           Gain on reversal of stock acquisition rights         —         —         1,406         8         25           Gain on business transfer         —         —         1,406         8         25           Gain on change in equity in investments in subsidiaries         —         —         3,257         —           Loss on disaster         —         —         —         3,257         —           Loss on disaster         —         —         —         688)         (600)         —           Insurance income	Gain on sales of investments in securities		1,007			6
Foreign exchange gain (loss), net         (2,584)         604         891         49         757           Gain (loss) on sales and disposal of property, plant and equipment, net         (573)         (89)         108         (73)         (5)           Loss on impairment of property, plant and equipment         (129)         (234)         —         (4)         (108)           Equity in earnings (losses) of affiliates         (110)         (182)         (328)         (265)         681           Business restructuring expenses         —         (8,714)         (282)         (2,222)         —           Gain on reversal of stock acquisition rights         —         —         1,406         8         25           Gain on business transfer         —         —         —         1,355         —           Gain on change in equity in investments in subsidiaries         —         —         3,257         —           Loss on disaster         —         —         —	Loss on revaluation of investments in securities	(1,211)	(32)	(497)	(201)	_
Gain (loss) on sales and disposal of property, plant and equipment, net       (573)       (89)       108       (73)       (5)         Loss on impairment of property, plant and equipment       (129)       (234)        (4)       (108)         Equity in earnings (losses) of affiliates       (110)       (182)       (328)       (265)       681         Business restructuring expenses        (8,714)       (282)       (2,222)          Gain on reversal of stock acquisition rights         1,406       8       25         Gain on business transfer          576       288         Gain on liquidation of a subsidiary              Gain on change in equity in investments in subsidiaries          3,257          Loss on disaster           554         554         Retirement benefit expenses           553         554         Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637         Income taxes<	Foreign exchange gain (loss), net	(2,584)	604	891	49	757
property, plant and equipment, net       (573)       (89)       108       (73)       (5)         Loss on impairment of property, plant and equipment       (129)       (234)        (4)       (108)         Equity in earnings (losses) of affiliates       (110)       (182)       (328)       (265)       681         Business restructuring expenses        (8,714)       (282)       (2,222)          Gain on reversal of stock acquisition rights         1,406       8       25         Gain on business transfer          576       288         Gain on liquidation of a subsidiary         135          Loss on disaster         3,257          Loss on disaster         688       (600)          Insurance income          554         Retirement benefit expenses         (88)       (105)         Other, net       (219)       13       (149)       (402)       (398)         Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637	Gain (loss) on sales and disposal of					
Loss on impairment of property, plant and equipment       (129)       (234)        (4)       (108)         Equity in earnings (losses) of affiliates       (110)       (182)       (328)       (265)       681         Business restructuring expenses        (8,714)       (282)       (2,222)          Gain on reversal of stock acquisition rights         1,406       8       25         Gain on business transfer          576       288         Gain on business transfer          135          Gain on liquidation of a subsidiaries         3,257          Loss on disaster         (88)       (600)          Insurance income          554         Retirement benefit expenses         (88)       (105)         Other, net       (219)       13       (149)       (402)       (398)         Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637         Income taxes	property, plant and equipment, net	(573)	(89)	108	(73)	(5)
Equity in earnings (losses) of affiliates       (110)       (182)       (328)       (265)       681         Business restructuring expenses       -       (8,714)       (282)       (2,222)       -         Gain on reversal of stock acquisition rights       -       -       1,406       8       25         Gain on business transfer       -       -       -       576       288         Gain on business transfer       -       -       -       3257       -         Gain on change in equity in investments in subsidiaries       -       -       -       3,257       -         Loss on disaster       -       -       -       3,257       -       -       554         Retirement benefit expenses       -       -       -       -       554         Retirement benefit expenses       -       -       -       6,702       5,637         Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637         Income taxes       -       -       -       -       -       680       10105)         Deferred       1,428       56       (290)       (111)       (680)       123         Income before m	Loss on impairment of property, plant and equipment	(129)	(234)		(4)	(108)
