DMG MORI

DMG MORI CO., LTD.

Annual Report 2015

FINANCIAL REVIEW

FISCAL YEAR ENDED MARCH 31, 2015

IDENTIFY THE CHANCES SHAPE THE FUTURE

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Consolidated Financial Highlights

		Billions of yen					Millions of U.S. dollars *1
		2011	2012	2013	2014	**2015**	**2015**
Financial Performance							
Net sales		120.4	155.3	148.6	160.7	**174.7**	**1,454**
Cost of sales		80.9	106.0	104.4	107.5	**112.2**	**934**
Selling, general and administrative expenses		39.2	42.6	40.0	43.9	**48.2**	**401**
Operating income		0.3	6.8	4.1	9.4	**14.2**	**118**
Income before income taxes and minority interests		1.2	6.7	5.6	11.4	**21.0**	**174**
Net income		1.3	5.6	5.2	9.4	**15.2**	**127**
Profitability Ratio							
Return on investment (ROI) (%)	*2	0.2	4.5	2.6	5.1	**5.9**	
Return on equity (ROE) (%)	*3	1.4	6.0	5.3	7.4	**9.6**	
Return on total assets (ROA) (%)	*4	0.8	3.1	2.8	4.4	**5.4**	
Financial Position							
Total assets		172.0	185.4	186.7	241.7	**323.3**	**2,691**
Shareholders' equity	*5	93.9	93.2	102.7	151.3	**166.6**	**1,386**
Cash Flows							
Net cash provided by (used in) operating activities		(10.2)	8.6	21.4	5.9	**11.5**	**96**
Net cash used in investing activities		(14.1)	(22.1)	(10.1)	(17.5)	**(58.4)**	**(486)**
Net cash provided by (used in) financing activities		24.1	10.9	(10.1)	23.9	**49.4**	**411**
Free cash flow	*6	(24.3)	(13.5)	11.3	(11.6)	**(46.9)**	**(390)**
Number of Employees		4,107	4,045	4,117	4,159	**4,324**	

*1 The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥120.15 = U.S.$1.00, the exchange rate prevailing on 31st March, 2015.
*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

The following is an analysis of our financial situation, business results and cash flows during the fiscal year ended 31st March, 2015.

Analysis of Financial Status

Assets

Current assets grew by 22.0% compared to the previous fiscal year to 121,166 million yen ($1,008,456 thousand). This was due primarily to an increase of 2,492 million yen in cash and cash deposits, an increase of 3,533 million yen in notes and accounts receivable, trade, and an increase of 13,006 million yen in inventories.

Net property, plant and equipment increased by 4.6% to 72,187 million yen ($600,807 thousand), due primarily to an increase of 4,391 million yen in buildings and structures.

Total investments and other assets increased by 77.3% to 129,987 million yen ($1,081,873 thousand). This was due primarily to a rise of 54,753 million yen in total investments in securities.

As a result, total assets increased by 33.8% to 323,340 million yen ($2,691,136 thousand).

Liabilities

Current liabilities increased by106.4% compared to the previous fiscal year to 85,574 million yen ($712,226 thousand). This was due primarily to a decrease of 15,103 million yen in the current portion of long-term debt, which offset an increase of 6,553 million yen in accounts payable, 48,066 million yen in short-term bank loans and 3,459 million yen in accrued income taxes.

Long-term liabilities increased by 49.3% compared to the previous fiscal year to 66,761 million yen ($555,647 thousand). This was due primarily to an increase in long-term debt of 20,097 million yen.

Total Net Assets

Total net assets grew by 10.0% compared to the previous fiscal year to 171,005 million yen ($1,423,263 thousand). This was due primarily to the recording of 15,216 million yen in net income and an increase of 3,189 million yen in translation adjustments, which offset cash dividends of 3,188 million yen.

Analysis of Business Results

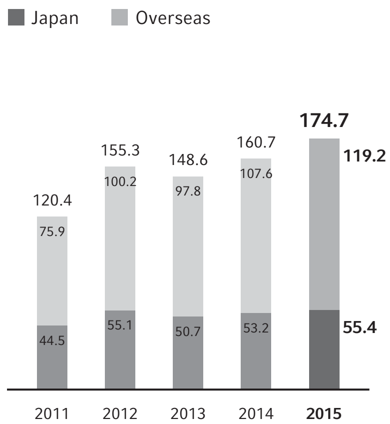
Net Sales

In the fiscal year under review, net sales were 174,660 million yen ($1,453,683 thousand), up 8.7% compared to the previous fiscal year. The sales composition by segment was Japan 31.7%, the Americas 36.2%, Europe 19.6%, and China and Asia 12.5%. 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, as was also the case in the previous fiscal year.

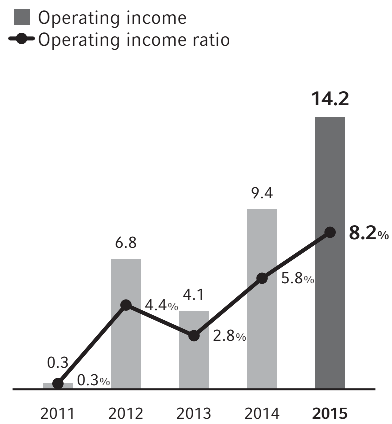
Cost of Sales, and Selling, General and Administrative (SG&A) Expenses

The cost of sales was 112,190 million yen ($933,750 thousand), up 4.4% compared to the previous fiscal year. The cost of sales as a percentage of net sales declined by 2.7 percentage points to 64.2% as a result of the continued weakening of the yen. Together with the rise in net sales, SG&A expenses increased by 9.9% to 48,234 million yen ($401,448 thousand). SG&A expenses as a percentage of net sales rose by 0.3 percentage point to 27.6%. This reflected factors such as freight costs of 5,383 million yen ($44,802 thousand) (up 12.6%), wages and bonuses of 14,708 million yen ($122,414 thousand) (up 12.2%), and research and development costs of 3,872 million yen ($32,226 thousand) (up 15.1%).

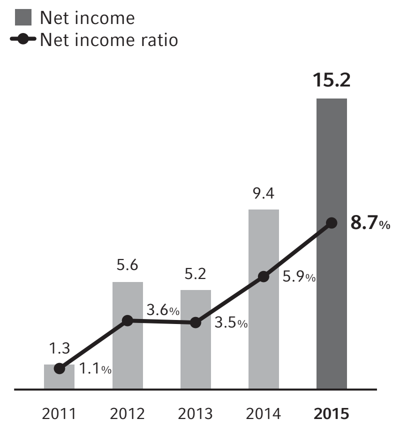
Net sales (billions of yen)
Years ended 31st March



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



Net income (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 14,236 million yen ($118,485 thousand), up 52.1% compared to the previous fiscal year.
By segment, Japan posted segment income of 10,606 million yen ($88,273 thousand) (up 68.8% from the previous fiscal year), the Americas posted segment income of 906 million yen ($7,541 thousand) (down 34.2%), Europe posted segment income of 1,498 million yen ($12,467 thousand) (up 53.0%), and China and Asia posted segment income of 1,253 million yen ($10,429 thousand) (up 87.6%).

Net Income/Loss

The Group posted income before income taxes and minority interests of 20,964 million yen ($174,482 thousand), up 84.3% compared to the previous fiscal year.
Income taxes totaled 5,487 million yen ($45,668 thousand), a rise of 3,657 million yen from 1,830 million yen in the previous fiscal year.

After minority interests in net income of consolidated subsidiaries of 261 million yen ($2,172 thousand), net income was 15,216 million yen ($126,642 thousand), up 61.1%.

Analysis of Cash Flows

Cash and cash equivalents at the end of the fiscal year under review were 21,409 million yen ($178,186 thousand), an increase of 2,493 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 11,539 million yen ($96,038 thousand) (compared to 5,907 million yen provided in the previous fiscal year). Major inflows included income before income taxes and minority interests of 20,964 million yen ($174,482 thousand), depreciation and amortization of 7,093 million yen ($59,035 thousand), and an increase in accounts payable of 5,436 million yen ($45,243 thousand). Major outflows included an increase in notes and accounts receivable of 1,827 million yen ($15,206 thousand), an increase in inventories of 11,568 million yen ($96,280 thousand), equity in earnings of affiliates, net, of 3,504 million yen ($29,164 thousand), and a net foreign exchange gain of 2,645 million yen ($22,014 thousand).

