FINANCIAL SECTION

CONTENTS

Consolidated Financial Highlights

Ended 31st March 2014 and 2015 Ended 31st December 2015, 2016 and 2017		Billions of yen Japanese GAAP*1	Billions of yen IFRS				Millions of U.S. dollars*12
		2014/3	2015/3 *2	2015/12 *2,3,4,5	2016/12 *2,3	**2017/12** *2,3	**2017/12** *2,3
Financial Performance							
Sales revenues		160.7	174.4	318.4	376.6	**429.7**	**3,802**
Operating result		9.4	18.2	31.1	2.0	**29.4**	**260**
Earnings (loss) before income taxes		11.4	23.1	29.7	(1.1)	**24.8**	**219**
Profit (loss) attributable to owners of the parent		9.4	17.1	26.9	(7.8)	**15.3**	**135**
Profitability Ratio							
Return on investment (ROI) (%)	*6	5.1	7.6	9.7	0.6	**9.5**	
Return on equity (ROE) (%)	*7,8	7.4	10.9	17.0	(6.1)	**14.7**	
Return on total assets (ROA) (%)	*9	4.4	6.0	5.8	(1.4)	**2.7**	
Financial Position							
Total assets		241.7	323.8	598.0	558.2	**567.4**	**5,021**
Shareholders' equity	*7,10	151.3	162.0	155.3	100.4	**107.6**	**952**
Cash Flows							
Net cash flows from operating activities		5.9	7.3	18.6	18.2	**31.4**	**278**
Net cash flows used in investing activities		(17.5)	(58.7)	(26.9)	(10.0)	**(1.4)**	**(12)**
Net cash flows from (used in) financing activities		23.9	53.6	71.9	(18.4)	**(37.7)**	**(334)**
Free cash flow	*11	(11.6)	(51.3)	(8.3)	8.2	**30.0**	**265**
Number of Employees		4,159	4,324	12,230	12,307	**12,375**	

●The figures ( ) indicates the minus sign. The stated financial figures are based on the securities report but are not audited by audit corporations, etc.
*1 Itemization in accordance with International Financial Reporting Standards (IFRS).
*2 Starting from the fiscal period ended 31st December, 2015, IFRS has been voluntarily adopted.
*3 Starting from the fiscal period ended 31st March, 2015, the consolidated financial data are presented in accordance with IFRS.
*4 The fiscal period ended 31st December, 2015 is a period of nine months only due to the change in the fiscal period-end.
*5 From the fiscal period ended 31st December, 2015, the Company's accounts are consolidated with those of DMG MORI AG.
*6 Return on investment (ROI) (%) = Operating result / (Average equity + Average interest-bearing debt) × 100
*7 Under IFRS, shareholders' equity is shown as equity attributable to owners of the parent (including hybrid capital).
*8 Return on equity (ROE) (%) = Profit attributable to owners of the parent / Average equity × 100
*9 Return on total assets (ROA) (%) = Profit attributable to owners of the parent company / Average total assets × 100
*10 Shareholders' equity = Total equity – Stock acquisition rights – Non-controlling interests
*11 Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities
*12 The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥113 = U.S.$1.00, the exchange rate prevailing on 31st December, 2017.

Financial Summary

The following is an analysis of our financial situation, business results and cash flows during the fiscal year ended 31st December, 2017.

Analysis of Financial Position

(1) Assets
Current assets totaled 267,979 million yen ($2,371,496 thousand), mainly due to increase of 9,733 million yen in trade and other receivables, while Cash and cash equivalents decreased by 2,777 million yen.
Non-current assets stood at 299,431 million yen ($2,649,832 thousand), mainly due to increases of 7,706 million yen in goodwill and 2,969 million yen in other intangible assets, while Other financial assets decreased by 4,314 million yen and Property, plant and equipment decreased by 3,458 million yen.
As a result, total assets stood at 567,411 million yen ($5,021,336 thousand).

(2) Liabilities
Current liabilities totaled 159,958 million yen ($1,415,558 thousand). This mainly reflected decreases of 23,307 million yen in interest-bearing bonds and borrowings and 10,938 million yen in other financial liabilities, while increase of 19,013 million yen in advances received.
Non-current liabilities amounted to 297,433 million yen ($2,632,150 thousand), this primarily reflected increases of 26,083 million yen in other financial liabilities, while Interest-bearing bonds and borrowings decreased by 4,113 million yen.
As a result, total liabilities stood at 457,391 million yen ($4,047,708 thousand).

(3) Equity
Equity totaled 110,019 million yen ($973,619 thousand) mainly due to decreases of 14,042 million yen in treasury shares and 8,636 million yen in retained earnings.

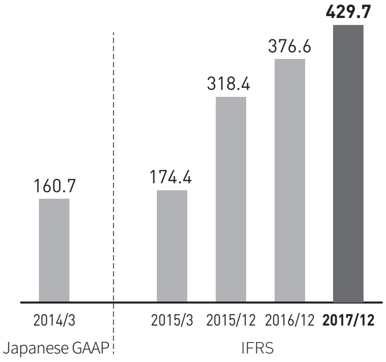
Analysis of Business Results

(1) Sales revenues
Sales revenues for the fiscal year amounted to 429,664 million yen ($3,802,336 thousand) (14.1% increase from the previous year). The share of sales by segment was 72.6% for machine tools and 27.4% for industrial services, while the share of sales by region was 15.3% for Japan, 23.3% for Germany, 18.3% for the Americas, 33.0% for Europe other than Germany, and 10.1% for China and Asia.

