Annual Report 2014 Operational review FISCAL YEAR ENDED MARCH 31, 2014

# WORLD



COMPANY LIMITED

# Global One To Be the No. 1 Machine Tool Company for the Customers

#### **Mission Statement**

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

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

#### As befits a worldwide corporation, we will:

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

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

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

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

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



# CONTENTS

- 2 About DMG MORI SEIKI
- 4 Consolidated Financial Highlights
- 6 Message from the President



7 Interview with the President

10

Special Feature Moving Forward with Strategies under the Single "DMG MORI" Brand



- 14 TOPICS
- 16 Three Values for Customers
- 16 Products
- 18 Solutions
- 20 Service & Parts
- 22 Research and Development
- 24 Corporate Social Responsibility
- 26 Corporate Governance
- 30 Business and Other Risks
- 32 Issues to be Addressed
- 33 Financial Information
- 38 Corporate History
- 40 Global Network
- 42 Corporate Profile
- 44 Stock Information

#### Disclaimer

This material contains earnings estimates, plans, policies, business strategies, targets, forecasts, and perceptions and judgments about matters of fact concerning the future of DMG MORI SEIK ICO., LTD. and the DMG MORI SEIK IG roup. Its predictions, expectations, assumptions, plans, perceptions and judgments are based on information available to DMG MORI SEIK ICO., LTD. at the time of writing. For this reason, it is possible that actual results may differ significantly from these forecasts. There are various risks or factors, such as facts that are not included here, or premises that may be objectively inaccurate, which may prevent these predictions from coming true. Among these, we identify the major assumptions as follows, while noting that the risks and factors are not limited to these: (1) economic conditions in key markets (Japan, the Americas, Europe, Asia, and so on); (2) sudden fluctuations in demand for investment in plant and equipment; (3) significant changes in the yen's exchange rate against the U.S. dollar, euro and other currencies; (4) significant changes in the cost of natural resources or raw materials; (5) future trends in Japan's relationships with the United States and China; (6) changes in the international situation resulting from the increased risk of terrorism and other factors; and (7) damage resulting from natural disasters such as hurricanes and earthquakes.

# "Global One" Change and Integration



MORI SEIKI



In order to continue to provide innovative products unrivalled in the machine tool field, Mori Seiki and Gildemeister have further strengthened their cooperative relationship, unifying their company names as "DMG MORI SEIKI" on October 1, 2013.

2009 DMG M

OF

We aim to enhance the precision and technology established through tradition and become trusted partners of customers throughout the world.

# Products

- The world's most comprehensive lineup
- · Robust development system to promote innovation
- High-efficiency production system with cutting-edge facilities and thorough quality control
- In-house production of key components for maintenance of quality and reduction of delivery time

Products

Solutions

Service & Parts

# Solutions

- Engineering divisions with professional technicians at major bases in the world
- Comprehensive support from proposal of excellent peripheral equipment to delivery and maintenance
- Best solutions to any machining issues
- Resident engineering service of machining professionals

# Service & Parts

- Technical centers located around the world for providing immediate and meticulous services
- · Large-scale parts centers around the world
- Optimal solutions in a speedy manner at the "around-the-clock" service centers
- Support for machine and software operation through various lectures and hands-on training

Fiscal years ended March 31, 2010, 2011, 2012, 2013 and 2014

					(Billions of yer
	2010/3	2011/3	2012/3	2013/3	2014/3
Financial Performance					
Net sales (Total)	66.4	120.4	155.3	148.6	160.7
Net sales—Japan	28.3	44.5	55.1	50.7	53.2
Net sales—Overseas	38.1	75.9	100.2	97.8	107.6
Cost of sales	55.2	80.9	106.0	104.4	107.5
Gross profit	11.2	39.6	49.4	44.2	53.3
Selling, general and administrative expenses	38.1	39.2	42.6	40.0	43.9
Operating income	(26.9)	0.3	6.8	4.1	9.4
Income before income taxes and minority interests	(34.6)	1.2	6.7	5.6	11.4
Net income	(34.7)	1.3	5.6	5.2	9.4
Comprehensive income	_	(0.2)	3.7	12.0	23.0
Profitability Ratio					
Gross profit ratio (%)	16.9	32.9	31.8	29.7	33.1
Operating income ratio (%)	(40.6)	0.3	4.4	2.8	5.8
Net income ratio (%)	(52.2)	1.1	3.6	3.5	5.9
Return on investment (ROI) (%) *1	(21.4)	0.2	4.5	2.6	5.1
Return on equity (ROE) (%) *2	(32.6)	1.4	6.0	5.3	7.4
Return on total assets (ROA) (%) *3	(23.7)	0.8	3.1	2.8	4.4
Financial Position					
Total assets	144.2	172.0	185.4	186.7	241.7
Shareholders' equity *4	96.3	93.9	93.2	102.7	151.3
Interest-bearing debt	25.6	52.0	65.6	58.3	54.4
Net interest-bearing debt *5	18.1	44.6	61.0	52.1	35.5
Working capital *6	27.8	19.9	32.9	30.5	57.9
Net working capital *7	43.1	58.5	63.8	52.1	60.1
Shareholders' equity ratio (%) *8	66.8	54.6	50.3	55.0	62.6
Net debt/equity ratio (Times) *9	0.2	0.5	0.7	0.5	0.2
Cash Flows					
Net cash provided by (used in) operating activities	(16.0)	(10.2)	8.6	21.4	5.9
Net cash used in investing activities	(12.9)	(14.1)	(22.1)	(10.1)	(17.5)
Net cash provided by (used in) financing activities	21.5	24.1	10.9	(10.1)	23.9
Increase (decrease) in cash and cash equivalents	(7.0)	0.2	(2.9)	1.7	12.6
Cash and cash equivalents at end of year	7.3	7.4	4.5	6.3	18.9
Free cash flow *10	(28.9)	(24.3)	(13.5)	11.3	(11.6)
Per Share of Common Stock (Yen)					
Net income					
—basic	(363.9)	11.8	51.1	47.3	85.7
		11.6	50.2	47.1	85.7
Cash dividends	20.0	20.0	20.0	20.0	22.0
Number of Employees	3,816	4,107	4,045	4,117	4,159
	0,010	.,,	.,010	.,,	.,,

(Billions of yen)

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

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

\*3 Return on total assets (ROA) (%) = Net income / Average total assets  $\times 100$ 

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

\*5 Net interest-bearing debt = Interest-bearing debt - Cash and cash deposits

\*6 Working capital = Current assets - Current liabilities

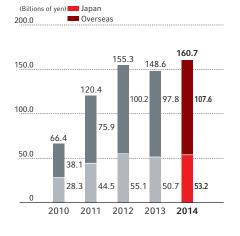
\*7 Net working capital = Inventory + Advance payable – Advances received + Accounts receivable, trade – Notes and accounts payable, trade

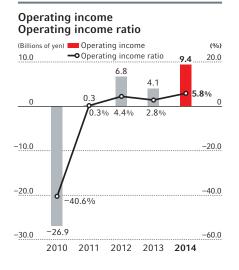
\*8 Shareholders' equity ratio (%) = Equity / Total assets  $\times$  100

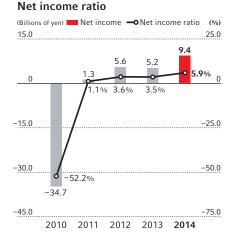
\*9 Net debt/equity ratio (Times) = Net interest-bearing debt / Equity

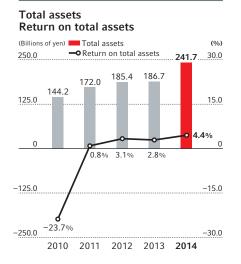
\*10 Free cash flow = Net cash provided by (used in) operating activities + Net cash used in investing activities

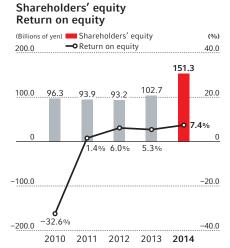
#### Net sales











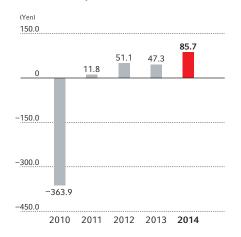
#### Free cash flow

Net income

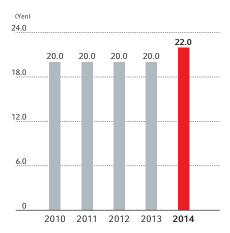
(Billions of yen) Net cash provided by (used in) operating activities 40.0 -•• Free cash flow



#### Net income per share



#### Cash dividends per share





# We are pleased to present the annual report of DMG MORI SEIKI for the fiscal year ended March 31, 2014 (from April 1, 2013, to March 31, 2014).

Since its founding in 1948 until the present, DMG MORI SEIKI CO., LTD., has consistently created innovative machine tools and delivered them to customers throughout the world. I would like to sincerely thank our stakeholders, who have made this success possible.

Anticipating further growth in the global machine tool market, the Company is pursuing a variety of measures. In the autumn of 2013, we further increased mutual shareholding ratios and formed a joint committee comprising top management of the Company and DMG MORI SEIKI AKTIENGESELLSCHAFT (DMG MORI SEIKI AG), with which we had been pursuing business and capital collaboration. In October, by integrating the names of our two companies we took a major step as the DMG MORI Group.

Joining forces with DMG MORI SEIKI AG creates a huge brand that together accounts for approximately 10% of the global machine tool market. Combined, our machine tools account for some 300,000 of those in operation throughout the world. As a machine tool manufacturer that customers trust, we aim to fulfill our responsibilities to each of these customers by delivering value through the provision of products, solutions, and service and parts.

As a trusted professional organization, we aim to meet customers' needs through friendly competition.



We will provide greater value to customers around the world on all fronts: product development, manufacturing, sales and services.

How were operating performance and dividends in the fiscal year ended March 31, 2014?

#### Sales, income and dividends all increased, as higher internal and external demand prompted a recovery in orders.

During the first half of the fiscal year, the machine tool industry experienced sluggish orders in Japan, China and other parts of Asia, but both internal and external demand recovered in the second half. Evincing this steady recovery, the order intake reported by the Japan Machine Tool Builders' Association was up 5.7% during the fiscal year ended March 31, 2014. The Group enjoyed favorable demand throughout the year from the Americas, and demand recovered in Japan, Europe and China, resulting in firm orders.

These factors led to year-on-year rises in sales and income. Against this backdrop, net sales amounted to ¥160,729 million (up 8,2% year on year), operating income came to ¥9,357 million (up 126.3%) and net income was ¥9,443 million (up 82.6%).

Our basic policy on profit allocation is to take into overall consideration future business plans, operating performance, financial conditions, and the need to invest in development and capital, centering on new products and technologies, while maintaining stable dividend payments. In keeping with this approach, for the fiscal year ended March 31, 2014, we expect to award annual dividends of ¥22 per share, comprising interim and year-end dividends.

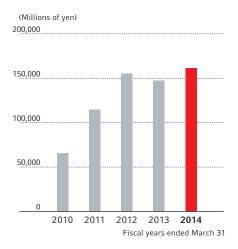
What were some of your initiatives during the fiscal year ended March 31, 2014?

## We moved steadily forward on collaboration with DMG MORI SEIKI AG.

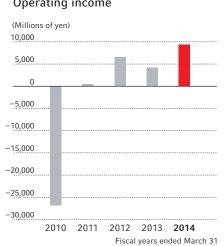
During the year, we continued to step up the collaboration with DMG MORI SEIKI AG that we commenced in March 2009. Our two companies increased their mutual shareholdings; we raised our stake in DMG MORI SEIKI AG to 24.9%, and they raised their stake in our company to 9.6%. Having received permission of the relevant government ministries, now we can have one common management strategy in Germany and the EU. Furthermore, in August 2013 we formed a joint committee comprising 10 of the two companies' top managers and began meeting regularly. In October, the two companies changed their respective names to "DMG MORI SEIKI."