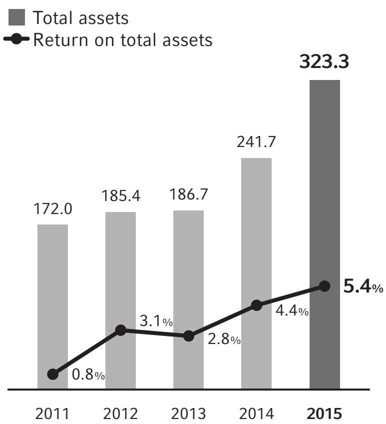
Cash Flows from Investing Activities

Net cash used in investing activities was 58,427 million yen ($486,284 thousand) (compared to 17,527 million yen used in the previous fiscal year). The main factors behind this decrease were an increase in investments in affiliates of 50,635 million yen ($421,432 thousand), purchases of property, plant and equipment of 6,868 million yen ($57,162 thousand), and purchases of intangible assets of 1,669 million yen ($13,891 thousand).

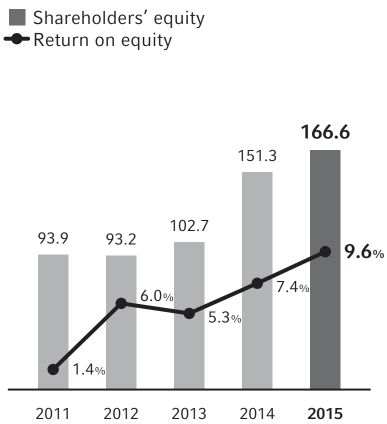
Cash Flows from Financing Activities

Net cash provided by financing activities was 49,386 million yen ($411,037 thousand) (compared to 23,914 million yen provided in the previous fiscal year). The main factors behind this increase were an increase in short-term bank loans, net, of 48,066 million yen ($400,050 thousand) and proceeds from long-term debt of 20,000 million yen ($166,459 thousand). Other factors contributing to this change were redemption of bonds of 15,000 million yen ($124,844 million) and cash dividends of 3,193 million yen ($26,575 thousand).

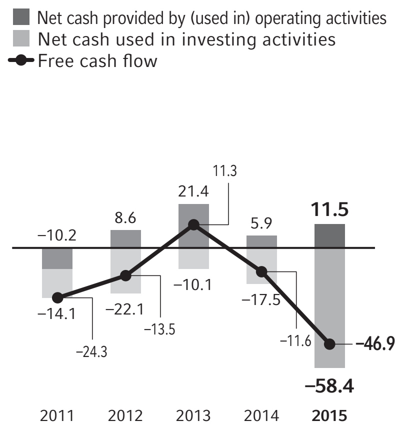
Total assets (billions of yen)
Return on total assets (%)
As of 31st March



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 CO., LTD. and Consolidated Subsidiaries
31st March, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Assets			
Current assets:			
Cash and cash deposits (Notes 3 and 18)	**¥ 21,427**	¥ 18,935	**$ 178,335**
Notes and accounts receivable (Note 18):			
Trade	**36,522**	32,989	**303,970**
Allowance for doubtful receivables	**(183)**	(208)	**(1,523)**
Notes and accounts receivable, net	**36,339**	32,781	**302,447**
Inventories (Notes 4 and 14)	**53,777**	40,771	**447,582**
Deferred income taxes (Note 9)	**3,275**	3,067	**27,258**
Other current assets	**6,348**	3,799	**52,834**
Total current assets	**121,166**	99,353	**1,008,456**
Property, plant and equipment (Note 24):			
Land (Note 12)	**22,899**	22,253	**190,587**
Buildings and structures	**80,287**	75,896	**668,223**
Machinery, equipment and vehicles	**42,587**	42,665	**354,449**
Leased assets (Notes 17 and 22)	**6,212**	5,781	**51,702**
Construction in progress	**1,296**	1,767	**10,786**
	153,281	148,362	**1,275,747**
Accumulated depreciation	**(81,094)**	(79,352)	**(674,940)**
Property, plant and equipment, net (Note 24)	**72,187**	69,010	**600,807**
Investments and other assets:			
Investments in securities (Notes 5 and 18):			
Unconsolidated subsidiaries and affiliates	**103,607**	52,801	**862,314**
Other	**16,270**	12,323	**135,414**
Total investments in securities	**119,877**	65,124	**997,728**
Deferred income taxes (Note 9)	**485**	275	**4,037**
Other assets:			
Goodwill (Note 24)	**929**	704	**7,732**
Long-term loan receivable	**40**	87	**333**
Other (Note 6)	**8,656**	7,118	**72,043**
Total other assets	**9,625**	7,909	**80,108**
Total investments and other assets	**129,987**	73,308	**1,081,873**
Total assets (Note 24)	**¥ 323,340**	¥ 241,671	**$ 2,691,136**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Liabilities			
Current liabilities:			
Short-term bank loans (Notes 8 and 18)	¥ 48,156	¥ 90	$ 400,799
Current portion of long-term debt (Notes 8 and 18)	340	15,443	2,830
Accounts payable, trade (Note 18)	18,490	11,937	153,891
Accrued income taxes (Note 9)	4,252	793	35,389
Accrued expenses	2,460	1,942	20,474
Deferred income taxes (Note 9)	50	6	416
Advances received	1,657	2,141	13,791
Allowance for product warranties	940	944	7,824
Allowance for bonuses to employees	—	171	—
Allowance for bonuses to directors and corporate auditors	19	22	158
Other current liabilities	9,210	7,966	76,654
Total current liabilities	85,574	41,455	712,226
Long-term liabilities:			
Long-term debt (Notes 8 and 18)	58,951	38,854	490,645
Deferred income taxes (Note 9)	4,519	2,578	37,611
Deferred income taxes on land revaluation reserve (Notes 9 and 12)	1,346	1,485	11,202
Liability for retirement benefits (Note 7)	677	379	5,635
Asset retirement obligations (Note 10)	49	102	408
Other long-term liabilities	1,219	1,316	10,146
Total long-term liabilities	66,761	44,714	555,647
Contingent liabilities (Note 13)			
Net assets			
Shareholders' equity (Note 11):			
Common stock:			
Authorized – 300,000,000 shares in 2015 and 2014			
Issued – 132,943,683 shares in 2015 and 2014	51,116	51,116	425,435
Capital surplus	64,153	64,153	533,941
Retained earnings (Note 25)	37,525	25,502	312,318
Treasury stock, at cost (Note 11) – 5,015,329 shares in 2015 and 3,005,226 shares in 2014	(6,030)	(3,610)	(50,188)
Total shareholders' equity	146,764	137,161	1,221,506
Accumulated other comprehensive income (Note 21):			
Net unrealized holding gain on securities (Notes 5 and 9)	6,201	4,004	51,610
Net unrealized gain on derivative instruments	525	2	4,370
Land revaluation reserve (Notes 9 and 12)	1,898	1,759	15,797
Translation adjustments	11,987	8,798	99,767
Retirement benefits liability adjustments (Note 7)	(821)	(399)	(6,833)
Total accumulated other comprehensive income	19,790	14,164	164,711
Stock acquisition rights (Note 11)	—	34	—
Minority interests	4,451	4,143	37,046
Total net assets	171,005	155,502	1,423,263
Total liabilities and net assets	¥ 323,340	¥ 241,671	$ 2,691,136

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

DMG MORI CO., LTD. and Consolidated Subsidiaries
Year ended 31st March, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	**2015**
Net sales (Note 24)	**¥ 174,660**	¥ 160,729	**$ 1,453,683**
Cost of sales (Notes 7 and 14)	**112,190**	107,469	**933,750**
Gross profit	**62,470**	53,260	**519,933**
Selling, general and administrative expenses (Notes 7 and 15)	**48,234**	43,903	**401,448**
Operating income (Note 24)	**14,236**	9,357	**118,485**
Other income (expenses):			
Interest and dividend income	**492**	378	**4,095**
Interest expense	**(533)**	(575)	**(4,436)**
Gain on sales of investments in securities (Note 5)	**8**	5	**67**
Gain on sales of shares of an affiliate	**230**	—	**1,914**
Loss on devaluation of shares of a subsidiary (Note 18)	**—**	(35)	**—**
Foreign exchange gain, net	**3,663**	1,478	**30,487**
Gain (loss) on sales and disposal of property, plant and equipment, net	**69**	(270)	**574**
Equity in earnings of affiliates, net	**3,504**	1,008	**29,164**
Business restructuring expenses (Notes 14 and 19)	**—**	(3,332)	**—**
Gain on reversal of stock acquisition rights (Note 11)	**32**	374	**266**
Gain on sales of investments in securities classified as other	**7**	—	**58**
Gain on business transfer	**163**	—	**1,357**
Gain on liquidation of subsidiaries	**43**	—	**358**
Gain on change in equity in investments in subsidiaries	**58**	3,404	**483**
Other, net	**(1,008)**	(416)	**(8,390)**
Income before income taxes and minority interests	**20,964**	11,376	**174,482**
Income taxes (Note 9):			
Current	**4,876**	1,209	**40,583**
Deferred	**611**	621	**5,085**
	5,487	1,830	**45,668**
Income before minority interests	**15,477**	9,546	**128,814**
Minority interests in net income of consolidated subsidiaries	**261**	103	**2,172**
Net income	**¥ 15,216**	¥ 9,443	**$ 126,642**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

