MORI SEIKI
THE MACHINE TOOL COMPANY

ANNUAL REPORT 2013

FISCAL YEAR ENDED MARCH 31, 2013

FINANCIAL REVIEW

2013

CONTENTS

Consolidated Financial Highlights

		Billions of yen					Millions of U.S. dollars*1
		2009/3	2010/3	2011/3	2012/3	**2013/3**	**2013/3**
Financial Performance							
Net sales		157.2	66.4	120.4	155.3	**148.6**	**1,580**
Cost of sales		98.3	55.2	80.9	106.0	**104.4**	**1,110**
Selling, general and administrative expenses		53.0	38.1	39.2	42.6	**40.0**	**426**
Operating income (loss)		5.9	(26.9)	0.3	6.8	**4.1**	**44**
Income (loss) before income taxes and minority interests		1.3	(34.6)	1.2	6.7	**5.6**	**60**
Net income (loss)		(2.2)	(34.7)	1.3	5.6	**5.2**	**55**
Profitability Ratio							
Return on investment (ROI) (%)	*2	4.5	(21.4)	0.2	4.5	**2.6**	
Return on equity (ROE) (%)	*3	(1.7)	(32.6)	1.4	6.0	**5.3**	
Return on total assets (ROA) (%)	*4	(1.3)	(23.7)	0.8	3.1	**2.8**	
Financial Position							
Total assets		149.2	144.2	172.0	185.4	**186.7**	**1,985**
Shareholders' equity	*5	116.8	96.3	93.9	93.2	**102.7**	**1,092**
Cash Flows							
Net cash provided by (used in) operating activities		8.6	(16.0)	(10.2)	8.6	**21.4**	**228**
Net cash used in investing activities		(11.4)	(12.9)	(14.1)	(22.1)	**(10.1)**	**(107)**
Net cash provided by (used in) financing activities		(0.5)	21.5	24.1	10.9	**(10.1)**	**(107)**
Free cash flow	*6	(2.9)	(28.9)	(24.3)	(13.5)	**11.3**	**121**
Number of Employees		4,150	3,816	4,107	4,045	**4,117**	

*1 The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥94.01 = U.S.$1.00, the exchange rate prevailing on 31st March, 2013.
*2 Return on investment (ROI) (%) = Operating income / (Average equity + Average interest-bearing debt) × 100
*3 Return on equity (ROE) (%) = Net income / Average equity × 100
*4 Return on total assets (ROA) (%) = Net income / Average total assets ×100
*5 Shareholders' equity = Net assets – Stock acquisition rights – Minority interests
*6 Free cash flow = Net cash provided by (used in) operating activities + Net cash used in investing activities

Financial Summary

The following is an analysis of our financial situation, business results and cash flows during the fiscal year ended 31st March, 2013.

Analysis of Financial Status

(1) Assets

Current assets decreased by 13.1% compared to the previous fiscal year to 74,740 million yen ($795,022 thousand). This was primarily due to a reduction of 6,912 million yen in notes and accounts receivable, trade, as well as a decrease of 5,332 million yen in inventories.

Property, plant and equipment, net, increased by 13.0% to 62,788 million yen ($667,887 thousand).

Investments and other assets increased by 12.1% to 49,126 million yen ($522,561 thousand). This was primarily due to a 4,437 million yen increase in investments in securities.

As a result, total assets increased by 0.7% to 186,654 million yen ($1,985,470 thousand).

(2) Liabilities

Current liabilities decreased by 16.7% compared to the previous year to 44,254 million yen ($470,737 thousand). This was primarily due to a reduction of 1,625 million yen in accounts payable, trade, and a 4,848 million yen decrease in short-term bank loans.

Long-term liabilities increased by 0.8% compared to the previous fiscal year to 37,919 million yen ($403,351 thousand).

As a result, total liabilities decreased by 9.4% to 82,173 million yen ($874,088 thousand).

(3) Total Net Assets

Total net assets increased by 10.3% compared to the previous fiscal year to 104,481 million yen ($1,111,382 thousand). This was primarily attributable to an improvement of 5,908 million yen in translation adjustments and net income of 5,170 million yen, from which cash dividends of 2,212 million yen were paid.

Analysis of Business Results

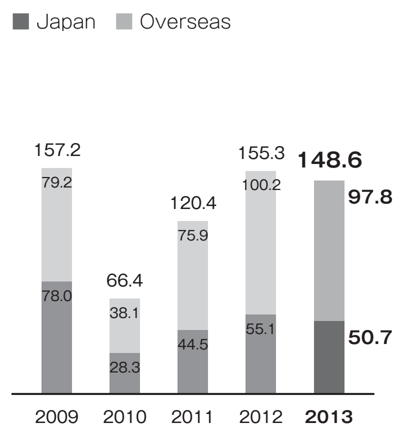
(1) Net Sales

In the fiscal year under review, net sales were 148,559 million yen ($1,580,247 thousand), down 4.4% compared to the previous fiscal year. The sales composition by segment was Japan 34.1%, the Americas 32.1%, Europe 18.1%, and China and Asia 15.7%. Factors contributing to the decline in net sales included fewer orders, credit uneasiness in Europe and economic growth stagnation in China.

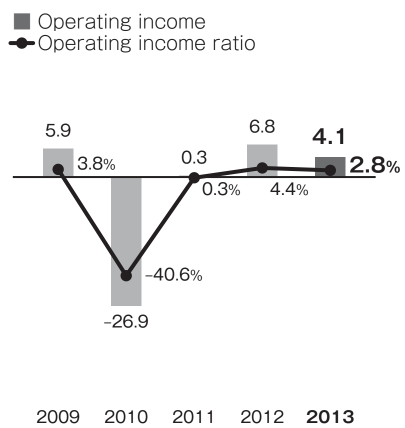
(2) Cost of Sales, and Selling, General and Administrative (SG&A) Expenses

The cost of sales was 104,393 million yen ($1,110,446 thousand), down 1.5% compared to the previous fiscal year. The cost of sales as a percentage of net sales rose by 2.1 percentage points to 70.3%, which was affected by the ongoing appreciation of the yen. Consequently, the gross profit margin declined. Together with the drop in net sales, SG&A expenses fell by 6.0% to 40,032 million yen ($425,827 thousand). SG&A expenses as a percentage of net sales decreased by 0.5 percentage point to 26.9%. This reflected various factors such as freight costs of 5,218 million yen ($55,506 thousand) (down 16.1%), wages and bonuses of 10,979 million yen ($116,790 thousand) (down 3.9%) and research and development costs of 2,734 million yen ($29,082 thousand) (down 22.0%).

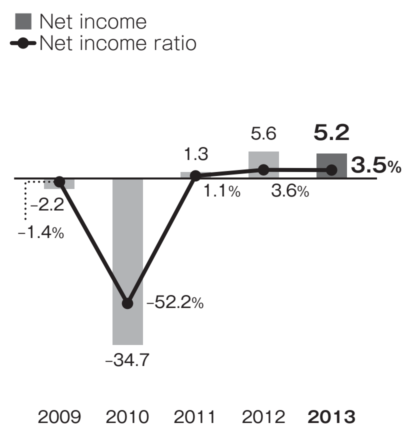
Net sales (billions of yen)
Years ended 31st March



Operating income (loss) (billions of yen)
Operating income ratio (%)
Years ended 31st March



Net income (loss) (billions of yen)
Net income ratio (%)
Years ended 31st March



(3) Operating Income/Loss

Primarily as a result of the decline in net sales, operating income was 4,134 million yen ($43,974 thousand) (compared to operating income of 6,789 million yen in the previous fiscal year). By segment, Japan posted segment income of 4,717 million yen ($50,176 thousand) (up 7.4% from the previous fiscal year), the Americas posted a segment loss of 995 million yen ($10,584 thousand) (compared to segment income of 1,188 million yen in the previous fiscal year), Europe posted a segment loss of 62 million yen ($660 thousand) (compared to segment income of 836 million yen in the previous fiscal year), and China and Asia posted a segment loss of 2 million yen ($21 thousand) (compared to segment income of 305 million yen in the previous fiscal year).

(4) Net Income/Loss

The Group posted income before income taxes and minority interests of 5,637 million yen ($59,962 thousand), down 15.9% compared to the previous fiscal year.

Income taxes totaled 123 million yen ($1,309 thousand), a decline of 684 million yen from 806 million yen in the previous fiscal year.

After minority interests in net income of consolidated subsidiaries of 344 million yen ($3,659 thousand), net income was 5,170 million yen ($54,994 thousand), down 8.0%.

Analysis of Cash Flows

Cash and cash equivalents at the end of the fiscal year under review were 6,268 million yen ($66,674 thousand), an increase of 1,735 million yen compared to the previous fiscal year.

Cash flows and their contributing factors during the fiscal year under review were as follows.