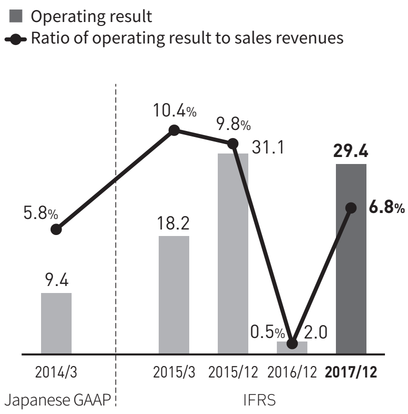
(2) Costs
Costs for the fiscal year totaled 412,301 million yen ($3,648,681 thousand) (7.4% increase from the previous year). The main components included 189,000 million yen ($1,672,556 thousand) (14.1% increase from the previous year) for costs of raw materials, consumables and goods for resale, 120,728 million yen ($1,068,389 thousand) (5.8% increase from the previous year) for personnel costs, and 18,344 million yen ($162,336 thousand) (3.7% increase from the previous year) for depreciation and amortization.

(3) Operating result
In the fiscal year, the operating result came to 29,391 million yen ($260,097 thousand) (1,398% increase from the previous year). By segment, the machine tools segment posted

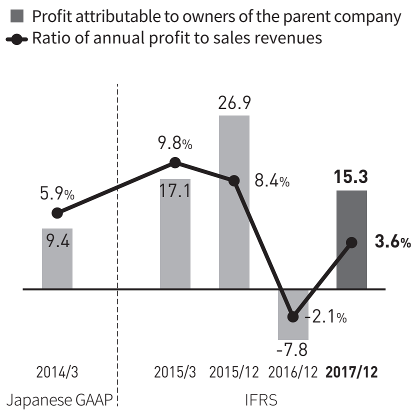
Sales revenues (Billions of yen)



Operating result (Billions of yen)
Ratio of operating result to sales revenues (%)



Profit attributable to owners of the parent company (Billions of yen)
Ratio of annual profit to sales revenues (%)



operating income of 31,407 million yen ($277,938 thousand) (169.1% increase from the previous year) and the industrial services segment posted operating income of 9,087 million yen ($80,416 thousand) (411.4% increase from the previous year).

(4) Net income or loss
Earnings before income taxes for the fiscal year amounted to 24,803 million yen ($219,496 thousand) (In the previous fiscal year, loss before income taxes of 1,064 million yen).
Following the application of tax effect accounting, income taxes came to 9,127 million yen ($80,770 thousand), an increase of 4,443 million yen from 4,684 million yen in the previous year.
As a result, the net income totaled 15,676 million yen ($138,726 thousand) (net loss of 5,749 million yen in the previous fiscal year), and income attributable to owners of the parent came to 15,263 million yen ($135,071 thousand) (loss attributable to the owner of the parent of 7,826 million yen in the previous fiscal year).

Analysis of Cash Flows

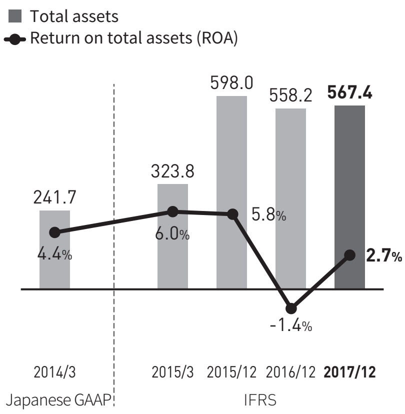
(1) Cash flows from operating activities
Net cash flows from operating activities totaled 31,423 million yen ($278,080 thousand). The main positive factors were 24,803 million yen ($219,496 thousand) of Earnings before income taxes, 18,344 million yen ($162,336 thousand) in depreciation and amortization, 4,649 million yen ($41,142 thousand) in financial income and costs, and a decrease of 5,324 million yen ($47,115 thousand) in inventories. The main negative factors were 5,502 million yen ($48,690 thousand) of Other non-cash transactions, increase of 6,601 million yen ($58,416 thousand) in trade and other receivables, and decrease of 9,872 million yen ($87,363 thousand) in Trade and other payables and income taxes paid of 9,703 million yen ($85,867 thousand).

(2) Cash flows from investing activities
Net cash flows used in investing activities came to 1,387 million yen ($12,274 thousand). The main positive item was 8,001 million yen ($70,805 thousand) in proceeds from sales of financial instruments, while the main negative factors were 5,895 million yen ($52,168 thousand) for purchases of property, plant and equipment and 3,488 million yen ($30,867 thousand) for purchases of intangible assets.

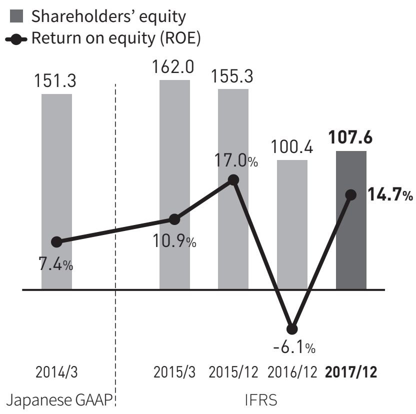
(3) Cash flows from financing activities
Net cash flows used in financing activities amounted to 37,726 million yen ($333,858 thousand). The main positive contributions were 65,372 million yen ($578,513 thousand) in proceeds from non-current borrowings, and 14,838 million yen ($131,310 thousand) of Proceeds from issue of debt instruments. The main negative factors were 87,489 million yen ($774,239 thousand) in payments for non-current borrowings, 20,000 million yen ($176,991 thousand) in redemption of bonds, and 5,251 million yen ($46,469 thousand) in Acquisition of treasury shares.

