ONE BRAND FOR THE WORLD

Annual Report 2014

FINANCIAL REVIEW
FISCAL YEAR ENDED MARCH 31, 2014

DMG MORI SEIKI
COMPANY LIMITED

CONTENTS

Consolidated Financial Highlights

		Billions of yen					Millions of U.S. dollars *1
		2010	2011	2012	2013	**2014**	**2014**
Financial Performance							
Net sales		66.4	120.4	155.3	148.6	**160.7**	**1,562**
Cost of sales		55.2	80.9	106.0	104.4	**107.5**	**1,045**
Selling, general and administrative expenses		38.1	39.2	42.6	40.0	**43.9**	**427**
Operating income (loss)		(26.9)	0.3	6.8	4.1	**9.4**	**91**
Income (loss) before income taxes and minority interests		(34.6)	1.2	6.7	5.6	**11.4**	**111**
Net income (loss)		(34.7)	1.3	5.6	5.2	**9.4**	**92**
Profitability Ratio							
Return on investment (ROI) (%)	*2	(21.4)	0.2	4.5	2.6	**5.1**	
Return on equity (ROE) (%)	*3	(32.6)	1.4	6.0	5.3	**7.4**	
Return on total assets (ROA) (%)	*4	(23.7)	0.8	3.1	2.8	**4.4**	
Financial Position							
Total assets		144.2	172.0	185.4	186.7	**241.7**	**2,349**
Shareholders' equity	*5	96.3	93.9	93.2	102.7	**151.3**	**1,471**
Cash Flows							
Net cash provided by (used in) operating activities		(16.0)	(10.2)	8.6	21.4	**5.9**	**57**
Net cash used in investing activities		(12.9)	(14.1)	(22.1)	(10.1)	**(17.5)**	**(170)**
Net cash provided by (used in) financing activities		21.5	24.1	10.9	(10.1)	**23.9**	**232**
Free cash flow	*6	(28.9)	(24.3)	(13.5)	11.3	**(11.6)**	**(113)**
Number of Employees		3,816	4,107	4,045	4,117	**4,159**	

*1 The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥102.88 = U.S.$1.00, the exchange rate prevailing on 31st March, 2014.
*2 Return on investment (ROI) (%) = Operating income / (Average equity + Average interest-bearing debt) × 100
*3 Return on equity (ROE) (%) = Net income / Average equity × 100
*4 Return on total assets (ROA) (%) = Net income / Average total assets ×100
*5 Shareholders' equity = Net assets – Stock acquisition rights – Minority interests
*6 Free cash flow = Net cash provided by (used in) operating activities + Net cash used in investing activities

Financial Summary

The following is an analysis of our financial situation, business results and cash flows during the fiscal year ended 31st March, 2014.

Analysis of Financial Status

Assets

Current assets grew by 32.9% compared to the previous fiscal year to 99,353 million yen ($965,717 thousand). This was primarily due to an increase of 12,648 million yen in cash and cash deposits, an increase of 8,165 million yen in notes and accounts receivable, trade, and an increase of 2,830 million yen in inventories.

Net property, plant and equipment increased by 9.9% to 69,010 million yen ($670,782 thousand), primary due to an increase of 5,401 million yen in buildings and structures.

Total investments and other assets increased by 49.2% to 73,308 million yen ($712,558 thousand). This was primary due to a rise of 24,270 million yen in total investments in securities.

As a result, total assets increased by 29.5% to 241,671 million yen ($2,349,057 thousand).

Liabilities

Current liabilities decreased by 6.3% compared to the previous fiscal year to 41,455 million yen ($402,945 thousand). This was primarily due to a decline of 23,840 million yen in short-term bank loans, which offset an increase of 2,860 million yen in accounts payable, trade, and an increase of 15,014 million yen in the current portion of long-term debt.

Long-term liabilities increased by 17.9% compared to the previous fiscal year to 44,714 million yen ($434,623 thousand). This was primarily due to an increase in long-term debt of 4,868 million yen.

Total Net Assets

Total net assets grew by 48.8% compared to the previous fiscal year to 155,502 million yen ($1,511,489 thousand). This was due primarily to a rise of 9,983 million yen in common stock and 10,290 million yen in capital surplus reflecting stock issuance, an improvement of 12,222 million yen in translation adjustments, a decrease of 8,134 million yen in treasury stock reflecting sales of such stock, and net income of 9,443 million yen, from which cash dividends of 2,212 million yen were paid.

Analysis of Business Results

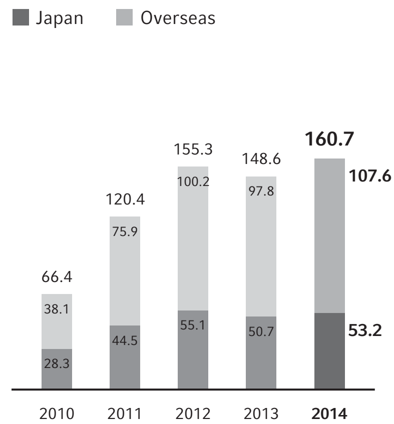
Net Sales

In the fiscal year under review, net sales were 160,729 million yen ($1,562,296 thousand), up 8.2% compared to the previous fiscal year. The sales composition by segment was Japan 33.1%, the Americas 33.5%, Europe 20.0%, and China and Asia 13.4%. Factors contributing to the increase in net sales included firm demand in the United States and recovering demand in Japan, Europe and China throughout the period.

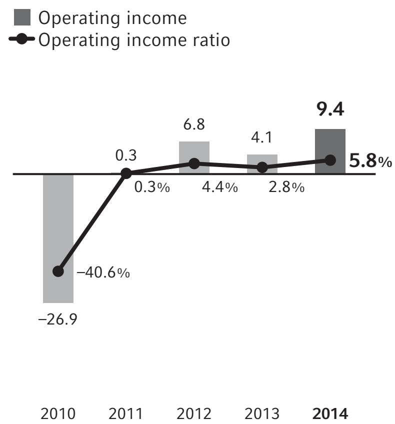
Cost of Sales, and Selling, General and Administrative (SG&A) Expenses

The cost of sales was 107,469 million yen ($1,044,605 thousand), up 2.9% compared to the previous fiscal year. The cost of sales as a percentage of net sales declined by 3.4 percentage points to 66.9% as a result of the continued weakening of the yen. Together with the rise in net sales, SG&A expenses increased by 9.7% to 43,903 million yen ($426,740 thousand). SG&A expenses as a percentage of net sales rose by 0.4 percentage point to 27.3%. This reflected factors such as freight costs of 4,782 million yen ($46,480 thousand) (down 8.4%), wages and bonuses of 13,115 million yen ($127,475 thousand) (up 19.4%), and research and development costs of 3,363 million yen ($32,686 thousand) (up 23.0%).

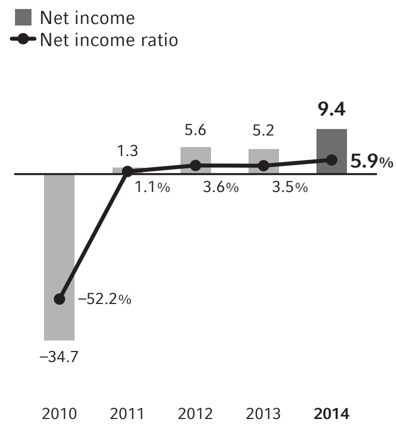
Net sales (billions of yen)
Years ended 31st March



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



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



Operating Income/Loss

Primarily as a result of the rise in net sales, operating income reached 9,357 million yen ($90,951 thousand), up 126.3% compared to the previous fiscal year. By segment, Japan posted segment income of 8,633 million yen ($83,913 thousand) (up 83.0% from the previous fiscal year), the Americas posted segment income of 1,133 million yen ($11,013 thousand) (compared to a segment loss of 995 million yen in the previous fiscal year), Europe posted a segment loss of 25 million yen ($243 thousand) (compared to a segment loss of 62 million yen in the previous fiscal year), and China and Asia posted a segment loss of 435 million yen ($4,228 thousand) (compared to a segment loss of 2 million yen in the previous fiscal year).

Net Income/Loss

The Group posted income before income taxes and minority interests of 11,376 million yen ($110,575 thousand), up 101.8% compared to the previous fiscal year.

Income taxes totaled 1,830 million yen ($17,787 thousand), a rise of 1,707 million yen from 123 million yen in the previous fiscal year.

After minority interests in net income of consolidated subsidiaries of 103 million yen ($1,001 thousand), net income was 9,443 million yen ($91,787 thousand), up 82.6%.

Analysis of Cash Flows

Cash and cash equivalents at the end of the fiscal year under review were 18,916 million yen ($183,866 thousand), an increase of 12,648 million yen compared to the previous fiscal year.

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

Cash Flows from Operating Activities

Net cash provided by operating activities was 5,907 million yen ($57,417 thousand) (compared to 21,421 million yen provided in the previous fiscal year). Major inflows included income before income taxes and minority interests of 11,376 million yen ($110,575 thousand), depreciation and amortization of 6,055 million yen ($58,855 thousand), and an increase in accounts payable of 2,220 million yen ($21,579 thousand). Major outflows included an increase in notes and accounts receivable of 6,106 million yen ($59,351 thousand), an increase in inventories of 5,043 million yen ($49,018 thousand), and a net foreign exchange gain of 2,311 million yen ($22,463 thousand).

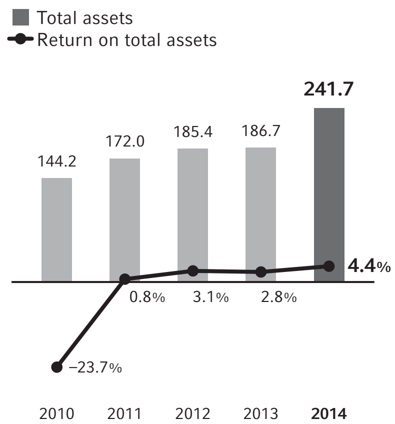
Cash Flows from Investing Activities

Net cash used in investing activities was 17,527 million yen ($170,363 thousand) (compared to 10,089 million yen used in the previous fiscal year). The main factors behind this decrease were an increase in investments in affiliates of 7,658 million yen ($74,436 thousand), purchases of property, plant and equipment of 7,142 million yen ($69,421 thousand), and purchases of intangible assets of 1,868 million yen ($18,157 thousand).