(1) Cash Flows from Operating Activities

Net cash provided by operating activities was 21,421 million yen ($227,858 thousand) (compared to 8,617 million yen provided in the previous fiscal year). The main factors behind this inflow included income before income taxes and minority interests of 5,637 million yen ($59,962 thousand), depreciation and amortization of 6,954 million yen ($73,971 thousand), a decrease in notes and accounts receivable of 6,344 million yen ($67,482 thousand), and a decrease in inventories of 6,683 million yen ($71,088 thousand). The main factors contributing to the outflow were a 2,018 million yen ($21,466 thousand) decrease in accounts payable and a net foreign exchange gain of 1,957 million yen ($20,817 thousand).

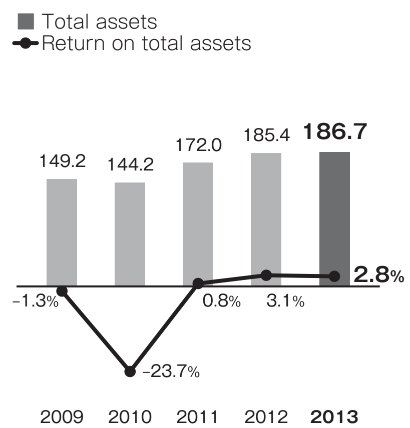
(2) Cash Flows from Investing Activities

Net cash used in investing activities was 10,089 million yen ($107,318 thousand) (compared to 22,080 million yen used in the previous fiscal year). This was primarily due to 9,929 million yen ($105,616 thousand) in purchases of tangible fixed assets and purchases of intangible assets of 1,993 million yen ($21,200 thousand), against an inflow of 1,783 million yen ($18,966 thousand) in proceeds from the transfer of business.

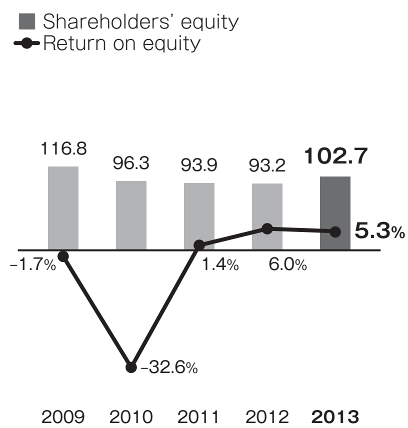
(3) Cash Flows from Financing Activities

Net cash used in financing activities was 10,086 million yen ($107,286 thousand) (compared to 10,873 million yen provided in the previous fiscal year). The main factors behind this change were a 4,848 million yen ($51,569 thousand) net decrease in short-term bank loans, 2,583 million yen ($27,476 thousand) in redemption of bonds with stock acquisition rights, and cash dividends of 2,219 million yen ($23,604 thousand).

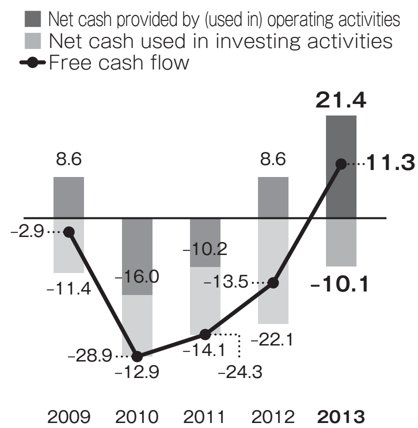
Total assets (billions of yen)
Return on total assets (%)
As of 31st March



Shareholders' equity*(billions of yen)
Return on equity (%)
As of 31st March



Free cash flow (billions of yen)
Years ended 31st March



*Shareholders' equity =
Net assets – Stock acquisition rights – Minority interests

Consolidated Balance Sheets

Mori Seiki Co., Ltd. and Consolidated Subsidiaries
31st March, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Assets			
Current assets:			
Cash and cash deposits (Notes 4 and 19)	**¥ 6,288**	¥ 4,550	**$ 66,887**
Notes and accounts receivable (Note 19):			
Trade	**24,824**	31,736	**264,057**
Allowance for doubtful receivables	**(230)**	(200)	**(2,447)**
Notes and accounts receivable, net	**24,594**	31,536	**261,610**
Marketable securities (Notes 6 and 19)	**—**	102	**—**
Inventories (Notes 5, 15, 23 and 26)	**37,941**	43,273	**403,585**
Deferred income taxes (Note 10)	**2,742**	2,158	**29,167**
Other current assets	**3,175**	4,410	**33,773**
Total current assets	**74,740**	86,029	**795,022**
Property, plant and equipment (Notes 7 and 25):			
Land (Note 13)	**21,774**	18,718	**231,614**
Buildings and structures	**70,495**	66,438	**749,867**
Machinery, equipment and vehicles	**39,002**	35,491	**414,871**
Leased assets (Notes 18 and 23)	**5,456**	4,897	**58,036**
Construction in progress	**1,883**	1,371	**20,030**
	138,610	126,915	**1,474,418**
Accumulated depreciation	**(75,822)**	(71,353)	**(806,531)**
Property, plant and equipment, net (Note 25)	**62,788**	55,562	**667,887**
Investments and other assets:			
Investments in securities (Notes 6, 19 and 27):			
Unconsolidated subsidiaries and affiliates	**30,058**	25,784	**319,732**
Other	**10,796**	10,633	**114,839**
Total investments in securities	**40,854**	36,417	**434,571**
Deferred income taxes (Note 10)	**944**	370	**10,041**
Other assets:			
Goodwill (Notes 7 and 25)	**667**	1,066	**7,095**
Long-term loan receivable	**132**	—	**1,404**
Other	**6,529**	5,975	**69,450**
Total other assets	**7,328**	7,041	**77,949**
Total investments and other assets	**49,126**	43,828	**522,561**
Total assets (Note 25)	**¥186,654**	¥185,419	**$1,985,470**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Liabilities			
Current liabilities:			
Short-term bank loans (Notes 9 and 19)	**¥ 23,930**	¥ 28,778	**$ 254,547**
Current portion of long-term debt (Note 9)	**429**	2,917	**4,563**
Accounts payable, trade (Note 19)	**9,077**	10,702	**96,554**
Accrued income taxes (Note 10)	**861**	323	**9,159**
Accrued expenses	**1,583**	1,690	**16,839**
Deferred income taxes (Note 10)	**249**	47	**2,649**
Advances received	**1,894**	981	**20,147**
Allowance for product warranties	**833**	838	**8,861**
Allowance for bonuses to employees	**168**	196	**1,787**
Allowance for bonuses to directors and corporate auditors	**18**	42	**191**
Other current liabilities	**5,212**	6,580	**55,440**
Total current liabilities	**44,254**	53,094	**470,737**
Long-term liabilities:			
Long-term debt (Notes 9 and 19)	**33,986**	33,882	**361,515**
Deferred income taxes (Note 10)	**1,400**	1,419	**14,892**
Deferred income taxes on land revaluation reserve (Notes 10 and 13)	**1,485**	1,485	**15,796**
Accrued retirement benefits (Note 8)	**222**	342	**2,361**
Asset retirement obligations (Note 11)	**63**	64	**670**
Other long-term liabilities	**763**	415	**8,117**
Total long-term liabilities	**37,919**	37,607	**403,351**
Contingent liabilities (Note 14)			
Net assets			
Shareholders' equity (Note 12):			
Common stock:			
Authorized—200,000,000 shares in 2013 and 2012			
Issued—118,475,312 shares in 2013 and 2012	**41,132**	41,132	**437,528**
Capital surplus	**53,863**	53,863	**572,950**
Retained earnings (Note 27)	**18,271**	15,313	**194,351**
Treasury stock, at cost (Note 12) —9,091,233 shares in 2013 —9,090,403 shares in 2012	**(11,743)**	(11,743)	**(124,912)**
Total shareholders' equity	**101,523**	98,565	**1,079,917**
Accumulated other comprehensive income (loss) (Note 22):			
Net unrealized holding gain on securities (Notes 6 and 10)	**2,616**	2,133	**27,827**
Net unrealized gain on derivative instruments	**186**	105	**1,979**
Land revaluation reserve (Notes 10 and 13)	**1,759**	1,759	**18,711**
Translation adjustments	**(3,424)**	(9,332)	**(36,422)**
Accumulated other comprehensive income (loss)	**1,137**	(5,335)	**12,095**
Stock acquisition rights (Note 12)	**435**	466	**4,627**
Minority interests	**1,386**	1,022	**14,743**
Total net assets	**104,481**	94,718	**1,111,382**
Total liabilities and net assets	**¥186,654**	¥185,419	**$1,985,470**