Business restructuring expenses       —       (8,714)       (282)       (2,222)       —         Gain on reversal of stock acquisition rights       —       —       1,406       8       25         Gain on business transfer       —       —       1,406       8       25         Gain on business transfer       —       —       —       576       288         Gain on liquidation of a subsidiary       —       —       —       135       —         Gain on change in equity in investments in subsidiaries       —       —       —       3,257       —         Loss on disaster       —       —       —       3,257       —       _       _       554         Retirement benefit expenses       —       —       —       (88)       (600)       _       _         Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637         Income taxes	Equity in earnings (losses) of affiliates	(110)	(182)	(328)	(265)	681
Gain on reversal of stock acquisition rights       —       —       1,406       8       25         Gain on business transfer       —       —       —       576       288         Gain on liquidation of a subsidiary       —       —       —       135       —         Gain on change in equity in investments in subsidiaries       —       —       3,257       —         Loss on disaster       —       —       —       3,257       —         Loss on disaster       —       —       —       3,257       —         Loss on disaster       —       —       —       3,257       —         Insurance income       —       —       —       3,257       —         Retirement benefit expenses       —       —       —       554         Retirement benefit expenses       —       —       —       (88)       (105)         Other, net       (219)       13       (149)       (402)       (398)         Income taxes	Business restructuring expenses		(8.714)	(282)	(2,222)	_
Gain on business transfer       -       -       -       576       288         Gain on liquidation of a subsidiary       -       -       -       135       -         Gain on change in equity in investments in subsidiaries       -       -       -       3,257       -         Loss on disaster       -       -       -       688       (600)       -         Insurance income       -       -       -       -       554         Retirement benefit expenses       -       -       -       554         Other, net       (219)       13       (149)       (402)       (398)         Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637         Income taxes       -       -       -       -       6800       (105)         Current       1,728       739       199       917       803         Deferred       1,428       56       (290)       (1111)       (680)         3,156       795       (91)       806       123         Income before minority interests       (1,874)       (35,436)       1,276       5,896       5,514         Minority interests in net i	Gain on reversal of stock acquisition rights			1,406	8	25
Gain on liquidation of a subsidiary       -       -       -       135       -         Gain on change in equity in investments in subsidiaries       -       -       -       3,257       -         Loss on disaster       -       -       -       3,257       -         Insurance income       -       -       -       688       (600)       -         Insurance income       -       -       -       -       554         Retirement benefit expenses       -       -       -       688       (105)         Other, net       (219)       13       (149)       (402)       (398)         Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637         Income taxes       -       -       -       -       6800       133         Current       1,728       739       199       917       803         Deferred       1,428       56       (290)       (111)       (6800)         3,156       795       (91)       806       123         Income before minority interests       (1,874)       (35,436)       1,276       5,896       5,514         Minority interest	Gain on business transfer	_			576	288
Gain on change in equity in investments in subsidiaries       -       -       -       3,257       -         Loss on disaster       -       -       -       (88)       (600)       -         Insurance income       -       -       -       -       554         Retirement benefit expenses       -       -       -       554         Retirement benefit expenses       -       -       -       554         Other, net       (219)       13       (149)       (402)       (398)         Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637         Income taxes       -       -       -       -       803       600       100         Ourrent       1,728       739       199       917       803       6600       123         Deferred       1,428       56       (290)       (111)       (680)         3,156       795       (91)       806       123         Income before minority interests       (1,874)       (35,436)       1,276       5,896       5,514         Minority interests in net income of consolidated subsidiaries       279       (743)       (32)       276	Gain on liquidation of a subsidiary	_			135	