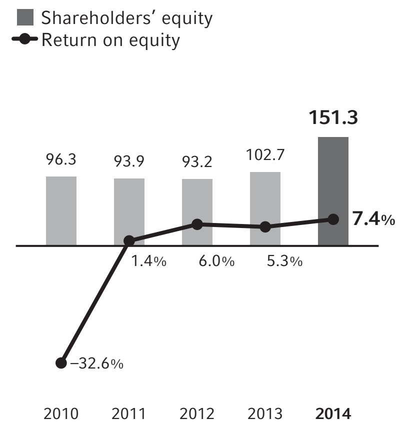
Cash Flows from Financing Activities

Net cash provided by financing activities was 23,914 million yen ($232,446 thousand) (compared to 10,086 million yen used in the previous fiscal year). The main factors behind this increase were proceeds from issuance of common stock of 19,859 million yen ($193,031 thousand), proceeds from issuance of bonds of 19,907 million yen ($193,497 thousand), and proceeds from sales of treasury stock of 10,579 million yen ($102,829 thousand). Other factors contributing to this change were a decrease in short-term bank loans, net, of 23,840 million yen ($231,726 thousand), and cash dividends of 2,216 million yen ($21,540 thousand).

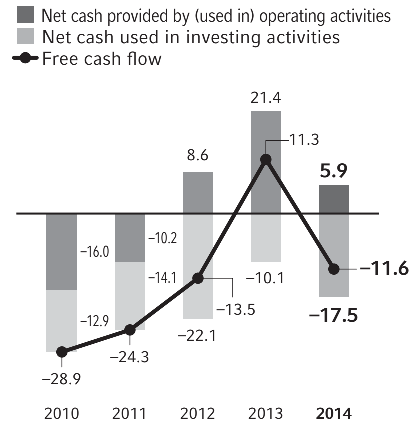
Total assets (billions of yen)
Return on total assets (%)
As of 31st March



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



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



Consolidated Balance Sheet

DMG MORI SEIKI CO., LTD. and Consolidated Subsidiaries
31st March, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Assets			
Current assets:			
Cash and cash deposits (Notes 4 and 19)	**¥ 18,935**	¥ 6,288	**$ 184,049**
Notes and accounts receivable (Note 19):			
Trade	**32,989**	24,824	**320,655**
Allowance for doubtful receivables	**(208)**	(230)	**(2,022)**
Notes and accounts receivable, net	**32,781**	24,594	**318,633**
Inventories (Notes 5, 15, 23 and 26)	**40,771**	37,941	**396,297**
Deferred income taxes (Note 10)	**3,067**	2,742	**29,811**
Other current assets	**3,799**	3,175	**36,927**
Total current assets	**99,353**	74,740	**965,717**
Property, plant and equipment (Notes 7 and 25):			
Land (Note 13)	**22,253**	21,774	**216,301**
Buildings and structures	**75,896**	70,495	**737,714**
Machinery, equipment and vehicles	**42,665**	39,002	**414,706**
Leased assets (Notes 18 and 23)	**5,781**	5,456	**56,192**
Construction in progress	**1,767**	1,883	**17,175**
	148,362	138,610	**1,442,088**
Accumulated depreciation	**(79,352)**	(75,822)	**(771,306)**
Property, plant and equipment, net (Note 25)	**69,010**	62,788	**670,782**
Investments and other assets:			
Investments in securities (Notes 6 and 19):			
Unconsolidated subsidiaries and affiliates	**52,801**	30,058	**513,229**
Other	**12,323**	10,796	**119,780**
Total investments in securities	**65,124**	40,854	**633,009**
Deferred income taxes (Note 10)	**275**	944	**2,673**
Other assets:			
Goodwill (Notes 7 and 25)	**704**	667	**6,843**
Long-term loan receivable	**87**	132	**846**
Other	**7,118**	6,529	**69,187**
Total other assets	**7,909**	7,328	**76,876**
Total investments and other assets	**73,308**	49,126	**712,558**
Total assets (Note 25)	**¥ 241,671**	¥ 186,654	**$ 2,349,057**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Liabilities			
Current liabilities:			
Short-term bank loans (Notes 9 and 19)	**¥ 90**	¥ 23,930	**$ 875**
Current portion of long-term debt (Notes 9 and 19)	**15,443**	429	**150,107**
Accounts payable, trade (Note 19)	**11,937**	9,077	**116,028**
Accrued income taxes (Note 10)	**793**	861	**7,708**
Accrued expenses	**1,942**	1,583	**18,876**
Deferred income taxes (Note 10)	**6**	249	**58**
Advances received	**2,141**	1,894	**20,811**
Allowance for product warranties	**944**	833	**9,176**
Allowance for bonuses to employees	**171**	168	**1,662**
Allowance for bonuses to directors and corporate auditors	**22**	18	**214**
Other current liabilities	**7,966**	5,212	**77,430**
Total current liabilities	**41,455**	44,254	**402,945**
Long-term liabilities:			
Long-term debt (Notes 9 and 19)	**38,854**	33,986	**377,663**
Deferred income taxes (Note 10)	**2,578**	1,400	**25,058**
Deferred income taxes on land revaluation reserve (Notes 10 and 13)	**1,485**	1,485	**14,434**
Accrued retirement benefits (Note 8)	**—**	222	**—**
Liability for retirement benefits (Note 8)	**379**	—	**3,684**
Asset retirement obligations (Note 11)	**102**	63	**991**
Other long-term liabilities	**1,316**	763	**12,793**
Total long-term liabilities	**44,714**	37,919	**434,623**
Contingent liabilities (Note 14)			
Net assets			
Shareholders' equity (Note 12):			
Common stock:			
Authorized – 300,000,000 shares in 2014 and 200,000,000 shares in 2013			
Issued – 132,943,683 shares in 2014 and 118,475,312 shares in 2013	**51,116**	41,132	**496,851**
Capital surplus	**64,153**	53,863	**623,571**
Retained earnings (Note 27)	**25,502**	18,271	**247,881**
Treasury stock, at cost (Note 12) – 3,005,226 shares in 2014 and 9,091,233 shares in 2013	**(3,610)**	(11,743)	**(35,089)**
Total shareholders' equity	**137,161**	101,523	**1,333,214**
Accumulated other comprehensive income (Note 22):			
Net unrealized holding gain on securities (Notes 6 and 10)	**4,004**	2,616	**38,919**
Net unrealized gain on derivative instruments	**2**	186	**19**
Land revaluation reserve (Notes 10 and 13)	**1,759**	1,759	**17,098**
Translation adjustments	**8,798**	(3,424)	**85,517**
Retirement benefits liability adjustments (Note 8)	**(399)**	—	**(3,878)**
Total accumulated other comprehensive income	**14,164**	1,137	**137,675**
Stock acquisition rights (Note 12)	**34**	435	**330**
Minority interests	**4,143**	1,386	**40,270**
Total net assets	**155,502**	104,481	**1,511,489**
Total liabilities and net assets	**¥ 241,671**	¥ 186,654	**$ 2,349,057**

See accompanying notes to consolidated financial statements

Consolidated Statement of Income

DMG MORI SEIKI CO., LTD. and Consolidated Subsidiaries
Year ended 31st March, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net sales (Note 25)	**¥ 160,729**	¥ 148,559	**$ 1,562,296**
Cost of sales (Notes 8, 12 and 15)	**107,469**	104,393	**1,044,605**
Gross profit	**53,260**	44,166	**517,691**
Selling, general and administrative expenses (Notes 8 and 16)	**43,903**	40,032	**426,740**
Operating income (Note 25)	**9,357**	4,134	**90,951**
Other income (expenses):			
Interest and dividend income	**378**	353	**3,674**
Interest expense	**(575)**	(545)	**(5,589)**
Gain on sales of investments in securities (Note 6)	**5**	6	**49**
Loss on devaluation of shares of a subsidiary (Note 19)	**(35)**	—	**(340)**
Foreign exchange gain, net	**1,478**	757	**14,366**
Loss on sales and disposal of property, plant and equipment, net	**(270)**	(5)	**(2,624)**
Loss on impairment of goodwill (Notes 7 and 25)	**—**	(108)	**—**
Equity in earnings of affiliates, net	**1,008**	681	**9,798**
Business restructuring expenses (Notes 15 and 20)	**(3,332)**	—	**(32,387)**
Gain on reversal of stock acquisition rights (Note 12)	**374**	25	**3,635**
Gain on business transfer	**—**	288	**—**
Gain on change in equity in investments in subsidiaries (Note 26)	**3,404**	—	**33,087**
Insurance income	**—**	554	**—**
Retirement benefit expenses (Note 8)	**—**	(105)	**—**
Other, net	**(416)**	(398)	**(4,045)**
Income before income taxes and minority interests	**11,376**	5,637	**110,575**
Income taxes (Note 10):			
Current	**1,209**	803	**11,751**
Deferred	**621**	(680)	**6,036**
	1,830	123	**17,787**
Income before minority interests	**9,546**	5,514	**92,788**
Minority interests in net income of consolidated subsidiaries	**103**	344	**1,001**
Net income	**¥ 9,443**	¥ 5,170	**$ 91,787**

See accompanying notes to consolidated financial statements

Consolidated Statement of Comprehensive Income

DMG MORI SEIKI CO., LTD. and Consolidated Subsidiaries
Year ended 31st March, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Income before minority interests	**¥ 9,546**	¥ 5,514	**$ 92,788**
Other comprehensive income (Note 22):			
Net unrealized holding gain on securities (Note 6)	**922**	478	**8,962**
Net unrealized loss on derivative instruments	**(242)**	—	**(2,352)**
Translation adjustments	**2,384**	2,304	**23,172**
Share of other comprehensive income of affiliates accounted for by the equity method	**10,365**	3,720	**100,748**
Total other comprehensive income	**13,429**	6,502	**130,530**
Comprehensive income	**¥ 22,975**	¥ 12,016	**$ 223,318**
Comprehensive income attributable to:			
Shareholders of the Company	**¥ 22,869**	¥ 11,642	**$ 222,288**
Minority shareholders of consolidated subsidiaries	**106**	374	**1,030**

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Net Assets

DMG MORI SEIKI CO., LTD. and Consolidated Subsidiaries
Year ended 31st March, 2014