See accompanying notes to consolidated financial statements

Consolidated Statements of Income

Mori Seiki Co., Ltd. and Consolidated Subsidiaries
Years ended 31st March, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Net sales (Note 25)	**¥148,559**	¥155,321	**$1,580,247**
Cost of sales (Notes 8, 12 and 15)	**104,393**	105,951	**1,110,446**
Gross profit	**44,166**	49,370	**469,801**
Selling, general and administrative expenses (Notes 8, 12 and 16)	**40,032**	42,581	**425,827**
Operating income (Note 25)	**4,134**	6,789	**43,974**
Other income (expenses):			
Interest and dividend income	**353**	286	**3,755**
Interest expense	**(545)**	(543)	**(5,797)**
Gain on sales of investments in securities (Note 6)	**6**	—	**64**
Loss on revaluation of investments in securities (Note 6)	**—**	(201)	**—**
Foreign exchange gain, net	**757**	49	**8,052**
Loss on sales and disposal of property, plant and equipment, net	**(5)**	(73)	**(53)**
Loss on impairment of goodwill and property, plant and equipment (Notes 7 and 25)	**(108)**	(4)	**(1,149)**
Equity in earnings (losses) of affiliates	**681**	(265)	**7,244**
Business restructuring expenses (Notes 15 and 20)	**—**	(2,222)	**—**
Gain on reversal of stock acquisition rights (Note 12)	**25**	8	**266**
Gain on business transfer (Note 26)	**288**	576	**3,064**
Gain on liquidation of a subsidiary	**—**	135	**—**
Gain on change in equity in investments in subsidiaries	**—**	3,257	**—**
Loss on disaster (Note 15)	**—**	(600)	**—**
Insurance income	**554**	—	**5,893**
Retirement benefit expenses (Note 8)	**(105)**	(88)	**(1,117)**
Other, net	**(398)**	(402)	**(4,234)**
Income before income taxes and minority interests	**5,637**	6,702	**59,962**
Income taxes (Note 10):			
Current	**803**	917	**8,542**
Deferred	**(680)**	(111)	**(7,233)**
	123	806	**1,309**
Income before minority interests	**5,514**	5,896	**58,653**
Minority interests in net income of consolidated subsidiaries	**344**	276	**3,659**
Net income	**¥ 5,170**	¥ 5,620	**$ 54,994**

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

Mori Seiki Co., Ltd. and Consolidated Subsidiaries
Years ended 31st March, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Income before minority interests	**¥ 5,514**	¥5,896	**$ 58,653**
Other comprehensive income (loss) (Note 22):			
Net unrealized holding gain on securities (Note 6)	**478**	1,116	**5,085**
Net unrealized loss on derivative instruments	**—**	(476)	**—**
Land revaluation reserve	**—**	214	**—**
Translation adjustments	**2,304**	(92)	**24,508**
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	**3,720**	(3,006)	**39,570**
Other comprehensive income (loss)	**6,502**	(2,244)	**69,163**
Comprehensive income	**¥12,016**	¥3,652	**$127,816**
Comprehensive income attributable to:			
Shareholders of the Company	**¥11,642**	¥3,400	**$123,838**
Minority shareholders of consolidated subsidiaries	**374**	252	**3,978**

See accompanying notes to consolidated financial statements

Consolidated Statements of Changes in Net Assets

Mori Seiki Co., Ltd. and Consolidated Subsidiaries
Years ended 31st March, 2013 and 2012

	Number of shares of common stock in issue	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities
Balance at 1st April, 2011	118,475,312	¥41,132	¥53,863	¥11,911	¥(10,545)	¥1,463
Net income	—	—	—	5,620	—	—
Cash dividends	—	—	—	(2,212)	—	—
Purchases of treasury stock	—	—	—	—	(1)	—
Sales of treasury stock	—	—	(0)	—	0	—
Decrease resulting from initial consolidation of subsidiaries	—	—	—	(6)	—	—
Increase resulting from initial application of equity method accounting	—	—	—	—	(1,197)	—
Net changes of items other than shareholders' equity	—	—	—	—	—	670
Balance at 1st April, 2012	**118,475,312**	**41,132**	**53,863**	**15,313**	**(11,743)**	**2,133**
Net income	**—**	**—**	**—**	**5,170**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**(2,212)**	**—**	**—**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(0)**	**—**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**483**
Balance at 31st March, 2013	**118,475,312**	**¥41,132**	**¥53,863**	**¥18,271**	**¥(11,743)**	**¥2,616**

	Millions of yen					
	Net unrealized gain on derivative instruments	Land revaluation reserve	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at 1st April, 2011	¥476	¥1,545	¥(5,989)	¥469	¥1,004	¥ 95,329
Net income	—	—	—	—	—	5,620
Cash dividends	—	—	—	—	—	(2,212)
Purchases of treasury stock	—	—	—	—	—	(1)
Sales of treasury stock	—	—	—	—	—	0
Decrease resulting from initial consolidation of subsidiaries	—	—	—	—	—	(6)
Increase resulting from initial application of equity method accounting	—	—	—	—	—	(1,197)
Net changes of items other than shareholders' equity	(371)	214	(3,343)	(3)	18	(2,815)
Balance at 1st April, 2012	**105**	**1,759**	**(9,332)**	**466**	**1,022**	**94,718**
Net income	**—**	**—**	**—**	**—**	**—**	**5,170**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**(2,212)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**—**	**(0)**
Net changes of items other than shareholders' equity	**81**	**—**	**5,908**	**(31)**	**364**	**6,805**
Balance at 31st March, 2013	**¥186**	**¥1,759**	**¥(3,424)**	**¥435**	**¥1,386**	**¥104,481**

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Net unrealized holding gain on securities
Balance at 1st April, 2012	**$437,528**	**$572,950**	**$162,886**	**$(124,912)**	**$22,689**
Net income	—	—	**54,994**	—	—
Cash dividends	—	—	**(23,529)**	—	—
Purchases of treasury stock	—	—	—	**(0)**	—
Net changes of items other than shareholders' equity	—	—	—	—	**5,138**
Balance at 31st March, 2013	**$437,528**	**$572,950**	**$194,351**	**$(124,912)**	**$27,827**

	Thousands of U.S. dollars (Note 1)					
	Net unrealized gain on derivative instruments	Land revaluation reserve	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at 1st April, 2012	**$1,117**	**$18,711**	**$(99,266)**	**$4,957**	**$10,871**	**$1,007,531**
Net income	—	—	—	—	—	**54,994**
Cash dividends	—	—	—	—	—	**(23,529)**
Purchases of treasury stock	—	—	—	—	—	**(0)**
Net changes of items other than shareholders' equity	**862**	—	**62,844**	**(330)**	**3,872**	**72,386**
Balance at 31st March, 2013	**$1,979**	**$18,711**	**$(36,422)**	**$4,627**	**$14,743**	**$1,111,382**

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

Mori Seiki Co., Ltd. and Consolidated Subsidiaries
Years ended 31st March, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Operating activities:			
Income before income taxes and minority interests	**¥ 5,637**	¥6,702	**$ 59,962**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**6,954**	7,185	**73,971**
Loss on impairment of goodwill and property, plant and equipment	**108**	4	**1,149**
Loss on sales and disposal of property, plant and equipment, net	**5**	73	**53**
Gain on sales of investments in securities	**(6)**	—	**(64)**
Loss on revaluation of investments in securities	**—**	201	**—**
Equity in (earnings) losses of affiliates	**(681)**	265	**(7,244)**
Business restructuring expenses	**—**	2,222	**—**
Gain on reversal of stock acquisition rights	**(25)**	(8)	**(266)**
Bond issuance cost	**—**	148	**—**
Gain on business transfer	**(288)**	(576)	**(3,064)**
Gain on change in equity in investments in subsidiaries	**—**	(3,257)	**—**
Insurance income	**(554)**	—	**(5,893)**
(Decrease) increase in allowance for bonuses to employees	**(28)**	72	**(298)**
(Decrease) increase in allowance for bonuses to directors and corporate auditors	**(23)**	42	**(245)**
Increase in allowance for doubtful receivables	**39**	79	**415**
(Decrease) increase in accrued retirement benefits	**(126)**	133	**(1,340)**
Decrease in allowance for product warranties	**(6)**	(77)	**(64)**
Interest and dividend income	**(353)**	(286)	**(3,755)**
Interest expense	**545**	543	**5,797**
Foreign exchange (gain) loss, net	**(1,957)**	610	**(20,817)**
Changes in operating assets and liabilities:			
Notes and accounts receivable	**6,344**	1,461	**67,482**
Inventories	**6,683**	(8,369)	**71,088**
Accounts payable	**(2,018)**	(786)	**(21,466)**
Other, net	**1,210**	3,403	**12,872**
Subtotal	**21,460**	9,784	**228,273**
Interest and dividend income received	**580**	286	**6,170**
Interest paid	**(547)**	(539)	**(5,819)**
Income taxes paid	**(433)**	(914)	**(4,606)**
Proceeds from insurance income	**554**	—	**5,893**
Additional contribution on withdrawal from pension fund	**(193)**	—	**(2,053)**
Net cash provided by operating activities	**¥21,421**	¥8,617	**$227,858**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Investing activities:			
Purchases of property, plant and equipment	**¥ (9,929)**	¥(8,209)	**$(105,616)**
Proceeds from sales of property, plant and equipment	**112**	273	**1,191**
Increase in investments in securities	**(1)**	(60)	**(11)**
Proceeds from sales of investments in securities	**113**	—	**1,202**
Increase in investments in affiliates	**(203)**	(11,655)	**(2,159)**
Proceeds from business transfer (Note 23)	**1,783**	1,132	**18,966**
Expenditures for business divestiture	**—**	(1,505)	**—**
Acquisition of shares from minority interests in consolidated subsidiaries	**(87)**	(234)	**(925)**
Acquisition of shares of subsidiaries resulting in change in scope of consolidation	**—**	(50)	**—**
Proceeds from purchase of investments in a subsidiary resulting in change in scope of consolidation	**25**	—	**266**
Purchases of intangible assets	**(1,993)**	(1,813)	**(21,200)**
Other, net	**91**	41	**968**
Net cash used in investing activities	**(10,089)**	(22,080)	**(107,318)**
Financing activities:			
Decrease in short-term bank loans, net	**(4,848)**	(16,394)	**(51,569)**
Proceeds from issuance of bonds	**—**	29,852	**—**
Redemption of bonds with stock acquisition rights	**(2,583)**	—	**(27,476)**
Cash dividends	**(2,219)**	(2,212)	**(23,604)**
Other, net	**(436)**	(373)	**(4,637)**
Net cash (used in) provided by financing activities	**(10,086)**	10,873	**(107,286)**
Effect of exchange rate changes on cash and cash equivalents	**489**	(293)	**5,202**
Increase (decrease) in cash and cash equivalents	**1,735**	(2,883)	**18,456**
Cash and cash equivalents at beginning of year	**4,533**	7,414	**48,218**
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	**—**	94	**—**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**—**	(92)	**—**
Cash and cash equivalents at end of year (Note 4)	**¥ 6,268**	¥ 4,533	**$ 66,674**