Loss on disaster       -       -       (88)       (600)       -         Insurance income       -       -       -       554         Retirement benefit expenses       -       -       -       554         Retirement benefit expenses       -       -       (88)       (105)         Other, net       (219)       13       (149)       (402)       (398)         Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637         Income taxes       -       -       -       -       803       6,702       5,637         Current       1,728       739       199       917       803       6,800       1,213         Deferred       1,428       56       (290)       (111)       (680)         3,156       795       (91)       806       123         Income before minority interests       (1,874)       (35,436)       1,276       5,896       5,514         Minority interests in net income of consolidated subsidiaries       279       (743)       (32)       276       344         Net income       (2,153)       (34,693)       1,308       5,620       5,170 <td>Gain on change in equity in investments in subsidiaries</td> <td>_</td> <td></td> <td>_</td> <td>3,257</td> <td></td>	Gain on change in equity in investments in subsidiaries	_		_	3,257	
Insurance income       -       -       -       -       554         Retirement benefit expenses       -       -       -       (88)       (105)         Other, net       (219)       13       (149)       (402)       (398)         Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637         Income taxes       -       -       -       -       803       100	Loss on disaster	_		(88)	(600)	
Retirement benefit expenses         -         -         -         (105)           Other, net         (219)         13         (149)         (402)         (398)           Income before income taxes and minority interests         1,282         (34,641)         1,185         6,702         5,637           Income taxes         -         -         -         -         -         -         6,702         5,637           Income taxes         - <td>Insurance income</td> <td></td> <td></td> <td>_</td> <td>_</td> <td>554</td>	Insurance income			_	_	554
Other, net         (219)         13         (149)         (402)         (398)           Income before income taxes and minority interests         1,282         (34,641)         1,185         6,702         5,637           Income taxes	Retirement benefit expenses			_	(88)	(105)
Income before income taxes and minority interests       1,282       (34,641)       1,185       6,702       5,637         Income taxes       Current       1,728       739       199       917       803         Deferred       1,428       56       (290)       (111)       (680)         3,156       795       (91)       806       123         Income before minority interests       (1,874)       (35,436)       1,276       5,896       5,514         Minority interests in net income of consolidated subsidiaries       279       (743)       (32)       276       344         Net income       (2,153)       (34,693)       1,308       5,620       5,170	Other, net	(219)	13	(149)	(402)	(398)
Income taxes         1,728         739         199         917         803           Deferred         1,428         56         (290)         (111)         (680)           3,156         795         (91)         806         123           Income before minority interests         (1,874)         (35,436)         1,276         5,896         5,514           Minority interests in net income of consolidated subsidiaries         279         (743)         (32)         276         344           Net income         (2,153)         (34,693)         1,308         5,620         5,170	Income before income taxes and minority interests	1,282	(34,641)	1,185	6,702	5,637
Current         1,728         739         199         917         803           Deferred         1,428         56         (290)         (111)         (680)           3,156         795         (91)         806         123           Income before minority interests         (1,874)         (35,436)         1,276         5,896         5,514           Minority interests in net income of consolidated subsidiaries         279         (743)         (32)         276         344           Net income         (2,153)         (34,693)         1,308         5,620         5,170	Income taxes					
Deferred         1,428         56         (290)         (111)         (680)           3,156         795         (91)         806         123           Income before minority interests         (1,874)         (35,436)         1,276         5,896         5,514           Minority interests in net income of consolidated subsidiaries         279         (743)         (32)         276         344           Net income         (2,153)         (34,693)         1,308         5,620         5,170	Current	1,728	739	199	917	803
3,156         795         (91)         806         123           Income before minority interests         (1,874)         (35,436)         1,276         5,896         5,514           Minority interests in net income of consolidated subsidiaries         279         (743)         (32)         276         344           Net income         (2,153)         (34,693)         1,308         5,620         5,170	Deferred	1,428	56	(290)	(111)	(680)
Income before minority interests         (1,874)         (35,436)         1,276         5,896         5,514           Minority interests in net income of consolidated subsidiaries         279         (743)         (32)         276         344           Net income         (2,153)         (34,693)         1,308         5,620         5,170		3,156	795	(91)	806	123
Minority interests in net income of consolidated subsidiaries         279         (743)         (32)         276         344           Net income         (2,153)         (34,693)         1,308         5,620         5,170	Income before minority interests	(1,874)	(35,436)	1,276	5,896	5,514
■ Net income (2,153) (34,693) 1,308 5,620 <b>5,170</b>	Minority interests in net income of consolidated subsidiaries	279	(743)	(32)	276	344
	Net income	(2,153)	(34,693)	1,308	5,620	5,170