DMG MORI CO., LTD. and Consolidated Subsidiaries
Year ended 31st March, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	**2014**	**2015**
Income before minority interests	**¥ 15,477**	¥ 9,546	**$ 128,814**
Other comprehensive income (Note 21):			
Net unrealized holding gain on securities (Note 5)	**2,593**	922	**21,581**
Net unrealized gain (loss) on derivative instruments	**589**	(242)	**4,902**
Land revaluation reserve (Notes 9 and 12)	**139**	—	**1,157**
Translation adjustments	**2,266**	2,384	**18,860**
Retirement benefits liability adjustments (Note 7)	**(238)**	—	**(1,981)**
Share of other comprehensive income of affiliates accounted for by the equity method	**328**	10,365	**2,730**
Total other comprehensive income (Note 21)	**5,677**	13,429	**47,249**
Comprehensive income	**¥ 21,154**	¥ 22,975	**$ 176,063**
Total comprehensive income attributable to:			
Shareholders of the Company	**¥ 20,840**	¥ 22,869	**$ 173,450**
Minority interests	**314**	106	**2,613**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

DMG MORI CO., LTD. and Consolidated Subsidiaries
Year ended 31st March, 2015

	Number of shares of common stock in issue	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost (Note 11)	Net unrealized holding gain on securities (Notes 5 and 9)
Balance as of 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 those in shareholders' equity	—	—	—	—	—	1,388
Balance as of 1st April, 2014	**132,943,683**	**51,116**	**64,153**	**25,502**	**(3,610)**	**4,004**
Net income	**—**	**—**	**—**	**15,216**	**—**	**—**
Cash dividends	**—**	**—**	**—**	**(3,188)**	**—**	**—**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**(1)**	**—**
Increase in equity in affiliates accounted for by equity method	**—**	**—**	**—**	**—**	**(2,419)**	**—**
Decrease in retained earnings resulting from exclusion of a subsidiary from consolidation	**—**	**—**	**—**	**(5)**	**—**	**—**
Net changes of items other than those in shareholders' equity	**—**	**—**	**—**	**—**	**—**	**2,197**
Balance as of 31st March, 2015	**132,943,683**	**¥ 51,116**	**¥ 64,153**	**¥ 37,525**	**¥ (6,030)**	**¥ 6,201**

	Millions of yen						
	Net unrealized gain on derivative instruments	Land revaluation reserve (Notes 9 and 12)	Translation adjustments	Retirement benefits liability adjustments (Note 7)	Stock acquisition rights (Note 11)	Minority interests	Total net assets
Balance as of 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 as of 1st April, 2014	**2**	**1,759**	**8,798**	**(399)**	**34**	**4,143**	**155,502**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**15,216**
Cash dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(3,188)**
Purchases of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(1)**
Increase in equity in affiliates accounted for by equity method	**—**	**—**	**—**	**—**	**—**	**—**	**(2,419)**
Decrease in retained earnings resulting from exclusion of a subsidiary from consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**(5)**
Net changes of items other than those in shareholders' equity	**523**	**139**	**3,189**	**(422)**	**(34)**	**308**	**5,900**
Balance as of 31st March, 2015	**¥ 525**	**¥ 1,898**	**¥ 11,987**	**¥ (821)**	**¥ —**	**¥ 4,451**	**¥ 171,005**

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost (Note 11)	Net unrealized holding gain on securities (Notes 5 and 9)
Balance as of 1st April, 2014	**$ 425,435**	**$ 533,941**	**$ 212,251**	**$ (30,046)**	**$ 33,325**
Net income	—	—	**126,642**	—	—
Cash dividends	—	—	**(26,534)**	—	—
Purchases of treasury stock	—	—	—	**(8)**	—
Increase in equity in affiliates accounted for by equity method	—	—	—	**(20,134)**	—
Decrease in retained earnings resulting from exclusion of a subsidiary from consolidation	—	—	**(41)**	—	—
Net changes of items other than those in shareholders' equity	—	—	—	—	**18,285**
Balance as of 31st March, 2015	**$ 425,435**	**$ 533,941**	**$ 312,318**	**$ (50,188)**	**$ 51,610**

	Thousands of U.S. dollars (Note 1)						
	Net unrealized gain on derivative instruments	Land revaluation reserve (Notes 9 and 12)	Translation adjustments	Retirement benefits liability adjustments (Note 7)	Stock acquisition rights (Note 11)	Minority interests	Total net assets
Balance as of 1st April, 2014	**$ 17**	**$ 14,640**	**$ 73,225**	**$ (3,321)**	**$ 283**	**$ 34,482**	**$ 1,294,232**
Net income	—	—	—	—	—	—	**126,642**
Cash dividends	—	—	—	—	—	—	**(26,534)**
Purchases of treasury stock	—	—	—	—	—	—	**(8)**
Increase in equity in affiliates accounted for by equity method	—	—	—	—	—	—	**(20,134)**
Decrease in retained earnings resulting from exclusion of a subsidiary from consolidation	—	—	—	—	—	—	**(41)**
Net changes of items other than those in shareholders' equity	**4,353**	**1,157**	**26,542**	**(3,512)**	**(283)**	**2,564**	**49,106**
Balance as of 31st March, 2015	**$ 4,370**	**$ 15,797**	**$ 99,767**	**$ (6,833)**	**$ —**	**$ 37,046**	**$ 1,423,263**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

DMG MORI CO., LTD. and Consolidated Subsidiaries
Year ended 31st March, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Operating activities:			
Income before income taxes and minority interests	**¥ 20,964**	¥ 11,376	**$ 174,482**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**7,093**	6,055	**59,035**
(Gain) loss on sales and disposal of property, plant and equipment, net	**(69)**	270	**(574)**
Gain on sales of investments in securities	**(8)**	(5)	**(67)**
Gain on sales of shares of an affiliate	**(230)**	—	**(1,914)**
Loss on devaluation of shares of a subsidiary	**—**	35	**—**
Gain on liquidation of affiliates	**(43)**	—	**(358)**
Equity in earnings of affiliates, net	**(3,504)**	(1,008)	**(29,164)**
Business restructuring expenses	**—**	3,332	**—**
Gain on business transfer	**(163)**	—	**(1,357)**
Gain on reversal of stock acquisition rights	**(32)**	(374)	**(266)**
Gain on change in equity in investments in subsidiaries	**(58)**	(3,404)	**(483)**
(Decrease) increase in allowance for bonuses to employees	**(171)**	3	**(1,423)**
(Decrease) increase in allowance for bonuses to directors and corporate auditors	**(3)**	4	**(25)**
Decrease in allowance for doubtful receivables	**(48)**	(31)	**(400)**
Decrease in accrued retirement benefits	**—**	(230)	**—**
Increase in liability for retirement benefits	**272**	130	**2,264**
(Decrease) increase in allowance for product warranties	**(5)**	109	**(42)**
Interest and dividend income	**(492)**	(378)	**(4,095)**
Interest expense	**533**	575	**4,436**
Foreign exchange gain, net	**(2,645)**	(2,311)	**(22,014)**
Changes in operating assets and liabilities:			
Notes and accounts receivable	**(1,827)**	(6,106)	**(15,206)**
Inventories	**(11,568)**	(5,043)	**(96,280)**
Accounts payable	**5,436**	2,220	**45,243**
Other, net	**(1,521)**	1,570	**(12,658)**
Subtotal	**11,911**	6,789	**99,134**
Interest and dividend income received	**1,647**	839	**13,708**
Interest paid	**(547)**	(576)	**(4,553)**
Income taxes paid	**(1,472)**	(1,145)	**(12,251)**
Net cash provided by operating activities	**¥ 11,539**	¥ 5,907	**$ 96,038**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	**2014**	**2015**
Investing activities:			
Purchases of property, plant and equipment	**¥ (6,868)**	¥ (7,142)	**$ (57,162)**
Proceeds from sales of property, plant and equipment	**549**	148	**4,569**
Increase in investments in securities	**(142)**	(2)	**(1,182)**
Proceeds from sales of investments in securities	**145**	15	**1,207**
Increase in investments in affiliates	**(50,635)**	(7,658)	**(421,432)**
Proceeds from sales of shares of an affiliate	**310**	—	**2,580**
Expenditures for business divestiture (Note 22)	**—**	(30)	**—**
Acquisition of investment in a subsidiary resulting in change in scope of consolidation	**(283)**	—	**(2,355)**
Acquisition of shares of subsidiaries resulting in change in scope of consolidation (Note 22)	**—**	(987)	**—**
Purchases of intangible assets	**(1,669)**	(1,868)	**(13,891)**
Other, net	**166**	(3)	**1,382**
Net cash used in investing activities	**(58,427)**	(17,527)	**(486,284)**
Financing activities:			
Increase (decrease) in short-term bank loans, net	**48,066**	(23,840)	**400,050**
Proceeds from long-term debt	**20,000**	—	**166,459**
Proceeds from issuance of bonds	**—**	19,907	**—**
Proceeds from issuance of common stock	**—**	19,859	**—**
Redemption of bonds	**(15,000)**	—	**(124,844)**
Cash dividends	**(3,193)**	(2,216)	**(26,575)**
Purchases of treasury stock	**(1)**	(1)	**(8)**
Proceeds from sales of treasury stock	**—**	10,579	**—**
Other, net	**(486)**	(374)	**(4,045)**
Net cash provided by financing activities	**49,386**	23,914	**411,037**
Effect of exchange rate changes on cash and cash equivalents	**257**	330	**2,139**
Increase in cash and cash equivalents	**2,755**	12,624	**22,930**
Cash and cash equivalents at beginning of year	**18,916**	6,268	**157,437**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**(262)**	(1)	**(2,181)**
Increase in cash and cash equivalents resulting from merger with an unconsolidated subsidiary	**—**	25	**—**
Cash and cash equivalents at end of year (Note 3)	**¥ 21,409**	¥ 18,916	**$ 178,186**