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Mori Seiki Co., Ltd. and Consolidated Subsidiaries
Years ended 31st March, 2013 and 2012

1. Basis of Preparation of Consolidated Financial Statements

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

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

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

The accompanying consolidated financial statements have been translated from yen amounts into U.S. dollar amounts, solely for convenience, as a matter of arithmetic computation only, at ¥94.01 = U.S.$1.00, the exchange rate prevailing on 31st March, 2013. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(1) Principles of consolidation

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

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

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

(2) Foreign currency translation

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

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

(3) Cash and cash equivalents

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

(4) Allowance for doubtful receivables

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

(5) Marketable securities and investments in securities

The accounting standard applicable to financial instruments requires that securities be classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities are carried at market value, and gain or loss, both realized and unrealized, is credited or charged to income. Marketable securities classified as other securities are carried at market value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method. Investments in investment limited partnerships are stated at the net value of equities based on the most recent financial statements available prepared according to the financial reporting dates specified in the respective partnership agreements.

(6) Derivatives
Derivatives are stated at fair value.

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

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

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

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

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

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

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

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

(9) Research and development costs and computer software (Other than leased assets)
Research and development costs are charged to income when incurred.

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

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

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

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

(11) Goodwill
Goodwill is amortized by the straight-line method over 5 years.

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

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

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

(15) Allowance for bonuses to directors and corporate auditors
Allowance for bonuses to directors and corporate auditors is calculated based on the estimated amount of bonuses to be paid to directors and corporate auditors in the Company and one domestic consolidated subsidiary. As of 31st March 2013, no allowance for bonuses to directors and corporate auditors in the Company was recorded.

(16) Accrued retirement benefits
Accrued retirement benefits is calculated based on the estimated amount of the retirement benefit obligation and the fair value of the pension plan assets at 31st March, 2013 and 2012 to provide retirement benefits for employees in certain domestic and overseas consolidated subsidiaries. Accrued retirement benefits is calculated using simplified method for certain consolidated subsidiaries.

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

(17) Hedge accounting
Gain or loss on derivatives designated as hedging instruments is deferred until the gain or loss on the underlying hedged items is recognized.

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

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

(18) Consolidated taxation system

The Company and certain domestic consolidated subsidiaries adopt the consolidated taxation system.

(19) Accounting standard issued but not yet effective

On 17th May, 2012, the Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of 1st April, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

Under the revised accounting standard, actuarial gains and losses and unrecognized prior service costs that are yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset. The retirement benefit obligation can be attributed to each period by the benefit formula basis or the straight-line method and the calculation method for the discount rate shall be changed.

This accounting standard and related guidance are effective as of the end of fiscal years beginning on or after 1st April, 2013. However, no retrospective application of this accounting standard to consolidated financial statements of prior periods is required.

The Company is currently evaluating the effect that these modifications will have on its consolidated results of operations and financial position.

3. Change in Accounting Policy

Change in depreciation method

Effective the year ended 31st March, 2013, the Company and its domestic consolidated subsidiaries have changed their depreciation method of property, plant and equipment acquired on or after 1st April, 2012, in accordance with the amendment to the Corporate Tax Law in Japan. As a result of this change, compared with the previous method, operating income and income before income taxes and minority interests increased by ¥124 million ($1,319 thousand) for the year ended 31st March, 2013.

4. Cash and Cash Equivalents

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in cash and cash deposits in the consolidated balance sheets at 31st March, 2013 and 2012 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cash and cash deposits	**¥6,288**	¥4,550	**$66,887**
Time deposits with an original maturity in excess of three months included in cash and deposits	**(20)**	(17)	**(213)**
Cash and cash equivalents at end of year	**¥6,268**	¥4,533	**$66,674**

5. Inventories

Inventories at 31st March, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Merchandise	**¥ 3,199**	¥ 4,216	**$ 34,028**
Finished goods	**8,997**	12,048	**95,703**
Work in process	**7,190**	7,571	**76,481**
Raw materials and supplies	**18,555**	19,438	**197,373**
Total	**¥37,941**	¥43,273	**$403,585**

6. Securities

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

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

There were no held-to-maturity debt securities as of 31st March, 2013.

Marketable securities classified as other securities as of 31st March, 2013 and 2012 are summarized as follows:

	Millions of yen			Millions of yen		
	2013			2012		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 9,756	¥6,165	¥3,591	¥8,697	¥5,289	¥3,408
Subtotal	9,756	6,165	3,591	8,697	5,289	3,408
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	346	360	(14)	1,209	1,341	(132)
Subtotal	346	360	(14)	1,209	1,341	(132)
Total	¥10,102	¥6,525	¥3,577	¥9,906	¥6,630	¥3,276

	Thousands of U.S. dollars		
	2013		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	$103,776	$65,578	$38,198
Subtotal	103,776	65,578	38,198
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	3,681	3,830	(149)
Subtotal	3,681	3,830	(149)
Total	$107,457	$69,408	$38,049

The sales of other securities and aggregate gain on the sales for the year ended 31st March, 2013 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Sales amount	¥113	$1,202
Aggregate gain	6	64

There were no sales of other securities for the year ended 31st March, 2012.

The Company did not record loss on revaluation of investments in securities for the year ended 31st March, 2013. The Company recorded loss on revaluation of investments in marketable equity securities of ¥201 million classified as other securities for the year ended 31st March, 2012.

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

7. Loss on Impairment of Goodwill and Property, Plant and Equipment

The details of loss on impairment of goodwill recorded for the year ended 31st March, 2013 are as follows:

Company	Classification	Millions of yen	Thousands of U.S. dollars
B.U.G., Inc.	Goodwill	**¥108**	**$1,149**

B.U.G., Inc., a domestic consolidated subsidiary, became a wholly owned subsidiary of the Company during the year ended 31st March, 2013, and its name will be changed to B.U.G. Mori Seiki Co., Ltd. Also, the principal business of B.U.G. Mori Seiki Co., Ltd. will change to research and development activities for the Company from sales activities. The Company recognized a loss on impairment of goodwill as it is anticipated that the initial income target will not be achieved. The Company basically groups assets by operating department. Assets in the manufacturing department are grouped according to plant. The recoverable amount of the above goodwill measured at value in use was zero.

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

Company	Location	Classification	Millions of yen
Taiyo Koki Co., Ltd.	Nagaoka City, Niigata Prefecture, Japan	Land, buildings and others	¥4

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

8. Retirement Benefits

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

In addition to the above, two domestic consolidated subsidiaries participated in a small- and medium-sized enterprise mutual aid plan and a multi-employer pension plan covering all of their employees and other, and withdrew from the multi-employer plan during the year ended 31st March, 2013. Furthermore, certain overseas consolidated subsidiaries have established a defined benefit plan, a benefit plan for a lump-sum payment, or an employees' defined contribution pension plan.