As a result, cash and cash equivalents as of 31st December, 2017, stood at 64,973 million yen ($574,982 thousand), a decrease of 2,777 million yen from 31st December, 2016.

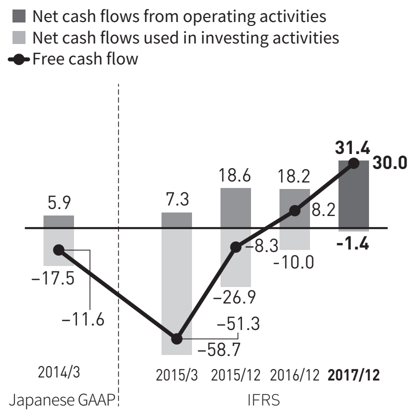
Total assets (Billions of yen)
Return on total assets (ROA) (%)



Shareholders' equity (Billions of yen)
Return on equity (ROE) (%)



Free cash flow (Billions of yen)



Consolidated Statement of Financial Position

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017 (31st December)	2016 (31st December)	**2017 (31st December)**
Assets			
Current assets:			
Cash and cash equivalents (Notes 7 and 24)	**¥ 64,973**	¥ 67,750	**$ 574,982**
Trade and other receivables (Notes 8 and 24)	**60,741**	51,008	**537,531**
Other financial assets (Notes 12 and 24)	**8,652**	8,228	**76,566**
Inventories (Note 9)	**122,981**	122,172	**1,088,327**
Other current assets	**10,629**	10,823	**94,062**
Total current assets	**267,979**	259,983	**2,371,496**
Non-current assets:			
Property, plant and equipment (Note 10)	**133,983**	137,441	**1,185,690**
Goodwill (Note 11)	**73,347**	65,641	**649,088**
Other intangible assets (Note 11)	**69,315**	66,346	**613,407**
Other financial assets (Notes 12 and 24)	**8,996**	13,310	**79,611**
Investments in associates and joint ventures (Note 13)	**2,229**	1,987	**19,726**
Deferred tax assets (Note 20)	**6,082**	5,809	**53,823**
Other non-current assets	**5,476**	7,701	**48,460**
Total non-current assets	**299,431**	298,238	**2,649,832**
Total assets	**¥567,411**	¥558,222	**$5,021,336**

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	**2017**
Liabilities			
Current liabilities:			
Trade and other payables (Notes 14 and 24)	**¥ 47,717**	¥ 55,861	**$ 422,274**
Interest-bearing bonds and borrowings (Notes 15 and 24)	**22,653**	45,960	**200,469**
Advances received	**45,696**	26,683	**404,389**
Other financial liabilities(Notes 16, 24 and 34)	**3,857**	14,796	**34,133**
Accrued income taxes	**4,002**	5,409	**35,416**
Provisions (Note 19)	**29,886**	26,045	**264,478**
Other current liabilities	**6,144**	5,505	**54,372**
Total current liabilities	**159,958**	180,261	**1,415,558**
Non-current liabilities:			
Interest-bearing bonds and borrowings (Notes 15 and 24)	**156,706**	160,820	**1,386,779**
Other financial liabilities (Notes 16, 24 and 34)	**120,907**	94,824	**1,069,973**
Net employee defined benefit liabilities (Note 18)	**6,254**	6,200	**55,345**
Provisions (Note 19)	**3,973**	4,088	**35,159**
Deferred tax liabilities (Note 20)	**7,844**	7,309	**69,416**
Other non-current liabilities	**1,746**	2,234	**15,451**
Total non-current liabilities	**297,433**	275,477	**2,632,150**
Total liabilities	**457,391**	455,739	**4,047,708**
Equity (Note 21)			
Subscribed capital	**51,115**	51,115	**452,345**
Capital surplus	**–**	–	**–**
Hybrid capital	**49,505**	49,505	**438,097**
Treasury shares	**(9,726)**	(23,769)	**(86,071)**
Retained earnings	**26,227**	34,863	**232,097**
Other components of equity	**(9,504)**	(11,266)	**(84,106)**
Equity attributable to owners of the parent	**107,617**	100,449	**952,363**
Non-controlling interests	**2,402**	2,033	**21,257**
Total equity	**110,019**	102,482	**973,619**
Total liabilities and equity	**¥567,411**	¥558,222	**$5,021,336**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Profit or Loss

Fiscal year ended 31st December, 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Fiscal year ended 31st December, 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year ended 31st December, 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year ended 31st December, 2017 (1st January, 2017 through 31st December, 2017)**
Revenues:			
Sales revenues (Note 25)	**¥429,664**	¥376,631	**$3,802,336**
Other operating revenues (Note 26)	**12,028**	9,175	**106,442**
Total revenue	**441,692**	385,806	**3,908,779**
Costs:			
Changes in merchandise, finished goods and work in progress for sale	**5,578**	5,604	**49,363**
Costs of raw materials, consumables and goods for resale (Note 9)	**189,000**	165,662	**1,672,566**
Personnel costs (Note 28)	**120,728**	114,121	**1,068,389**
Depreciation and amortization (Notes 10 and 11)	**18,344**	17,691	**162,336**
Other operating costs (Notes 10 and 27)	**78,650**	80,765	**696,018**
Total costs	**412,301**	383,845	**3,648,681**
Operating result	**29,391**	1,961	**260,097**
Financial income (Note 29)	**647**	711	**5,726**
Financial costs (Notes 30 and 34)	**5,297**	3,935	**46,876**
Share of profits of associates and joint ventures accounted for using equity method (Note 13)	**62**	196	**549**
Earnings (loss) before income taxes	**24,803**	(1,064)	**219,496**
Income taxes (Note 20)	**9,127**	4,684	**80,770**
Net income (loss)	**¥ 15,676**	¥ (5,749)	**$ 138,726**
Profit (loss) attributable to:			
Owners of the parent	**¥ 15,263**	¥ (7,826)	**$ 135,071**
Non-controlling interests	**412**	2,077	**3,646**
Net income (loss)	**¥ 15,676**	¥ (5,749)	**$ 138,726**