# Consolidated Statements of Comprehensive Income

				()	/lillions of yen)
	2009/3	2010/3	2011/3	2012/3	2013/3
Income before minority interests	_	_	1,276	5,896	5,514
Other comprehensive income:					
Net unrealized holding gain on securities	_	_	(289)	1,116	478
Net unrealized loss on derivative instruments	_	_	(468)	(476)	_
Land revaluation reserve		_	_	214	_
Translation adjustments		_	(766)	(92)	2,304
Share of other comprehensive income of					
affiliates accounted for by the equity method	_		20	(3,006)	3,720
Total other comprehensive income			(1,503)	(2,244)	6,502
Comprehensive income			(227)	3,652	12,016
Comprehensive income attributable to:		_			
Shareholders of the Company		_	(190)	3,400	11,642
Minority shareholders of consolidated subsidiaries		_	(37)	252	374

(Millions of yen)

#### **Consolidated Statements of Cash Flows**

(Millions of yen) 2009/3 2010/3 2011/3 2012/3 2013/3 Operating activities: 1,282 (34,641) 6,702 Income before income taxes and minority interests 1,185 5,637 Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities: 7.629 7.172 7.185 6,954 Depreciation and amortization 7.290 Loss on impairment of property, plant and equipment 129 234 Δ 108 (Gain) loss on sales and disposal of property, plant and equipment, net 573 89 (108)73 5 (1.007)(6) Gain on sales of investments in securities 497 1.211 201 Loss on revaluation of investments in securities 32 Equity in (earnings) losses of affiliates 110 182 328 265 (681) Business restructuring expenses 8,714 282 2,222 Gain on reversal of stock acquisition rights (25) \_\_\_\_ (1.406)(8)Bond issuance cost \_\_\_\_ 148 (288) Gain on business transfer (576) Gain on change in equity in investments in subsidiaries \_\_\_\_ (3,257) \_\_\_\_ (554) Insurance income \_\_\_\_ \_\_\_\_ Increase (decrease) in allowance for bonuses to employees (15)(111)72 (28)25 Increase (decrease) in allowance for bonuses to directors and corporate auditors (25) 42 (23) Increase (decrease) in allowance for doubtful receivables 9 (13)31 79 39 603 Increase (decrease) in accrued retirement benefits (451)2 133 (126)(361) (354) Increase (decrease) in allowance for product warranties 69 (77)(6) Interest and dividend income (319)(209)(225)(286)(353) 133 543 545 Interest expense 290 421 Foreign exchange (gain) loss, net 3,192 488 911 610 (1,957)Changes in operating assets and liabilities: 19,993 1.283 (16.093)1.461 6.344 Notes and accounts receivable 6040 Inventories (1.455)(6,515) (8.369)6.683 Accounts payable (8,120) 1,284 5,454 (786) (2,018)Other, net (914) 97 (216)3,403 1,210 23,381 (10,353) 9.784 Subtotal (8.322) 21.460 Interest and dividend income received 337 210 226 286 580 (425) Interest paid (130)(283)(539) (547) (7,360) (1.183)Business restructuring expenses paid (433) (15,024) (914) Income taxes paid 1.791 (536)554 Proceeds from insurance income Additional contribution on withdrawal from pension fund (193)Net cash provided by (used in) operating activities 8,564 (15,995) (10,240) 8,617 21,421 Investing activities: (8,104) (8,209) (9,929) Purchases of property, plant and equipment (5,639) (3,360) Proceeds from sales of property, plant and equipment 3678 273 373 1.218 112 (5,431) Increase in investments in securities (310)(10.548)(60)(1)Proceeds from sales of investment in securities 2.366 113 (373) (155) (1,015) (11,655) (203) Increase in investments in subsidiaries or affiliates 1.132 1,783 Proceeds from business transfer Expenditures for business divestiture \_\_\_\_ (1,505)(234)(87) Acquisition of shares from minority interests in consolidated subsidiaries (5.324) Acquisition of shares of subsidiaries resulting in change in scope of consolidation (50)\_\_\_\_ \_\_\_\_ 25 Proceeds from purchase of investments in a subsidiary resulting in change in scope of consolidation Purchases of intangible assets (2,414) (2,573) (800) (1,813) (1,993)Other, net (596) 183 450 41 91 (22,080) (14,055) (10,089) (11,424) (12,895) Net cash used in investing activities Financing activities: 9,602 7,602 26,623 (16,394)Increase (decrease) in short-term bank loans, net (4, 848)29.852 Proceeds from issuance of bonds (2.583)Redemption of bonds with stock acquisition rights \_\_\_\_ \_ \_\_\_\_ Purchases of treasury stock (5,933) (6) (1) (0) (1) Proceeds from sales of treasury stock 72 33 0 0 Proceeds from issuance of common stock 16770 Cash dividends (4,164) (2,658)(2,212)(2,212)(2, 219)(435) Other, net (84)(263) (303)(373)Net cash provided by (used in) financing activities (507)21.478 24.107 10.873 (10.086)Effect of exchange rate changes on cash and cash equivalents (709) (45) 86 (293) 489 Increase (decrease) in cash and cash equivalents (4,076) (7, 457)(102) (2,883)1,735 14.255 Cash and cash equivalents at beginning of year 17,916 7,256 7,414 4,533 Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation 415 458 260 94 Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation (92) 14,255 7,256 7,414 4,533 6,268 Cash and cash equivalents at end of year