See accompanying notes to consolidated financial statements.

1. Basis of Preparation of Consolidated Financial Statements

DMG MORI 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. Following the approval at its annual general meeting held on 19th June, 2015, the Company changed its name from DMG MORI SEIKI CO., LTD. to DMG MORI CO., LTD. In May, 2015, the Company acquired a total of 52.54% of the voting rights in DMG MORI SEIKI AKTIENGESELLSCHAFT, and it changed its name to DMG MORI AKTIENGESELLSCHAFT ("DMG MORI AG") following the approval at its annual general meeting held on 8th May, 2015.

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

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

The accompanying consolidated financial statements have been translated from yen amounts into U.S. dollar amounts, solely for convenience, as a matter of arithmetic computation only, at ¥120.15 = U.S.$1.00, the exchange rate prevailing on 31st March, 2015. 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 four 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 primarily 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 primarily 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.

(11) Goodwill

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

(12) Income taxes

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

(13) Allowance for product warranties

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

(14) Allowance for bonuses to employees

For two domestic consolidated subsidiaries, allowance for bonuses to employees 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.

(15) Allowance for bonuses to directors and corporate auditors

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

(16) Retirement benefits

The retirement benefit obligations are attributed to each period by the benefit formula method.

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.

(17) Hedge accounting

Gain or loss on derivatives qualifying and are designated for hedge accounting is deferred until the gain or loss on the underlying hedged items is recognized.

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

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

(18) Consolidated taxation system

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

(19) Accounting 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.

The Company and its consolidated subsidiaries (collectively, the "Group") plan to voluntarily adopt the International Financial Reporting Standards from the first quarter of the period ending 31st December, 2015 (future fiscal year end date of the Group), therefore, the Group has no plan to adopt these accounting standards and related guidance. Accordingly, the effects on the consolidated financial statements as a result of the adoption of these accounting standards are not evaluated.

3. 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 as of 31st March, 2015 and 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and cash deposits	**¥ 21,427**	¥ 18,935	**$ 178,335**
Time deposits with an original maturity in excess of three months included in cash and deposits	**(18)**	(19)	**(149)**
Cash and cash equivalents	**¥ 21,409**	¥ 18,916	**$ 178,186**

4. Inventories

Inventories as of 31st March, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Merchandise and finished goods	**¥ 15,730**	¥ 15,887	**$ 130,920**
Work in process	**13,382**	7,710	**111,377**
Raw materials and supplies	**24,665**	17,174	**205,285**
Total	**¥ 53,777**	¥ 40,771	**$ 447,582**

5. Securities

Marketable securities classified as other securities as of 31st March, 2015 and 2014 are summarized as follows:

	Millions of yen			Millions of yen		
	2015			2014		
	Carrying value	Acquisition cost	Unrealized gain	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 15,075	¥ 6,526	¥ 8,549	¥ 11,591	¥ 6,526	¥ 5,065
Subtotal	15,075	6,526	8,549	11,591	6,526	5,065
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Total	¥ 15,075	¥ 6,526	¥ 8,549	¥ 11,591	¥ 6,526	¥ 5,065

	Thousands of U.S. dollars		
	2015		
	Carrying value	Acquisition cost	Unrealized gain
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	$ 125,468	$ 54,315	$ 71,153
Subtotal	125,468	54,315	71,153
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	—	—	—
Subtotal	—	—	—
Total	$ 125,468	$ 54,315	$ 71,153

The sales of other securities and aggregate gain on the sales for the years ended 31st March, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Sales amount	¥ 145	¥ 15	$ 1,207
Aggregate gain	8	5	67

6. Loss on Impairment of Property, Plant and Equipment

Loss on impairment of property, plant and equipment was not recorded for the year ended 31st March, 2015.

Please refer to Note 19 Business Restructuring Expenses for details of loss on impairment recorded for the year ended 31st March, 2014.

7. Retirement Benefits

The Company and consolidated subsidiaries have established funded and unfunded defined benefit pension plans and defined contribution pension plans. In addition to the above, one domestic consolidated subsidiary participates 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 the 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 plans accounted for by a simplified method, for the years ended 31st March, 2015 and 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at beginning of the year	¥ 1,430	¥ 1,244	$ 11,902
Service cost	59	69	491
Interest cost	33	29	275
Actuarial differences	299	(47)	2,489
Payment of retirement benefits	(92)	(165)	(766)
Other	145	300	1,206
Balance at end of the year	¥ 1,874	¥ 1,430	$ 15,597

(2) The reconciliation of the beginning balance and the ending balance of plan assets, except for plans accounted for by a simplified method, for the years ended 31st March, 2015 and 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at beginning of the year	¥ 1,059	¥ 919	$ 8,814
Expected return on plan assets	25	21	208
Actuarial differences	61	27	508
Contributions to the pension plan	42	46	350
Payment of retirement benefits	(92)	(165)	(766)
Other	114	211	948
Balance at end of the year	¥ 1,209	¥ 1,059	$ 10,062

(3) The reconciliation of the beginning balance and the ending balance of liability for retirement benefits calculated using a simplified method for the years ended 31st March, 2015 and 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at beginning of the year	¥ 8	¥ 149	$ 67
Retirement benefit expenses	4	2	33
Decrease in liability for retirement benefits due to change of the plan to defined contribution pension plan	—	(143)	—
Balance at end of the year	¥ 12	¥ 8	$ 100

(4) The reconciliation of the ending balance of retirement benefit obligation and plan assets and liability for retirement benefits recorded in the consolidated balance sheets as of 31st March, 2015 and 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Retirement benefit obligation for funded plans	¥ 1,874	¥ 1,430	$ 15,597
Plan assets	(1,209)	(1,059)	(10,062)
	665	371	5,535
Retirement benefit obligation for unfunded plans	12	8	100
Net liability recorded in the consolidated balance sheet	677	379	5,635
Liability for retirement benefits	677	379	5,635
Liability for retirement benefits recorded in the consolidated balance sheet	¥ 677	¥ 379	$ 5,635

(5) The breakdown of retirement benefit expenses for the years ended 31st March, 2015 and 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥ 59	¥ 69	$ 491
Interest cost	33	29	275
Expected return on plan assets	(25)	(21)	(208)
Retirement benefit expenses calculated using simplified method	4	2	33
Other	30	10	250
Retirement benefit expenses for defined benefit pension plans	¥ 101	¥ 89	$ 841

(6) The breakdown of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the year ended 31st March, 2015 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Actuarial loss	¥ 238	$ 1,981
Balance at end of the year	¥ 238	$ 1,981

(7) The breakdown of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of 31st March, 2015 and 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized actuarial loss	¥ 481	¥ 242	$ 4,003
Total	¥ 481	¥ 242	$ 4,003

(8) The components of plan assets as of 31st March, 2015 and 2014 are summarized as follows:

	2015	2014
Debt securities	8.3%	11.2%
Equity securities	26.7	23.9
Cash and deposits	7.0	8.3
Real estate	27.5	27.4
Other	30.5	29.2
	100.0%	100.0%

(9) The assumptions used for the actuarial calculations for the years ended 31st March, 2015 and 2014 are summarized as follows:

	2015	2014
Discount rates	0.75 – 1.30%	2.25 – 2.90%
Expected rates of return on plan assets	1.30 – 2.25%	2.25 – 2.90%
Rates of salary increase	2.25 – 2.50%	2.25 – 3.35%

Defined Contribution Pension Plans

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Contributions to the pension plan	¥ 1,194	¥ 1,082	$ 9,938
Contributions to a small- and medium-sized enterprise mutual aid plan	10	10	83
Contributions to a mutual aid plan defined by the Order for Enforcement of the Income Tax Act	—	13	—

8. 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 0.22% and 0.42% as of 31st March, 2015 and 2014, respectively.