	Number of shares of common stock in issue	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities
Balance at 1st April, 2012	118,475,312	¥ 41,132	¥ 53,863	¥ 15,313	¥ (11,743)	¥ 2,133
Net income	—	—	—	5,170	—	—
Cash dividends	—	—	—	(2,212)	—	—
Purchases of treasury stock	—	—	—	—	(0)	—
Net changes of items other than shareholders' equity	—	—	—	—	—	483
Balance at 1st April, 2013	**118,475,312**	**41,132**	**53,863**	**18,271**	**(11,743)**	**2,616**
Net income	—	—	—	**9,443**	—	—
Cash dividends	—	—	—	**(2,212)**	—	—
Issuance of new shares	**14,468,371**	**9,984**	**9,983**	—	—	—
Purchases of treasury stock	—	—	—	—	**(1)**	—
Sales of treasury stock	—	—	**307**	—	**10,404**	—
Increase in equity in affiliates accounted for by equity method	—	—	—	—	**(2,270)**	—
Net changes of items other than shareholders' equity	—	—	—	—	—	**1,388**
Balance at 31st March, 2014	**132,943,683**	**¥ 51,116**	**¥ 64,153**	**¥ 25,502**	**¥ (3,610)**	**¥ 4,004**

	Millions of yen						
	Net unrealized gain on derivative instruments	Land revaluation reserve	Translation adjustments	Retirement benefits liability adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at 1st April, 2012	¥ 105	¥ 1,759	¥ (9,332)	¥ —	¥ 466	¥ 1,022	¥ 94,718
Net income	—	—	—	—	—	—	5,170
Cash dividends	—	—	—	—	—	—	(2,212)
Purchases of treasury stock	—	—	—	—	—	—	(0)
Net changes of items other than shareholders' equity	81	—	5,908	—	(31)	364	6,805
Balance at 1st April, 2013	**186**	**1,759**	**(3,424)**	—	**435**	**1,386**	**104,481**
Net income	—	—	—	—	—	—	**9,443**
Cash dividends	—	—	—	—	—	—	**(2,212)**
Issuance of new shares	—	—	—	—	—	—	**19,967**
Purchases of treasury stock	—	—	—	—	—	—	**(1)**
Sales of treasury stock	—	—	—	—	—	—	**10,711**
Increase in equity in affiliates accounted for by equity method	—	—	—	—	—	—	**(2,270)**
Net changes of items other than shareholders' equity	**(184)**	—	**12,222**	**(399)**	**(401)**	**2,757**	**15,383**
Balance at 31st March, 2014	**¥ 2**	**¥ 1,759**	**¥ 8,798**	**¥ (399)**	**¥ 34**	**¥ 4,143**	**¥ 155,502**

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Net unrealized holding gain on securities
Balance at 1st April, 2013	$ 399,806	$ 523,552	$ 177,595	$ (114,143)	$ 25,428
Net income	—	—	91,787	—	—
Cash dividends	—	—	(21,501)	—	—
Issuance of new shares	97,045	97,035	—	—	—
Purchases of treasury stock	—	—	—	(10)	—
Sales of treasury stock	—	2,984	—	101,128	—
Increase in equity in affiliates accounted for by equity method	—	—	—	(22,064)	—
Net changes of items other than shareholders' equity	—	—	—	—	13,491
Balance at 31st March, 2014	$ 496,851	$ 623,571	$ 247,881	$ (35,089)	$ 38,919

	Thousands of U.S. dollars (Note 1)						
	Net unrealized gain on derivative instruments	Land revaluation reserve	Translation adjustments	Retirement benefits liability adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at 1st April, 2013	$ 1,807	$ 17,098	$ (33,281)	$ —	$ 4,228	$ 13,472	$ 1,015,562
Net income	—	—	—	—	—	—	91,787
Cash dividends	—	—	—	—	—	—	(21,501)
Issuance of new shares	—	—	—	—	—	—	194,080
Purchases of treasury stock	—	—	—	—	—	—	(10)
Sales of treasury stock	—	—	—	—	—	—	104,112
Increase in equity in affiliates accounted for by equity method	—	—	—	—	—	—	(22,064)
Net changes of items other than shareholders' equity	(1,788)	—	118,798	(3,878)	(3,898)	26,798	149,523
Balance at 31st March, 2014	$ 19	$ 17,098	$ 85,517	$ (3,878)	$ 330	$ 40,270	$ 1,511,489

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

DMG MORI SEIKI CO., LTD. and Consolidated Subsidiaries
Year ended 31st March, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Operating activities:			
Income before income taxes and minority interests	**¥ 11,376**	¥ 5,637	**$ 110,575**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**6,055**	6,954	**58,855**
Loss on impairment of goodwill	**—**	108	**—**
Loss on sales and disposal of property, plant and equipment, net	**270**	5	**2,624**
Gain on sales of investments in securities	**(5)**	(6)	**(49)**
Loss on devaluation of shares of a subsidiary	**35**	—	**340**
Equity in earnings of affiliates, net	**(1,008)**	(681)	**(9,798)**
Business restructuring expenses	**3,332**	—	**32,387**
Gain on reversal of stock acquisition rights	**(374)**	(25)	**(3,635)**
Gain on business transfer	**—**	(288)	**—**
Gain on change in equity in investments in subsidiaries	**(3,404)**	—	**(33,087)**
Insurance income	**—**	(554)	**—**
Increase (decrease) in allowance for bonuses to employees	**3**	(28)	**29**
Increase (decrease) in allowance for bonuses to directors and corporate auditors	**4**	(23)	**39**
(Decrease) increase in allowance for doubtful receivables	**(31)**	39	**(301)**
Decrease in accrued retirement benefits	**(230)**	(126)	**(2,235)**
Increase in liability for retirement benefits	**130**	—	**1,264**
Increase (decrease) in allowance for product warranties	**109**	(6)	**1,060**
Interest and dividend income	**(378)**	(353)	**(3,674)**
Interest expense	**575**	545	**5,589**
Foreign exchange gain, net	**(2,311)**	(1,957)	**(22,463)**
Changes in operating assets and liabilities:			
Notes and accounts receivable	**(6,106)**	6,344	**(59,351)**
Inventories	**(5,043)**	6,683	**(49,018)**
Accounts payable	**2,220**	(2,018)	**21,579**
Other, net	**1,570**	1,210	**15,260**
Subtotal	**6,789**	21,460	**65,990**
Interest and dividend income received	**839**	580	**8,155**
Interest paid	**(576)**	(547)	**(5,599)**
Income taxes paid	**(1,145)**	(433)	**(11,129)**
Proceeds from insurance income	**—**	554	**—**
Additional contribution on withdrawal from pension fund	**—**	(193)	**—**
Net cash provided by operating activities	**¥ 5,907**	¥ 21,421	**$ 57,417**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Investing activities:			
Purchases of property, plant and equipment	**¥ (7,142)**	¥ (9,929)	**$ (69,421)**
Proceeds from sales of property, plant and equipment	**148**	112	**1,439**
Increase in investments in securities	**(2)**	(1)	**(19)**
Proceeds from sales of investments in securities	**15**	113	**146**
Increase in investments in affiliates	**(7,658)**	(203)	**(74,436)**
Proceeds from business transfer (Note 23)	**—**	1,783	**—**
Expenditures for business divestiture (Note 23)	**(30)**	—	**(292)**
Acquisition of shares from minority interests in consolidated subsidiaries	**—**	(87)	**—**
Acquisition of shares of subsidiaries resulting in change in scope of consolidation (Note 23)	**(987)**	—	**(9,594)**
Proceeds from purchase of investments in a subsidiary resulting in change in scope of consolidation	**—**	25	**—**
Purchases of intangible assets	**(1,868)**	(1,993)	**(18,157)**
Other, net	**(3)**	91	**(29)**
Net cash used in investing activities	**(17,527)**	(10,089)	**(170,363)**
Financing activities:			
Decrease in short-term bank loans, net	**(23,840)**	(4,848)	**(231,726)**
Proceeds from issuance of bonds	**19,907**	—	**193,497**
Proceeds from issuance of common stock	**19,859**	—	**193,031**
Redemption of bonds with stock acquisition rights	**—**	(2,583)	**—**
Cash dividends	**(2,216)**	(2,219)	**(21,540)**
Purchases of treasury stock	**(1)**	(1)	**(10)**
Proceeds from sales of treasury stock	**10,579**	—	**102,829**
Other, net	**(374)**	(435)	**(3,635)**
Net cash provided by (used in) financing activities	**23,914**	(10,086)	**232,446**
Effect of exchange rate changes on cash and cash equivalents	**330**	489	**3,208**
Increase in cash and cash equivalents	**12,624**	1,735	**122,707**
Cash and cash equivalents at beginning of year	**6,268**	4,533	**60,925**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**(1)**	—	**(10)**
Increase in cash and cash equivalents resulting from merger with an unconsolidated subsidiary	**25**	—	**243**
Cash and cash equivalents at end of year (Note 4)	**¥ 18,916**	¥ 6,268	**$ 183,866**

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

DMG MORI SEIKI CO., LTD. and Consolidated Subsidiaries
Year ended 31st March, 2014

1. Basis of Preparation of Consolidated Financial Statements

DMG MORI SEIKI CO., LTD. (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with accounting principles generally accepted in Japan. Its overseas consolidated subsidiaries maintain their accounts and records in conformity with the requirements of their respective countries of domicile. Since March 2009, Mori Seiki Co., Ltd. ("Mori Seiki") and DMG MORI SEIKI AG. (formerly, GILDEMEISTER Aktiengesellschaft) have mutually developed a capital and business relationship. In its Board of Directors' meeting held on 20th March, 2013 Mori Seiki made the decision to change its name to DMG MORI SEIKI CO., LTD.

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

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

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2013 to the 2014 presentation. Such reclassifications had no effect on consolidated net income or net assets.

The accompanying consolidated financial statements have been translated from yen amounts into U.S. dollar amounts, solely for convenience, as a matter of arithmetic computation only, at ¥102.88 = U.S.$1.00, the exchange rate prevailing on 31st March, 2014. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(1) Principles of consolidation

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

For consolidation purposes, the financial statements of seven consolidated subsidiaries whose fiscal year end date differs from that of the Company have been included in consolidation on the basis of a full fiscal year provisional closing of their accounts, for the year ended 31st March. The fiscal year end of these seven subsidiaries is 31st December.