Earnings (loss) per share	Yen		U.S. dollars
Basic (Note 32)	**¥ 116.44**	¥ (67.80)	**$ 1.03**
Diluted (Note 32)	**¥ 115.59**	¥ (67.80)	**$ 1.02**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Fiscal year ended 31st December, 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Fiscal year ended 31st December, 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year ended 31st December, 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year ended 31st December, 2017 (1st January, 2017 through 31st December, 2017)**
Net income (loss)	**¥15,676**	¥ (5,749)	**$138,726**
Other comprehensive income (loss):			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plans	**(129)**	(120)	**(1,142)**
Subtotal	**(129)**	(120)	**(1,142)**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**4,044**	(20,099)	**35,788**
Effective portion of changes in fair value of cash flow hedge	**(31)**	(67)	**(274)**
Changes in fair value measurements of available-for-sale financial assets	**(2,602)**	(1,734)	**(23,027)**
Share of other comprehensive income (loss) of associates accounted for using equity method	**18**	(0)	**159**
Subtotal	**1,428**	(21,901)	**12,637**
Total other comprehensive income (loss) for the period (Note 31)	**1,298**	(22,022)	**11,487**
Comprehensive income (loss)	**¥16,974**	¥(27,771)	**$150,212**
Comprehensive income (loss) attributable to:			
Owners of the parent	**16,566**	(22,412)	**146,602**
Non-controlling interests	**408**	(5,359)	**3,611**
Total	**¥16,974**	¥(27,771)	**$150,212**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Fiscal year ended 31st December, 2017

	Millions of yen								
	Equity attributable to owners of the parent								
	Subscribed capital	Capital surplus	Hybrid capital	Treasury shares	Retained earnings	Other components of equity (Note 21)	Subtotal	Non-controlling interests	Total equity
As at 1st January, 2016	¥51,115	¥53,057	¥ –	¥(23,768)	¥71,466	¥ 3,399	¥155,270	¥76,837	¥232,107
Net loss	–	–	–	–	(7,826)	–	(7,826)	2,077	(5,749)
Other comprehensive loss	–	–	–	–	–	(14,585)	(14,585)	(7,436)	(22,022)
Total comprehensive loss	–	–	–	–	(7,826)	(14,585)	(22,412)	(5,359)	(27,771)
Issue of hybrid capital (Note 21)	–	–	50,000	–	–	–	50,000	–	50,000
Issue cost of hybrid capital (Note 21)	–	–	(494)	–	–	–	(494)	–	(494)
Payment to the owner of hybrid capital	–	–	–	–	–	–	–	–	–
Acquisition of treasury shares (Note 21)	–	–	–	(0)	–	–	(0)	–	(0)
Cancellation of treasury shares	–	–	–	–	–	–	–	–	-
Disposition of treasury shares (Note 21)	–	(0)	–	0	–	–	0	–	0
Cash dividends (Note 22)	–	–	–	–	(3,121)	–	(3,121)	(1,402)	(4,523)
Share-based payments (Note 23)	–	–	–	–	–	83	83	–	83
Changes due to business combinations	–	–	–	–	–	–	–	65	65
Transfers	–	–	–	–	164	(164)	–	–	–
Total transactions with owners of the parent	–	(0)	49,505	(0)	(2,956)	(80)	46,468	(1,336)	45,131
Acquisition of non-controlling interests	–	(32,552)	–	–	–	–	(32,552)	(28,990)	(61,543)
Payment obligation for non-controlling interests (Note 34)	–	(20,505)	–	–	(25,819)	–	(46,325)	(39,116)	(85,441)
Changes in ownership interests in subsidiaries and others	–	(53,057)	–	–	(25,819)	–	(78,877)	(68,107)	(146,984)
As at 31st December, 2016	¥51,115	¥ –	¥49,505	¥(23,769)	¥34,863	¥(11,266)	¥100,449	¥ 2,033	¥102,482
Net income	**¥ –**	**¥ –**	**¥ –**	**¥ –**	**¥15,263**	**¥ –**	**¥ 15,263**	**¥ 412**	**¥ 15,676**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**1,302**	**1,302**	**(4)**	**1,298**
Total comprehensive income	**–**	**–**	**–**	**–**	**15,263**	**1,302**	**16,566**	**408**	**16,974**
Issue of hybrid capital	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issue cost of hybrid capital	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Payment to the owner of hybrid capital (Note 21)	**–**	**–**	**–**	**–**	**(1,069)**	**–**	**(1,069)**	**–**	**(1,069)**
Acquisition of treasury shares (Note 21)	**–**	**–**	**–**	**(5,251)**	**–**	**–**	**(5,251)**	**–**	**(5,251)**
Cancellation of treasury shares (Note 21)	**–**	**(12,847)**	**–**	**12,847**	**–**	**–**	**–**	**–**	**–**
Disposition of treasury shares (Note 21)	**–**	**(6,442)**	**–**	**6,446**	**–**	**–**	**3**	**–**	**3**
Cash dividends (Note 22)	**–**	**–**	**–**	**–**	**(3,405)**	**–**	**(3,405)**	**(57)**	**(3,462)**
Share-based payments (Note 23)	**–**	**–**	**–**	**–**	**–**	**328**	**328**	**–**	**328**
Changes due to business combinations	**–**	**–**	**–**	**–**	**(5)**	**–**	**(5)**	**18**	**13**
Transfers	**–**	**–**	**–**	**–**	**19,419**	**129**	**–**	**–**	**–**
Total transactions with owners of the parent	**–**	**0**	**–**	**14,042**	**(23,899)**	**458**	**(9,398)**	**(39)**	**(9,437)**
Acquisition of non-controlling interests	**–**	**(0)**	**–**	**–**	**–**	**–**	**(0)**	**(0)**	**(0)**
Payment obligation for non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Changes in ownership interests in subsidiaries and others	**–**	**(0)**	**–**	**–**	**–**	**–**	**(0)**	**(0)**	**(0)**
As at 31st December, 2017	**¥51,115**	**¥ –**	**¥49,505**	**¥(9,726)**	**¥26,227**	**¥(9,504)**	**¥107,617**	**¥2,402**	**¥110,019**