For effective financing purposes, the Company and two domestic consolidated subsidiaries concluded committed bank overdraft agreements with three banks as of 31st March, 2015 and 2014. The status of such agreements as of 31st March, 2015 and 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Lines of credit of bank overdrafts	¥ 81,195	¥ 16,050	$ 675,780
Bank overdrafts utilized	(48,156)	(90)	(400,799)
Available credit	¥ 33,039	¥ 15,960	$ 274,981

For effective financing purposes, the Company concluded committed line-of-credit agreements with 4 and 22 banks as of 31st March, 2015 and 2014, respectively. The status of such agreements as of 31st March, 2015 and 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Committed lines of credit	¥ 20,000	¥ 50,000	$ 166,459
Short-term loans utilized	—	—	—
Available credit	¥ 20,000	¥ 50,000	$ 166,459

Long-term debt as of 31st March, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Bonds:			
0.37% yen bonds due 2015	¥ —	¥ 15,000	$ —
0.55% yen bonds due 2017	15,000	15,000	124,843
0.52% yen bonds due 2018	20,000	20,000	166,459
Long-term bank loans	20,000	—	166,459
Finance lease obligations:			
Finance lease agreements	4,291	4,297	35,714
Subtotal	59,291	54,297	493,475
Less current portion	(340)	(15,443)	(2,830)
Long-term debt, net	¥ 58,951	¥ 38,854	$ 490,645

The aggregate annual maturities of long-term debt subsequent to 31st March, 2015 are summarized as follows:

Years ending 31st March,	Millions of yen	Thousands of U.S. dollars
2016	¥ 340	$ 2,830
2017	15,478	128,822
2018	20,460	170,287
2019	20,495	170,578
2020	834	6,942
2021 and thereafter	1,684	14,016
Total	¥ 59,291	$ 493,475

9. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in statutory tax rates of approximately 35.38% and 37.75% for the years ended 31st March, 2015 and 2014, respectively. The overseas subsidiaries are subject to the income tax regulations of the respective countries in which they operate.

The reconciliation of the differences between the statutory tax rates and effective tax rates for the years ended 31st March, 2015 and 2014 as a percentage of income before income taxes and minority interests is as follows:

	2015	2014
Statutory tax rates	**35.38%**	37.75%
Increase (decrease) in income taxes resulting from:		
Permanent non-deductible expenses	**1.12**	1.63
Tax credit	**(4.36)**	(1.62)
Permanent non-taxable income	**(0.46)**	(1.69)
Per capita portion of inhabitants' taxes	**0.22**	0.39
Temporary differences relating to investments in subsidiaries	**1.78**	(9.89)
Reversal of valuation allowance	**(8.61)**	(11.01)
Decrease of deferred tax assets resulting from change in statutory tax rate	**0.16**	1.02
Other, net	**0.94**	(0.49)
Effective tax rates	**26.17%**	16.09%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries as of 31st March, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Current			
Deferred tax assets (reflected in current assets):			
Inventories	**¥ 1,256**	¥ 994	**$ 10,454**
Elimination of unrealized gain on inventories	**676**	19	**5,626**
Allowance for doubtful receivables	**3**	2	**25**
Accrued enterprise taxes	**350**	159	**2,913**
Tax loss carryforwards	**—**	887	**—**
Other	**991**	1,063	**8,248**
Deferred tax assets, subtotal	**3,276**	3,124	**27,266**
Less: valuation allowance	**(1)**	(57)	**(8)**
Deferred tax assets, total	**3,275**	3,067	**27,258**
Offset of deferred tax liabilities	**—**	—	**—**
Deferred tax assets, net	**¥ 3,275**	¥ 3,067	**$ 27,258**
Deferred tax liabilities (reflected in current liabilities):			
Other	**¥ (50)**	¥ (6)	**$ (416)**
Deferred tax liabilities, total	**(50)**	(6)	**(416)**
Offset of deferred tax assets	**—**	—	**—**
Deferred tax liabilities, net	**¥ (50)**	¥ (6)	**$ (416)**
Non-current			
Deferred tax assets (reflected in investments and other assets):			
Inventories	**¥ 1,133**	¥ 1,049	**$ 9,430**
Loss on devaluation of investments in securities	**797**	879	**6,633**
Shares of subsidiaries transferred by contribution in kind	**1,357**	1,498	**11,294**
Depreciation	**602**	435	**5,010**
One-time write-off applied to assets	**21**	10	**175**
Allowance for doubtful receivables	**14**	16	**117**
Tax loss carryforwards	**892**	2,992	**7,424**
Other	**825**	1,742	**6,867**
Deferred tax assets, subtotal	**5,641**	8,621	**46,950**
Less: valuation allowance	**(4,953)**	(8,346)	**(41,223)**
Deferred tax assets, total	**688**	275	**5,727**
Offset of deferred tax liabilities	**(203)**	—	**(1,690)**
Deferred tax assets, net	**¥ 485**	¥ 275	**$ 4,037**
Deferred tax liabilities (reflected in long-term liabilities):			
Reserve for depreciation for tax purposes	**¥ (70)**	¥ (80)	**$ (583)**
Unrealized holding gain on securities	**(2,351)**	(1,460)	**(19,567)**
Other	**(2,301)**	(1,038)	**(19,151)**
Deferred tax liabilities, total	**(4,722)**	(2,578)	**(39,301)**
Offset of deferred tax assets	**203**	—	**1,690**
Deferred tax liabilities, net	**¥ (4,519)**	¥ (2,578)	**$ (37,611)**
Deferred tax liabilities on land revaluation reserve (reflected in long-term liabilities):			
Deferred tax liabilities on land revaluation reserve	**¥ (1,346)**	¥ (1,485)	**$ (11,202)**

On 31st March, 2015, new tax reform laws were enacted in Japan, which reduced corporate tax rates effective from fiscal years beginning on or after 1st April, 2015. As a result, the effective statutory tax rate used to calculate deferred tax assets and liabilities was changed from 35.38% to 32.83% for calculating temporary differences expected to be realized or settled in the fiscal period beginning on 1st April, 2015 and the fiscal year beginning on 1st January, 2016, and to 32.06% for the fiscal year beginning 1st January, 2017 and thereafter.

As a result of this change, deferred tax liabilities after deduction of deferred tax assets decreased by ¥223 million ($1,855 thousand) and income taxes - deferred, net, unrealized holding gain on securities and net unrealized gain on derivative instruments increased by ¥33 million ($275 thousand), ¥243 million ($2,022 thousand) and ¥13 million ($108 thousand), respectively, as of and for the year ended 31st March, 2015. Deferred tax liabilities on land revaluation reserve decreased by ¥139 million ($1,157 thousand) and land revaluation reserve increased by the same amount as of 31st March, 2015.

10. 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, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at beginning of the year	¥ 102	¥ 63	$ 849
Increase due to additions of office lease agreements	7	4	58
Increase due to change in estimation of restoration costs	—	34	—
Decrease due to settlement of asset retirement obligations	(61)	—	(507)
Other adjustments	1	1	8
Balance at end of the year	¥ 49	¥ 102	$ 408

11. 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 as of 31st March, 2015 and 2014.

Common stock and treasury stock

Movements in common stock and treasury stock for the years ended 31st March, 2015 and 2014 are summarized as follows:

	Number of Shares			
	1st April, 2014	Increase	Decrease	31st March, 2015
Common stock	132,943,683	—	—	132,943,683
Treasury stock (*1)	3,005,226	2,010,103	—	5,015,329

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

(*1) The increases in the number of shares in treasury stock consist of 2,009,129 shares due to the changes in equity in investments in affiliates and 974 shares due to purchases of shares of less than one voting unit.

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

(*3) 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 7,665,853 shares owing to the disposal of treasury stock for the international offering and 104,000 shares due to exercising of stock options.