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

(2) Foreign currency translation

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

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

(3) Cash and cash equivalents

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

(4) Allowance for doubtful receivables

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

(5) Marketable securities and investments in securities

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

(6) Derivatives
Derivatives are stated at fair value.

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

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

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

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

(8) Property, plant and equipment (Other than leased assets)
Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries, except for one domestic subsidiary, is calculated by the straight-line method.

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

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

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

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

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

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

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

(11) Goodwill
Goodwill is amortized by the straight-line method over 5 to 10 years.

(12) Bond issuance costs and stock issuance costs
Bond issuance costs and stock issuance costs are expensed when incurred.

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

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

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

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

(17) Retirement benefit accounting
The retirement benefit obligations are attributed to each period by the method of attributing expected retirement benefits.

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

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

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

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

(19) Consolidated taxation system
The Company and certain domestic consolidated subsidiaries adopt the consolidated taxation system.

(20) Accounting standards issued but not yet effective

On 13th September, 2013, the Accounting Standards Board of Japan ("ASBJ") issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10) and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4).

Under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were amended. In addition, the presentation method of net income was amended, the reference to "minority interests" was changed to "non-controlling interests," and transitional provisions for these accounting standards were also defined.

These standards and related guidance are effective from the beginning of the fiscal year ending on 31st March, 2016.

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

3. Change in Accounting Policy

Change in depreciation method

The Company and its domestic consolidated subsidiaries had been calculating depreciation of property, plant and equipment, except for buildings (other than structures attached to the buildings) acquired on and after 1st April, 1998 using the declining-balance method. Effective the year ended 31st March, 2014, the Company and its consolidated subsidiaries, except for one domestic subsidiary, have changed their depreciation method of property, plant and equipment from the declining-balance method to the straight-line method.

The consolidated group evaluated the operating levels of production equipment in line with the increasing necessity for developing a uniformed management system on global basis in order to pursue globalization of production and further collaboration for sales, development and production with DMG MORI SEIKI AG based on the mid-term management plan. As a result, the Company determined that the straight-line method of depreciation would better present the usage pattern of economic benefits based on actual operations because the production equipment will be operated more evenly through globalization of production and consolidation of sales locations and establishment of a collaborative production system with DMG MORI SEIKI AG.

As a result of this change, compared with the previous method, operating income and income before income taxes and minority interests increased by ¥886 million ($8,612 thousand) for the year ended 31st March, 2014.

Adoption of Accounting Standard for Retirement Benefits, etc.

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, 17th May, 2012, "Retirement Benefits Accounting Standard") and the "Guidance on the Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, 17th May, 2012, "Guidance on Retirement Benefits"), except for the treatment allowed under the main clause of Section 35 of the Retirement Benefit Accounting Standard and the main clause of Section 67 of the Guidance on Retirement Benefits, from the year ended 31st March, 2014. Consequently, the amount of retirement benefit obligations after deducting pension assets is recorded as liability for retirement benefits, and unrecognized actuarial differences are also recorded in liability for retirement benefits.

With regard to the application of the retirement benefit accounting standards, etc., in accordance with the transitional treatment stipulated in Section 37 of the Retirement Benefits Accounting Standard, the amount of the financial impact resulting from this change was added to, or deducted from, retirement benefits liability adjustments in accumulated other comprehensive income.

As a result of this change, liability for retirement benefits of ¥379 million ($3,684 thousand) was recorded and accumulated other comprehensive income (including share of other comprehensive income of affiliates accounted for by the equity method) decreased by ¥399 million ($3,878 thousand) as of 31st March, 2014. Net assets per share decreased by ¥3.07 ($0.03).

4. Cash and Cash Equivalents

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in cash and cash deposits in the consolidated balance sheets at 31st March, 2014 and 2013 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and cash deposits	¥ 18,935	¥ 6,288	$ 184,049
Time deposits with an original maturity in excess of three months included in cash and deposits	(19)	(20)	(183)
Cash and cash equivalents at end of year	¥ 18,916	¥ 6,268	$ 183,866

5. Inventories

Inventories at 31st March, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Merchandise and finished goods	¥ 15,887	¥ 12,196	$ 154,423
Work in process	7,710	7,190	74,942
Raw materials and supplies	17,174	18,555	166,932
Total	¥ 40,771	¥ 37,941	$ 396,297

6. Securities

Marketable securities classified as other securities as of 31st March, 2014 and 2013 are summarized as follows:

	Millions of yen			Millions of yen		
	2014			2013		
	Carrying value	Acquisition cost	Unrealized gain	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 11,591	¥ 6,526	¥ 5,065	¥ 9,756	¥ 6,165	¥ 3,591
Subtotal	11,591	6,526	5,065	9,756	6,165	3,591
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	—	—	—	346	360	(14)
Subtotal	—	—	—	346	360	(14)
Total	¥ 11,591	¥ 6,526	¥ 5,065	¥ 10,102	¥ 6,525	¥ 3,577

	Thousands of U.S. dollars		
	2014		
	Carrying value	Acquisition cost	Unrealized gain
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	$ 112,665	$ 63,433	$ 49,232
Subtotal	112,665	63,433	49,232
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	—	—	—
Subtotal	—	—	—
Total	$ 112,665	$ 63,433	$ 49,232

The sales of other securities and aggregate gain on the sales for the years ended 31st March, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Sales amount	¥ 15	¥ 113	$ 146
Aggregate gain	5	6	49

7. Loss on Impairment of Goodwill

Please refer to Note 20 Business Restructuring Expenses for details of loss on impairment recorded for the year ended 31st March, 2014.

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

Company	Classification	Millions of yen
B.U.G., Inc.	Goodwill	¥108

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

8. Retirement Benefits

Year ended 31st March, 2014

The Company and consolidated subsidiaries have established funded and unfunded defined benefit pension plans and defined contribution pension plans. In addition to the above, certain domestic consolidated subsidiaries participate in a small- and medium-sized enterprise mutual aid plan and other plans.

All defined benefit corporate pension plans are funded plans, which provide employees a lump-sum payment or pension payments based on salary level and length of service. The lump-sum payment plans, all of which are unfunded plans, for certain consolidated subsidiaries are accounted for using a simplified method for calculating liability for retirement benefits and retirement benefit expenses.

Defined Benefit Pension Plans

(1) The reconciliation of the beginning balance and the ending balance of the retirement benefit obligation, except for a simplified method, for the year ended 31st March, 2014 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at beginning of the year	¥ 1,244	$ 12,092
Service cost	69	671
Interest cost	29	282
Actuarial differences	(47)	(457)
Payment of retirement benefits	(165)	(1,604)
Other	300	2,916
Balance at end of the year	¥ 1,430	$ 13,900

(2) The reconciliation of the beginning balance and the ending balance of plan assets, except for a simplified method, for the year ended 31st March, 2014 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at beginning of the year	¥ 919	$ 8,933
Expected return on plan assets	21	204
Actuarial differences	27	263
Contributions to the pension plan	46	447
Payment of retirement benefits	(165)	(1,604)
Other	211	2,051
Balance at end of the year	¥ 1,059	$ 10,294

(3) The reconciliation of the beginning balance and the ending balance of liability for retirement benefits calculated using a simplified method for the year ended 31st March, 2014 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at beginning of the year	¥ 149	$ 1,448
Retirement benefit expenses	2	20
Decrease in liability for retirement benefits due to change the plan to defined contribution pension plan	(143)	(1,390)
Balance at end of the year	¥ 8	$ 78

(4) The reconciliation of the ending balance of retirement benefit obligation and plan assets and liability for retirement benefits recorded in the consolidated balance sheet at 31st March, 2014 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligation for funded plans	¥ 1,430	$ 13,900
Plan assets	(1,059)	(10,294)
	371	3,606
Retirement benefit obligation for unfunded plans	8	78
Net of liability and asset recorded in the consolidated balance sheet	¥ 379	$ 3,684
Liability for retirement benefits	¥ 379	$ 3,684
Liability for retirement benefits recorded in the consolidated balance sheet	¥ 379	$ 3,684

(5) The breakdown of retirement benefit expenses for the year ended 31st March, 2014 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 69	$ 671
Interest cost	29	282
Expected return on plan assets	(21)	(204)
Retirement benefit expenses calculated using simplified method	2	20
Other	10	96
Retirement benefit expenses for defined benefit pension plans	¥ 89	$ 865

(6) The breakdown of retirement benefits liability adjustments (before tax effect) at 31st March, 2014 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized actuarial loss	¥ 242	$ 2,352
Total	¥ 242	$ 2,352

(7) The components of plan assets at 31st March, 2014 are summarized as follows:

	2014
Debt securities	11.2%
Equity securities	23.9
Cash and deposits	8.3
Real estate	27.4
Other	29.2
	100.0%

(8) The assumptions used for the actuarial calculations for the year ended 31st March, 2014 are summarized as follows:

	2014
Discount rates	2.25 – 2.90%
Expected rates of return on plan assets	2.25 – 2.90%

Defined Contribution Pension Plans

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Contributions to the pension plan	¥ 1,082	$ 10,517
Contributions to a small- and medium-sized enterprise mutual aid plan	10	97
Contributions to a mutual aid plan defined by the Order for Enforcement of the Income Tax Act	13	126

Year ended 31st March, 2013

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

Since the portion of pension assets belonging to a multi-employer pension plan could not be reasonably calculated, the required contribution amount was recognized as retirement benefit expenses. For the year ended 31st March, 2013, the amount of the multi-employer pension plan's assets was not disclosed as the subsidiaries withdrew from the plan as explained above.

The retirement benefit obligation at 31st March, 2013 is summarized as follows:

	Millions of yen
	2013
(1) Retirement benefit obligation	¥ (1,393)
(2) Plan assets at fair value	919
(3) Unfunded retirement benefit obligation (1) + (2)	(474)
(4) Unrecognized actuarial loss	252
(5) Accrued retirement benefits (3) + (4)	¥ (222)

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

	Millions of yen
	2013
Service cost	¥ 11
Interest cost	27
Expected return on plan assets	(28)
Actuarial differences	10
Contributions to the pension plan	904
Contributions to a small- and medium-sized enterprise mutual aid plan	10
Contributions to a mutual aid plan defined by the Order for Enforcement of the Income Tax Act	17
Contributions to the multi-employer pension plan	24
Total	¥ 975

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

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

	2013
Discount rates	2.30%
Expected rates of return on plan assets	3.00%
Allocation method for estimated benefits	Straight-line method

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

Short-term bank loans consist of bank overdrafts and loans under commitment lines. The weighted-average interest rates on short-term bank loans were 0.42% at 31st March, 2014 and 2013.