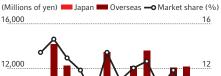
Operating in this new management environment, in March 2014 the Company issued new shares of common stock and disposed of treasury shares through an international offering, thereby increasing capital by ¥30.5 billion. The Company aims to apply the

#### Net Sales



#### **Operating income**





DMG MORI SEIKI orders



Market share indicates DMG MORI SEIKI's percentage of machine tool orders according to the Japan Machine Tool Builders' Association

16

proceeds toward shoring up its operations in global markets. We will employ this increased capital toward the expansion of facilities in Japan and overseas, establishing the customer experimentation center and increasing the range of machines on display.

On the development front, our flagship X-class model, which offers high levels of precision, quality and reliability, accounted for more than 50% of orders. These sales indicate that the X-class has grown into a core model that clearly meets customers' requirements and earns their trust. Going forward, we will work to attract new customers as we augment our lineup with 5-axis machining centers and Lasertec machines through collaboration with DMG MORI SEIKI AG.

In a joint development effort with DMG MORI SEIKI AG, we unveiled the CELOS—a new operating system designed to offer superb operability—as well as models featuring a new design concept that have earned a favorable response. Going forward, we will push forward with joint development on new models and gradually integrate existing models that overlap.

In manufacturing, we are creating a four-legged global production system involving Japan, the Americas, Europe and Asia. The Tianjin Factory in China, which commenced operations in October 2013, is steadily boosting output, contributing toward our goal of boosting market share in China. The new plant is machining iron cast parts and has begun serving as a supply center that provides parts to our factories in Japan.

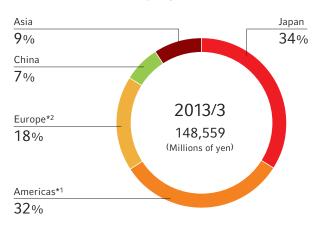
We are making steady progress on the sharing of technology and quality standards by making products at each other's factories. In 2014, we plan to begin producing the DMU 50, a 5-axis machining center designed by DMG MORI SEIKI AG., at our Chiba Campus and North American Factory.

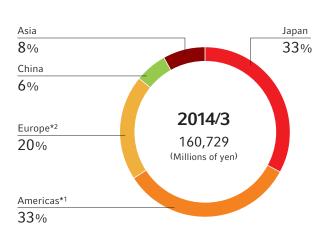
On the sales front, we are working with DMG MORI SEIKI AG to consolidate sales, and we are establishing a strong industry position in terms of customer numbers, solutions and services. We regularly hold training workshops for the service engineers who maintain and inspect both companies' products to enhance their mutual understanding. In this way, we are designing a system whereby service engineers will be able to maintain both sets of products.

What are the Company's medium- to long-term growth scenarios?

# We will accelerate collaboration and further reinforce the "DMG MORI" brand.

The machine tool industry is characterized by major fluctuations in demand, and winning out in the face of severe competition in such a climate requires responding quickly to rapid changes in the business environment





\*1: Americas: United States, Canada, Mexico, Argentina, and Brazil \*2: Europe: incl. Russia, Africa and the Middle East

#### Consolidated net sales by region

and market trends. Such response is essential if we are to become the global leader in this industry. We believe that improving our profit margin and reinforcing our financial strength are essential to this pursuit. As Group targets for 2020, we aim to raise the consolidated operating margin to 12% or more, and the equity ratio to 70% or more. To this end, we will continue in our untiring efforts to provide value to our customers and to augment corporate value further.

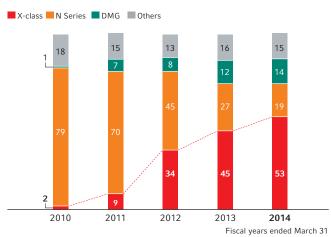
The Tokyo Global Headquarters, in the Shiomi district of Koto-ku, will integrate worldwide sales and service. The adjoining experimentation center for customers will continuously house around 30 state-of-the-art machine tools and will be used to provide optimal solutions and demonstrate machining methods to customers. This facility will work with the Swiss global headquarters that DMG MORI SEIKI AG is constructing to support customers throughout the world.

On the product front, we expect to complete the consolidation of our lineups by 2020. To this end, in addition to the machines themselves we are working toward the standardization of parts and units. We are working toward optimal quality, as well as design and functionality. Going forward, we will progress toward the integration of IT-related systems such as accounting and estimate generation, as well as human resource systems.



We will continue moving forward on cooperation on all fronts, including development, manufacturing, and sales and service, but we will accelerate these efforts even more as we endeavor to build up the "DMG MORI" brand's global presence.

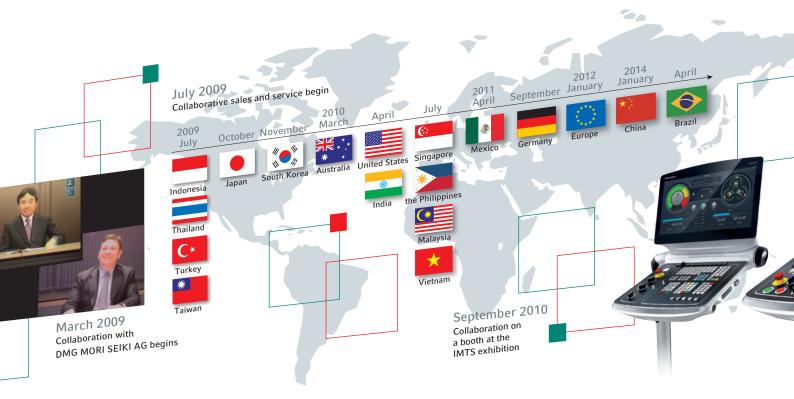
I ask our stakeholders for your ongoing understanding and support in these endeavors.



#### Full-year forecast (Millions of yen)

	2014/3 Full-year results	2015/3 Full-year forecast	YoY change
Net sales	160,729	170,000	+5.8%
Operating income	9,357	13,000	+38.9%
Operating income ratio	5.8%	7.6%	
Net income	9,443	10,500	+11.2%

9



Special Feature Moving Forward with Strategies under the Single "DMG MORI" Brand

# NE BRAND FO

# Launching a Joint Committee to Pursue Synergies

In March 2009, the Company commenced business and capital collaboration with DMG MORI SEIKI AG, a leading European machine tool manufacturer. Since that time, we have made steady inroads on the integration of our sales and service networks in various regions throughout the world, and have jointly developed products and operating systems.

Having received permission of the relevant government ministries, now we can have one common management strategy in Germany and the EU and pursue further synergies through the sharing of information needed for corporate management.

In August 2013, we established a Joint Committee

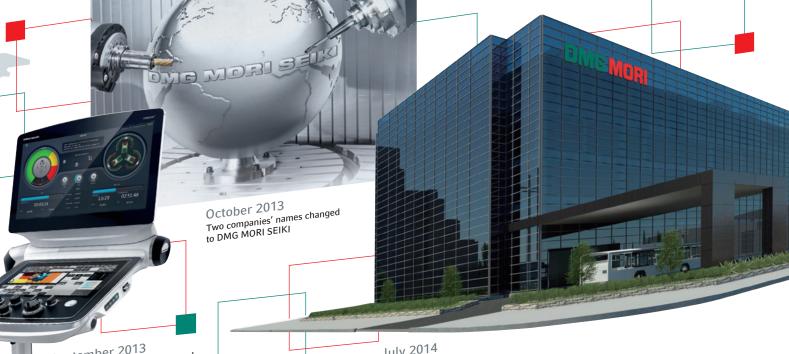
discuss and make decisions on important issues facing the two companies, such as product development, manufacturing and sales strategies. Made up of 10 members, the committee is led by Rüdiger Kapitza, Chairman and Chief Executive Officer (CEO) of DMG MORI SEIKI AG and by our President, Masahiko Mori, serving as CEO of the Joint Committee.

As chairman, Dr. Kapitza is the committee's external representative, coordinating committee members' interests and activities, and taking charge of key accounts. Meanwhile, Dr. Mori, as committee CEO, sets operating targets and takes charge of operational strategies central to production planning. Other members from DMG MORI SEIKI AG are Dr. Thorsten Schmidt (in charge of Sales and Marketing), Christian Thönes

(Photos, from left)

- André Danks (In charge of Finance, Tax, Management Accounting, Capital Markets and IR)
- Christian Thönes
  - (In charge of Manufacturing, Development and Software)
- Dr. Naoshi Takayama (In charge of Quality)
- Dr. Rüdiger Kapitza (Chairman)
- Dr. Thorsten Schmidt (In charge of Sales and Marketing)
- Dr. Masahiko Mori (CEO)
- Hiroaki Tamai (In charge of Human Resources General Administration, Compliance and Export Control)
- Tatsuo Kondo (In charge of Finance, Tax, Management Accounting, Capital Markets and IR)
- Dr. Maurice Eschweiler (In charge of Service and Parts)
- Kenji Oishi (In charge of Purchasing, Logistics and IT)





September 2013 New design concept machines and CELOS unveiled to the world at EMO Hannover 2013 July 2014 Operations commence at Tokyo Global Headquarters

# THE WORLD

(in charge of Production, Product Development and Software), Dr. Maurice Eschweiler (in charge of Service and Parts) and André Danks (in charge of Finance, Management Accounting, Tax, Capital Markets and IR). Participants from DMG MORI SEIKI CO., LTD. are Tatsuo Kondo (in charge of Finance, Tax, Management Accounting, Capital Markets and IR), Hiroaki Tamai (in charge of Human Resources, General Administration, Compliance and Export Control), Dr. Naoshi Takayama (in charge of Quality) and Kenji Oishi (in charge of Purchasing, Logistics and IT).

The committee operates on the bases of cooperation among the members and activities that are in accordance with the "Rules of Procedure", which have been drawn up to set the

As of March 31, 2014

Profile of DMG MORI SEIKI CO., LTD.				
	President:	Masahiko Mori		
	Business operations:	Manufacture and sale of machine tools and after-sales services		
	Established:	October 26, 1948		
	Capital:	¥51.1 billion		
	Employees:	4,159 (consolidated)		
	Headquarters:	2-35-16 Meieki, Nakamura-ku, Nagoya City, Aichi, Japan		

legal framework for the members' activities. Decisions that this committee makes are discussed and ratified by each company's Board of Directors before being implemented.

The Joint Committee will continue to meet regularly to accelerate the integration of business activities between the two companies.

Furthermore, with the management integration now well underway, in October 2013 the two companies changed their respective names to "DMG MORI SEIKI" and formulated a brand logo to be used jointly.

Going forward, "DMG MORI" will provide customers throughout the world with optimal technologies and services.

As of December 3	1, 2013
------------------	---------

## Profile of DMG MORI SEIKI AKTIENGESELLSCHAFT

Chief executive officer:	Rüdiger Kapitza
Business operations:	Manufacture and sale of machine tools and after-sales services
Established:	October 1, 1870
Capital:	€200.2 million
Employees:	6,722 (consolidated)
Headquarters:	Gildemeisterstr. 60 D-33689 Bielefeld, Germany

# **Joint Strategies**



# **Research and Development Boosting R&D Efficiency** to Leverage Both Companies' Strengths

DMG MORI SEIKI AG's fortes lie in the areas of 5-axis machining centers, Lasertec machines and ultrasonic machines, while ours are in multi-axis turning centers and horizontal machining centers. As well as taking advantage of both companies' common strong areas such as vertical machining centers and lathes, we will complement each other's technologies and products. This should lead to more sophisticated and swifter R&D, thereby reducing per-unit R&D costs. During the fiscal year ended March 31, 2014, in September 2013 we unveiled 15 machine models with a new design concept at EMO Hannover 2013 featuring CELOS, a new, unified design concept that we developed jointly with DMG MORI SEIKI AG, in an attention-grabbing global launch.