	Thousands of U.S. dollars (Note 2)								
	Equity attributable to owners of the parent								
	Subscribed capital	Capital surplus	Hybrid capital	Treasury shares	Retained earnings	Other components of equity (Note 21)	Subtotal	Non-controlling interests	Total equity
As at 1st January, 2017	**$452,345**	**$ –**	**$438,097**	**$(210,345)**	**$308,522**	**$(99,699)**	**$888,929**	**$17,991**	**$906,920**
Net income	–	–	–	–	135,071	–	135,071	3,646	138,726
Other comprehensive income	–	–	–	–	–	11,522	11,522	(35)	11,487
Total comprehensive income	–	–	–	–	135,071	11,522	146,602	3,611	150,212
Issue of hybrid capital	–	–	–	–	–	–	–	–	–
Issue cost of hybrid capital	–	–	–	–	–	–	–	–	–
Payment to the owner of hybrid capital (Note 21)	–	–	–	–	(9,460)	–	(9,460)	–	(9,460)
Acquisition of treasury shares (Note 21)	–	–	–	(46,469)	–	–	(46,469)	–	(46,469)
Cancellation of treasury shares (Note 21)	–	(113,690)	–	113,690	–	–	–	–	–
Disposition of treasury shares (Note 21)	–	(57,009)	–	57,044	–	–	27	–	27
Cash dividends (Note 22)	–	–	–	–	(30,133)	–	(30,133)	(504)	(30,637)
Share-based payments (Note 23)	–	–	–	–	–	2,903	2,903	–	2,903
Changes due to business combinations	–	–	–	–	(44)	–	(44)	159	115
Transfers	–	170,708	–	–	(171,850)	1,142	–	–	–
Total transactions with owners of the parent	–	0	–	124,265	(211,496)	4,053	(83,168)	(345)	(83,513)
Acquisition of non-controlling interests	–	(0)	–	–	–	–	(0)	(0)	(0)
Payment obligation for non-controlling interests (Note 34)	–	–	–	–	–	–	–	–	–
Changes in ownership interests in subsidiaries and others	–	(0)	–	–	–	–	(0)	(0)	(0)
As at 31st December, 2017	**$452,345**	**$ –**	**$438,097**	**$ (86,071)**	**$232,097**	**$(84,106)**	**$952,363**	**$21,257**	**$973,619**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Fiscal year ended 31st December, 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Fiscal year ended 31st December, 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year ended 31st December, 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year ended 31st December, 2017 (1st January, 2017 through 31st December, 2017)**
Cash flows from operating activities:			
Earnings (loss) before income taxes	**¥24,803**	¥ (1,064)	**$219,496**
Depreciation and amortization	**18,344**	17,691	**162,336**
Loss on sales or disposal of property, plant and equipment	**470**	716	**4,159**
Financial income and costs	**4,649**	3,223	**41,142**
Share of profits of associates and joint ventures accounted for using equity method	**(62)**	(196)	**(549)**
Other non-cash transactions	**(5,502)**	4,188	**(48,690)**
Changes in asset and liability items:			
Inventories	**5,324**	2,065	**47,115**
Trade and other receivables	**(6,601)**	1,331	**(58,416)**
Trade and other payables	**(9,872)**	(7,480)	**(87,363)**
Provisions	**247**	2,086	**2,186**
Other	**13,982**	4,110	**123,735**
Subtotal	**45,783**	26,672	**405,159**
Interest received	**393**	373	**3,478**
Dividends received	**254**	341	**2,248**
Interest paid	**(5,305)**	(3,049)	**(46,947)**
Income tax paid	**(9,703)**	(6,100)	**(85,867)**
Net cash flows from operating activities	**31,423**	18,237	**278,080**
Cash flows from investment activities:			
Purchases of property, plant and equipment	**(5,895)**	(11,607)	**(52,168)**
Proceeds from sales of property, plant and equipment	**1,882**	1,507	**16,655**
Purchases of intangible assets	**(3,488)**	(3,634)	**(30,867)**
Acquisition of subsidiaries, net of cash acquired	**(649)**	(1,047)	**(5,743)**
Acquisition of financial instruments	**(1,616)**	(139)	**(14,301)**
Proceeds from sales of financial instruments	**8,001**	4,963	**70,805**
Other	**378**	(50)	**3,345**
Net cash flows from investing activities	**(1,387)**	(10,008)	**(12,274)**
Cash flows from financing activities:			
Net increase (decrease) in current borrowings	**¥ 17**	¥(58,978)	**$150**
Proceeds from non-current borrowings	**65,372**	59,870	**578,513**
Payments for non-current borrowings	**(87,489)**	(16,765)	**(774,239)**
Proceeds from issuance of bonds	**-**	29,872	**-**
Redemption of bonds	**(20,000)**	(15,000)	**(176,991)**
Dividends paid	**(3,403)**	(3,118)	**(30,115)**
Dividends paid to non-controlling interests	**(57)**	(1,392)	**(504)**
Acquisition of non-controlling interests	**(0)**	(61,543)	**(0)**
Acquisition of treasury shares	**(5,251)**	(0)	**(46,469)**
Payments for obligations for non-controlling interests	**(11)**	(267)	**(97)**
Proceeds from issuance of hybrid capital (Note 21)	**-**	49,505	**-**
Payments for the owners of hybrid capital (Note 21)	**(1,069)**	-	**(9,460)**
Proceeds from issuance of debt instruments (Note 16)	**14,838**	-	**131,310**
Others	**(670)**	(558)	**(5,929)**
Net cash flows from financing activities	**(37,726)**	(18,376)	**(333,858)**
Effect of exchange rate changes on cash and cash equivalents	**4,913**	(5,678)	**43,478**
(Decrease) increase in cash and cash equivalents	**(2,777)**	(15,826)	**(24,575)**
Cash and cash equivalents at the beginning of period	**67,750**	83,577	**599,558**
Cash and cash equivalents at the end of period (Note 7)	**¥64,973**	¥ 67,750	**$574,982**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Fiscal year ended 31st December, 2017