Since the portion of pension assets belonging to a multi-employer pension plan could not be reasonably calculated, the required contribution amount was recognized as retirement benefit expenses. The multi-employer pension plan's pension assets, which were calculated based on the proportion of contributions to the pension plan made by subsidiaries, amounted to ¥869 million at 31st March, 2012. For the year ended 31st March, 2013, the amount of the multi-employer pension plan's assets was not disclosed as the subsidiaries withdrew from the plan as explained above.

The following table sets forth the funded and accrued status of the retirement benefit plans for employees and the amounts recognized in the accompanying consolidated balance sheets at 31st March, 2013 and 2012 for the defined benefit pension plans of certain consolidated subsidiaries:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
(1) Retirement benefit obligation	**¥(1,393)**	¥(1,409)	**$(14,818)**
(2) Plan assets at fair value	**919**	928	**9,776**
(3) Unfunded retirement benefit obligation (1) + (2)	**(474)**	(481)	**(5,042)**
(4) Unrecognized actuarial loss	**252**	227	**2,681**
(5) Accrued retirement benefits (3) + (4)	**¥ (222)**	¥ (254)	**$ (2,361)**

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

No additional obligation was recognized at 31st March, 2013.

The retirement benefit expenses for the years ended 31st March, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Service cost	**¥ 11**	¥ 86	**$ 117**
Interest cost	**27**	25	**287**
Expected return on plan assets	**(28)**	(29)	**(298)**
Actuarial differences	**10**	—	**106**
Contributions to the pension plan	**904**	847	**9,616**
Contributions to a small- and medium-sized enterprise mutual aid plan	**10**	11	**107**
Contributions to a mutual aid plan defined by the Order for Enforcement of the Income Tax Act	**17**	14	**181**
Contributions to the multi-employer pension plan	**24**	40	**255**
Total	**¥975**	¥994	**$10,371**

In addition to the above, two domestic consolidated subsidiaries recognized additional retirement benefit expenses of ¥105 million ($1,117 thousand) as a special premium was paid in connection with the withdrawal from the multi-employer pension plan for the year ended 31st March, 2013.

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

The assumptions used in accounting for the retirement benefit obligation for the years ended 31st March, 2013 and 2012 are summarized as follows:

	2013	2012
(1) Discount rates	2.30%	2.80%
(2) Expected rates of return on plan assets	3.00%	3.50%

Estimated benefits are allocated by the straight-line method.

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

Short-term bank loans consist of bank overdrafts and loans under commitment lines. The weighted-average interest rates on short-term bank loans were 0.42% and 0.40% at 31st March, 2013 and 2012, respectively.

For effective financing purposes, the Company and two domestic consolidated subsidiaries concluded committed bank overdraft agreements with three banks at 31st March, 2013 and 2012. The status of such agreements at 31st March, 2013 and 2012 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Lines of credit of bank overdrafts	¥16,050	¥16,050	$170,726
Bank overdrafts utilized	(8,460)	(5,828)	(89,990)
Available credit	¥ 7,590	¥10,222	$ 80,736

For effective financing purposes, the Company concluded committed line-of-credit agreements with 22 banks at 31st March, 2013 and 2012. The status of such agreements at 31st March, 2013 and 2012 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Committed lines of credit	¥50,000	¥50,000	$531,858
Short-term loans utilized	(15,470)	(22,950)	(164,557)
Available credit	¥34,530	¥27,050	$367,301

Long-term debt at 31st March, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Bonds:			
Zero coupon yen convertible bonds with stock acquisition rights due 2013	¥ —	¥ 2,583	$ —
0.37% yen bonds due 2015	15,000	15,000	159,557
0.55% yen bonds due 2017	15,000	15,000	159,557
Finance lease obligations:			
Finance lease agreements	4,415	4,216	46,964
Subtotal	34,415	36,799	366,078
Less current portion	(429)	(2,917)	(4,563)
Long-term debt, net	¥33,986	¥33,882	$361,515

The aggregate annual maturities of long-term debt subsequent to 31st March, 2013 are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2014	¥ 429	$ 4,563
2015	15,601	165,950
2016	466	4,957
2017	15,391	163,717
2018	380	4,042
2019 and thereafter	2,148	22,849
Total	¥34,415	$366,078

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

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

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

10. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 37.75% and 40.49% for the years ended 31st March, 2013 and 2012, respectively.
The overseas subsidiaries are subject to the income tax regulations of the respective countries in which they operate.

The reconciliation of the differences between the statutory tax rates and effective tax rates for the years ended 31st March, 2013 and 2012 as a percentage of income before income taxes and minority interests is as follows:

	2013	2012
Statutory tax rates	37.75%	40.49%
Increase (decrease) in income taxes resulting from:		
Permanent non-deductible expenses	3.15	4.19
Tax deduction	(0.95)	—
Permanent non-taxable income	(0.84)	(0.52)
Per capita portion of inhabitants' taxes	0.84	0.70
Temporary differences relating to investments in subsidiaries	1.45	(12.45)
Reversal of valuation allowance	(40.07)	(21.41)
Decrease of deferred tax assets resulting from changes in the statutory tax rates	—	1.41
Other, net	0.84	(0.39)
Effective tax rates	2.17%	12.02%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at 31st March, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current			
Deferred tax assets (reflected in current assets):			
Inventories	¥ 511	¥ 924	$ 5,436
Elimination of unrealized gain on inventories	58	80	617
Allowance for doubtful receivables	2	2	21
Accrued enterprise taxes	97	69	1,032
Tax loss carryforwards	1,068	512	11,360
Other	1,103	726	11,733
Deferred tax assets, subtotal	2,839	2,313	30,199
Less: valuation allowance	(97)	(155)	(1,032)
Deferred tax assets, total	¥ 2,742	¥ 2,158	$ 29,167
Offset of deferred tax liabilities	—	—	—
Deferred tax assets, net	¥ 2,742	¥ 2,158	$ 29,167
Deferred tax liabilities (reflected in current liabilities):			
Other	¥ (249)	¥ (47)	$ (2,649)
Deferred tax liabilities, total	(249)	(47)	(2,649)
Offset of deferred tax assets	—	—	—
Deferred tax liabilities, net	¥ (249)	¥ (47)	$ (2,649)
Non-current			
Deferred tax assets (reflected in investments and other assets):			
Inventories	¥ 964	¥ 687	$ 10,254
Loss on devaluation of listed equity securities	881	882	9,371
Shares of subsidiaries transferred by contribution in kind	1,188	1,188	12,637
Depreciation	350	747	3,723
One-time write-off applied to assets	13	18	138
Allowance for doubtful receivables	16	16	170
Tax loss carryforwards	6,127	7,691	65,174
Other	802	566	8,531
Deferred tax assets, subtotal	10,341	11,795	109,998
Less: valuation allowance	(9,397)	(11,425)	(99,957)
Deferred tax assets, total	¥ 944	¥ 370	$ 10,041
Offset of deferred tax liabilities	—	—	—
Deferred tax assets, net	¥ 944	¥ 370	$ 10,041
Deferred tax liabilities (reflected in long-term liabilities):			
Reserve for depreciation for tax purposes	¥ (83)	¥ (86)	$ (883)
Unrealized holding gain on securities	(895)	(1,071)	(9,520)
Other	(422)	(262)	(4,489)
Deferred tax liabilities, total	(1,400)	(1,419)	(14,892)
Offset of deferred tax assets	—	—	—
Deferred tax liabilities, net	¥(1,400)	¥(1,419)	$(14,892)
Deferred tax liabilities on land revaluation reserve (reflected in long-term liabilities):			
Deferred tax liabilities on land revaluation reserve	¥(1,485)	¥(1,485)	$(15,796)

11. Asset Retirement Obligations

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

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

(3) Changes in the balance of asset retirement obligations for the years ended 31st March, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Balance at beginning of the year	**¥64**	¥62	**$681**
Decrease due to settlement of asset retirement obligations	**(2)**	—	**(21)**
Other adjustments	**1**	2	**10**
Balance at end of the year	**¥63**	¥64	**$670**

12. Shareholders' Equity

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

The legal reserve of the Company included in retained earnings is nil at 31st March, 2013 and 2012.