Moving ahead, we will jointly develop new models and gradually integrate the two companies' existing models. We will also pursue standardization of spindle units and peripheral equipment.



#### Manufacturing

# Pursuing the Benefits of Integration through a **Global Production System**

We are creating a global manufacturing structure, under which we will produce models developed by DMG MORI SEIKI AG at our factories and, conversely, DMG MORI SEIKI AG's factories will manufacture models that we have designed. Either DMG MORI SEIKI AG or we operate production bases in Japan, Germany, Italy, Switzerland, France, Poland, the United States and China.

October 2013 marked the grand opening of our Tianjin Factory in China. DMG MORI SEIKI AG is increasing production capacity at its Pfronten Factory in Germany and its Bergamo Factory in Italy. The company also plans to commence production in 2015 at its new Ulyanovsk Factory in Russia. Utilizing these production bases to manufacture at the best global location will enable us to shorten delivery lead times, reduce logistics costs and diversify exchange rate risks.

Meanwhile, we are both pursuing manufacturing improvement activities at each factory as we work to boost production levels in a sense of friendly competition.





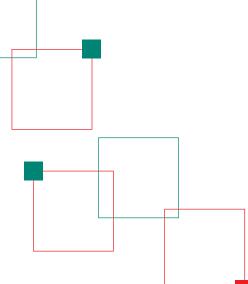
#### Sales and Service

#### 

By integrating our own sales and service network with that of DMG MORI SEIKI AG, we expect more efficient sales promotions to result from the increased number of customers, as well as the ability to precisely ascertain market needs. Since commencing business and capital collaboration in 2009, we have gradually integrated our sales and service networks in Thailand, Indonesia, Taiwan, Turkey, Japan, South Korea, Australia, the United States, India, Singapore, Malaysia, Vietnam, the Philippines, Africa, Mexico, Germany, Switzerland, other parts of Europe, China and Brazil. In 2014, we expect to finish this integration in Canada and Russia.

Our headquarters in Tokyo and Winterthur, Switzerland, will feature Global Headquarters displaying some 20 to 30 state-of-the-art machine tools. These centers will also perform test processes and provide courses to help customers acquire leading-edge processing technologies.





# 



#### Oct. 2013

From Mori Seiki CO., LTD. to DMG MORI SEIKI CO., LTD.

Company name integrated under the "One brand for the world"

Mori Seiki CO., LTD. changed its company name to DMG MORI SEIKI CO., LTD. on October 1, 2013. Our business partner, GILDEMEISTER

AKTIENGESELLSCHAFT, also changed its company name to DMG MORI SEIKI AKTIENGESELLSCHAFT under the "One brand for the world." We will further strengthen the partnership in order to provide customers products that are even more innovative and unparalleled in the machine tool industry and become a reliable partner for customers all over the world.

Sep. 2013

#### New Design Concept Machines and New Operating System "CELOS" Unveiled as World Premiere at EMO Hannover 2013

New design concept machines in pursuit of design excellence and usability

The new design concept machines and new operating system CELOS were unveiled at EMO Hannover 2013. The new design concept machines were created with a priority on operators' usability. The window size was enlarged to improve visibility, and the cover was also improved in terms of durability and safety aiming to keep the aesthetic appearance.

CELOS is the new operating system jointly developed by DMG MORI SEIKI CO., LTD. and DMG MORI SEIKI AG. The system uses a 21.5-inch and 15.6-inch touch panel. CELOS is able to switch the button display according to machine operation. This enables intuitive operation and drastically improves usability for operators, compared to the existing operation panels.



#### Oct. 2013

#### Grand Opening of Tianjin Factory

Global network of four regional bases leads to reduction of logistics costs

DMG MORI SEIKI (TIANJIN) Manufacturing Co., Ltd. was opened on October 18, 2013. The plant equipped with

cutting-edge equipment manufactures mainly horizontal machining centers, and also serves as a production base of castings to supply parts for Japan and North American factory. This aims to strengthen our global network of four regional bases: Europe, North America, China and Japan. With the intensified network, we will strive to reduce logistics costs and delivery time and to provide customers quality products and services.



Overview of Tianjin factory

Location Site area Production items Production capacity 100 units / month Number of employees 200

Tianjin, China Approx. 90,000m<sup>2</sup> (968,760ft<sup>2</sup>) NHC 4000, NHC 5000 Machining of castings

#### July 2014

#### DMG MORI Global Headquarters Starts up as Customer Support Base

DMG MORI Global Headquarters in Japan will be established in Shiomi, Tokyo. It houses the Tokyo Solution Center on the first floor where 25 to 30 state-of-the-art machine tools will be on display all the time. Not only does it serve as a showroom, but the headquarters also plays a role as a place for joint research on new machining technologies with customers, and supports those in Japan and overseas, mainly from Asian countries. The school for 5-axis machining will be opened inside the building as well so that customers can learn cutting-edge machining techniques. We will set up the division for promoting joint sales and activities with our business partner, DMG MORI SEIKI AG. We also plan on establishing European Global Headquarters in Winterthur, Switzerland.



DMG MOF

Mar. 2014

**DMG MORI Becomes** 

partnership with the Porsche Team.

**Exclusive Premium Partner of Porsche Team** 

Providing high-precision machines and best engineers

Porsche announced its return to the LMP1class of the FIA

World Endurance Championship that includes the Le Mans

24 Hours. DMG MORI, as the exclusive premium partner of the Porsche Team, will support Porsche's return to the top class of world sports car racing by providing high-precision machines and best engineers. The DMG MORI logo is a prominent eye catcher on either side of the huge fin, on the nose cone, the front spoiler and below the headlights of the Porsche 919 Hybrid. The logo is also found on the uniform of the team. DMG MORI will continue to build a solid, reliable

#### Tokyo Global Headquarters

Shiomi, Koto-ku, Tokvo Location Approx. 3,570m<sup>2</sup> Site area (38,427ft<sup>2</sup>) Started operations July 2014



Winterthur (Switzerland)

#### Dec. 2013

#### **Development of Hybrid Machine Combining** Machining with Metal Deposition Technology

#### Additive manufacturing

DMG MORI SEIKI has developed a hybrid machine tool that combines conventional milling with an additive manufacturing technology which enables the creation of a metallic part from 3D data through metallic powder deposition. With the additive manufacturing market increasingly growing, SAUER, a member of DMG MORI SEIKI AG, has pioneered the machine by integrating the additive manufacturing function into the latest LASERTEC 65 LASERTEC Machines. This innovative hybrid solution can be said to be our one-of-a-kind technology.





#### May 2013

#### **Completion of Female Dormitory**

#### Women-friendly design

Due to the recent expansion of production capacity and increase of development personnel, the number of employees working at the Iga Campus, which include female staff, now exceeds 1,500. In order to accommodate the increase in female staff, we have built the third Iga Dormitory with 96 rooms exclusively for women. Designed with the concept of "women friendly," the new dormitory reflects many comments and suggestions from female staff in its design to create a comfortable living environment. The main features of the dormitory include: an enhanced security system, rooms equipped with a private kitchen, a bathroom and furniture, and a spacious recreation room.



## Three Values for Customers

# Products



# Creativity, State-of-the-art Functionality and Unrelenting Quality

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

# The World's Largest Product Lineup

DMG MORI SEIKI offers the world's most extensive lineup to meet customer needs. We propose optimal products to customers from among a range of different sizes and specifications in our lineup, including lathes, machining centers, 5-axis machining centers and multi-axis machines. Launched in 2010 by DMG MORI SEIKI, the X-class offers high precision, high quality and high reliability, and has grown into a flagship model accounting for more than 50% of our orders. Going forward, we will make continual improvements and refinements to ensure that we can provide even more attractive products to our customers. DMG MORI SEIKI will continue to market the products that are best suited to its customers' machining work and production format needs.

# Comprehensive Quality Control

During the new product development phase, we conduct precision, durability, operability and destructive tests to enhance design quality. Parts manufactured in-house undergo rigorous accuracy testing, while for delivered parts DMG MORI SEIKI conducts acceptance inspections and gives thorough instructions on quality to its suppliers. In the manufacturing process, we perform quality audits to determine whether work is carried out in accordance with the Quality Plan Sheet (involving items such as QC process tables, operation standard documents and check sheets), and we conduct a 100-hour running test on all products prior to shipment. We obtained certification from TÜV Rheinland Japan for our Radiation Control Process to eliminate concerns over potential radioactive contamination in products exported from Japan, which were raised following the Fukushima nuclear power plant accident in March 2011. This, together with our extensive array of other tests, provides our customers with additional peace of mind when using our products.

Immediately after delivery and acceptance, and one year after delivery, we contact each customer directly to determine their level of satisfaction. We have a system in place to send customer feedback to relevant departments through the Quality Improvement Committee so that measures can be taken immediately.

# Product Environmental Performance

In our product development, we pursue environmental performance as part of our effort to use limited resources wisely and preserve the global environment. Products are designed so that equipment lighting goes off automatically if a machine's operation panel has not been touched for a specified period of time. If NC operations have not been performed over a certain interval, power is shut off to the servo motor, main spindle, cooling pump and chip conveyor. Product energy-saving functions such as these are part of our initiative to conserve electricity.

We use LED lighting to deliver high luminous efficiency, and by combining drive technology with superior dynamic performance and highly efficient CNC controls, we design our products to minimize environmental impact while at the same time lowering running costs. Through these efforts, we have reduced power consumption per day of machining by approximately 20%\*.



5-axis / Multi-axis Lathes machines

Machining centers



Lasertec machines Ultrasonic machines





Energy consumption (compared with conventional models)





# A Manufacturing System that Generates High-Quality Products

# Highly Efficient Manufacturing

For parts machining, we have established a system fully capable of flexibly accommodating variable-item, variable-lot production. This includes the standardization of equipment specifications and the construction of a new Bed/Column Precise Processing Plant featuring cutting-edge facilities that can maintain a certain temperature throughout the year. This has enabled us to significantly cut lead times as well as the number of tools and fixtures that we use. DMG MORI SEIKI undertakes exclusive, in-house manufacture of key components to ensure accuracy, such as spindles and ball screws. We have an integrated line for spindles and ball screws ranging from parts machining to assembly and inspection, and using our own Heat Treatment Plant and Casting Plant, we are working to further boost quality and provide faster deliveries. For assembly, DMG MORI SEIKI has implemented a digital manufacturing system that closely monitors production progress in real time using a network. We were also the first in the industry to roll out cell production for our machine tool assembly. In this manner, we strive continually to improve our manufacturing methods to achieve higher quality and faster deliveries, including the use of a production line for our unit assembly work, following the example of automobile manufacturing.



# **Global Production**

To shorten delivery lead times through more efficient production and logistics processes, and to diversify risks such as natural and other disasters, we are clarifying the roles of our plants in Japan and have begun working with DMG MORI SEIKI AG to establish a global production system in which we manufacture products at each other's plants. Furthermore, we invest in the right equipment at our campuses and plants to make our production system as efficient as possible. For example, our newly constructed Bed/Column Precise Processing Plant and our No. 2 assembly plant at our Iga Campus, our North American Factory, our first stand-alone overseas production base and our Tianjin Factory (completed in 2013) each features the latest, most cutting-edge equipment. DMG MORI SEIKI ensures that each of its business sites offers the most optimal production environment, which includes introducing innovations to our production system and plant equipment, and taking steps to significantly reduce power consumption.