# Mori Seiki's History

Business History

1948	Started manufacturing and sales of textile machine in Yamato-Koriyama City, Nara Prefecture	
1958	Stopped producing textile machine and started manufacturing and sales of machine tools (high-speed precision lathes)	
1960		Started export of high-speed MH-1500
1968		Started manufacture and sales of numerically controlled lathes
1970	Constructed the Iga Plant and started operation	NCPL-300
1976	(concing the gal compas)	Captured the No. 1 share
1977		Developed the SL-2 SL-2
1981		Started manufacturing and sales of
1982	Established Mori Seiki GmbH	Vertical machining centers
1983	Established MORI SEIKI U.S.A., INC. Started full operations at the Iga No. 1 Plant	Started manufacturing and sales of horizontal machining centers
1987	Nara Head Office completed Started full operations at the Nara Plant	MH-40
1992	Nara No. 1 Plant Started operations at the Iga No. 2 Plant	
1994		Developed the SH-50
1997	Started operations at the Iga No. 2 Plant High-Precision Facility	
1999	Nagoya Building completed Achieved 90% shipment of service parts Acquired ISO9001 certification	SH-50
2000	Established UNITED MANUFACTURING SOLUTIONS LTD.	Developed the SH junior Enhanced the MT Series lineup Started use of CAPS-NET
	Established Digital Technology Laboratory (DTL) in the United States Began offering Mori Seiki maintenance agreements	SH junior
2001	Acquired ISO14001 certification Established MORI SEIKI (SHANGHAI) CO., LTD. Made TAIYO KOKI CO., LTD. a subsidiary	
2002	Launched 24-hour per day/365-day per year service support Took over the business of the former HITACHI SEIKI and began operations as a Mori Seiki Group company Acquired OHSAS18001 certification	MT2500SZ
2003	Started operations at the Chiba Campus	Developed Driven at the Center of Gravity (DCG) technology Developed the Direct Drive Motor (DDM) Developed the NV4000 DCG and NH4000 DCG Introduced HEIDENHAIN CNC-equipped machines into the European market
2004	Established the Human Resource Development Center (currently Mori Seiki University) Relocated the Head Office to Nagoya	Developed the NL Series equipped with Built-In Motor Turret (BMT)

Products History

NL2000



at the Iga Campus Introduced wind power systems and secondary battery systems Constructed the North American Factory (Davis, California)

# DMG'S History

1870	Mechanic Friedrich Gildemeister founded his business in Bielefeld
1906	Wilhelm Berg became CEO Started mass production of machine tools
1910	Focused on turret lathes, multi-spindle automatic lathes, milling machines and vertical/horizontal milling machines as core products
1928	Announced the multi-spindle automatic lathe (POX)
1950	Announced the RV50 lathe at the Hannover Exhibition
1961	Constructed a new plant in what is currently known as the Sennestadt district and started operations (1965)
1975	Announced the company's first NC type lathe (NEF) at the EMO Show
1995	Acquired DECKEL MAHO AG and put the milling and drilling machine manufacturing business on track (DECKEL and MAHO merged in 1993)
1998	Sales exceeded DM1 billion for the first time (DM1 = 70 JPY)
1999	Entered the laser technology field with the purchase of LCTec GmbH (currently SAUER GmbH)

2000	Former subsidiary GILDEMEISTER ITALIA returned to the Group
2001	Entered the ultrasonic machining field with an investment in SAUER GmbH & Co.KG
2002	A new plant in Seebach won the TM-Industrial Excellence Award 2002 as the top plant in Germany
2003	Japan DMG constructed a technology center in Yokohama Established the first Asian manufacturing plant in Shanghai
2005	Established the DMG Asia Spare Parts Center a+f GmbH achieved success with Sun Carrier solar technology
2008	A new design was implemented
2010	Introduced Cellcube, a large-capacity battery with strong potential, to the energy storage market
2011	Opened the HSC Center
2012	Established the Energy Solutions Park in Bielefeld Expanded the Seebach Plant