For effective financing purposes, the Company and two domestic consolidated subsidiaries concluded committed bank overdraft agreements with three banks at 31st March, 2014 and 2013. The status of such agreements at 31st March, 2014 and 2013 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lines of credit of bank overdrafts	**¥16,050**	¥16,050	**$156,006**
Bank overdrafts utilized	**(90)**	(8,460)	**(875)**
Available credit	**¥15,960**	¥ 7,590	**$155,131**

For effective financing purposes, the Company concluded committed line-of-credit agreements with 22 banks at 31st March, 2014 and 2013. The status of such agreements at 31st March, 2014 and 2013 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Committed lines of credit	**¥ 50,000**	¥ 50,000	**$ 486,003**
Short-term loans utilized	**—**	(15,470)	**—**
Available credit	**¥ 50,000**	¥ 34,530	**$ 486,003**

Long-term debt at 31st March, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Bonds:			
0.37% yen bonds due 2015	**¥ 15,000**	¥ 15,000	**$ 145,801**
0.55% yen bonds due 2017	**15,000**	15,000	**145,801**
0.52% yen bonds due 2018	**20,000**	—	**194,401**
Finance lease obligations:			
Finance lease agreements	**4,297**	4,415	**41,767**
Subtotal	**54,297**	34,415	**527,770**
Less current portion	**(15,443)**	(429)	**(150,107)**
Long-term debt, net	**¥ 38,854**	¥ 33,986	**$ 377,663**

The aggregate annual maturities of long-term debt subsequent to 31st March, 2014 are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2015	¥ 15,443	$ 150,107
2016	601	5,842
2017	15,466	150,330
2018	20,391	198,202
2019	380	3,694
2020 and thereafter	2,016	19,595
Total	¥ 54,297	$ 527,770

10. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 37.75% or the years ended 31st March, 2014 and 2013. The overseas subsidiaries are subject to the income tax regulations of the respective countries in which they operate.

The reconciliation of the differences between the statutory tax rate and effective tax rates for the years ended 31st March, 2014 and 2013 as a percentage of income before income taxes and minority interests is as follows:

	2014	2013
Statutory tax rate	**37.75%**	37.75%
Increase (decrease) in income taxes resulting from:		
Permanent non-deductible expenses	**1.63**	3.15
Tax deduction	**(1.62)**	(0.95)
Permanent non-taxable income	**(1.69)**	(0.84)
Per capita portion of inhabitants' taxes	**0.39**	0.84
Temporary differences relating to investments in subsidiaries	**(9.89)**	1.45
Reversal of valuation allowance	**(11.01)**	(40.07)
Decrease of deferred tax assets resulting from change in statutory tax rate	**1.02**	—
Other, net	**(0.49)**	0.84
Effective tax rates	**16.09%**	2.17%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at 31st March, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current			
Deferred tax assets (reflected in current assets):			
Inventories	¥ 994	¥ 511	$ 9,662
Elimination of unrealized gain on inventories	19	58	185
Allowance for doubtful receivables	2	2	19
Accrued enterprise taxes	159	97	1,545
Tax loss carryforwards	887	1,068	8,622
Other	1,063	1,103	10,332
Deferred tax assets, subtotal	3,124	2,839	30,365
Less: valuation allowance	(57)	(97)	(554)
Deferred tax assets, total	¥ 3,067	¥ 2,742	$ 29,811
Offset of deferred tax liabilities	—	—	—
Deferred tax assets, net	¥ 3,067	¥ 2,742	$ 29,811
Deferred tax liabilities (reflected in current liabilities):			
Other	¥ (6)	¥ (249)	$ (58)
Deferred tax liabilities, total	(6)	(249)	(58)
Offset of deferred tax assets	—	—	—
Deferred tax liabilities, net	¥ (6)	¥ (249)	$ (58)
Non-current			
Deferred tax assets (reflected in investments and other assets):			
Inventories	¥ 1,049	¥ 964	$ 10,196
Loss on devaluation of listed equity securities	879	881	8,544
Shares of subsidiaries transferred by contribution in kind	1,498	1,188	14,561
Depreciation	435	350	4,228
One-time write-off applied to assets	10	13	97
Allowance for doubtful receivables	16	16	156
Tax loss carryforwards	2,992	6,127	29,082
Net unrealized gain on derivative instruments	38	—	369
Other	1,704	802	16,564
Deferred tax assets, subtotal	8,621	10,341	83,797
Less: valuation allowance	(8,346)	(9,397)	(81,124)
Deferred tax assets, total	¥ 275	¥ 944	$ 2,673
Offset of deferred tax liabilities	—	—	—
Deferred tax assets, net	¥ 275	¥ 944	$ 2,673
Deferred tax liabilities (reflected in long-term liabilities):			
Reserve for depreciation for tax purposes	¥ (80)	¥ (83)	$ (778)
Unrealized holding gain on securities	(1,460)	(895)	(14,191)
Other	(1,038)	(422)	(10,089)
Deferred tax liabilities, total	(2,578)	(1,400)	(25,058)
Offset of deferred tax assets	—	—	—
Deferred tax liabilities, net	¥ (2,578)	¥ (1,400)	$ (25,058)
Deferred tax liabilities on land revaluation reserve (reflected in long-term liabilities):			
Deferred tax liabilities on land revaluation reserve	¥ (1,485)	¥ (1,485)	$ (14,434)

On 31st March, 2014, new tax reform laws were enacted in Japan, which repealed the Special Reconstruction Corporation Tax effective from fiscal years beginning on or after April 1, 2014. As a result, the effective statutory tax rate used to calculate deferred tax assets and liabilities changed from 37.75% to 35.38% for calculating temporary differences expected to reverse in fiscal years beginning on or after 1st April, 2014.

As a result of this change, deferred tax assets after deduction of deferred tax liabilities and net unrealized gain on derivative instruments decreased by ¥120 million ($1,166 thousand) and ¥3 million ($29 thousand), respectively, and income taxes – deferred increased by ¥117 million ($1,137 thousand) as of and for the year ended 31st March, 2014.

11. Asset Retirement Obligations

(1) Outline of asset retirement obligations

Asset retirement obligations consist of restoration cost related to lease contracts of domestic technical centers and other.

(2) Calculation method for asset retirement obligations

Expected useful life is 20 years from contract start date and discount rate is 2.179%.

(3) Changes in the balance of asset retirement obligations for the years ended 31st March, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Balance at beginning of the year	**¥ 63**	¥ 64	**$ 612**
Increase due to additions of office lease agreements	**4**	—	**39**
Increase due to change in estimation of restoration costs (*)	**34**	—	**330**
Decrease due to settlement of asset retirement obligations	**—**	(2)	**—**
Other adjustments	**1**	1	**10**
Balance at end of the year	**¥ 102**	¥ 63	**$ 991**

(*) As a more reliable estimate became possible relating to the plan to relocate the Tokyo branch, an estimation of the restoration costs was changed.

12. Shareholders' Equity

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

The legal reserve of the Company included in retained earnings is nil at 31st March, 2014 and 2013.

Common stock and treasury stock

Movements in common stock and treasury stock for the years ended 31st March, 2014 and 2013 are summarized as follows:

	Number of Shares			
	1st April, 2013	Increase	Decrease	31st March, 2014
Common stock (*1)	118,475,312	14,468,371	—	132,943,683
Treasury stock (*2)	9,091,233	1,683,846	7,769,853	3,005,226

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

(*1) The increase in the number of shares in common stock (14,468,371 thousand) is due to issuing new shares in the international offering.

(*2) The increases in the number of shares in treasury stock consist of 1,682,962 shares due to the changes in equity in investments in affiliates and 884 shares due to purchases of shares of less than one voting unit. The decreases in the number of shares in treasury stock consist of 7,655,853 shares owing to the disposal of treasury stock (the international offering) and 104,000 shares due to exercising of stock options.

Stock option plans

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

Expenses or gain related to stock options for the years ended 31st March, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Gain on reversal of stock acquisition rights	**¥374**	¥25	**$3,635**

The stock option plans of the Company and its domestic consolidated subsidiaries at 31st March, 2014 and 2013 are summarized as follows:

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

Movements in stock option and exercise price as of and for the year ended 31st March, 2014 are summarized as follows:

Company	The Company		Taiyo Koki Co., Ltd.	B.U.G. MORI SEIKI CO., LTD.		
Date of approval	18th June, 2008	17th June, 2009	19th June, 2009	13th December, 2007	28th March, 2008	17th January, 2011
Not vested:						
Outstanding as of 1st April, 2013	—	—	—	10,000	6,000	48,860
Granted	—	—	—	—	—	—
Forfeited	—	—	—	10,000	6,000	48,860
Vested	—	—	—	—	—	—
Outstanding as of 31st March, 2014	—	—	—	—	—	—
Vested:						
Outstanding as of 1st April, 2013	1,023,500	210,000	37,900	—	—	—
Vested	—	—	—	—	—	—
Exercised	—	104,000	9,100	—	—	—
Forfeited	1,023,500	—	800	—	—	—
Outstanding as of 31st March, 2014	—	106,000	28,000	—	—	—
Exercise price (Yen)	¥ 1,502	¥ 1,061	¥ 643	¥ 2,000	¥ 2,000	¥ 2,000
Weighted average exercise price (Yen)	—	1,680	1,230	—	—	—
Weighted average fair value per stock at the granted date (Yen)	174	219	284	(Note) —	(Note) —	(Note) —
Exercise price (U.S. dollars)	$ 14.60	$ 10.31	$ 6.25	$ 19.44	$ 19.44	$ 19.44
Weighted average exercise price (U.S. dollars)	—	16.33	11.96	—	—	—
Weighted average fair value per stock at the granted date (U.S. dollars)	1.69	2.13	2.76	(Note) —	(Note) —	(Note) —

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

13. Land Revaluation

Effective 31st March, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the applicable tax effect on revaluation gain, has been stated as a component of net assets; "Land revaluation reserve" amounted to ¥1,759 million ($17,098 thousand) and ¥1,759 million at 31st March, 2014 and 2013, respectively. The applicable tax effect has been stated as a component of long-term liabilities; "Deferred income taxes on land revaluation reserve" amounted to ¥1,485 million ($14,434 thousand) and ¥1,485 million at 31st March, 2014 and 2013, respectively. The fair value of the revalued land was less than its carrying value by ¥3,937 million ($38,268 thousand) and ¥3,834 million at 31st March, 2014 and 2013, respectively.