DMG MORI SEIKI Manufacturing Headquarters Iga (Japan)

## Three Values for Customers

# Solutions

# Total Support to Increase Customers' Productivity

The value required of machine tools has until now focused predominantly on the performance of the main unit. However, customer needs for machine tools are growing ever more diverse and sophisticated. This includes the mass production of parts while maintaining accuracy, reduced running costs, and short delivery times for multiple-item, small-lot production of high-precision parts. To accommodate these needs, machine tools have added many features and achieved high performance, which has led to ever more complex programming and processing technologies. As a result, support provided both before and after machine delivery is extremely critical for enabling customers to take full advantage of a machine tool's performance and enhance productivity. DMG MORI SEIKI provides its customers with a full range of solutions to help address their production and technical challenges. This support ranges from process design, machining conditions, fixtures, tools, peripheral equipment and software to total factory automation solutions.

# Global Engineering System

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

# Complete Support with Machine + Peripherals

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

# Resident Engineering Service

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

DMG Mori Seiki Qualified Products (DMSQP)







# Solution Center

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

> Test machining:

#### > Demonstration machining:

Customers can view a demonstration of a machine to ensure the one they select best suits their needs. These demonstrations help customers to confirm actual operations prior to purchase. All of the machine tools on display at the Solution Center are continually ready for use for demonstration machining. A range of CAM as well as equipment to measure three dimensionality, roundness and roughness are used with customers onsite to perform test machining and measurements in accordance with the requested workpieces and workpiece drawings. Through test machining, our highly experienced engineers propose the best machining method, tool, fixture and cutting condition.

# Advanced machining technologies:

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



Example of DMG MORI Systems

## Three Values for Customers

# Service & Parts

Products Service & Parts

# Maintaining Machine Production Performance for 10 to 20 Years or Longer

Machine tools are products that can be used for 10 or even 20 years. Put simply, DMG MORI SEIKI considers speedy onsite after-sales services and prompt parts distribution to be among the key values in regard to machine tools. It is important to create strong partnerships to build relationships with customers that last many years. We position technical centers, service centers and parts centers around the globe to achieve smooth coordination and a quick response to customer requests. As necessary, we pursue speedy resolutions to problems through onsite service personnel dispatched from technical centers and parts provided by parts centers under the direction of service centers. DMG MORI SEIKI makes every effort to provide support that demonstrates the consistently high performance of machines purchased by our customers.

# Continuous Operation of Service Centers

Service centers respond collectively to customer inquiries 24 hours a day, 365 days a year. To resolve problems by the shortest route, on a daily basis we enter into our databases information on customers and machines delivered as well as the histories of customer machine service. This information appears on a monitor automatically as soon as the phone is picked up at the service center, facilitating a smooth response. In addition, using a GPS-equipped mobile phone, the service center can determine which representative should be dispatched most quickly, creating a system that responds rapidly to customer requests. In regard to customer troubleshooting, DMG MORI SEIKI has put in place a system that enables remote support from a service center via the Internet, ranging from alarm diagnostics to the time operations have been restored, significantly shortening downtime after a problem has occurred. Our specialists are familiar with various types of equipment, providing customer support and resolving issues quickly, 24 hours a day, 365 days a year.





# Parts Centers that Ensure a Rapid Supply System

DMG MORI SEIKI has established large-scale parts centers in five locations (Japan, the United States, Germany, China and Thailand) to provide customers around the world with the best possible after-sales service. Maintaining several hundreds of thousands of parts around the world allows us to conduct rapid parts shipments while cooperating with each location. For example, shipping parts by air from Europe when it is the middle of the night in North America ensures a backup system that takes advantage of time differences. Furthermore, we have introduced a system that enables parts to be searched for and ordered online inside the center. As a result, this enables the person in charge to smoothly arrange orders and deliver parts to customers even more quickly. We aim to ensure that parts arrive at the customer's location within 24 hours after receiving an order, and this objective is achieved 95% of the time or more. We will conduct accurate parts management and enhance our global system to respond even more quickly to customer requests.

# Supporting Customers with Lectures and Practical Training

At DMG MORI Academy, established to boost individual skills, we hold a range of courses to teach customers methods of machine tool operation. While helping to nurture customers' high-level machining technicians, we also support smooth start-ups when machines are introduced. Customers can select the courses that meet their needs, such as basic operating methods for machine tools and general research into technical skills adapted for practical use. Because demand has increased in recent years, we opened a school in January 2013 to educate machining technicians on the use of 5-axis machines. Moreover, we have established an Education On Demand system that provides online training to learn how to operate machines on PC. Training can be conducted at work or home 24 hours a day using a computer without being restricted by time or a place. DMG MORI SEIKI will continue to support machine tool operator training for skilled candidates, preparing new facilities and education by veteran lecturers.



# Technical Centers Located Around the World

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

# Two-Year Free-of-Charge Service Guarantee

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

We visit customers whose products are nearing the end of their second year since delivery to inspect their machines and perform maintenance. At that point, we ask customers directly about and respond to any requests they may have, so that they can continue using their products with peace of mind even after the end of the warranty period.

Note: For machines delivered outside Japan, repair parts are provided free of charge for two years from the date of installation, with service and maintenance provided free of charge for one year.



2-year warranty, twice the peace of mind.	9
For machines delivered outside of Japan, parts relating to machine breakdown will be guaranteed free for 2 years from the date of installation, and labor costs to repair will be free for 1 year. Please contact our sales representative for details.	years

# **Maximizing Customer Profits**

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

# **Development Strategies**

Up to now, machine performance largely accounted for the value demanded from machine tools. However, in recent years, proposals such as machining technologies and peripheral equipment aimed at improving productivity—as well as the provision of services for customer machines that run non-stop—have become important values. In particular, highly efficient processing technologies for new materials and difficult-to-cut materials such as carbon fiber reinforced plastic (CFRP) are among the lightweight materials and super heat-resistant alloys used for energy and aircraft parts. While continuing to shift the bases of production overseas to Asia and China, we are providing solutions that include support for onsite operator training and launch of multiple production centers overseas. Other services in demand include technologies to find and quickly deliver parts, even for old machines, technologies that inform us in a timely fashion when parts need to be replaced, and technologies for mounting new spindles onto old machines.

Until now, the Engineering and Service Departments had been mainly responsible for providing solutions and services, but it is extremely important for the Development Department—the root of machine designing—to also focus on solutions and services when conducting machine development. DMG MORI SEIKI has drafted a roadmap for the future to identify which technologies will be necessary for machines, services and solutions by 2020. We are making steady progress with development based on this roadmap by checking progress quarterly and reconfirming objectives.

# Joint Development with DMG MORI SEIKI AG

At present, DMG MORI SEIKI AG and DMG MORI SEIKI together offer approximately 200 machine varieties, but in the future we intend to consolidate them to around 100 models. A total of 100 machines should be able to cover almost everything the market demands from cutting machine tools, whether large or small, high-end or commodity-type. DMG MORI SEIKI AG possesses a rich variety of technologies, such as 5-axis machining centers, Lasertec machines and ultrasonic machines, while DMG MORI SEIKI has multi-axis machines and horizontal machining center variations and technologies. With each of our companies sharing their respective areas of expertise, we believe we can provide products with an even higher level of perfection. In addition to machines, we have also begun to standardize parts and units. Going forward, we will standardize development processes in pursuit of greater development efficiency.





# A Robust Development Structure

In April 2013, B.U.G. MORI SEIKI CO., LTD. (located in Hokkaido), our subsidiary that develops operating software for machine tools, became a wholly owned subsidiary of DMG MORI SEIKI. This company researches and develops highly competitive next-generation operating software featuring excellent operability. Examples include CELOS, which we are developing jointly with DMG MORI SEIKI AG, and MAPPS. Also, at DIGITAL TECHNOLOGY LABORATORY (DTL) in California, we are conducting finite element analysis on machines using a supercomputer as well as developing software for automation systems that will organically link our machines with those of DMG MORI SEIKI AG.

Magnescale Co., Ltd., develops scales, sensors and other measurement devices, which are becoming an increasingly important part of machine tools. Measuring the condition of each part of a machine tool is one future direction in machine tool technology. For example, sensors will be used to detect the position, pressure, temperature and vibration of each part of the machine tool, and then provide feedback on the results to machine control devices to ensure optimal machine control and employ preventive maintenance.

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

# Future Development Policies

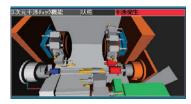
In line with our roadmap toward 2020, we are working on integrating models, standardizing parts and peripheral equipment, reducing parts counts and cutting costs. Furthermore, as the DMG MORI Group, we are pursuing development to ensure customer recognize that products from both companies are of the same high quality. To achieve this, DMG MORI SEIKI believes that it is extremely important to develop a new generation of human resources that can provide proposals that assist our customers in generating profit, demonstrate leadership and respond to the demands of global customers. For this reason, we proactively assign young employees to responsible positions in an attempt to invigorate development overall. We have started to proactively visit customers so that the customers' perspectives are reflected in design development.

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









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



MTTRF (Machine Tool Technologies Research Foundation) is a non-profit organization recognized by the U.S. Government. Founded in October 2002, it operates through contributions from companies, with DMG MORI SEIKI as its main sponsor. Much of DMG MORI SEIKI's philanthropic efforts for education are carried out through MTTRF, such as lending machine tools to universities and research institutions inside and outside Japan, and holding lectures at the annual general meetings. DMG MORI SEIKI will continue to actively expand research support activities through MTTRF to promote technological development in the industrial society. In July 2013 MTTRF Berkeley Institute was established for the purposes of enhancing a practical cooperative relationship between industry, government and academia and cultivating excellent engineers through educational and research activities.

#### Scholarship Fund

#### Scholarship Fund for Student Support

Helping National Technical College Students Affected by the Great East Japan Earthquake The DMG MORI SEIKI Scholarship Fund was set up in 2011 as one element in the reconstruction assistance after the Great East Japan Earthquake. Its purpose is to help national technical college students in the disaster area attend school and is administered by the Institute of National Colleges of Technology, Japan. Every month, 50,000 yen per student (600,000 yen per year) will be offered over a 10 year period. We support the national technical college students with the expectation that they will take on roles in Japan's manufacturing industry in the future.

Establishment of IIT Scholarship Program at Indian Institutes of Technology In 2008, DMG MORI SEIKI and the University of Tokyo jointly established the "DMG MORI SEIKI IIT Scholarship Program" aimed at students of the Indian Institutes of Technology, which is located in the Indian city of Hyderabad. The goal of the program is for many students who received the scholarship to study mechanical, electrical or aeronautical engineering or some other field of specialization in depth. Students will then be equipped to play an active role in these fields around the world including India and Japan in the future.

#### **Cutting Dream Contest**

#### Contribution to the Development of Cutting Technology and Techniques

Since 2004, DMG MORI SEIKI has held the "Cutting Dream Contest" for companies, technical colleges, universities and research institutions with the aim of improving and exchanging technology and techniques throughout the machining industry. The Cutting Dream Contest is not limited to Japan. It started in the U.S.A. in 2006 and in Europe in 2007 and was well received in both regions. Promotional effort for this contest will continue with the belief that it will contribute to the further development of machining technology and improvement of techniques all over the world.