1. Reporting Entity

DMG MORI CO., LTD. (the "Company") is a company established under the Corporation Law of Japan (the "Law"). The Company is domiciled in Japan and its registered head office is located at 106 Kitakoriyama-cho, Yamato-Koriyama City, Nara.
The consolidated financial statements of the Company as of and for the year ended 31st December, 2017 comprise the Company, its subsidiaries and associates, and equity interests in related companies (collectively, the "Group"). The Group engages in businesses related to manufacturing and sales of machine tools (machining centers, turning centers, turn-mill complete machining centers and universal milling machines for five-axis machining), software (user interface, Technology Cycles and embedded software) and measuring devices, and provides total solutions utilizing the machine tools, software and measuring devices with service support, applications and engineering.

2. Basis of Preparation

(1) Accounting standards adopted
The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), pursuant to the provisions set forth in Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976), as the Group meets the requirements for a "Specified Company" prescribed in Article 1-2 of said ordinance.

(2) Basis of measurement
As stated below in Note 3, "Significant Accounting Policies," the consolidated financial statements have been prepared on a historical cost basis, with the main exception of financial instruments, which are measured at fair value.

(3) Functional and presentation currency
The consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. All financial information presented in Japanese yen has been rounded down to the nearest million, unless otherwise stated.
The translation of Japanese yen amounts to U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate of ¥113.00 to U.S. $1.00 at 31st December, 2017. This translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be, converted into U.S. dollars at the above or any other rate.

(4) Approval of consolidated financial statements
The consolidated financial statements of the Group were approved at the Board of Directors' meeting of the Company held on 22th March, 2018.

(5) Changes in accounting policies
In the reporting period, the Group adopted the following new and revised standards. With the adoption of these standards, there has been no material impact to the consolidated financial statements.

IFRS		Description of new accounting standards and amendments
IAS 7	Disclosure Initiative	Amendments to the disclosure requirements regarding changes in an entity's financing liabilities arising from both cash flow and non-cash flow items

3. Significant Accounting Policies

The significant accounting policies of the Group are applied continuously to all the periods indicated in the consolidated financial statements, unless otherwise stated.

(1) Basis of consolidation
All financial statements included in the consolidated financial statements are prepared as of 31st December, 2017, in accordance with the unified accounting policies and, when necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group.

(2) Business combinations
Business combinations are accounted for using the acquisition method. The consideration transferred for the acquisition of a business is the aggregate of the acquisition date fair value of the assets transferred, the equity interests issued by the Group and the liabilities incurred, including the fair value of any assets or liabilities resulting from a contingent consideration arrangement.
Identifiable assets acquired and liabilities and contingent liabilities assumed resulting from a business combination are, in principle, measured at fair value at the acquisition date.
In a business combination achieved in stages, any previously held equity investment before obtaining control is remeasured at its acquisition-date fair value and any resulting gain or loss is recognized in profit or loss.
For each business combination, the Group chooses the method of measurement of non-controlling interests, which can be measured using one of two bases, either at fair value at the acquisition date or at the non-controlling interest's

proportionate share of the acquiree's net identifiable assets. Acquisition-related costs are expensed as incurred.
Any excess of the consideration transferred over the fair value of the identifiable assets acquired and liabilities assumed is recognized as goodwill in the consolidated statement of financial position.
Goodwill is allocated to a cash generating unit ("CGU") or group of CGUs that are expected to benefit from synergies of the combination. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in profit or loss. Goodwill is not amortized in accordance with IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets."
Equity in a subsidiary not attributable, directly or indirectly, to a parent is recognized as non-controlling interest. Total comprehensive income is attributed to the owners of the parent and to the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control is accounted for as an equity transaction. If the Group, however, loses control of a subsidiary, any resulting effects are recognized as gain or loss in profit or loss attributable to the Group.

(3) Investments in subsidiaries
A subsidiary is an entity controlled by the Group.
Specifically, the Group controls an investee if and only if the Group has all of the following:
(a) Power over the investee,
(b) Exposure, or rights, to variable returns from its involvement with the investee and
(c) The ability to use its power over the investee to affect the amount of the investor's returns
Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.
All intercompany transactions, balances, and any unrealized gains and losses arising from intercompany transactions, are eliminated in the preparation of the consolidated financial statements.