14. Contingent Liabilities

At 31st March, 2014 and 2013, the Company had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Guarantees of lease payments by customers	**¥ 3,130**	¥ 2,881	**$ 30,424**
Guarantees of loans of an affiliate	**13,229**	8,249	**128,587**
Guarantees of assigned accounts receivable	**1,762**	4,397	**17,127**

15. Loss on Devaluation of Inventories

Cost of sales included a loss on devaluation of inventories of ¥1,649 million ($16,028 thousand) and ¥1,540 million for the years ended 31st March, 2014 and 2013, respectively. Furthermore, loss on devaluation of inventories was included in business restructuring expenses in the amount of ¥1,502 million ($14,600 thousand) for the year ended 31st March, 2014.

16. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Research and development costs	**¥ 3,363**	¥ 2,734	**$ 32,689**

17. Derivative Financial Instruments

The estimated fair value of the derivatives positions outstanding which do not qualify for deferral hedge accounting at 31st March, 2014 and 2013 is summarized as follows:

	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	2014			2013			**2014**		
	Contract value (notional principal amount)	Estimated fair value	Unrealized loss	Contract value (notional principal amount)	Estimated fair value	Unrealized (loss) gain	Contract value (notional principal amount)	Estimated fair value	Unrealized loss
Forward foreign exchange contracts									
Selling:									
U.S. dollars	**¥ —**	**¥ —**	**¥ —**	¥ 806	¥ (18)	¥ (18)	**$ —**	**$ —**	**$ —**
Euro	**2,023**	**(99)**	**(99)**	1,196	5	5	**19,664**	**(962)**	**(962)**
Total	**¥ 2,023**	**¥ (99)**	**¥ (99)**	¥ 2,002	¥ (13)	¥ (13)	**$ 19,664**	**$ (962)**	**$ (962)**

The estimated fair value of the derivatives positions outstanding which qualify for deferral hedge accounting at 31st March, 2014 is summarized as follows:

		Millions of yen			Thousands of U.S. dollars		
		2014			**2014**		
Type of transactions	Hedged items	Contract value (notional principal amount)	Contract value (over 1 year)	Estimated fair value	Contract value (notional principal amount)	Contract value (over 1 year)	Estimated fair value
Forward foreign exchange contracts							
Selling:							
Euro	Accounts receivable (forecasted transaction)	**¥ 6,058**	**¥ 3,227**	**¥ (290)**	**$ 58,884**	**$ 31,367**	**$ (2,819)**
Total		**¥ 6,058**	**¥ 3,227**	**¥ (290)**	**$ 58,884**	**$ 31,367**	**$ (2,819)**

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

18. Leases

(1) Finance leases

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

For information of the depreciation method for leased assets, see Note 2 Summary of Significant Accounting Policies (10) Leased assets.

(2) Operating leases

Future minimum lease payments subsequent to 31st March, 2014 under operating leases are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2015	¥ 1,500	$ 14,580
2016 and thereafter	10,019	97,385
Total	¥11,519	$ 111,965

19. Financial Instruments

Status of financial instruments

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

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

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

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

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

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

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

(3) Risk management for financial instruments

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

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

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

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

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

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

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

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

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

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

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

The fair value of financial instruments is based on the market price, and when no market price exists, a rationally calculated amount is used. These calculations include variable factors, so the resulting amount may fluctuate if different underlying assumptions are applied.

The amounts of the contracts related to derivative transactions listed in the following section do not in themselves indicate the market risk of derivative transactions.

Fair value of financial instruments

The amounts recorded in the consolidated balance sheets, the fair value and the difference at 31st March, 2014 and 2013 are summarized as follows. Financial instruments for which it is deemed extremely difficult to determine the fair value are not included. (Please refer to Note 2 below.)

	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	2014			2013			**2014**		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets									
Cash and cash deposits	**¥ 18,935**	**¥ 18,935**	**¥ —**	¥ 6,288	¥ 6,288	¥ —	**$ 184,049**	**$ 184,049**	**$ —**
Notes and accounts receivable, trade	**32,989**	**32,989**	**—**	24,824	24,824	—	**320,655**	**320,655**	**—**
Investments in securities:									
Other securities	**11,591**	**11,591**	**—**	10,102	10,102	—	**112,665**	**112,665**	**—**
Total assets	**¥ 63,515**	**¥ 63,515**	**¥ —**	¥ 41,214	¥ 41,214	¥ —	**$ 617,369**	**$ 617,369**	**$ —**
Liabilities									
Short-term bank loans	**¥ 90**	**¥ 90**	**¥ —**	¥ 23,930	¥ 23,930	¥ —	**$ 875**	**$ 875**	**$ —**
Accounts payable, trade	**11,937**	**11,937**	**—**	9,077	9,077	—	**116,028**	**116,028**	**—**
Bonds included in long-term debt (*1)	**50,000**	**50,212**	**212**	30,000	30,159	159	**486,003**	**488,064**	**2,061**
Total liabilities	**¥ 62,027**	**¥ 62,239**	**¥ 212**	¥ 63,007	¥ 63,166	¥ 159	**$ 602,906**	**$ 604,967**	**$ 2,061**
Derivative transactions									
Subject to hedge accounting	**¥ (290)**	**¥ (290)**	**¥ —**	¥ —	¥ —	¥ —	**$ (2,819)**	**$ (2,819)**	**$ —**
Not subject to hedge accounting	**(99)**	**(99)**	**—**	(13)	(13)	—	**(962)**	**(962)**	**—**
Total derivative transactions (*2)	**¥ (389)**	**¥ (389)**	**¥ —**	¥ (13)	¥ (13)	¥ —	**$ (3,781)**	**$ (3,781)**	**$ —**

(*1) This includes the current portion of bonds.

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

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

Cash and cash deposits

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

Notes and accounts receivable, trade

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

Investments in securities

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

Short-term bank loans

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

Accounts payable, trade

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

Bonds

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

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Investments in unconsolidated subsidiaries	**¥ 137**	¥ 192	**$ 1,332**
Investments in affiliates	**12,335**	8,605	**119,897**
Investments in unlisted stocks	**655**	613	**6,367**
Investments in limited liability partnership	**77**	81	**748**
Total	**¥ 13,204**	¥ 9,491	**$ 128,344**

For the year ended 31st March, 2014, loss on impairment of investment in an unconsolidated subsidiary in the amount of ¥35 million ($340 thousand).

Note 3: Redemption schedule for monetary claims and investments in securities with maturities subsequent to 31st March, 2014 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Cash and cash deposits	¥ 18,935	¥ —	¥ —	¥ —	$ 184,049	$ —	$ —	$ —
Notes and accounts receivable, trade	32,989	—	—	—	320,655	—	—	—
Total	¥ 51,924	¥ —	¥ —	¥ —	$ 504,704	$ —	$ —	$ —

20. Business Restructuring Expenses

Taking into account its increased collaboration with DMG MORI SEIKI AG, the Company reconsidered its structuring of production, development and sales. Consequently, the Company subsequently recorded a devaluation of inventories of discontinued products, loss on impairments of a patent, software and others, costs related to changing the Company name, costs for reorganization of factories and other costs as business restructuring expenses for the year ended 31st March, 2014.

Loss on impairment for the year ended 31st March, 2014 is summarized as follows:

Company	Use	Classification	Millions of yen	Thousands of U.S. dollars
The Company	Production technology	Patent	¥ 871	$ 8,466
	Management	Software	345	3,353
	—	Other	108	1,050
Total			¥ 1,324	$ 12,869

The Company recognized losses on impairments of patents acquired for production technologies and software used for management control since the profitability and the possibility of usage of these assets become uncertain due to increased collaboration with DMG MORI SEIKI AG.

The Company basically groups assets by operating department. The assets are grouped by sales office in the sales department and by plant in the manufacturing department. Idle assets not expected to be used in the future are grouped individually.

The recoverable amounts of the patent and the software are measured at zero based on their value in use.

21. Related Party Transaction

Transactions with related parties

Related party transactions for the year ended 31st March, 2014 are summarized as follows:

Type	Name	Country	Currency	Capital stock or investment in capital	Business activity	Equity ownership (owned) percentage	Relation to the related party	Nature of transaction	Transaction amount (Millions of yen)	Transaction amount (Thousands of U.S. dollars)	Account name	The balance at 31st March, 2014 (Millions of yen)	The balance at 31st March, 2014 (Thousands of U.S. dollars)
Affiliate	DMG MORI SEIKI AG	Germany	EUR	204,926 thousand	Manufacturing and sales of machine tools	24.3% (9.6%)	Capital and business alliance Secondment of officers	Issuance of shares (*1)	¥ 2,945	$ 28,626	—	—	—
								Contribution in kind (*2)	7,405	71,977	—	—	—
								Allotment of shares (*3)	7,296	70,918	—	—	—
	DMG MORI SEIKI Europe AG	Switzerland	CHF	76,000 thousands	Sales and service of machine tools	40.0%	Sale of the Company's products Secondment of officers	Sales of machine tools (*4)	17,873	173,727	Accounts receivable	¥ 4,832	$ 46,967
	MG Finance GmbH	Germany	EUR	15,000 thousand	Finance and leasing	42.6%	Sale of the Company's products	Loan guarantees (*5)	13,229	128,587	—	—	—

(*1) DMG MORI SEIKI AG acquired 2,134,224 shares newly issued by the Company.
(*2) The Company executed a contribution in kind using shares of Magnescale Co., Ltd. ("Magnescale") and DMG Mori Seiki Manufacturing USA, Inc. ("DMSM") and in exchange obtained respective shares of DMG MORI SEIKI AG.
(*3) The Company acquired 3,835,244 shares newly issued by DMG MORI SEIKI AG.
(*4) The sales terms are determined on based on an arms-length transaction.
(*5) This represents guarantees of bank loans of MG Finance GmbH.