Common stock and treasury stock
Movements in common stock and treasury stock for the years ended 31st March, 2013 and 2012 are summarized as follows:

	Number of Shares			
	1st April, 2012	Increase	Decrease	31st March, 2013
Common stock	118,475,312	—	—	118,475,312
Treasury stock	9,090,403	830	—	9,091,233

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

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

Expenses or gain related to stock options for the years ended 31st March, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cost of sales	**¥ —**	¥(1)	**$ —**
Selling, general and administrative expenses	**—**	6	**—**
Gain on reversal of stock acquisition rights	**25**	8	**266**

The stock option plans of the Company and its domestic consolidated subsidiaries at 31st March, 2013 and 2012 are summarized as follows:

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

Movements in stock option and exercise price as of and for the year ended 31st March, 2013 are summarized as follows:

Company	The Company		Taiyo Koki Co., Ltd.	B.U.G., Inc.		
Date of approval	18th June, 2008	17th June, 2009	19th June, 2009	13th December, 2007	28th March, 2008	17th January, 2011
Not vested:						
Outstanding as of 1st April, 2012	—	—	—	10,000	6,000	51,200
Granted	—	—	—	—	—	—
Forfeited	—	—	—	—	—	2,340
Vested	—	—	—	—	—	—
Outstanding as of 31st March, 2013	—	—	—	10,000	6,000	48,860
Vested:						
Outstanding as of 1st April, 2012	1,069,000	210,000	53,500	—	—	—
Vested	—	—	—	—	—	—
Exercised	—	—	15,600	—	—	—
Forfeited	45,500	—	—	—	—	—
Outstanding as of 31st March, 2013	1,023,500	210,000	37,900	—	—	—
Exercise price (Yen)	¥1,502	¥1,061	¥ 643	¥2,000	¥2,000	¥ 400
Weighted average exercise price (Yen)	—	—	1,217	—	—	—
Weighted average fair value per stock at the granted date (Yen)	174	219	284	(Note) —	(Note) —	(Note) —
Exercise price (U.S. dollars)	$15.98	$11.29	$6.84	$21.27	$21.27	$4.25
Weighted average exercise price (U.S. dollars)	—	—	12.95	—	—	—
Weighted average fair value per stock at the granted date (U.S. dollars)	1.85	2.33	3.02	(Note) —	(Note) —	(Note) —

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

13. Land Revaluation

Effective 31st March, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the applicable tax effect on revaluation gain, has been stated as a component of net assets; "Land revaluation reserve" amounted to ¥1,759 million ($18,711 thousand) and ¥1,759 million at 31st March, 2013 and 2012, respectively. The applicable tax effect has been stated as a component of long-term liabilities; "Deferred income taxes on land revaluation reserve" amounted to ¥1,485 million ($15,796 thousand) and ¥1,485 million at 31st March, 2013 and 2012, respectively. The fair value of the revalued land was less than its carrying value by ¥3,834 million ($40,783 thousand) and ¥3,678 million at 31st March, 2013 and 2012, respectively.

14. Contingent Liabilities

At 31st March, 2013 and 2012, the Company had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Guarantees of lease payments by customers	**¥2,881**	¥2,276	**$30,646**
Guarantees of loans of an affiliate	**8,249**	2,469	**87,746**
Guarantees of assigned accounts receivable	**4,397**	—	**46,772**

15. Loss on Devaluation of Inventories

Cost of sales included a loss on devaluation of inventories of ¥1,540 million ($16,381 thousand) and ¥1,479 million for the years ended 31st March, 2013 and 2012, respectively. Furthermore, loss on devaluation of inventories was included in business restructuring expenses in the amount of ¥1,271 million and in loss on disaster in the amount of ¥211 million for the year ended 31st March, 2012, which were recorded as components of other expenses for the year.

16. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Research and development costs	**¥2,734**	¥3,506	**$29,082**

17. Derivative Financial Instruments

The estimated fair value of the derivatives positions outstanding which do not qualify for deferral hedge accounting at 31st March, 2013 and 2012 is summarized as follows:

	Millions of yen			Millions of yen		
	2013			2012		
	Contract value (notional principal amount)	Estimated fair value	Unrealized (loss) gain	Contract value (notional principal amount)	Estimated fair value	Unrealized (loss) gain
Forward foreign exchange contracts						
Selling:						
U.S. dollars	¥ 806	¥(18)	¥(18)	¥ 195	¥ (3)	¥ (3)
Euro	1,196	5	5	1,326	(21)	(21)
Total	¥2,002	¥(13)	¥(13)	¥1,521	¥(24)	¥(24)

	Thousands of U.S. dollars		
	2013		
	Contract value (notional principal amount)	Estimated fair value	Unrealized (loss) gain
Forward foreign exchange contracts			
Selling:			
U.S. dollars	$ 8,574	$(191)	$(191)
Euro	12,722	53	53
Total	$21,296	$(138)	$(138)

There were no derivatives positions outstanding which qualify for deferral hedge accounting at 31st March, 2013 and 2012.

18. Leases

(1) Finance leases

The Company and its consolidated subsidiaries lease plants (buildings and structures), offices (buildings and structures) and manufacturing facilities (machinery and equipment).

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

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the property leased to the Company and its domestic consolidated subsidiaries at 31st March, 2013 and 2012, which would have been reflected in the accompanying consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its domestic consolidated subsidiaries were capitalized.

	Millions of yen			Millions of yen		
	2013			2012		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Category:						
Machinery, equipment and vehicles	¥806	¥749	¥57	¥5,323	¥4,797	¥526

	Thousands of U.S. dollars		
	2013		
	Acquisition cost	Accumulated depreciation	Net book value
Category:			
Machinery, equipment and vehicles	$8,574	$7,968	$606

Lease payments of the Company and a domestic consolidated subsidiary relating to finance lease transactions accounted for as operating leases amounted to ¥515 million ($5,478 thousand) and ¥1,127 million for the years ended 31st March, 2013 and 2012, respectively.

Depreciation related to leased property of the Company and a domestic consolidated subsidiary was calculated by the straight-line method over the respective lease terms assuming a nil residual value and amounted to ¥470 million ($4,999 thousand) and ¥1,046 million for the years ended 31st March, 2013 and 2012, respectively.

Interest expenses for finance leases amounted to ¥6 million ($64 thousand) and ¥28 million for the years ended 31st March, 2013 and 2012, respectively, under the interest method mentioned above.

Future minimum lease payments subsequent to 31st March, 2013 under finance leases other than those which transfer the ownership of the leased property to the Company and a domestic consolidated subsidiary are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2014	¥56	$596

(2) Operating leases

Future minimum lease payments subsequent to 31st March, 2013 under operating leases are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2014	¥ 1,399	$ 14,881
2015 and thereafter	10,909	116,041
Total	¥12,308	$130,922

19. Financial Instruments

Status of financial instruments

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

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

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

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

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

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

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

(3) Risk management for financial instruments

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

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

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

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

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

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

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

For derivative transactions, the finance department of the Company enters into and manages transactions, and the responsible director approves them based on internal regulations.

The consolidated subsidiaries do not enter into derivative transactions.

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

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

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

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

Fair value of financial instruments

The amounts recorded in the consolidated balance sheets, the fair value and the difference at 31st March, 2013 and 2012 are summarized as follows. Financial instruments for which it is deemed extremely difficult to determine the fair value are not included. (Please refer to Note 2 below.)

	Millions of yen			Millions of yen		
	2013			2012		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets						
Cash and cash deposits	¥ 6,288	¥ 6,288	¥ —	¥ 4,550	¥ 4,550	¥ —
Notes and accounts receivable, trade	24,824	24,824	—	31,736	31,736	—
Marketable securities and investments in securities:						
Held-to-maturity debt securities	—	—	—	202	202	0
Other securities	10,102	10,102	—	9,906	9,906	—
Total assets	¥41,214	¥41,214	¥ —	¥46,394	¥46,394	¥ 0
Liabilities						
Short-term bank loans	¥23,930	¥23,930	¥ —	¥28,778	¥28,778	¥ —
Accounts payable, trade	9,077	9,077	—	10,702	10,702	—
Bonds included in long-term debt	30,000	30,159	159	30,000	30,020	20
Total liabilities	¥63,007	¥63,166	¥159	¥69,480	¥69,500	¥20
Derivative transactions						
Not subject to hedge accounting	¥ (13)	¥ (13)	¥ —	¥ (24)	¥ (24)	¥ —
Total derivative transactions(*)	¥ (13)	¥ (13)	¥ —	¥ (24)	¥ (24)	¥ —

	Thousands of U.S. dollars		
	2013		
	Carrying value	Fair value	Difference
Assets			
Cash and cash deposits	$ 66,887	$ 66,887	$ —
Notes and accounts receivable, trade	264,057	264,057	—
Marketable securities and investments in securities:			
Held-to-maturity debt securities	—	—	—
Other securities	107,457	107,457	—
Total assets	$438,401	$438,401	$ —
Liabilities			
Short-term bank loans	$254,547	$254,547	$ —
Accounts payable, trade	96,554	96,554	—
Bonds included in long-term debt	319,114	320,806	1,692
Total liabilities	$670,215	$671,907	$1,692
Derivative transactions			
Not subject to hedge accounting	$ (138)	$ (138)	$ —
Total derivative transactions(*)	$ (138)	$ (138)	$ —