NVX5080 II

## **Global Network**





#### MORI SEIKI CO., LTD.

#### Organizational Structure (As of July 1, 2013)

President	Masahiko Mori	Audition		
Established	October 26, 1948	Auditing		
Fiscal Year-End	March 31	The Reard of Directors	Prosident	Departments directly reporting to
Capital	41,100 million yen	The Board of Directors	President	the President
Shareholders' Equity	98,100 million yen (individual) 102,700 million yen (consolidated)		Export Control	Administrative HQ
Total Assets	166,900 million yen (individual) 186,700 million yen (consolidated)			Procurement / Logistics HQ
Business Operations	Manufacture and sale of machine tools and after-sales service			Accounting/Finance HQ
Employees	2,668 (individual) 4,117 (consolidated)			Solos / Epginoaring HO
Head Office	2-35-16 Meieki, Nakamura-ku, Nagoya City, Aichi 450-0002, Japan			
	Tel: +81-(0) 52-587-1811			Manufacturing / Development HQ
Listings	The First Section of Tokyo Stock Exchange and the First Section of Osaka Securities Exchange			
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
Iga Campus	201 Midai, Iga City, Mie 519-1414, Japan Tel: +81-595-45-4151
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
Chiba Campus	488-19 Suzumi-cho, Funabashi City, Chiba 274-0052, Japan Tel: +81-47-410-8800

#### Board of Directors

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





#### Introduction of Group Companies

#### (Major Group Companies)

TAIYO KOKI CO., LTD.		DIXI (MORI SEIKI INTERNATIONAL SA)		Magnescale Co., Ltd.	
TAIYO K	COMPANY	<b>DIXI</b> machines		Magnes	cale
Location	Nagaoka City, Niigata	Location	Neuchatel, Switzerland	Location	(Head office) Minato Ward, Tokyo   (Isehara Plant) Isehara City, Kanagawa
Capital	700 million yen	Capital	100 million Swiss francs	Established	March 31, 2010
Business Operations	Development, manufacture and sale of machine tools	Business Operations	Manufacture and sale of jig borers and machining centers	Capital Business Operations	1,000 million yen Manufacture and sale of measurement devices (Magnescale, Laserscale and
URL	(grinding machines) www.taiyokoki.com/	URL	www.moriseiki.com/dixi	oporationo	Digital Gauge, etc.), control devices and related systems
				URL	www.magnescale.com/





#### Mori Seiki at a Glance

Each quarter, Mori Seiki publishes a single-paged A4-sized PDF file on its website showcasing its performance and other major highlights.

#### Stock Information

 
 Number of Shares Outstanding
 200,000,000 shares

 Number of Shares Issued
 110,600,131 shares (excluding treasury stock of 7,875,181 shares)

 Number of Shareholders
 44,269

#### Major shareholders

Shareholder Name	Number of Shares Held (1,000 shares)	Shareholding ratio
Gildemeister AG (Standing Proxy, Credit Suisse (Hong Kong) Limited)	6,042	5.46
Japan Trustee Services Bank, Ltd. (trust account)	4,777	4.32
The Master Trust Bank of Japan, Ltd. (trust account)	4,132	3.74
The Bank of New York -JASDEC Treaty Account (standing proxy: Mizuho Corporate Bank, Ltd. settlement sales department)	3,954	3.58
Masahiko Mori	3,540	3.20
The Nomura Trust and Banking Co., Ltd. (investment trust account)	2,607	2.36
Chieko Mori	2,287	2.07
OM 44 Street 808359 Client Omni (standing proxy: HSBC Tokyo Branch)	2,278	2.06
Masaru Mori	1,865	1.69
Mori Seiki Employees' Shareholding Association	1,503	1.36

Notes

1. The Company retains treasury stock totaling (7,875,181), which excludes the above major shareholders.

2. Shareholding ratio excludes treasury stock.



#### Distribution by number of shares (1,000 shares)



#### Contact for investors

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