University and research institute we donated or lend machines				
	University of California, Berkeley			
	University of California, Davis			
USA	Massachusetts Institute of Technology			
0.5.A.	University of Wisconsin System			
	MTTRF-DRI			
	Berkeley Institute			
Canada	University of British Columbia			
Germany	Bremen Institute for Metrology, Automation and Quality Science (BIMAQ)			
Ireland	Trinity College Dublin			
Belgium	Katholieke Universiteit Leuven			
Switzerland	Swiss Federal Institute of Technology Zurich			
Turkey	Koç University			
Italy	University of Florence			
	Kyoto University			
	Kobe University			
Japan	Kanazawa University			
	Keio University			
	Osaka Institute of Technology			
	Toyohashi University of Technology			
	Total: 17 universities + 2 research institute			





#### WorldSkills Competition

### Sponsored as Official Supplier

The WorldSkills competition, which started in 1950, is held once every two years with the purpose of improving technical skills and promoting vocational training, international exchange, and friendly relationships among participating countries. We has been selected as an Official Supplier in four consecutive competitions since 2007 and provided machine tools for the contestants. Sponsorship of this important contest will continue in order to enhance the levels of education for a large number of young engineers as well as technology through machine tools.

#### DMG MORI SEIKI's Energy Solution Park

## Promotion of Using Environmental Energy

In 2012 the Iga Campus installed the WindCarrier wind power system and the CellCube secondary battery system, both manufactured by GILDEMEISTER energy solutions, to reduce environmental burdens and secure power supply in an emergency. In addition to these systems, the Nissan Leaf electric vehicle and the Toyota Prius plug-in hybrid vehicle have been introduced as courtesy cars. We will continue our efforts towards reduction in environmental burdens while verifying the potential for further utilization of these green energy technologies.

Public Relations Magazine "Tsunagari"

#### Transmitting Information from Perspective of "Tsunagari"

DMG MORI SEIKI published a public relations magazine "Tsunagari," which means connection, with the basic concept of interconnection between society and companies. In "Tsunagari" we not only look at the processes to produce things and the history of these items, but also search for the ideal society from the perspective of "Tsunagari" as well as from a panoramic view. Also, design has a focus of appealing to emotion of people as an important element for linking humans to things.

#### Local Contribution

# Deepening Exchanges with Communities and Engaging in Volunteer Activities

"Nara Piano Friends," a new music event featuring the piano, has been held annually in Nara and specially sponsored by DMG MORI SEIKI since 2012. In addition to this, DMG MORI SEIKI is making active contributions to communities by sponsoring the Bambitious Nara professional basketball team and by supporting renovation of historic temples and shrines in Nara including the Kasuga Taisha Shrine, the Yakushiji Temple and the Kofukuji Temple. DMG MORI SEIKI will continue to actively support these cultural activities and foster good relationships with local communities.

#### Fukan Laboratory

#### **Supporting Research Activities**

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









[Material credit]

- Bambitious Nara
   Kasuga Taisha Shrine
- Nara City Tourist Association (Kofukuji Temple)
- Yakushiji Temple

#### Basic Concept for Corporate Governance

To increase the transparency of management for shareholders, investors, and society as a whole including business partners, employees and local communities, and to ensure fair and effective corporate management, DMG MORI SEIKI has identified the reinforcement of its corporate governance and the strengthening of its management oversight functions as its top priority.

We will continue to improve our corporate values for long-term stability, and will seek to ensure that our business activities are rooted in an even stronger sense of corporate ethics.

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

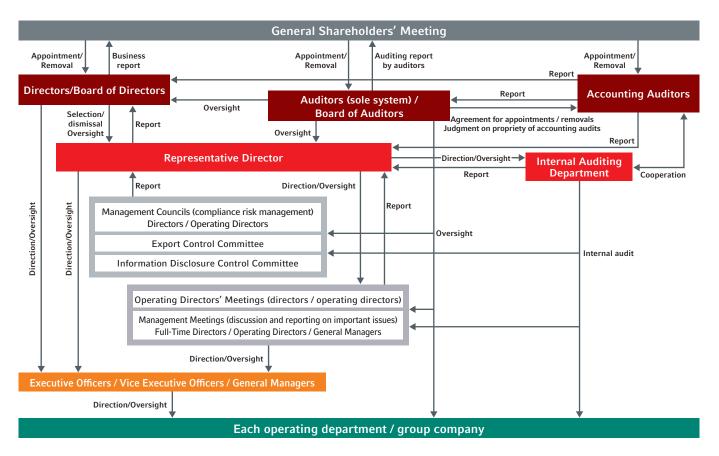
As of June 20, 2014, the Board of Directors consisted of five directors and the Board of Auditors consisted of three auditors, two of whom are external auditors.

The Board of Directors meets regularly and whenever necessary to debate important management issues, and to make decisions through active discussions at which opinions are stated freely. In addition, by limiting the term served by Board members to one year, we have put in place a system the clarifies the mission and responsibilities of the directors. We instituted Management Councils with the President as chairperson in 2006, and Operating Directors' Meetings in 2009 to speed up the decision-making process and the soundness of our administration. In addition, Management Meetings attended by the directors, operating directors and general managers are convened once a month to fully share and manage the progress on important issues and basic strategies, strengthening the corporate governance of the Group as a whole.

In recent years, international concern has grown concerning measures to prevent the proliferation of weapons of mass destruction and the excess stockpiling of conventional weapons. To address this concern, the DMG MORI SEIKI Group has set up an Export Control Committee, with the President as chairperson. This committee formulates the internal regulations (the Compliance Program), reviews and changes the contents of the regulations to ensure compliance with export control laws, and conducts rigorous discussions on matters such as the propriety of exports of our products.

In 2005, as part of the establishment of our internal control system, we set up an Information Disclosure Control Committee, with the executive officer of the Administrative Headquarters as its chairperson, to act as an advisory body deciding rules for the disclosure of information, to improve the transparency and soundness of our management.

In accordance with the auditing policy, the auditors attend meetings of the Board of Directors, Operating Directors' Meetings, Management Meetings and other key meetings, where they express their opinions. In addition, they read documents about important decisions, and



conduct strict audits in every department at the Head Office, as well as each campus, technical center and consolidated Group company.

Through this process, we have sought to achieve a fast decision-making process with a small number of directors and energize the Board of Directors. We have revamped our management by, for example, establishing a compliance system, and we have established an efficient corporate governance system with an increased level of fairness and transparency in management.

The corporate governance system of DMG MORI SEIKI is as follows.

#### Maintenance of an Internal Control System and Risk Management System

DMG MORI SEIKI implements the following "Basic Policy on Internal Controls" decided by the Board of Directors.

#### A system to ensure that the business conduct of directors and employees conforms to all relevant laws and articles

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

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

We completely and unreservedly oppose dealing with antisocial groups related to organized violence, and the basic policy behind our approach is to eradicate antisocial power.

#### A system for the storage and management of information concerning the business conduct of directors

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

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

#### Regulations to manage risks of loss, and other systems

DMG MORI SEIKI practices environmental / occupational health and safety / quality risk management in accordance with a management

system, risk management related to the reliability of financial reports, risk management in accordance with the export control program, and risk management in daily business in accordance with the internal electronic decision-making system.

We have established the Management Council chaired by the President, where the President appoints a director with overall responsibility and a director with responsibility in each category, and we are working to build a system where this council comprehensively and generally manages risk throughout the Group as a whole.

# A system to ensure that directors' business is conducted efficiently

DMG MORI SEIKI seeks to make the conduct of the directors' business more efficient by using the following business management system. We have also introduced an operating director system to support directors and facilitate fast decision making and efficient conduct of business.

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

#### A system to ensure that the corporate group consisting of DMG MORI SEIKI and its affiliated companies conducts business in an appropriate manner

DMG MORI SEIKI ascertains and ensures the propriety of the business of its subsidiaries and affiliates through an internal electronic decision-making system, use of the weekly report system and a number of scheduled meetings on a consolidated basis, regular and random visits by the President and responsible directors, and periodic internal auditing of subsidiaries.

With DMG MORI SEIKI's Administrative Headquarters and Accounting / Finance Headquarters as the departments responsible for the internal control of the Group, we are achieving progress with consultation and sharing information about internal controls among DMG MORI SEIKI and each of the companies in the Group, and building a constitution, including systems for efficiently transmitting directions and requests.

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

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

# A system in which directors and employees report to the auditors, and systems for other reports to the auditors

At DMG MORI SEIKI, the auditors attend important regular meetings including the Board of Directors Meetings, Management Councils, Operating Directors' Meetings and Management Meetings, listen to the decisions and reports, and, if necessary, request a report from the directors, operating directors or managerial staff.

The directors, operating directors and managerial staff must immediately report any fact that could significantly harm the Company to the Board of Auditors or the auditors upon discovery of such a fact, and regulations to ensure the effectiveness of audits conducted by the auditors have been prepared to make clear the details of these regulations. In addition, the Board of Auditors, or the auditors, can request reports from the directors, operating directors or managerial staff.

# A system to ensure that other audits conducted by the auditors are carried out effectively

At DMG MORI SEIKI, the Board of Auditors, or the auditors, engage in regular and temporary exchanges of opinion with both the President and the accounting auditors.

We plan to maintain this system in the years ahead.

#### Status of the Internal Audit and the Audit Conducted by the Auditors

As part of our internal audit, we have set up an Internal Auditing Department with full-time working staff, under the direct supervision of the President, which checks that the business operations of the DMG MORI SEIKI Group are conducted appropriately and effectively.

Regarding our adoption of a system of internal control and reporting (with reference to the J-SOX Act, Japan's equivalent of the U.S.

Sarbanes-Oxley Act), we established the J-SOX Section in the Internal Auditing Department in October 2005 prior to the approval of the bill, promoted the construction of an internal control system, and have already completed preparations for reliable operation of this system within the Group both in Japan and overseas.

With regard to the audit conducted by the auditors, currently the Board of Auditors comprises one corporate

auditor and two external auditors who attend the Board of Directors Meetings, Operating Directors' Meetings and Management Meetings in accordance with the policy determined by the Board of Auditors and the auditing plan, and hear about the status of execution of relevant work from the directors, operating directors, the Internal Auditing Department and so on. They also read documents about important decisions, and examine the status of work and assets in every department at the Head Office, as well as each campus, technical center and consolidated Group company.

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

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

The auditors, the Internal Auditing Department, and the accounting auditors make conscientious efforts in conducting proper and strict accounting audits by holding meetings each quarter and whenever necessary to actively exchange their opinions and information.

# 5 External Directors and External Auditors

DMG MORI SEIKI has two external auditors.

The external auditors have no special financial interest in relation to DMG MORI SEIKI, whether in terms of personal / business relations, trade or otherwise, and maintain a highly independent status.

Each of the external auditors debates and decides the auditing policy, auditing plan, auditing method, and allocation of duties, within the Board of Auditors in cooperation with the corporate auditor, and auditing is implemented throughout the year based on this.

The external auditors also exchange opinions regularly with the top management and directors, and conduct audits by visiting sites such as plants and Group companies. Information is shared with the accounting auditor by holding regular meetings.

DMG MORI SEIKI has sought to secure a robust auditing system with a team of three auditors including two external auditors, and has strengthened monitoring of the management functions. The two external auditors are designated as independent directors, and in our judgment implementing the auditing from an independent and fair standpoint by external auditors gives us a governance system that functions adequately to secure objectivity and neutrality without the appointment of external directors.

Therefore, we maintain the present system.

## Board of Directors (As of June 20, 2014)





<ol> <li>Masahiko Mori</li> </ol>	President, Dr. Eng.
2 Tatsuo Kondo	Vice President
3 Hiroaki Tamai	Vice President
4 Naoshi Takayama	Senior Executive Managing Director, Dr. Eng.
5 Kenji Oishi	Director
6 Hisao Sato	Corporate Auditor
7 Yoshito Kato	External Auditor
8 Michiyoshi Kuriyama	External Auditor

Among the financial and operational facts and statistics disclosed in the Annual Report, the following information has been determined to have importance in influencing the decision-making process for investors. Note that the forecasts and future events stated in this report are as of the end of fiscal 2013.