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

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

Cash and cash deposits

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

Notes and accounts receivable, trade

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

Marketable securities and investments in securities

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

Short-term bank loans

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

Accounts payable, trade

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

Bonds

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

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Investments in unconsolidated subsidiaries	¥ 192	¥ 192	$ 2,042
Investments in affiliates	8,605	7,666	91,533
Investments in unlisted stocks	613	545	6,521
Investments in limited liability partnership	81	82	861
Total	¥9,491	¥8,485	$100,957

Note 3: Redemption schedule for monetary claims and investments in securities with maturities subsequent to 31st March, 2013 is summarized as follows:

	Millions of yen			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and cash deposits	¥ 6,288	¥ —	¥—	¥—
Notes and accounts receivable, trade	24,546	278	—	—
Total	¥30,834	¥278	¥—	¥—

	Thousands of U.S. dollars			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and cash deposits	$ 66,887	$ —	$—	$—
Notes and accounts receivable, trade	261,100	2,957	—	—
Total	$327,987	$2,957	$—	$—

20. Business Restructuring Expenses

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

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

Company	Use	Classification	Millions of yen
The Company	Research and development	Patent included in "Other" under other assets	¥150

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

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

21. Related Party Transaction

Transactions with related parties

Related party transactions for the year ended 31st March, 2013 are summarized as follows:

Type	Name	Country	Currency	Capital stock or investment in capital	Business activity	Equity ownership percentage	Relation to the related party	Nature of transaction	Transaction amount (Millions of yen)	Transaction amount (Thousands of U.S. dollars)
Affiliate	MG Finance GmbH	Germany	EUR	15,000 thousand	Finance and leasing	42.6%	Sale of the Company's products	Loan guarantees (*)	¥8,249	$87,746

(*) This represents guarantees of bank loans of MG Finance GmbH.

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

Type	Name	Country	Currency	Capital stock or investment in capital	Business activity	Equity ownership percentage	Relation to the related party	Nature of transaction	Transaction amount (Millions of yen)
Affiliate	MG Finance GmbH	Germany	EUR	15,000 thousand	Finance and leasing	33.0%	Sale of the Company's products	Loan guarantees	¥2,469
Affiliate	GILDEMEISTER AG	Germany	EUR	156 million	Manufacturing and selling machine tools	Company: Holds 20.1% of affiliate Affiliate: Holds 5.1% of the Company	Business and capital alliance Concurrently serving directors	Underwriting of capital increase (*1)	¥10,385
Affiliate	DMG MORI SEIKI Europe AG	Switzerland	CHF	76 million	Sales and service of DMG's and the Company's products	40.0%	Sales of the Company's products Concurrently serving directors	Contribution in kind of subsidiary' s shares (*2)	¥8,782

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

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

Note on significant affiliate company accounted for using the equity method

The following is a summary of the financial statements of GILDEMEISTER AG at 31st December, 2012 and the year then ended, and at 31st December, 2011 and the nine-month period then ended from the second quarter to the fourth quarter, in which the Company recorded equity earnings.

	Millions of euros	
	As of 31st December	
	2012	2011
Total current assets	€1,056	€908
Total long-term assets	559	463
Total current liabilities	763	636
Total long-term liabilities	64	80
Total net assets	788	655

	Millions of euros	
	The year ended 31st December, 2012	The nine-month period ended 31st December, 2011
	2012	2011
Net sales	€2,037	€1,310
Income before income taxes	120	66
Net income	82	45

22. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects of other comprehensive income for the years ended 31st March, 2013 and 2012.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 309	¥ 1,504	$ 3,287
Reclassification adjustments for (gain) loss realized in statements of income	(7)	201	(74)
Amount before the adjustment of tax effect	302	1,705	3,213
Tax effect	176	(589)	1,872
Net unrealized holding gain on securities	478	1,116	5,085
Net unrealized loss on derivative instruments:			
Reclassification adjustments for gain realized in statement of income	—	(800)	—
Tax effect	—	324	—
Net unrealized loss on derivative instruments	—	(476)	—
Land revaluation reserve:			
Tax effect	—	214	—
Land revaluation reserve	—	214	—
Translation adjustments:			
Amount arising during the year	2,304	(278)	24,508
Reclassification adjustments for loss realized in statement of income	—	186	—
Translation adjustments	2,304	(92)	24,508
Share of other comprehensive income (loss) of affiliates accounted for by the equity method:			
Amount arising during the year	3,722	(2,983)	39,591
Reclassification adjustments for gain realized in statement of income	31	—	330
Amount before the adjustment of tax effect	3,753	(2,983)	39,921
Tax effect	(33)	(23)	(351)
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	3,720	(3,006)	39,570
Other comprehensive income, net	¥6,502	¥(2,244)	$69,163

23. Supplemental Information on the Consolidated Statements of Cash Flows

(1) Non cash transaction

The Company and its consolidated subsidiaries recorded leased assets and lease obligations related to new finance lease transactions in the amounts of ¥261 million ($2,776 thousand) and ¥303 million for the years ended 31st March, 2013 and 2012, respectively.

(2) Business transfer

MORI SEIKI G.M.B.H., a consolidated subsidiary of the Company, which managed sales operations in Germany transferred a portion of its business to DMG MORI SEIKI Deutschland GmbH in the year ended March 31, 2013. The Company recorded ¥1,783 million ($18,966 thousand) as proceeds from business transfer in the statement of cash flows for the year ended 31st March, 2013. In addition, inventories decreased by ¥1,444 million ($15,360 thousand) resulting from this business transfer.

MORI SEIKI G.M.B.H., also transferred a portion of its business to DMG MORI SEIKI Deutschland GmbH in the year ended March 31, 2013. The Company recorded ¥1,132 million as proceeds from business transfer in the statement of cash flows for the year ended 31st March, 2012. In addition, inventories, property, plant and equipment and others decreased by ¥365 million resulting from this business transfer.

24. Amounts per Share

Amounts per share at 31st March, 2013 and 2012 and for the years then ended are summarized as follows:

	Yen		U.S. dollars
	2013	2012	**2013**
Amounts per share:			
Net assets	**¥938.53**	¥852.31	**$9.98**
Net income:			
Basic	**47.27**	51.13	**0.50**
Diluted	**47.07**	50.22	**0.50**
Cash dividends	**20.00**	20.00	**0.21**

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

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

An outline of dilutive shares not included in the calculation of "Net income per share (diluted)" for the years ended 31st March, 2013 and 2012 because they do not have dilutive effect is as follows:

Stock acquisition rights issued by the Company:
  Type: 2 types
  Number of stock acquisition rights issued by the Company as part of a stock option plans: 12,335 units and 12,790 units at 31st March, 2013 and 2012, respectively.
Stock acquisition rights issued by a domestic consolidated subsidiary:
  Type: 1 type
  Number of stock acquisition rights issued by a domestic consolidated subsidiary as a part of a stock option plan: 379 units and 535 units at 31st March, 2013 and 2012, respectively.

25. Segment Information

(1) Outline of the reportable segments

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

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

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

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

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

Change in depreciation method

Effective the year ended 31st March, 2013, the Company and its domestic consolidated subsidiaries have changed their depreciation method of property, plant and equipment acquired on or after 1st April, 2012, in accordance with the amendment to the Corporate Tax Law in Japan. As a result of this change, compared with the previous method, segment income of Japan increased by ¥124 million ($1,319 thousand) for the year ended 31st March, 2013.

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

Reportable segment information for the years ended 31st March, 2013 and 2012 are summarized as follows:

	Millions of yen				
	2013				
	Japan	The Americas	Europe	China and Asia	Total
Net sales					
Sales to third parties	¥ 50,733	¥47,636	¥26,898	¥23,292	¥148,559
Inter-segment sales and transfers	73,626	1,358	1,772	1,374	78,130
Total	¥124,359	¥48,994	¥28,670	¥24,666	¥226,689
Segment income (loss)	¥ 4,717	¥ (995)	¥ (62)	¥ (2)	¥ 3,658
Segment assets	¥121,529	¥25,394	¥45,712	¥10,997	¥203,632
Other items:					
Depreciation and amortization	¥ 5,155	¥ 1,069	¥ 333	¥ 138	¥ 6,695
Amortization of goodwill	¥ 369	¥ —	¥ —	¥ —	¥ 369
Investments in affiliates accounted for by the equity method	¥ 367	¥ 19	¥27,319	¥ 1,674	¥ 29,379
Increase in property, plant and equipment and intangible assets	¥ 1,908	¥ 2,212	¥ 810	¥ 2,330	¥ 7,260