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

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

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

Note on significant affiliates accounted for using the equity method

The following is a summary of the financial statements of DMG MORI SEIKI AG and DMG MORI SEIKI Europe AG at 31st December, 2013 and 2012 and the years then ended, in which the Company recorded equity earnings.

DMG MORI SEIKI AG

	Millions of Euro	
	As of 31st December	
	2013	2012
Total current assets	€ 1,224	€ 1,056
Total long-term assets	786	559
Total current liabilities	765	763
Total long-term liabilities	81	64
Total net assets	1,164	788

	Millions of Euro	
	The year ended 31st December, 2013	The year ended 31st December, 2012
Net sales	€ 2,054	€ 2,037
Income before income taxes	135	120
Net income	93	82

DMG MORI SEIKI Europe AG

	Millions of Euro	
	As of 31st December	
	2013	2012
Total current assets	€ 328	€ —
Total long-term assets	52	—
Total current liabilities	252	—
Total long-term liabilities	4	—
Total net assets	124	—

	Millions of Euro	
	The year ended 31st December, 2013	The year ended 31st December, 2012
Net sales	€ 663	€ —
Income before income taxes	26	—
Net income	21	—

DMG MORI SEIKI Europe AG is accounted for as a significant affiliate due to its material effect on the consolidated financial statements for the year ended 31st March, 2014.

22. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects of other comprehensive income for the years ended 31st March, 2014 and 2013.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net unrealized holding gain on securities:			
Amount arising during the year	**¥ 1,488**	¥ 309	**$ 14,463**
Reclassification adjustments for gain realized in statements of income	**—**	(7)	**—**
Amount before the adjustment of tax effect	**1,488**	302	**14,463**
Tax effect	**(566)**	176	**(5,501)**
Net unrealized holding gain on securities	**922**	478	**8,962**
Net unrealized loss on derivative instruments:			
Amount arising during the year	**(290)**	—	**(2,819)**
Amount before the adjustment of tax effect	**(290)**	—	**(2,819)**
Tax effect	**48**	—	**467**
Net unrealized loss on derivative instruments	**(242)**	—	**(2,352)**
Translation adjustments:			
Amount arising during the year	**2,382**	2,304	**23,153**
Reclassification adjustments for loss realized in statement of income	**2**	—	**19**
Translation adjustments	**2,384**	2,304	**23,172**
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	**10,616**	3,689	**103,188**
Reclassification adjustments for (loss) gain realized in statement of income	**(251)**	31	**(2,440)**
Share of other comprehensive income of affiliates accounted for by the equity method	**10,365**	3,720	**100,748**
Other comprehensive income, net	**¥ 13,429**	¥ 6,502	**$ 130,530**

23. Supplemental Information on the Consolidated Statements of Cash Flows

(1) Non cash transaction

The Company and its consolidated subsidiaries recorded leased assets and lease obligations related to new finance lease transactions in the amounts of ¥105 million ($1,021 thousand) and ¥261 million for the years ended 31st March, 2014 and 2013, respectively.

The Company executed a contribution in kind using shares of Magnescale and DMSM and in exchange obtained respective shares in DMG MORI SEIKI AG amounted to ¥7,405 million ($71,977 thousand) for the year ended 31st March, 2014.

(2) Business transfer

Mori Seiki Canada, Ltd. (“MS Canada”), a sub-subsidiary of the Company executed a contribution in kind of a part of its assets and liabilities. The Company recorded ¥30 million ($292 thousand) as expenditures for business divestiture in the statement of cash flows for the year ended 31st March, 2014. In addition, current assets decreased by ¥250 million ($2,430 thousand) resulting from this business transfer.

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

(3) Assets and liabilities of newly acquired subsidiary

TYLER MACHINE TOOL Co., Inc. (“TYLER”) became a newly consolidated subsidiary of the Company as a result of an acquisition of shares in the year ended 31st March, 2014. Details of the assets acquired and liabilities assumed at the acquisition date, the acquisition cost of shares of TYLER and payments for acquisition, net are summarized in the following table:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 884	$ 8,593
Non-current assets	809	7,863
Goodwill	560	5,443
Current liabilities	(695)	(6,755)
Non-current liabilities	(311)	(3,023)
Acquisition cost of TYLER	1,247	12,121
Subsequent milestone payment	(145)	(1,409)
Cash and cash equivalents of TYLER	(115)	(1,118)
Acquisition of shares of subsidiaries resulting in change in scope of consolidation	¥ 987	$ 9,594

24. Amounts per Share

Amounts per share at 31st March, 2014 and 2013 and for the years then ended are summarized as follows:

	Yen		U.S. dollars
	2014	2013	**2014**
Amounts per share:			
Net assets	**¥1,164.59**	¥ 938.53	**$11.32**
Net income:			
Basic	**85.73**	47.27	**0.83**
Diluted	**85.69**	47.07	**0.83**
Cash dividends	**22.00**	20.00	**0.21**

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

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

An outline of dilutive shares not included in the calculation of "Net income per share (diluted)" for the years ended 31st March, 2014 and 2013 because they do not have dilutive effect is as follows:

Stock acquisition rights issued by the Company:

Type: None at 31st March, 2014 and 2 types at 31st March, 2013

Number of stock acquisition rights issued by the Company as part of a stock option plans: None and 12,335 units at 31st March, 2014 and 2013, respectively.

Stock acquisition rights issued by a domestic consolidated subsidiary:

Type: 1 type

Number of stock acquisition rights issued by a domestic consolidated subsidiary as a part of a stock option plan: 280 units and 379 units at 31st March, 2014 and 2013, respectively.

25. Segment Information

(1) Outline of the reportable segments

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

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

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

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

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

Change in depreciation method

The Company and its domestic consolidated subsidiaries had previously calculated depreciation using the declining-balance method for property, plant and equipment, except for certain buildings. Effective the year ended 31st March, 2014, the Company and its consolidated subsidiaries, except for one domestic subsidiary, have changed their depreciation method of property, plant and equipment to the straight-line method because the Company determined that the straight-line method of depreciation would better present the usage pattern of economic benefits based on the actual operation of equipment because the production equipment will be operated evenly through globalization of production and consolidation of sales locations and the establishment of a collaborative production system with DMG MORI SEIKI AG. As a result of this change, compared with the previous method, segment income for Japan increased by ¥886 million ($8,612 thousand) for the year ended 31st March, 2014.

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

Reportable segment information for the years ended 31st March, 2014 and 2013 are summarized as follows:

	Millions of yen				
	2014				
	Japan	The Americas	Europe	China and Asia	Total
Net sales					
Sales to third parties	¥ 53,166	¥ 53,893	¥ 32,101	¥ 21,569	¥ 160,729
Inter-segment sales and transfers	76,087	1,581	1,682	1,350	80,700
Total	¥ 129,253	¥ 55,474	¥ 33,783	¥ 22,919	¥ 241,429
Segment income (loss)	¥ 8,633	¥ 1,133	¥ (25)	¥ (435)	¥ 9,306
Segment assets	¥ 136,920	¥ 32,314	¥ 70,249	¥ 14,228	¥ 253,711
Other items:					
Depreciation and amortization	¥ 4,144	¥ 891	¥ 441	¥ 300	¥ 5,776
Amortization of goodwill	¥ 223	¥ 56	¥ —	¥ —	¥ 279
Investments in affiliates accounted for by the equity method	¥ 348	¥ 696	¥ 49,815	¥ 1,805	¥ 52,664
Increase in property, plant and equipment and intangible assets	¥ 5,850	¥ 378	¥ 239	¥ 2,444	¥ 8,911

	Millions of yen				
	2013				
	Japan	The Americas	Europe	China and Asia	Total
Net sales					
Sales to third parties	¥ 50,733	¥ 47,636	¥ 26,898	¥ 23,292	¥ 148,559
Inter-segment sales and transfers	73,626	1,358	1,772	1,374	78,130
Total	¥124,359	¥ 48,994	¥ 28,670	¥ 24,666	¥ 226,689
Segment income (loss)	¥ 4,717	¥ (995)	¥ (62)	¥ (2)	¥ 3,658
Segment assets	¥121,529	¥ 25,394	¥ 45,712	¥ 10,997	¥ 203,632
Other items:					
Depreciation and amortization	¥ 5,155	¥ 1,069	¥ 333	¥ 138	¥ 6,695
Amortization of goodwill	¥ 369	¥ —	¥ —	¥ —	¥ 369
Investments in affiliates accounted for by the equity method	¥ 367	¥ 19	¥ 27,805	¥ 1,674	¥ 29,865
Increase in property, plant and equipment and intangible assets	¥ 1,908	¥ 2,212	¥ 810	¥ 2,330	¥ 7,260

	Thousands of U.S. dollars				
	2014				
	Japan	The Americas	Europe	China and Asia	Total
Net sales					
Sales to third parties	$ 516,777	$ 523,843	$ 312,024	$ 209,652	$ 1,562,296
Inter-segment sales and transfers	739,570	15,368	16,349	13,122	784,409
Total	$ 1,256,347	$ 539,211	$ 328,373	$ 222,774	$ 2,346,705
Segment income (loss)	$ 83,913	$ 11,013	$ (243)	$ (4,228)	$ 90,455
Segment assets	$ 1,330,871	$ 314,094	$ 682,825	$ 138,297	$ 2,466,087
Other items:					
Depreciation and amortization	$ 40,280	$ 8,661	$ 4,286	$ 2,916	$ 56,143
Amortization of goodwill	$ 2,168	$ 544	$ —	$ —	$ 2,712
Investments in affiliates accounted for by the equity method	$ 3,383	$ 6,765	$ 484,205	$ 17,544	$ 511,897
Increase in property, plant and equipment and intangible assets	$ 56,862	$ 3,674	$ 2,323	$ 23,756	$ 86,615

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

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

	Millions of yen		Thousands of U.S. dollars
Operating income	2014	2013	2014
Segment income	¥ 9,306	¥ 3,658	$ 90,455
Elimination of unrealized gain	51	476	496
Operating income in the consolidated statements of income	¥ 9,357	¥ 4,134	$ 90,951

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

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

	Millions of yen		Thousands of U.S. dollars
Assets	**2014**	2013	**2014**
Segment assets	**¥ 253,711**	¥ 203,632	**$ 2,466,087**
Unallocated assets	**12,480**	10,425	**121,306**
Adjustment of unrealized gain	**(1,380)**	(1,440)	**(13,414)**
Inter-segment transactions	**(23,140)**	(25,963)	**(224,922)**
Assets in the consolidated balance sheets	**¥ 241,671**	¥ 186,654	**$ 2,349,057**

Related information

(1) Sales by product and service

As the sale of only one type of product and service amounted to more than 90% of net consolidated sales, the disclosure of segment information by product and service for the years ended 31st March, 2014 and 2013 has been omitted.