(4) Investments in associates
An associate is an entity over which the Group has significant influence but does not have control to govern the entity's financial and operating policies.
The Group's investments in its associates are accounted for using the equity method. Under the equity method, the investment in an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's net share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment (less any accumulated impairment loss).
The consolidated statement of profit or loss reflects the results of operations of its associates through the Group's investments. Any changes in other comprehensive income of those associates since the acquisition date are presented as part of the Group's other comprehensive income.
When there has been a change recognized directly in retained earnings of the associate, the Group recognizes its share of any changes in its retained earnings.
The carrying amount of the investment is adjusted to recognize any change in the Group's share of net assets of the associate since the acquisition date. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.
At each reporting date, the Group determines whether there is objective evidence that an investment in an associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as "Other operating costs" in the consolidated statement of profit or loss. Unrealized gains and losses resulting from transactions between the Group and associates are eliminated to the extent of the Group's interest in the associate.

(5) Joint control
A joint arrangement is a contractual arrangement where two or more parties have joint control.
The Group determines the type of joint agreement in which it is involved. The classification of a joint arrangement as joint operation where the Group has rights to the assets and obligations for the liabilities of the arrangement, or a joint venture where the Group has rights to the net assets of the arrangement, depends upon the rights and obligations of the parties to the arrangement.
For a joint operation, the Group recognizes its assets, including its share of any assets held jointly, liabilities, including its share of any liabilities incurred jointly, revenue from the sale of its share of the output arising from the joint operation, share of the revenue from the sale of the output by the joint operation; and expenses, including its share of any expenses incurred jointly. The Group's interest in a joint venture is accounted for using the equity method.

(6) Cash and cash equivalents
Cash and cash equivalents consist of cash on hand, demand deposits, and readily-marketable short-term investments with maturities of three months or less from the date of acquisition, which are subject to an insignificant risk of changes in value.

(7) Inventories
Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes purchase costs, costs of conversion, storage costs and all other costs incurred in bringing the inventories to their present location and condition.
Net realizable value is calculated as the estimated selling price for the inventories in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.
Cost of inventories is mainly determined by the average cost method, except for the following inventories to which the identified cost method is applied.
The identified cost method is applied to inventories such as:
(a) Inventories that are not interchangeable and
(b) Goods or services produced for specific projects and segregated from other inventories

(8) Property, plant and equipment
Property, plant and equipment is measured using the cost model and is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes any costs directly attributable to the purchase of the assets.

Repair and maintenance costs are recognized in profit or loss as incurred.
Depreciation of property, plant and equipment begins when the asset is available for use, on a straight-line basis, over the following estimated useful lives:

Office and plant	: 3–50 years
Machinery	: 2–30 years
Tools, furniture and fixtures	: 2–23 years

(9) Goodwill and other intangible assets
Intangible assets are measured using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.
Goodwill arising on a business combination is recognized as "Goodwill" in the consolidated statement of financial position. Goodwill and intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually and any respective impairment losses are recognized when necessary. Impairment losses relating to goodwill cannot be reversed in future periods.
Development costs on an individual project are recognized as an intangible asset, only if all of the following have been demonstrated:
(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;
(b) The Group's intention to complete and use or sell the intangible asset;
(c) The Group's ability to use or sell the intangible asset;
(d) How the intangible asset will generate probable future economic benefits;
(e) The availability of appropriate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
(f) The ability to measure reliably the expenditure related to the intangible asset during its development.
Capitalized development costs are amortized on a straight-line basis beginning when development is complete and the asset is available for use over the period of expected future benefit. Development costs which do not meet the above criteria are expensed as incurred.
Other intangible assets are amortized on a straight-line basis over the following estimated useful lives:

Intangible assets generated by development	: 2–10 years
Software and other intangible assets	: 1–5 years
Customer-related assets	: 15 years (approximately)
Technology-related assets	: 6 years (approximately)
Trademarks (with definite useful lives)	: 30 years

(10) Leases
Leases that transfer substantially all the risks and rewards incidental to ownership to the Group are classified as finance leases and other lease transactions are classified as operating leases.
Determining of whether an arrangement contains a lease is based on the substance of the arrangement at the inception of the lease.
Operating lease payments are charged to profit or loss over the lease term after the recognition of the aggregate of any benefit of incentives given by a lessor as a reduction of lease payments on a straight-line basis.
Finance leases are capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments.
Lease obligations are recognized as current or non-current liabilities in the consolidated statement of financial position.
Lease payments are apportioned between the finance charge and the reduction of the outstanding liability and the finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.
A leased asset is depreciated over its useful life. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

(11) Impairment of non-financial assets
The Group assesses, at each reporting date, whether there is any indication that intangible assets with indefinite useful lives and that have not yet been brought into use and all property, plant and equipment, excluding goodwill, may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and the asset is written down to its recoverable amount. A CGU is the smallest group of assets which generates cash inflows from continuing use that are largely independent of those from other assets or groups of assets.
Goodwill and intangible assets with indefinite useful lives and that have not yet been brought into use are not amortized but tested for impairment annually, mainly at the end of fiscal year, regardless of whether an indication of impairment exists and when circumstances indicate that the carrying amount may be impaired. When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognized.
The recoverable amount of CGU is the higher of the value in use and the fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
The estimated present value based on future cash flows incorporates assumptions about future sales price, sales volume and costs.
For assets, excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount (net of depreciation) that would have been determined had no impairment loss been recognized for the asset in prior years.

(12) Income taxes
Income taxes consist of current and deferred taxes. Current and deferred taxes are recognized in profit or loss, except for those arising from business combinations and recognized directly in other comprehensive income or equity.
Deferred tax is provided using the asset and liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, including carry forwards of unused tax

losses and tax credits granted at the reporting date.