Stock option plans

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

Gains related to stock options for the years ended 31st March, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Gain on reversal of stock acquisition rights	¥ 32	¥ 374	$ 266

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

Company	Date of approval	Number of options granted	Exercisable period
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

There is no stock option plan as of 31st March, 2015.

Movements in stock option and exercise price as of and for the year ended 31st March, 2015 are summarized as follows:

Company	The Company	Taiyo Koki Co., Ltd.
Date of approval	17th June, 2009	19th June, 2009
Not vested:		
Outstanding as of 1st April, 2014	—	—
Granted	—	—
Forfeited	—	—
Vested	—	—
Outstanding as of 31st March, 2015	—	—
Vested:		
Outstanding as of 1st April, 2014	106,000	28,000
Vested	—	—
Exercised	—	6,300
Forfeited	106,000	21,700
Outstanding as of 31st March, 2015	—	—
Exercise price (Yen)	¥ 1,061	¥ 643
Weighted average exercise price (Yen)	—	1,110
Weighted average fair value per stock at the granted date (Yen)	219	284
Exercise price (U.S. dollars)	$ 8.83	$ 5.35
Weighted average exercise price (U.S. dollars)	—	9.24
Weighted average fair value per stock at the granted date (U.S. dollars)	1.82	2.36

12. 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 ¥1,898 million ($15,797 thousand) and ¥1,759 million as of 31st March, 2015 and 2014, respectively. The applicable tax effect has been stated as a component of long-term liabilities; “Deferred income taxes on land revaluation reserve” amounted to ¥1,346 million ($11,202 thousand) and ¥1,485 million as of 31st March, 2015 and 2014, respectively. The fair value of the revalued land was less than its carrying value by ¥3,991 million ($33,217 thousand) and ¥3,937 million as of 31st March, 2015 and 2014, respectively.

13. Contingent Liabilities

As of 31st March, 2015 and 2014, the Company had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Guarantees of lease payments by customers	¥ 3,379	¥ 3,130	$ 28,123
Guarantees of loans of DMG MORI Finance GmbH (formerly, MG Finance GmbH)	12,598	13,229	104,852
Guarantees of assigned accounts receivable	5,966	1,762	49,655

14. Loss on Devaluation of Inventories

Cost of sales included a loss on devaluation of inventories of ¥1,338 million ($11,136 thousand) and ¥1,649 million for the years ended 31st March, 2015 and 2014, respectively. Furthermore, loss on devaluation of inventories was included in business restructuring expenses in the amount of ¥1,502 million for the year ended 31st March, 2014.

15. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Research and development costs	¥ 3,872	¥ 3,363	$ 32,226

16. Derivative Transactions

The estimated fair value of the derivatives positions outstanding which do not qualify for deferral hedge accounting as of 31st March, 2015 and 2014 is summarized as follows:

	Millions of yen			Millions of yen			Thousands of U.S. dollars		
	2015			2014			2015		
	Contract value (notional principal amount)	Estimated fair value	Unrealized (loss) gain	Contract value (notional principal amount)	Estimated fair value	Unrealized loss	Contract value (notional principal amount)	Estimated fair value	Unrealized (loss) gain
Forward foreign exchange contracts									
Selling:									
U.S. dollars	¥ 3,163	¥ (1)	¥ (1)	¥ —	¥ —	¥ —	$ 26,325	$ (8)	$ (8)
Euro	3,405	280	280	2,023	(99)	(99)	28,340	2,330	2,330
Total	¥ 6,568	¥ 279	¥ 279	¥ 2,023	¥ (99)	¥ (99)	$ 54,665	$ 2,322	$ 2,322

The estimated fair value of the derivatives positions outstanding which qualify for deferral hedge accounting as of 31st March, 2015 and 2014 is summarized as follows:

		Millions of yen			Millions of yen			Thousands of U.S. dollars		
		2015			2014			2015		
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	Contract value (notional principal amount)	Contract value (over 1 year)	Estimated fair value
Forward foreign exchange contracts										
Selling:	Accounts receivable (forecasted transaction)									
U.S. dollars		¥ 7,173	¥ —	¥ 3	¥ —	¥ —	¥ —	$ 59,700	$ —	$ 25
Euro		5,594	—	517	6,058	3,227	(290)	46,558	—	4,303
Thai baht		392	—	(3)	—	—	—	3,263	—	(25)
Total		¥ 13,159	¥ —	¥ 517	¥ 6,058	¥ 3,227	¥ (290)	$ 109,521	$ —	$ 4,303

17. 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, 2015 under operating leases are summarized as follows:

Years ending 31st March,	Millions of yen	Thousands of U.S. dollars
2016	¥ 1,320	$ 10,986
2017 and thereafter	10,284	85,593
Total	¥ 11,604	$ 96,579

18. Financial Instruments

Status of financial instruments

(1) Policy for financial instruments

The Group raises 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 does 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 are utilized for making the tender offer for DMG MORI AG in Germany, long-term bank loans are utilized for redemption of bonds and obtaining long-term secured funds, and bonds are mainly utilized for capital expenditure. The repayment terms of long-term bank loans and bonds extend up to four years and three years, respectively, from the balance sheet date. Short-term bank loans are refinanced within one month until the settlement of acquisition of shares of DMG MORI AG is completed after obtaining approvals from authorities responsible for antitrust laws and fair competition laws in all of the countries concerned. Long-term bank loans and 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 the derivative transactions.

Fair value of financial instruments

The amounts recorded in the consolidated balance sheets, the fair value and the difference as of 31st March, 2015 and 2014 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		
	2015			2014			2015		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Assets									
Cash and cash deposits	¥ 21,427	¥ 21,427	¥ —	¥ 18,935	¥ 18,935	¥ —	$ 178,335	$ 178,335	$ —
Notes and accounts receivable, trade	36,522	36,522	—	32,989	32,989	—	303,970	303,970	—
Investments in securities:									
Other securities	15,075	15,075	—	11,591	11,591	—	125,468	125,468	—
Total assets	¥ 73,024	¥ 73,024	¥ —	¥ 63,515	¥ 63,515	¥ —	$ 607,773	$ 607,773	$ —
Liabilities									
Short-term bank loans	¥ 48,156	¥ 48,156	¥ —	¥ 90	¥ 90	¥ —	$ 400,799	$ 400,799	$ —
Accounts payable, trade	18,490	18,490	—	11,937	11,937	—	153,891	153,891	—
Bonds included in long-term debt (*1)	35,000	35,113	113	50,000	50,212	212	291,302	292,243	941
Long-term bank loans included in long-term debt	20,000	20,000	—	—	—	—	166,459	166,459	—
Total liabilities	¥ 121,646	¥ 121,759	¥ 113	¥ 62,027	¥ 62,239	¥ 212	$ 1,012,451	$ 1,013,392	$ 941
Derivative transactions									
Subject to hedge accounting included in other current assets	¥ 517	¥ 517	¥ —	¥ (290)	¥ (290)	¥ —	$ 4,303	$ 4,303	$ —
Not subject to hedge accounting included in other current assets	279	279	—	(99)	(99)	—	2,322	2,322	—
Total derivative transactions (*2)	¥ 796	¥ 796	¥ —	¥ (389)	¥ (389)	¥ —	$ 6,625	$ 6,625	$ —

(*1) This includes the current portion of bonds as of 31st March, 2014.
(*2) The value of assets and liabilities arising from derivative transaction 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 these are repaid within one month until the settlement of the acquisition of shares of DMG MORI AG is completed, 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.

Long-term bank loans

The fair value of those long-term bank loans with fixed interest rates is calculated based on the present value of total amount of principal and interest discounted by the expected interest rate which would be applied for a similar new borrowing.

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
	2015	2014	2015
Investments in unconsolidated subsidiaries	¥ 100	¥ 137	$ 832
Investments in affiliates	14,786	12,335	123,063
Investments in unlisted stocks	1,130	655	9,405
Investments in limited liability partnership	65	77	541
Total	¥ 16,081	¥ 13,204	$ 133,841

For the year ended 31st March, 2014, loss on devaluation of shares of a subsidiary in the amount of ¥35 million was recorded.

Note 3: Redemption schedule for monetary claims and investments in securities with maturities subsequent to 31st March, 2015 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	¥ 21,427	¥ —	¥ —	¥ —	$ 178,335	$ —	$ —	$ —
Notes and accounts receivable, trade	36,522	—	—	—	303,970	—	—	—
Total	¥ 57,949	¥ —	¥ —	¥ —	$ 482,305	$ —	$ —	$ —

19. Business Restructuring Expenses

Business restructuring expense was not recorded for the year ended 31st March, 2015.