# Economic Conditions in Key Markets (Japan, the Americas, Europe, and China/Asia)

The percentage composition by region of the DMG MORI SEIKI Group's consolidated net sales for the term under review was 33.1% for Japan, 33.5% for the Americas, 20.0% for Europe, and 13.4% for China/Asia. In any of the regions where the Group sells and provides its products and services, its business results may be adversely affected if demand declines for its products and services due to deterioration in economic trends.

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

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

# Influence of Market Competition

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

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

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

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

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

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

If the DMG MORI SEIKI Group faces a situation in which prices of raw materials increase significantly beyond expectations, its business results may be affected adversely. The Group has in place a policy to cover the soaring costs of raw materials by lowering the costs through negotiation with suppliers and by passing on rises in product prices, but if costs continue to increase substantially or if measures such as cost negotiations with suppliers do not succeed, the activities, business results and financial status of the Group may be adversely affected.

# 7 Security Trade Management

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

# B Dependence on Specific Fields of Industry

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

# Customer Credit Risks

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

# Financial Covenants

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

## Intellectual Property Rights

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

# 2 Risks Relating to Lawsuits

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

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

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

# **13** Effects of Natural and Other Disasters

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

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

# 14 Environmental Problems

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

#### Product Development

With DMG MORI SEIKI AG, we are moving vigorously ahead on the joint development of new products and the standardization of units used in spindle and turret machine tools. By leveraging the technologies that each of our companies has cultivated to date, we are working together to efficiently develop products with a high degree of perfection. In addition to the machines themselves, we are pursuing technological developments in peripheral areas, such as automation designed to bolster productivity at customers' factories. We are also placing an emphasis on the development of service technologies, such as the use of sensors to preempt potential problems and keep customers' machines running smoothly.

# 2 Quality

Quality applies to all activities, from product planning to sales and service, in which we forge connections with customers through our products. We strive to upgrade quality every day. We have unveiled a new slogan, "Let's make an impression on customers by providing high-quality machines!" This slogan emphasizes the care and attention to detail that we put into our products. Also, in October 2013 we unified the Company name with that of DMG MORI SEIKI AG, encouraging customers to understand that our two companies provide products of the same quality. We are now moving resolutely ahead on the integration of other process areas, including development, manufacturing, service and sales, and making various other improvements.

# Trade Controls for Security

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

# Compliance with Regulations

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

# 5

#### Collaboration with DMG MORI SEIKI AG

With the aim of achieving further growth in the global market for machine tools, in March 2009 the Group entered into a collaborative business and capital relationship with DMG MORI SEIKI AG, a leading European machine tool manufacturer. Since that time, we have worked to integrate our sales and service locations and have augmented collaboration in areas such as parts supply, joint development and customer financing. In August 2013, we subscribed for new shares issued by DMG MORI SEIKI AG. In exchange, we transferred a portion of shares in our subsidiary, Magnescale Co., Ltd., and some of our shares in a sub-subsidiary, DMG Mori Seiki Manufacturing USA, Inc. In September 2013, we again subscribed for a new share issue, raising our voting rights to 24.9%. Thereafter, in March 2014 DMG MORI SEIKI AG liquidated its treasury shares, adjusting our ownership to 24.3%. Meanwhile, in September 2013, DMG MORI SEIKI AG raised its stake in the Company to 9.6%, thereby reinforcing our mutual capital relationship. To strengthen this alliance further, on October 1, 2013, both companies changed their names to DMG MORI SEIKI and integrated their brand names as "DMG MORI". Going forward with "One brand for the world," we will move to standardize parts, integrate models, and unify sales, development, manufacturing, accounting and other systems as we seek to forge ever stronger cooperative relationships in every area.

# Financial Information

34	Consolidated Balance Sheets
36	Consolidated Statements of Operations / Consolidated Statements of Comprehensive Income
37	Consolidated Statements of Cash Flows

# **Consolidated Balance Sheets**

Consolidated Balance She	ets				(Millions of yer
Assets	2010/3	2011/3	2012/3	2013/3	2014/3
Current assets:					
Cash and cash deposits	7,516	7,418	4,550	6,288	18,935
Notes and accounts receivable :					
Trade	16,666	32,086	31,736	24,824	32,989
Allowance for doubtful receivables	(115)	(139)	(200)	(230)	(208)
Notes and accounts receivable, net	16,551	31,947	31,536	24,594	32,781
Marketable securities	_	101	102	_	_
Inventories	33,061	38,838	43,273	37,941	40,771
Deferred tax assets	534	2,062	2,158	2,742	3,067
Other current assets	5,072	5,812	4,410	3,175	3,799
Total current assets	62,734	86,178	86,029	74,740	99,353
Property, plant and equipment:					
Land	17,152	18,340	18,718	21,774	22,253
Buildings and structures	67,421	66,320	66,438	70,495	75,896
Machinery, equipment and vehicles	33,195	33,531	35,491	39,002	42,665
Leased assets	4,686	4,699	4,897	5,456	5,781
Construction in progress	1,723	476	1,371	1,883	1,767
	124,177	123,366	126,915	138,610	148,362
Accumulated depreciation	(66,520)	(68,945)	(71,353)	(75,822)	(79,352)
Property, plant and equipment, net	57,657	54,421	55,562	62,788	69,010
Investments and other assets:					
Investments in securities :					
Unconsolidated subsidiaries and affiliates	1,025	1,595	25,784	30,058	52,801
Other	12,005	21,990	10,633	10,796	12,323
Total investments in securities	13,030	23,585	36,417	40,854	65,124
Deferred tax assets	1,569	374	370	944	275
Other assets :					
Goodwill	2,024	1,576	1,066	667	704
Long-term loan receivable	_	_	_	132	87
Other	7,153	5,816	5,975	6,529	7,118
Total other assets	9,177	7,392	7,041	7,328	7,909
Total investments and other assets	23,776	31,351	43,828	49,126	73,308
Total assets	144,167	171,950	185,419	186,654	241,671

					(Millions of yen
Liabilities and Net Assets	2010/3	2011/3	2012/3	2013/3	2014/3
Current liabilities:					
Short-term bank loans	18,550	45,172	28,778	23,930	90
Current portion of long-term debt	271	278	2,917	429	15,443
Notes and accounts payable, trade	6,087	11,451	10,702	9,077	11,937
Accrued income taxes	645	231	323	861	793
Accrued expenses	1,781	1,734	1,690	1,583	1,942
Deferred tax liabilities	36	16	47	249	6
Advances received	925	1,337	981	1,894	2,141
Allowance for product warranties	845	915	838	833	944
Allowance for bonuses to employees	235	124	196	168	171
Allowance for bonuses to directors and corporate aut	ditors —	_	42	18	22
Other current liabilities	5,608	5,046	6,580	5,212	7,966
Total current liabilities	34,983	66,304	53,094	44,254	41,455
Long-term liabilities:					
Long-term debt	6,825	6,567	33,882	33,986	38,854
Deferred tax liabilities	1,228	1,387	1,419	1,400	2,578
Deferred tax liabilities on land revaluation reserve	1,699	1,699	1,485	1,485	1,485
Accrued retirement benefits	312	309	342	222	—
Liability for retirement benefits	_	_	_	—	379
Asset retirement obligations	_	62	64	63	102
Other long-term liabilities	402	293	415	763	1,316
Total long-term liabilities	10,466	10,317	37,607	37,919	44,714
Net assets:					
Shareholders' equity:					
Common stock	41,132	41,132	41,132	41,132	51,116
Capital surplus	53,863	53,863	53,863	53,863	64,153
Retained earnings	12,821	11,911	15,313	18,271	25,502
Treasury stock, at cost	(10,544)	(10,545)	(11,743)	(11,743)	(3,610)
Total shareholders' equity	97,272	96,361	98,565	101,523	137,161
Accumulated other comprehensive income:					
Net unrealized holding gain on securities	1,750	1,463	2,133	2,616	4,004
Net unrealized gain on derivative instruments	944	476	105	186	2
Land revaluation reserve	1,545	1,545	1,759	1,759	1,759
Translation adjustments	(5,242)	(5,989)	(9,332)	(3,424)	8,798
Retirement benefits liability adjustments	—	_		—	(399)
Total accumulated other comprehensive income	(1,003)	(2,505)	(5,335)	1,137	14,164
Stock acquisition rights	1,534	469	466	435	34
Minority interests	915	1,004	1,022	1,386	4,143
Total net assets	98,718	95,329	94,718	104,481	155,502
Total liabilities and net assets	144,167	171,950	185,419	186,654	241,671

# **Consolidated Statements of Operations**

					(Millions of yell
	2010/3	2011/3	2012/3	2013/3	2014/3
Net sales	66,403	120,428	155,321	148,559	160,729
Cost of sales	55,204	80,864	105,951	104,393	107,469
Gross profit	11,199	39,564	49,370	44,166	53,260
Selling, general and administrative expenses	38,132	39,244	42,581	40,032	43,903
Operating income	(26,933)	320	6,789	4,134	9,357
Other income (expenses):					
Interest and dividend income	209	225	286	353	378
Interest expense	(290)	(421)	(543)	(545)	(575)
Gain on sales of investments in securities	1,007	—	_	6	5
Loss on revaluation of investments in securities	(32)	(497)	(201)	_	—
Loss on devaluation of shares of a subsidiary	—	—	_	_	(35)
Foreign exchange gain, net	604	891	49	757	1,478
Gain (loss) on sales and disposal of property, plant and equipment, net	(89)	108	(73)	(5)	(270)
Loss on impairment of property, plant and equipment	(234)	_	(4)	(108)	_
Equity in earnings (losses) of affiliates	(182)	(328)	(265)	681	1,008
Business restructuring expenses	(8,714)	(282)	(2,222)	_	(3,332)
Gain on reversal of stock acquisition rights		1,406	8	25	374
Gain on business transfer	_	_	576	288	_
Gain on liquidation of a subsidiary	_	_	135	_	_
Gain (loss) on change in equity in investments in subsidi	aries —	_	3,257	_	3,404
Loss on disaster	_	(88)	(600)	_	_
Insurance income	_	_	_	554	_
Retirement benefit expenses	_	_	(88)	(105)	_
Other, net	13	(149)	(402)	(398)	(416)
Income before income taxes and minority interests	(34,641)	1,185	6,702	5,637	11,376
Income taxes :					
Current	739	199	917	803	1,209
Deferred	56	(290)	(111)	(680)	621
	795	(91)	806	123	1,830
Income before minority interests	(35,436)	1,276	5,896	5,514	9,546
Minority interests in net income of consolidated subsidiaries	<b>s</b> (743)	(32)	276	344	103
Net income	(34,693)	1,308	5,620	5,170	9,443

# **Consolidated Statements of Comprehensive Income**

(Millions of yen)

(Millions of yen)

2010/3	2011/3	2012/3	2013/3	2014/3
_	1,276	5,896	5,514	9,546
	(289)	1,116	478	922
	(468)	(476)	_	(242)
	_	214	_	_
	(766)	(92)	2,304	2,384
_	20	(3,006)	3,720	10,365
	(1,503)	(2,244)	6,502	13,429
	(227)	3,652	12,016	22,975
	(190)	3,400	11,642	22,869
_	(37)	252	374	106
	2010/3	$\begin{array}{c cccc} - & 1,276 \\ \hline & - & (289) \\ - & (468) \\ - & - \\ - & (766) \\ \hline & - & 20 \\ \hline & - & (1,503) \\ - & (227) \\ \hline & - & (190) \end{array}$	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$