(2) Regional information

(a) Net sales for the years ended 31st March, 2014 and 2013 are summarized as follows:

Millions of yen					
2014					
Japan	USA	The Americas other than USA	Europe	China and Asia	Total
¥53,166	**¥49,230**	**¥4,663**	**¥32,101**	**¥21,569**	**¥ 160,729**

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

Thousands of U.S. dollars					
2014					
Japan	USA	The Americas other than USA	Europe	China and Asia	Total
$ 516,777	**$ 478,519**	**$ 45,324**	**$ 312,024**	**$ 209,652**	**$ 1,562,296**

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

(b) Property, plant and equipment as of 31st March, 2014 and 2013 are summarized as follows:

Millions of yen				
2014				
Japan	The Americas	Europe	China and Asia	Total
¥48,248	**¥9,322**	**¥6,560**	**¥4,880**	**¥69,010**

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

Thousands of U.S. dollars				
2014				
Japan	The Americas	Europe	China and Asia	Total
$ 468,974	**$ 90,610**	**$ 63,764**	**$ 47,434**	**$ 670,782**

(c) Major customer

Major customers for the year ended 31st March, 2014 are as follows:

Name of customer	Net sales (Millions of yen)	Net sales (Thousands of U.S. dollars)	Reportable segment
Ellison Technologies, Inc.	**¥ 36,668**	**$ 356,415**	The Americas
DMG MORI SEIKI Europe AG	**17,873**	**173,727**	Europe

Major customers for the year ended 31st March, 2013 are as follows:

Name of customer	Net sales (Millions of yen)	Reportable segment
Ellison Technologies, Inc.	¥ 29,861	The Americas

Amortization of goodwill and unamortized balance by reportable segment

Information on amortization and unamortized balance of goodwill by reportable segment for the years ended and at 31st March, 2014 and 2013 is as follows:

	Millions of yen				
	2014				
	Japan	The Americas	Europe	China and Asia	Total
Amortization for the year	**¥ 223**	**¥ 56**	**¥ —**	**¥ —**	**¥ 279**
Balance at the year end	**186**	**518**	**—**	**—**	**704**

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

	Thousands of U.S. dollars				
	2014				
	Japan	The Americas	Europe	China and Asia	Total
Amortization for the year	**$ 2,168**	**$ 544**	**$ —**	**$ —**	**$ 2,712**
Balance at the year end	**1,808**	**5,035**	**—**	**—**	**6,843**

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

Information on loss on impairment of goodwill and property, plant and equipment by reportable segment for the years ended 31st March, 2014 and 2013 is as follows:

	Millions of yen				
	2014				
	Japan	The Americas	Europe	China and Asia	Total
Loss on impairment of goodwill and property, plant and equipment	¥ 1,324	¥ —	¥ —	¥ —	¥ 1,324

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

	Thousands of U.S. dollars				
	2014				
	Japan	The Americas	Europe	China and Asia	Total
Loss on impairment of goodwill and property, plant and equipment	$ 12,869	$ —	$ —	$ —	$ 12,869

Loss on impairment was included in business restructuring expenses for the year ended 31st March, 2014.

26. Business Combinations

Transaction under common control

(1) Overview of the transaction

(a) Names and nature of the business of the companies

Name	Nature of the business
Magnescale	Production and sales of measurement equipment
DMSM	Production of the Company's products

(b) Date of business combination

8th August, 2013

(c) Legal form of business combination

Contribution in kind of 44.12% of shares of Magnescale, a subsidiary of the Company and 19% of shares of DMSM, a sub-subsidiary of the Company

(d) Overview of other matters relating to the transaction

Based on the Cooperation Agreement signed by DMG MORI SEIKI AG and the Company, the Company acquired 3,247,162 newly issued shares in DMG MORI SEIKI AG, and in return, the Company contributed 44.12% of the shares of Magnescale, a subsidiary of the Company and 19% of the shares of DMSM, a sub-subsidiary of the Company on 8th August, 2013. With DMG MORI SEIKI AG holding an interest in two subsidiaries, Magnescale can pursue further business developments by collaborating on technical advances and approaching a broader range of customers, and DMSM can pursue a smooth start-up of production activities utilizing the production know-how of DMG MORI SEIKI AG to take advantage of favorable conditions in the North American market.

(2) Overview of accounting treatment

This transaction was accounted for as a transaction under common control under "Accounting Standard for Business Divestitures" (ASBJ Statement No.21, 26th December, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Standard for Business Divestitures" (ASBJ Guidance No.10, 26th December, 2008).

Amount of gain on change in equity in investments in subsidiaries recorded under this accounting treatment

Gain on change in equity in investments in subsidiaries: ¥3,433 million ($33,369 thousand)

Acquisition of shares of TYLER Machine Tool Co., Inc.

(1) Overview of acquisition

(a) Name and nature of the business of the acquired company

Name	Nature of the business
TYLER	Sales of the Company's products

(b) Purpose of the acquisition

In order to build closer relationships with customers by strengthening cooperation between manufacturing and distribution

(c) Date of acquisition

1st April, 2013

(d) Legal form of acquisition

Acquisition of shares for cash consideration

(e) Name of the company after acquisition

TYLER MACHINE TOOL Co., Inc.

(f) Ratio on voting rights acquired

100%

(2) Period of operating result of acquired company included in the consolidated financial statements

From 1st April, 2013 to 31st March, 2014

(3) Acquisition cost

¥1,247 million ($12,121 thousand)

(4) Value of goodwill recognized and reason for recognition

(a) Value of goodwill recognized

¥560 million ($5,443 thousand)

(b) Reason for recognition

Goodwill is recognized based on excess earning power expected in the future.

(c) Amortization method and period

Straight-line method over 10 years

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 884	$ 8,593
Non-current assets	809	7,863
Total assets	¥ 1,693	$ 16,456
Current liabilities	¥ 695	$ 6,755
Non-current liabilities	311	3,023
Total liabilities	¥ 1,006	$ 9,778

(6) Nature of the conditional acquisition cost prescribed in the agreement and accounting treatment for such payment in the future

The conditional acquisition cost prescribed in the acquisition agreement involves making additional milestone payments if the operating results of the acquired company exceed a certain level. In such case additional payments will be made. The acquisition cost will be revised as if the payments had been made on the acquisition date, and the amount of goodwill and amortization thereof also will be revised accordingly. The acquisition cost described in (3) above includes ¥145 million ($1,409 thousand) as part of such milestone payments determined.

(7) Amounts allocated to intangible assets and major components other than goodwill, and the respective weighted average amortization periods

	Weighted average amortization period	Millions of yen	Thousands of U.S. dollars
Patent	5 years	¥ 184	$ 1,788
Customer information management	10 years	612	5,949
Total intangible assets		¥ 796	$ 7,737

Contribution in kind of assets and liabilities of a subsidiary

(1) Overview of contribution in kind

(a) Overview of the transferee

Name:	DMG MORI SEIKI CANADA INC.
Location:	Canada
Major shareholders (ownership %):	DMG Holding AG (51%) Mori Seiki Canada, Ltd. (49%)
Relationship with the Company:	Equity-method affiliate

(b) Nature and name of the transferred business

Name	Nature of the business
A part of assets and liabilities of MS Canada	Sales of the Company's products

(c) Purpose of the business divestiture

MS Canada, a sub-subsidiary of the Company executed a contribution in kind of part of its assets and liabilities in return for 49% of the total shares issued by DMG MORI SEIKI CANADA INC. on 31st March, 2014. With this contribution in kind, the Company will become able to integrate sales and support services with DMG MORI SEIKI AG in Canada, which will contribute to increasing in sales of the Company's products.

(d) Date of business divestiture

31st March, 2014

(e) Overview of other transactions including its legal form

MS Canada executed the contribution in kind of part of its assets and liabilities in return for the shares issued of DMG MORI SEIKI CANADA INC.

(2) Overview of accounting treatment

This transaction was accounted for as a transaction under common control under "Accounting Standard for Business Divestitures" (ASBJ Statement No.21, 26th December, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Standard for Business Divestitures" (ASBJ Guidance No.10, 26th December, 2008).

(a) Amount of goodwill and gain on change in equity in investments in subsidiaries recorded by this accounting treatment

Goodwill(*): ¥549 million ($5,336 thousand)
Gain on change in equity in investments in subsidiaries:
¥560 million ($5,443 thousand)
(*) This amount is included in investments in equity-method affiliates.

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥249	$2,420
Non-current assets	1	10
Total assets	¥250	$2,430
Current liabilities	¥220	$2,138
Total liabilities	¥220	$2,138

(3) Reporting segment in which the transferred business was included

The Americas

(4) Estimated amounts of net sales and operating income of the subsidiary included in the consolidated statement of income for the year ended 31st March, 2014

	Millions of yen	Thousands of U.S. dollars
Net sales	¥ 1,154	$11,217
Operating income	57	554

27. Subsequent Events

Appropriation of retained earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2014, was approved at the annual general meeting of the shareholders of the Company held on 20th June, 2014.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥12.00 ($0.12) per share	¥ 1,594	$ 15,494

Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
DMG MORI SEIKI CO., LTD.

We have audited the accompanying consolidated financial statements of DMG MORI SEIKI CO., LTD. (formerly, "Mori Seiki Co., Ltd.") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at 31st March, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DMG MORI SEIKI CO., LTD. (formerly, "Mori Seiki Co., Ltd.") and consolidated subsidiaries as at 31st March, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note. 3 Change in Accounting Policy, to the consolidated financial statements, which describes that the Company and its consolidated subsidiaries in Japan, except for one domestic subsidiary, changed their accounting method for the depreciation of property, plant and equipment from the declining-balance method to the straight-line method, except for certain assets. Our opinion is not qualified in respect of this matter.

Convenience Translation

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

Ernst & Young Shin Nihon LLC

20th June, 2014
Osaka, Japan

A member firm of Ernst & Young Global Limited

DMG MORI SEIKI

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.

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