Taking into account its increased collaboration with DMG MORI 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
The Company	Production technology	Patent	¥ 871
	Management	Software	345
	—	Other	108
Total			¥ 1,324

The Company recognized losses on impairments of patents and other 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 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.

20. Related Party Transactions

Transactions with related parties

Related party transactions for the year ended 31st March, 2015 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 as of 31st March, 2015 (Millions of yen)	The balance as of 31st March, 2015 (Thousands of U.S. dollars)
Affiliate	DMG MORI Europe AG (*1)	Switzerland	CHF	76,000 thousand	Sales and service of machine tools	40.0%	Sale of the Company's products Secondment of officers	Sales of machine tools (*2)	¥ 19,848	$ 165,194	Accounts receivable	¥ 2,520	$ 20,974
	DMG MORI Finance GmbH	Germany	EUR	15,000 thousand	Finance and leasing	42.6%	Sale of the Company's products Secondment of officers	Loan guarantees (*3)	12,598	104,852	—	—	—

(*1) DMG MORI SEIKI Europe AG is changing its name to DMG MORI Europe AG.
(*2) The sales terms are determined based on an arms-length transaction.
(*3) This represents guarantees of bank loans of DMG MORI Finance GmbH.

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)	Account name	The balance as of 31st March, 2014 (Millions of yen)
Affiliate	DMG MORI AG	Germany	EUR	204,926 thousand	Sales of machine tools	24.3% (9.6%)	Capital and business alliance Secondment of officers	Issuance of shares (*1)	¥ 2,945	—	—
								Contribution in kind (*2)	7,405	—	—
								Allotment of shares (*3)	7,296	—	—
	DMG MORI Europe AG	Switzerland	CHF	76,000 thousand	Sales and service of machine tools	40.0%	Sale of the Company's products Secondment of officers	Sales of machine tools (*4)	17,873	Accounts receivable	¥ 4,832
	DMG MORI Finance GmbH	Germany	EUR	15,000 thousand	Finance and leasing	42.6%	Sale of the Company's products	Loan guarantees (*5)	13,229	—	—

(*1) DMG MORI 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 AG.
(*3) The Company acquired 3,835,244 shares newly issued by DMG MORI AG.
(*4) The sales terms are determined based on an arms-length transaction.
(*5) This represents guarantees of bank loans of DMG MORI Finance GmbH.

Note on significant affiliates accounted for using the equity method

The following is a summary of the financial statements of DMG MORI AG and DMG MORI Europe AG as of 31st December, 2014 and 2013 and for the years then ended, in which the Company recorded equity earnings for the years ended 31st March, 2015 and 2014, respectively.

DMG MORI AG

	Millions of Euro	
	As of 31st December	
	2014	**2013**
Total current assets	**€ 1,350**	€ 1,224
Total long-term assets	**880**	786
Total current liabilities	**831**	765
Total long-term liabilities	**133**	81
Total net assets	**1,266**	1,164

	Millions of Euro	
	The year ended 31st December, 2014	**The year ended 31st December, 2013**
Net sales	**€ 2,229**	€ 2,054
Income before income taxes	**175**	135
Net income	**121**	93

DMG MORI Europe AG

	Millions of Euro	
	As of 31st December	
	2014	**2013**
Total current assets	**€ 374**	€ 328
Total long-term assets	**53**	52
Total current liabilities	**274**	252
Total long-term liabilities	**5**	4
Total net assets	**148**	124

	Millions of Euro	
	The year ended 31st December, 2014	**The year ended 31st December, 2013**
Net sales	**€ 751**	€ 663
Income before income taxes	**33**	26
Net income	**25**	21

21. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects of other comprehensive income for the years ended 31st March, 2015 and 2014.

	Millions of yen		Thousands of U.S. dollars
	2015	**2014**	**2015**
Net unrealized holding gain on securities:			
Amount arising during the year	**¥ 3,491**	¥ 1,488	**$ 29,055**
Reclassification adjustments for gains realized in statements of income	**(7)**	—	**(58)**
Amount before the adjustment of tax effect	**3,484**	1,488	**28,997**
Tax effect	**(891)**	(566)	**(7,416)**
Net unrealized holding gain on securities	**2,593**	922	**21,581**
Net unrealized gain (loss) on derivative instruments:			
Amount arising during the year	**409**	(290)	**3,404**
Reclassification adjustments for losses realized in statement of income	**59**	—	**491**
Amount before the adjustment of tax effect	**468**	(290)	**3,895**
Tax effect	**121**	48	**1,007**
Net unrealized gain (loss) on derivative instruments	**589**	(242)	**4,902**
Land revaluation reserve:			
Tax effect	**139**	—	**1,157**
Land revaluation reserve	**139**	—	**1,157**
Translation adjustments:			
Amount arising during the year	**2,289**	2,382	**19,051**
Reclassification adjustments for (losses) gains realized in statement of income	**(23)**	2	**(191)**
Translation adjustments	**2,266**	2,384	**18,860**
Retirement benefits liability adjustments:			
Amount arising during the year	**(263)**	—	**(2,189)**
Reclassification adjustments for losses included in net income	**25**	—	**208**
Retirement benefits liability adjustments	**(238)**	—	**(1,981)**
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	**330**	10,616	**2,747**
Reclassification adjustments for gains realized in statement of income	**(2)**	(251)	**(17)**
Share of other comprehensive income of affiliates accounted for by the equity method	**328**	10,365	**2,730**
Total other comprehensive income	**¥ 5,677**	¥ 13,429	**$ 47,249**

22. 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 ¥41 million ($341 thousand) and ¥105 million for the years ended 31st March, 2015 and 2014, respectively.

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

(2) Business transfer

Mori Seiki Canada, Ltd., a sub-subsidiary of the Company executed a contribution in kind of a part of its assets and liabilities. The Company recorded ¥30 million 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 resulting from this business transfer.

(3) Assets and liabilities of a 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
Current assets	¥ 884
Non-current assets	809
Goodwill	560
Current liabilities	(695)
Non-current liabilities	(311)
Acquisition cost of TYLER	1,247
Subsequent milestone payment	(145)
Cash and cash equivalents of TYLER	(115)
Acquisition of shares of subsidiaries resulting in change in scope of consolidation	¥ 987

23. Amounts per Share

Amounts per share as of 31st March, 2015 and 2014 and for the years then ended are summarized as follows:

	Yen		U.S. dollars
	2015	**2014**	**2015**
Amounts per share:			
Net assets	**¥1,301.93**	¥1,164.59	**$10.84**
Net income:			
Basic	**117.28**	85.73	**0.98**
Diluted	**117.27**	85.69	**0.98**
Cash dividends	**25.00**	22.00	**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.

The dilutive shares not included in the calculation of "Net income per share (diluted)" for the year ended 31st March, 2014 were 280 stock acquisition rights issued by a domestic consolidated subsidiary.

24. 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.

The allocation method of operating expenses for reportable segments has been modified in line with change of management method for operational results by reportable segments from the year ended 31st March, 2015. As a result, the segment information for the year ended 31st March, 2014 has also been restated.

(2) Calculation method of net sales, income, 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 is based on operating income. Inter-segment sales and transfers between segments are based on market prices.

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

Reportable segment information for the years ended 31st March, 2015 and 2014 are summarized as follows:

	Millions of yen				
	2015				
	Japan	The Americas	Europe	China and Asia	Total
Net sales					
Sales to third parties	¥ 55,415	¥ 63,153	¥ 34,188	¥ 21,904	¥ 174,660
Inter-segment sales and transfers	79,720	2,148	3,473	698	86,039
Total	¥ 135,135	¥ 65,301	¥ 37,661	¥ 22,602	¥ 260,699
Segment income	¥ 10,606	¥ 906	¥ 1,498	¥ 1,253	¥ 14,263
Segment assets	156,465	43,663	142,648	16,891	359,667
Other items:					
Depreciation and amortization	4,964	1,090	407	343	6,804
Amortization of goodwill	186	89	14	—	289
Investments in affiliates accounted for by the equity method	689	1,274	99,718	1,826	103,507
Increase in property, plant and equipment and intangible assets	7,013	899	85	540	8,537

	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	¥ 6,282	¥ 1,377	¥ 979	¥ 668	¥ 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

	Thousands of U.S. dollars				
	2015				
	Japan	The Americas	Europe	China and Asia	Total
Net sales					
Sales to third parties	$ 461,215	$ 525,618	$ 284,544	$ 182,306	$ 1,453,683
Inter-segment sales and transfers	663,504	17,878	28,906	5,809	716,097
Total	$ 1,124,719	$ 543,496	$ 313,450	$ 188,115	$ 2,169,780
Segment income	$ 88,273	$ 7,541	$ 12,467	$ 10,429	$ 118,710
Segment assets	1,302,247	363,404	1,187,249	140,583	2,993,483
Other items:					
Depreciation and amortization	41,315	9,072	3,387	2,855	56,629
Amortization of goodwill	1,548	741	117	—	2,406
Investments in affiliates accounted for by the equity method	5,734	10,603	829,946	15,198	861,481
Increase in property, plant and equipment and intangible assets	58,369	7,482	708	4,494	71,053

(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	2015	2014	2015
Segment income	¥ 14,263	¥ 9,306	$ 118,710
Elimination of unrealized gain	(27)	51	(225)
Operating income in the consolidated statements of income	¥ 14,236	¥ 9,357	$ 118,485

(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	2015	2014	2015
Segment assets	¥ 359,667	¥ 253,711	$ 2,993,483
Unallocated assets	16,388	12,480	136,396
Adjustment of unrealized gain	(1,389)	(1,380)	(11,560)
Inter-segment transactions	(51,326)	(23,140)	(427,183)
Assets in the consolidated balance sheets	¥ 323,340	¥ 241,671	$ 2,691,136

Related information

(a) 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, 2015 and 2014 has been omitted.