# **Consolidated Statements of Cash Flows**

	2010/3	2011/3	2012/3	2013/3	2014/3
perating activities:					
ncome before income taxes and minority interests	(34,641)	1,185	6,702	5,637	11,376
Adjustments to reconcile income before income taxes and minori	ty				
interests to net cash provided by (used in) operating activities:	7 (22	- 430	= 4.05	( 05 (	
Depreciation and amortization	7,629	7,172	7,185	6,954	6,055
Loss on impairment of property, plant and equipment (Gain) loss on sales and disposal of property, plant and equipm	234 nent, net 89	(108)	4 73	108 5	270
Gain on sales of investments in securities	(1,007)	(108)	/3	(6)	(5)
Loss on revaluation of investments in securities	32	497	201		
Loss on devaluation of shares of a subsidiary	_	_		_	35
Equity in (earnings) losses of affiliates	182	328	265	(681)	(1,008)
Business restructuring expenses	8,714	282	2,222	_	3,332
Gain on reversal of stock acquisition rights	—	(1,406)	(8)	(25)	(374)
Gain on business transfer	—	_	(576)	(288)	—
Gain (loss) on change in equity in investments in subsidiaries	—	—	(3,257)	_	(3,404)
Insurance income		—		(554)	_
Increase (decrease) in allowance for bonuses to employees	(15)	(111)	72	(28)	3
Increase (decrease) in allowance for bonuses to directors and corporat Increase (decrease) in allowance for doubtful receivables			42	(23)	4
Increase (decrease) in allowance for doubtful receivables Increase (decrease) in accrued retirement benefits	(13) (451)	31 2	79 133	39 (126)	(31)
Changes in liability for retirement benefits, net	(451)	2	133	(126)	(230)
Increase (decrease) in allowance for product warranties	(354)	 69	(77)	(6)	130 109
Interest and dividend income	(209)	(225)	(286)	(353)	(378)
Interest expense	290	421	543	545	575
Foreign exchange (gain) loss, net	488	911	610	(1,957)	(2,311)
Changes in operating assets and liabilities:	100	, , , ,	0.10	(1)/0//	(2,511)
Notes and accounts receivable	1,283	(16,093)	1,461	6,344	(6,106)
Inventories	6,040	(6,515)	(8,369)	6,683	(5,043)
Accounts payable	1,284	5,454	(786)	(2,018)	2,220
Other, net	97	(216)	3,551	1,210	1,570
Subtotal	(10,353)	(8,322)	9,784	21,460	6,789
Interest and dividend income received	210	226	286	580	839
Interest paid	(283)	(425)	(539)	(547)	(576)
Business restructuring expenses paid	(7,360)	(1,183)			
Income taxes paid	1,791	(536)	(914)	(433)	(1,145)
Proceeds from insurance income	_	_	_	554	_
Additional contribution on withdrawal from pension fund	(15,995)	(10,240)	0 / 17	(193)	
Net cash provided by (used in) operating activities vesting activities:	(15,995)	(10,240)	8,617	21,421	5,907
Purchases of property, plant and equipment	(5,639)	(3,360)	(8,209)	(9,929)	(7,142)
Proceeds from sales of property, plant and equipment	3,678	1,218	273	112	148
Increase in investments in securities	(5,431)	(10,548)	(60)	(1)	(2)
Proceeds from sales of investment in securities	2,366	_		113	15
Increase in investments in subsidiaries or affiliates	(155)	(1,015)	(11,655)	(203)	(7,658)
Proceeds from business transfer	_	_	1,132	1,783	· _
Expenditures for business divestiture	—	—	(1,505)	—	(30)
Acquisition of shares from minority interests in consolidated subs	sidiaries —	—	(234)	(87)	_
Acquisition of shares of subsidiaries resulting in change in scope of consol	lidation (5,324)	_	(50)	—	(987)
Proceeds from purchase of investments in a subsidiary resulting in change in scope of cor		_	_	25	_
Purchases of intangible assets	(2,573)	(800)	(1,813)	(1,993)	(1,868)
Other, net	183	450	41	91	(3)
Net cash used in investing activities	(12,895)	(14,055)	(22,080)	(10,089)	(17,527)
nancing activities:	7 ( 0 0	27 (22)	(1( 204)	(4.040)	(00.0.0)
Increase (decrease) in short-term bank loans, net Proceeds from issuance of bonds	7,602	26,623	(16,394)	(4,848)	(23,840)
Redemption of bonds with stock acquisition rights			29,852	(2,583)	19,907
Purchases of treasury stock	(6)	(1)	(0)	(2,583)	(1)
Proceeds from sales of treasury stock	33	0	0	<u> </u>	10,579
Proceeds from issuance of common stock	16,770			_	19,859
Cash dividends	(2,658)	(2,212)	(2,212)	(2,219)	(2,216)
Other, net	(263)	(303)	(373)	(435)	(374)
Net cash provided by (used in) financing activities	21,478	24,107	10,873	(10,086)	23,914
fect of exchange rate changes on cash and cash equivalents	(45)	86	(293)	489	220
crease (decrease) in cash and cash equivalents	(45)	(102)	(2,883)	489 1,735	330 12 424
ash and cash equivalents at beginning of year	14,255	7,256	7,414	4,533	12,624 6,268
crease in cash and cash equivalents resulting from inclusion of subsidiaries in conso		260	7,414 94	4,555	0,208
crease in cash and cash equivalents resulting from inclusion of subsidiaries from conso		200	(92)	_	(1)
crease in cash and cash equivalents resulting from merger with an unconsolidated s		_		_	25
ash and cash equivalents at end of year	7,256	7,414	4,533	6,268	18,916

1950

#### MORI SEIKI 1990 **Business history** 1987 1948 Began manufacture and sales of textile machine Completion of Nara Headquarters in Yamato-Koriyama City, Nara Prefecture business offices Start of actual operations at the Nara Plant 1958 After textile machinery came manufacture and sale 1992 of machine tools (high-speed precision lathes) Start of operations at the Iga No. 2 Plant 1997 1970 Iga Plant was constructed and has been Start of operations at the Iga No. 2 Plant High-Precision Facility in operation ever since

1999

2000

established

1981

1983

1994

2000

Completion of MORI SEIKI Nagoya

building (current Nagoya Head Office) Acquisition of ISO9001 certification

Digital Technology Laboratory (DTL)

1982

MORI SEIKI GmbH established

#### 1983

MORI SEIKI U.S.A., INC. established (current DMG MORI SEIKI U.S.A., INC.) Start of actual operation at Iga No.1 Plant

## Products history

1960

Began export of high-speed precision lathes Began manufacture and sales of

### 1968

Began manufacture and sales of numerically controlled lathes

### 1976

Market share of NC lathes reaches the top in the Japanese machine tool industry

1977

SL-2 is developed

### 1870

Friedrich Gildemeister founded GILDEMEISTER & Comp. in Bielefeld

### 1906

and started mass production of machine tools

Concentrated on its flagship products: turret lathes, Exhibited the company's first NC lathe multi-spindle automatic lathes, milling machines, (NEF) at EMO and vertical and horizontal milling machines

### 1928

Released the POX multi-spindle automatic lathe

### 1950

SH junior is developed

MT Series line-up is expanded Start of use of CAPS-NET

Exhibited the RV 50 turret lathe at Hanover trade fair

### 1961

Wilhelm Berg took over the company management Built a new manufacturing plant in Sennestadt and started operation (in 1965)

#### 1975

### 2001

2000

Acquisition of ISO14001 certification MORI SEIKI (SHANGHAI) CO., LTD. established TAIYO KOKI CO., LTD. was made a subsidiary

#### 2002

Started 24-hour a day, 365-days a year service support Took over operations from former HITACHI SEIKI Operations begin as part of the MORI SEIKI Group Acquisition of OHSAS18001 certification

### 2003

Started operation of the Chiba Campus

#### 2004

Established the Human Resources Development Center (current DMG MORI Academy) Head Office transferred to Nagoya

### 2003

Developed DCG (Driven at the Center of Gravity) Developed DDM (Direct Drive Motor) NV 4000 DCG and NH 4000 DCG are developed Introduce a machine equipped with a HEIDENHAIN CNC into the European market

(Built-in Motor Turret)

Acquired DECKEL MAHO AG, and put the

\* DECKEL AG and MAHO AG merged in 1993

Sales exceeded one billion Deutschmarks

(1998 average exchange rate: 1DM = ¥70)

Entered the laser technology sector with the

takeover of LCTec GmbH (present SAUER)

Repurchased its former subsidiary

GILDEMEISTER Italiana

for the first time in its history

milling and drilling machine business on track



2005

2005

2005

2006

2007

2008

Completed the Iga Campus Heat Treatment Plant

Completed the Iga Campus Casting Plant

AKISHINO MOLD LABORATORY, LTD.

established (current DMG MORI SEIKI

MOLD LABORATORY CO., LTD.)

Made DIXI machines a subsidiary

Made TOBLER S.A.S. a subsidiary

NVD 1500 DCG is developed NT Series is developed

## 2006

NMH 6300 DCG is developed NMV 5000 DCG is developed

2007 NZ Series is developed



### 2001

Entered the field of the ultrasonic machining technology by the investment in SAUER GmbH & Co. KG

### 2002

The new plant in Seebach won the "Best Factory TM - Industrial Excellence Award 2002"

### 2003

DMG Nippon K.K. opened a technology center in Yokohama The first production plant in Asia was established in Shanghai

### 2005

DMG Asia established the spare parts center Succeeded in the field of the photovoltaic technology as well using SunCarrier made by a+f GmbH

### 2008

Adopted new design

# GILDEMEISTE

1950

## 1870



2000

2005

# vertical machining centers Began manufacture and sales of horizontal machining centers





### 2004

1995

1998

1999

2000

Developed the NL Series with BMT

## **DMG MORI SEIKI**

COMPANY LIMITED

2013

### 2009

The Tokyo branch established Capital and business collaboration with DMG of Germany

#### 2010

Acquired the measuring equipment business of Sony Manufacturing Systems Corporation, and set it up as a subsidiary named Magnescale Co., Ltd.

#### 2009

MAPPS integrated operation panel completely revamped, and started to be installed on new models as MAPPS IV

2011

2010 The X-class machines (NLX, NVX, NHX, NTX) are developed

MORI SEIKI SALES AND SERVICE

(current DMG MORI SEIKI SALES

CO., LTD. established

AND SERVICE CO., LTD.)



2011 NTX 2000 is developed NZX Series is developed MILLTAP 700 is jointly developed with DMG

Established the Iga Campus Bed/

Column Precise Processing Plant

Installed the wind power system

and the secondary battery system

in Davis city, California

Established North American Factory



2012



### 2012

NVX 5000 II Series is developed NHX 5500 is developed

Established Tianjin Factory in China

Changed the company name to

DMG MORI SEIKI CO., LTD.