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

	Thousands of U.S. dollars				
	2013				
	Japan	The Americas	Europe	China and Asia	Total
Net sales					
Sales to third parties	$ 539,655	$506,712	$286,119	$247,761	$1,580,247
Inter-segment sales and transfers	783,172	14,445	18,849	14,616	831,082
Total	$1,322,827	$521,157	$304,968	$262,377	$2,411,329
Segment income (loss)	$ 50,176	$ (10,584)	$ (660)	$ (21)	$ 38,911
Segment assets	$1,292,724	$270,120	$486,246	$116,977	$2,166,067
Other items:					
Depreciation and amortization	$ 54,835	$ 11,371	$ 3,542	$ 1,468	$ 71,216
Amortization of goodwill	$ 3,925	$ —	$ —	$ —	$ 3,925
Investments in affiliates accounted for by the equity method	$ 3,904	$ 202	$290,597	$ 17,806	$ 312,509
Increase in property, plant and equipment and intangible assets	$ 20,296	$ 23,529	$ 8,616	$ 24,785	$ 77,226

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

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

	Millions of yen		Thousands of U.S. dollars
Operating income	2013	2012	2013
Segment income	¥3,658	¥6,720	$38,911
Elimination of unrealized gain	476	69	5,063
Operating income in the consolidated statements of income	¥4,134	¥6,789	$43,974

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

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

	Millions of yen		Thousands of U.S. dollars
Assets	2013	2012	2013
Segment assets	¥203,632	¥212,663	$2,166,067
Unallocated assets	10,425	10,141	110,893
Adjustment of unrealized gain	(1,440)	(2,803)	(15,317)
Inter-segment transactions	(25,963)	(34,582)	(276,173)
Assets in the consolidated balance sheets	¥186,654	¥185,419	$1,985,470

Related information

(1) Sales by product and service

As the sale of only one type of product and service amounted to more than 90% of net consolidated sales, the disclosure of segment information by product and service for the years ended 31st March, 2013 and 2012 has been omitted.

(2) Regional information

(a) Net sales for the years ended 31st March, 2013 and 2012 are summarized as follows:

Millions of yen					
2013					
Japan	USA	The Americas other than USA	Europe	China and Asia	Total
¥50,733	¥42,910	¥4,726	¥26,898	¥23,292	¥148,559

Millions of yen					
2012					
Japan	USA	The Americas other than USA	Europe	China and Asia	Total
¥55,078	¥38,496	¥5,541	¥33,379	¥22,827	¥155,321

Thousands of U.S. dollars					
2013					
Japan	USA	The Americas other than USA	Europe	China and Asia	Total
$539,655	$456,441	$50,271	$286,119	$247,761	$1,580,247

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

(b) Property, plant and equipment as of 31st March, 2013 and 2012 are summarized as follows:

Millions of yen				
2013				
Japan	The Americas	Europe	China and Asia	Total
¥46,493	**¥7,602**	**¥6,012**	**¥2,681**	**¥62,788**

Millions of yen				
2012				
Japan	The Americas	Europe	China and Asia	Total
¥43,980	¥5,459	¥5,200	¥923	¥55,562

Thousands of U.S. dollars				
2013				
Japan	The Americas	Europe	China and Asia	Total
$494,554	**$80,864**	**$63,951**	**$28,518**	**$667,887**

(c) Major customer

Major customer for the year ended 31st March, 2013 is as follows:

Name of customer	Net sales (Millions of yen)	Net sales (Thousands of U.S. dollars)	Reportable segment
Ellison Technologies, Inc.	**¥29,861**	**$317,636**	The Americas

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

Name of customer	Net sales (Millions of yen)	Reportable segment
Ellison Technologies, Inc.	¥26,946	The Americas

Amortization of goodwill and unamortized balance by reportable segment

Information on amortization and unamortized balance of goodwill by reportable segment for the years ended and at 31st March, 2013 and 2012 is as follows:

	Millions of yen				
	2013				
	Japan	The Americas	Europe	China and Asia	Total
Amortization for the year	**¥369**	**¥—**	**¥—**	**¥—**	**¥369**
Balance at the year end	**667**	**—**	**—**	**—**	**667**

	Millions of yen				
	2012				
	Japan	The Americas	Europe	China and Asia	Total
Amortization for the year	¥366	¥36	¥58	¥—	¥460
Balance at the year end	1,066	—	—	—	1,066

	Thousands of U.S. dollars				
	2013				
	Japan	The Americas	Europe	China and Asia	Total
Amortization for the year	**$3,925**	**$—**	**$—**	**$—**	**$3,925**
Balance at the year end	**7,095**	**—**	**—**	**—**	**7,095**

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

Information on loss on impairment of goodwill and property, plant and equipment by reportable segment for the years ended 31st March, 2013 and 2012 is as follows:

	Millions of yen				
	2013				
	Japan	The Americas	Europe	China and Asia	Total
Loss on impairment of goodwill and property, plant and equipment	**¥108**	**¥—**	**¥—**	**¥—**	**¥108**

	Millions of yen				
	2012				
	Japan	The Americas	Europe	China and Asia	Total
Loss on impairment of goodwill and property, plant and equipment	¥4	¥—	¥—	¥—	¥4

	Thousands of U.S. dollars				
	2013				
	Japan	The Americas	Europe	China and Asia	Total
Loss on impairment of goodwill and property, plant and equipment	**$1,149**	**$—**	**$—**	**$—**	**$1,149**

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

26. Business Combinations

Business transfer of consolidated subsidiary

(1) Overview of the business divestiture

(a) Name of the transferee

DMG Spare Parts GmbH

(b) Nature of the business

Sales of spare parts for Mori Seiki machine tools at MORI SEIKI G.M.B.H. in Europe

(c) The purpose of the business divestiture

It will enable the Company to efficiently provide spare parts for Mori Seiki machine tools and to expand sales of such spare parts by utilizing the knowledge and network of GILDEMEISTER AG which has capital and business relationships with the Company.

(d) Date of business divestiture

20th March, 2013

(e) Overview of other transactions including its legal form

Business transfer for which consideration received involves assets, including cash.

(2) Overview of accounting treatment

(a) Amount of gain on business transfer

¥288 million ($3,064 thousand)

(b) Book value of assets pertaining to the transferred business

Inventories of ¥1,444 million ($15,360 thousand)

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

Europe

27. Subsequent Events

(1) Appropriation of retained earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2013, was approved at the annual general meeting of the shareholders of the Company held on 17th June, 2013.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥10.00 ($0.11) per share	¥1,106	$11,765

(2) Issuance of bonds

The Company issued unsecured bonds based on a resolution of the Board of Directors on 13th May, 2013. The details are as follows:

Mori Seiki Co., Ltd. 3rd unsecured bonds (with inter-bond pari passu clause)

(a) Total amount of issuance	¥20,000 million ($212,743 thousand)
(b) Issue price	¥100 ($1.06) per a face value of ¥100 ($1.06)
(c) Interest rate	0.515% per annum
(d) Issue date	13th June, 2013
(e) Maturity date	13th June, 2017
(f) Redemption price	¥100 ($1.06) per a face value of ¥100 ($1.06)
(g) Collateral	No collateral or guarantee is pledged and no assets are reserved to secure the bond
(h) Use of funds	Investment, financing and repayment of a portion of loans

(i) Covenants

1) Negative pledge clause

The Company establishes the same priority security interest for the bond in accordance with the Secured Bonds Trust Act, as long as the bond is outstanding, when the Company pledges collateral or reserves assets to secure other bonds, which were already issued or will be issued in Japan. (Except for unsecured bonds with a conversion clause to secured bonds)

2) Other clause

The bond has no other covenants, such as a conversion clause to secured bonds.

(3) Acquisition of shares of Tyler Machine Tool Co., Inc.

On 1st April, 2013, MORI SEIKI U.S.A. INC., a consolidated subsidiary of the Company, has entered into an agreement to acquire shares of Tyler Machine Tool Co., Inc., a distributor of Mori Seiki products in the United States of America. Tyler Machine Tool Co., Inc. was established in 1977 and has been distributing Mori Seiki machine tools in the New England region (six states in the north east) in America. Due to the retirement of the CEO of Tyler Machine Tool Co., Inc. without successor, an acquisition was proposed, and it will be reorganized as a direct sales company in the eastern part of the United States. This acquisition will enable the Company to strengthen cooperation between manufacturing and distribution, to build closer relationships with customers and to provide better sales and support services and optimal solutions.

(a) Overview of acquisition

Name of the acquired company: Tyler Machine Tool Co., Inc.
Nature of business: Sales of Mori Seiki machine tools

(b) Details of assets and liabilities acquired at the acquisition date

Not yet determined as of the time of disclosure of this report.

(c) The value of goodwill recognized on the acquisition date, amortization method and period

Not yet determined as of the time of disclosure of this report.

Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
Mori Seiki Co., Ltd.

We have audited the accompanying consolidated financial statements of Mori Seiki Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at 31st March, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mori Seiki Co., Ltd. and consolidated subsidiaries as at 31st March, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

17th June, 2013
Osaka, Japan

Ernst & Young Shin Nihon LLC

A member firm of Ernst & Young Global Limited

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THE MACHINE TOOL COMPANY

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