(b) Regional information

(i) Net sales for the years ended 31st March, 2015 and 2014 are summarized as follows:

Millions of yen					
2015					
Japan	USA	The Americas other than USA	Europe	China and Asia	Total
¥ 55,415	**¥ 59,137**	**¥ 4,016**	**¥ 34,188**	**¥ 21,904**	**¥ 174,660**

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

Thousands of U.S. dollars					
2015					
Japan	USA	The Americas other than USA	Europe	China and Asia	Total
$ 461,215	**$ 492,193**	**$ 33,425**	**$ 284,544**	**$ 182,306**	**$ 1,453,683**

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

(ii) Property, plant and equipment as of 31st March, 2015 and 2014 are summarized as follows:

Millions of yen				
2015				
Japan	The Americas	Europe	China and Asia	Total
¥ 51,146	**¥ 9,505**	**¥ 6,038**	**¥ 5,498**	**¥ 72,187**

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

Thousands of U.S. dollars				
2015				
Japan	The Americas	Europe	China and Asia	Total
$ 425,685	**$ 79,109**	**$ 50,254**	**$ 45,759**	**$ 600,807**

(iii) Major customers

Major customers for the year ended 31st March, 2015 are as follows:

Name of customer	Net sales (Millions of yen)	Net sales (Thousands of U.S. dollars)	Reportable segment
Ellison Technologies, Inc.	**¥ 40,127**	**$ 333,974**	The Americas
DMG MORI Europe AG	**19,848**	**165,194**	Europe

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

Name of customer	Net sales (Millions of yen)	Reportable segment
Ellison Technologies, Inc.	¥ 36,668	The Americas
DMG MORI Europe AG	17,873	Europe

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 as of 31st March, 2015 and 2014 is as follows:

	Millions of yen				
	2015				
	Japan	The Americas	Europe	China and Asia	Total
Amortization for the year	**¥ 186**	**¥ 89**	**¥ 14**	**¥ —**	**¥ 289**
Balance at the year end	**—**	**658**	**271**	**—**	**929**

	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

	Thousands of U.S. dollars				
	2015				
	Japan	The Americas	Europe	China and Asia	Total
Amortization for the year	**$ 1,548**	**$ 741**	**$ 117**	**$ —**	**$ 2,406**
Balance at the year end	**—**	**5,476**	**2,256**	**—**	**7,732**

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

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

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

There is no loss on impairment of property, plant and equipment recognized for the year ended 31st March, 2015. Loss on impairment was included in business restructuring expenses for the year ended 31st March, 2014.

25. Subsequent Events

(1) Appropriation of retained earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2015, was approved at the annual general meeting of the shareholders of the Company held on 19th June, 2015.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥13.00 ($0.11) per share	¥ 1,727	$ 14,374

(2) Tender offer for DMG MORI AG

At the meeting of the Board of Directors of the Company held on 22nd January, 2015, a resolution was passed to implement a tender offer (the "Tender Offer") in accordance with German law by DMG MORI GmbH, a consolidated subsidiary of the Company, for DMG MORI AG which the Company has a capital relationship and business collaboration with and had been an affiliate of the Company accounted for by the equity method. Following the resolution, the Company implemented the Tender Offer.

Since the approvals from the legal authorities responsible for antitrust laws and fair competition laws in the countries concerned were obtained by 30th April, 2015, and the settlement of the tendered shares was completed on 7th May 2015, the voting ratio of the Company and DMG MORI GmbH in DMG MORI AG increased to 52.54% and DMG MORI AG became the Company's consolidated subsidiary.

(a) Overview of business combination

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

Name	Nature of the business
DMG MORI AG	Manufacturing and sales of machine tools

(ii) Outline of the Tender Offer

The Tender Offer was implemented through DMG MORI GmbH for all DMG MORI AG shares held by shareholders excluding the Company.

i) Tender offer period:	From 11th February, 2015 to 25th March, 2015 (6 weeks)
ii) Additional tender offer period:	From 31st March, 2015 to 13th April, 2015 (2 weeks)
iii) Announcement of additional tender offer results:	17th April, 2015
iv) Tender offer price:	€30.55 per common share

(iii) Purpose of the Tender Offer

The Company entered into a capital/business collaboration agreement with DMG MORI AG in March 2009, as best partners optimally complementing their respective operations in terms of geographic sales regions, product lines and management resources, and the Company developed the collaboration with DMG MORI AG in the areas of sales, development, purchase and production. In October 2013, both companies changed their respective names to the current company names to be consistent with the uniform brand “DMG MORI”, and thereby further strengthened their collaboration. Also, the Company and DMG MORI AG have regularly held meetings of a “Joint Committee” and pursue results from their business collaboration. Although the business collaboration between the Company and DMG MORI AG has brought more success than expected at the time of the start of the collaboration, both companies have come to the conclusion that in order to further create corporate value, it will be the best solution that they operate together in an integrated manner also in terms of capital.

This Tender Offer will realize the integration of DMG MORI AG and the Company as a consolidated group, from which more cooperation can be expected. In the area of sales, the centralization of information achieved through this business combination will enable proposals and support that better meet customer needs and will contribute to further sales. In the areas of development and production, fusion with DMG MORI AG’s technologies such as 5-axis control technology and laser technology will promote the development of more attractive products, and will lead to enhanced profitability through integration of product models, standardization of components, and localized production. Over the next 5 years, these efforts for expanded sales and enhanced profitability will generate cash flows exceeding the investment, and will enhance corporate value. Also, the Company will seek to strengthen its services and foster human resources, in order to provide more support to its customers throughout the world.

(iv) Date of the business combination

7th May, 2015 (settlement date)

(v) Legal form of the business combination

Acquisition of shares for cash consideration

(vi) Name of the company after the business combination

DMG MORI AG

(vii) Ratio of voting rights acquired

	Total	The Company	DMG MORI GmbH
Before the tender offer:	24.33%	24.33%	—
Individual transactions:	16.31%	9.37%	6.94%
Tender offer:	11.90%	—	11.90%
After the tender offer:	52.54%	33.70%	18.84%

(b) Acquisition cost of the Tender Offer and the individual transactions

Individual transactions (Settlement completed by 31st March, 2015):	€ 381 million
Tender offer (Settlement completed on 7th May, 2015):	€ 286 million

(c) Gain or loss on step acquisition and value of goodwill recognized

Not yet determined.

(d) Funding method for acquisition

Funds required for this transaction were financed through bank loans.

Ernst & Young ShinNihon LLC

Building a better working world

Independent Auditor's Report

The Board of Directors
DMG MORI CO., LTD.

We have audited the accompanying consolidated financial statements of DMG MORI CO., LTD. ((formerly, DMG MORI SEIKI CO., LTD.) the "Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at 31st March, 2015, 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 CO., LTD. and its consolidated subsidiaries as at 31st March, 2015, 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

As described in Note 25 (2), the Company implemented a tender offer in accordance with German law through DMG MORI GmbH, its consolidated subsidiary, for DMG MORI AKTIENGESELLSCHAFT ((formerly, DMG MORI SEIKI AKTIENGESELLSCHAFT) "DMG MORI AG"), which is an affiliate of the Company accounted for by the equity method, and settlement of the tendered shares was completed on 7th May 2015. As a result, the voting ratio of the Company and DMG MORI GmbH in DMG MORI AG increased to 52.54% and DMG MORI AG became the Company's consolidated subsidiary. 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 ShinNihon LLC

19th June, 2015
Osaka, Japan

A member firm of Ernst & Young Global Limited

DMG MORI

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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