2013 NHC 4000 and NHC 5000 are developed

# DMG MORI

March 2009 Started business collaboration with DMG April 2009

MORI SEIKI acquired 5% of DMG shares

July 2009 Started joint sales and service in Thailand, Indonesia, Taiwan and Turkey

## Collaboration started in March, 2009 2009

October 2009 Started joint sales and service in Japan

November 2009 Started joint sales and service in South Korea

MORI SEIKI president, Masahiko Mori, became a member of DMG's Supervisory Board while CEO R. Kapitza of DMG assumed the post of Senior Executive Operating Director of MORI SEIKI

Jointly established MG Finance GmbH (Current DMG MORI Finance GmbH)

#### 2010

Entered the promising market of the energy storage products with a large-volume battery system CellCube in Australia April 2010 Started joint sales and service in the U.S.A. and India

Started joint sales and service in Singapore, Malaysia, Vietnam

September/October 2010

Hosted a joint exhibition booth at

Started joint sales and service

March 2010

2010

July 2010

and Philippines

IMTS and JIMTOF

2011

Opened the HSC center

January 2011 Started joint sales and service in Africa April 2011 Started joint sales and service in Mexico

DMG acquired additional shares in

2011

August 2011

MORI SEIKI up to 5.1%

September 2011

2012

Established the energy solution

Expanded the plant in Seebach

park at the plant in Bielefeld

MORI SEIKI acquired additional shares in DMG up to 20.1%

2012

Started joint sales and service in Germany DMG additionally

January 2012 Established DMG MORI SEIKI Europe AG in Switzerland. Started joint sales and service across Europe

August 2013

of shares in DMG

acquired up to 9.6% of

shares in Mori Seiki



Company names changed 2014 in October,

2013 September 2013 January 2014 Mori Seiki additionally acquired up to 24.9%

Started joint sales and service in China

April 2014 Started joint sales and service in Brazil

2014 Global Headquarters to start

Unveiled CELOS as the World Premiere at operation EMO Hannover 2013

2013

Changed the company name to DMG MORI SEIKI AKTIENGESELLSCHAFT



AKTIENGESELLSCHAFT

The DMG MORI group provides timely support service using its global network and strives to achieve a higher level of universal quality.



### Global Headquarters

Centrally manage global sales and service



Tokyo (Japan)



Winterthur (Switzerland)

### **Overseas Production Bases/Group Companies**

### National Headquarters

Function as the head offices of DMG MORI SEIKI CO., LTD. and DMG MORI SEIKI AG



- H 

**Bielefeld (Germany)** 













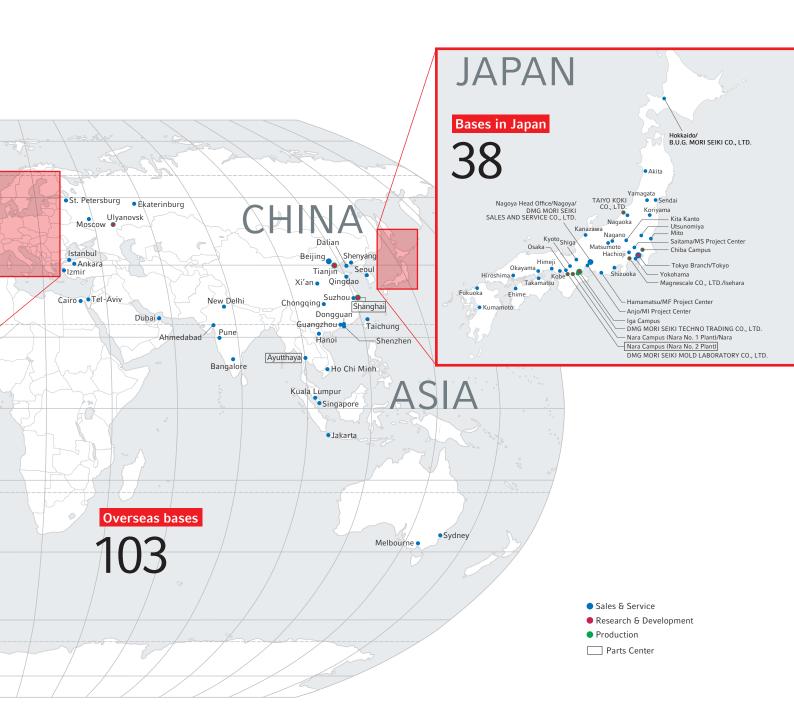
Tianjin (China)

TAIYO KOKI (Niigata)

Magnescale (Kanagawa) Pfronten (Germany)

Seebach (Germany)

Idar-Oberstein (Germany)



### Manufacturing Headquarters

Play a central role in global production and manufacturing



lga (Japan)

### Production Bases in Japan





Pleszew (Poland)

Tortona (Italy)

Bergamo (Italy) Shanghai (China)

Ulyanovsk (Russia)

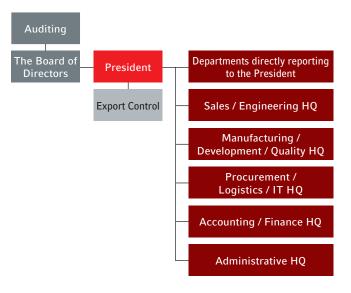
DIXI machines, Le Locle (Switzerland) Tobler, Louvres (France)

### DMG MORI SEIKI CO., LTD. (As of March 31, 2014)

President	Masahiko Mori
Established	October 26, 1948
Fiscal Year-End	March 31
Capital	51,100 million yen
Shareholders' Equity	133,500 million yen (individual)
	151,300 million yen (consolidated)
Total Assets	201,500 million yen (individual)
	241,700 million yen (consolidated)
<b>Business Operations</b>	Manufacture and sale of machine tools and
	after-sales services
Employees	2,684 (individual) / 4,159 (consolidated)
Head Office	2-35-16 Meieki, Nakamura-ku, Nagoya City,
	Aichi, Japan
Listings	The First Section of Tokyo Stock Exchange, Inc.
URL	http://www.dmgmoriseiki.co.jp/en/



(As of April 1, 2014)



### Office / Campus Information

Nagoya Head Office	2-35-16 Meieki, Nakamura-ku, Nagoya City, Aichi 450-0002, Japan	Tel: +81-52-587-1811
Tokyo Global Headquarters	2-3-23 Shiomi, Koto-ku, Tokyo 135-0052, Japan	Tel: +81-3-6758-5900
Iga Campus	201 Midai, Iga City, Mie 519-1414, Japan	Tel: +81-595-45-4151
Nara Campus	362 Idono-cho, Yamato-Koriyama City, Nara 639-1183, Japan	Tel: +81-743-53-1121
Nara No. 2 Plant	106 Kitakoriyama-cho, Yamato-Koriyama City, Nara 639-1160, Japan	Tel: +81-743-53-1125
Chiba Campus	488-19 Suzumi-cho, Funabashi City, Chiba 274-0052, Japan	Tel: +81-47-410-8800



### Introduction of Group Companies

(As of June 20, 2014)

### **Major Group Companies**

#### TAIYO KOKI CO., LTD. **TAIYO KOKI** THE GRINDING MACHINE COMPANY

Location	Nagaoka City, Niigata
Established	March 14, 1986
Capital	700 million yen
Business Operations	Development, manufacture and sale of machine tools (Grinding machines)
URL	http://www.dmgmoriseiki.co.jp/ taiyo/index_home_e.html

<b>DIXI</b> machine	35
Location	Le Locle, Neuchatel (Switzerland)
Established	December 14, 2006
Capital	100 million Swiss francs
	Manufacture and sale of jig borers and

machining centers

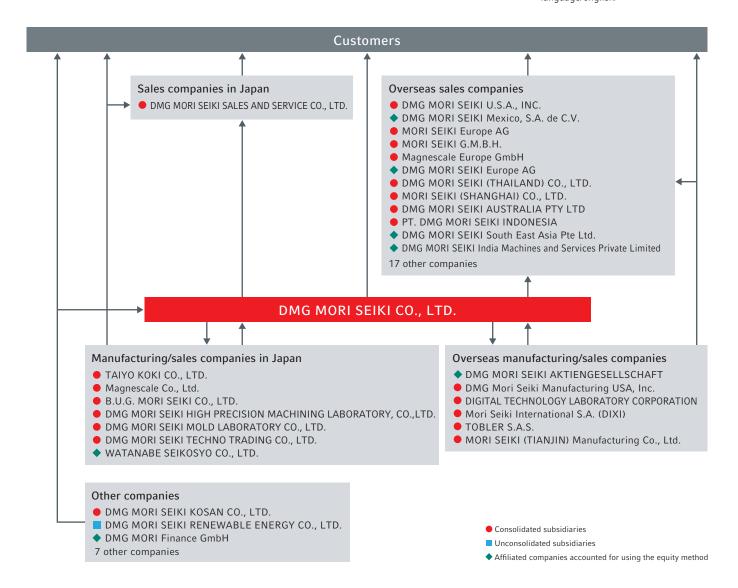
http://www.diximachines.com/english/

URL

Mori Seiki International S.A. (DIXI)

# Magnescale Co., Ltd.

Location	Isehara City, Kanagawa
Established	March 31, 2010
Capital	1,000 million yen
Business Operations	Manufacture and sale of measurement devices (Magnescale, Laserscale and Digital Gauge, etc.), control devices and related systems
URL	http://www.magnescale.com/mgs/ language/english/



### Stock Information

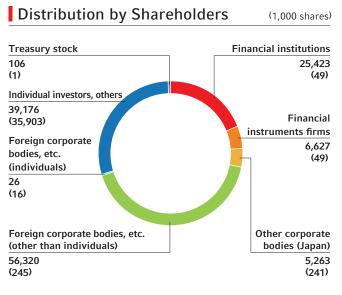
Number of Shares Outstanding 300,000,000 shares Number of Shares Issued 132,837,471 shares (excluding treasury stock of 106,212 shares) Number of Shareholders 36.504

### Major shareholders

Shareholder Name	Number of Shares Held (1,000 shares)	d Shareholding ratio (%)
DMG MORI SEIKI AG (standing proxy: Credit Suisse (Hong Kong) Limited)	12,797	9.63
The Master Trust Bank of Japan, Ltd. (trust account)	5,249	3.95
RBC ISB A/C DUB NON RESIDENT - TREATY RATE (standing proxy: Citibank Japan Ltd.)	4,505	3.39
Japan Trustee Services Bank, Ltd. (trust account)	4,142	3.12
Masahiko Mori	3,540	2.67
The Bank of New York 133522 (standing proxy: Mizuho Corporate Bank, Ltd., settlement sales department)	2,962	2.23
UBS AG LONDON A/C IPB SEGREGATED CLIENT ACCOUNT (standing proxy: Citibank Japan Ltd.)	2,733	2.06
Chieko Mori	2,287	1.72
Chase Manhattan Bank GTS Clients Account Escrow (standing proxy: Mizuho Corporate Bank, Ltd., settlement sales department)	2,185	1.65
State Street Bank and Trust Company 505017 (standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo Branch, custody department)	2,129	1.60

Notes 1. The Company retains treasury stock totaling (106,212), which excludes the above major shareholders.



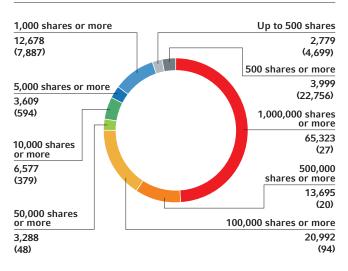


### Contact for Investors

### DMG MORI SEIKI CO., LTD.

2-35-16 Meieki, Nakamura-ku, Nagoya City, Aichi 450-0002, Japan Tel: +81-(0) 52-587-1811

### Distribution by Number of Shares (1,000 shares)



### Transfer Agent

Sumitomo Mitsui Trust Bank, Limited (Securities Agent Department)

2-4-8 Izumi, Suginami-ku, Tokyo 168-0063, Japan Tel: +81-(0) 120-782-031 (free call)




COMPANY LIMITED



Customers with mobile phones or smartphones capable of reading two-dimensional codes can use this code to access the INVESTOR RELATIONS section of our website.

ANNUAL2014-EA01P B.1406.NAP.2000 Created in Japan