Deferred tax assets are recognized for all deductible temporary differences, the carry forwards of unused tax losses and any unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Deferred tax liabilities are recognized for all taxable temporary differences in principle.

Deferred tax assets and liabilities are recognized for all taxable temporary differences, except:

(a) Future taxable temporary differences arising from initial recognition of goodwill.
(b) Future taxable or deductible differences relating to initial recognition of an asset or liability in a transaction other than a business combination that affects neither accounting profit nor taxable profit or loss.
(c) Future taxable temporary differences associated with investments in subsidiaries when the timing of the reversal of the temporary differences can be controlled and it is probable that such differences will not reverse in the foreseeable future.
(d) Future deductible temporary differences associated with investments in subsidiaries when it is probable that such differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to income taxes levied by the same taxable entity and the same taxation authority.

(13) Financial instruments

1. Financial assets

(i) Initial recognition and measurement

Financial assets are classified based on the nature and purpose at initial recognition when the Group becomes a party to the contractual provisions of the instruments as follows:

(a) Financial assets at fair value through profit or loss

These are financial assets that are either defined as held for trading, or are designated as such on initial recognition.

(b) Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity.

(c) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(d) Available-for-sale financial assets

These are non-derivative financial assets designated as available for sale that are not classified as:

(a) financial assets at fair value through profit or loss;
(b) held-to-maturity investments; or
(c) loans and receivables.

All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial assets.

(ii) Subsequent measurement

(a) Financial assets at fair value through profit or loss

These are measured at fair value and any gain or loss resulting from changes in fair value is recognized in profit or loss.

(b) Held-to-maturity investments

These are measured at amortized cost using the effective interest method, less any impairment loss.

(c) Loans and receivables

These are measured at amortized cost using the effective interest method less any impairment loss.

(d) Available-for-sale financial assets

These are measured at fair value as of the end of reporting period, and any gain or loss resulting from changes in fair value is recognized in other comprehensive income.

Differences arising from the translation of monetary assets are recognized in profit or loss.

(iii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset, other than those at fair value through profit or loss, is impaired. An impairment exists, if one or more events has occurred since the initial recognition of the asset that has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

In case of available-for-sale financial assets, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost.

In case of trade receivables, the Group assess whether there is any objective evidence of impairment individually for separately significant assets or collectively for assets that are not individually significant.

For financial assets carried at amortized cost, the amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flow is discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced and the recovery is credited in the consolidated statement of profit or loss.

When there is evidence of impairment loss on available-for-sale financial assets, the cumulative loss is removed from other comprehensive income and recognized in the consolidated statement of profit or loss.

Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

In case of debt instruments classified as available for sale, if, in a subsequent period, the fair value of the debt instruments increase, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(iv) Derecognition

A financial asset is primary derecognized when the right to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. On derecognition of a financial asset in its entirety, the difference between the carrying amount of the asset and the consideration received, including any new asset obtained less any new liability assumed, is recognized in profit or loss.

2. Financial liabilities
   (i) Initial recognition and measurement
   Financial liabilities are classified, at initial recognition, when the Group becomes a party to the contractual provisions of the instrument as follows:
   (a) Financial liabilities at fair value through profit or loss
   These are financial liabilities that are designated as such on initial recognition.
   (b) Other financial liabilities, including interest-bearing bonds and borrowings
   These are financial liabilities that are not designated at fair value through profit or loss.
   Transaction costs directly attributable to the issuance of financial liabilities, other than financial liabilities measured at fair value through profit or loss, are deducted from the fair value of the financial liabilities.
   (ii) Subsequent measurement
   (a) Financial liabilities at fair value through profit or loss
   These are measured at fair value, and any gain or loss arising on remeasurement is recognized in profit or loss.
   (b) Other financial liabilities, including interest-bearing bonds and borrowings
   These are measured at amortized cost mainly using the effective interest method.
   (iii) Derecognition
   A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When a financial liability is extinguished or transferred to another party, the difference between the carrying amount of the transferred financial liability and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.
   Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and if there is an intention of settlement on a net basis, or of simultaneous realization of the assets and settlement of the liabilities.
   (iv) Preferred stock
   The Group classifies preferred stock as equity or financial liability based on the substance of the contractual arrangements, not on their legal forms. Preferred stock mandatorily redeemable on a particular date is classified as financial liability. Preferred stock classified as liability is measured at amortized cost in the consolidated statement of financial position and the dividends on these preferred stock are recognized as interest expense and presented as financial cost in the consolidated statement of income.
3. Derivative financial instruments
   Derivative financial instruments are initially recognized at fair value on the date when the derivative contract is entered into and are subsequently remeasured at fair value.
   Any gains or losses arising from changes in the fair value of derivatives are recognized directly to profit or loss, except for those that qualify for hedge accounting.
   The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge foreign currency risk and interest rate risk.
   At the inception of the hedge, the Group formally designates and documents the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge.
   Hedges that meet the criteria for hedge accounting are accounted for as described below:
   (a) Fair value hedges
   If a fair value hedge meets certain qualifying conditions, the gain or loss from remeasuring the hedging instrument at fair value is recognized in profit or loss
   (b) Cash flow hedges
   If a cash flow hedge meets certain qualifying conditions, the effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive income, net of tax.
   The ineffective portion should be recognized immediately in profit or loss. Amounts recognized in other comprehensive income are transferred to profit or loss when the hedged item affects profit or loss (such as when a hedged forecast sale occurs).

(14) Provisions

Provisions are recognized when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount to be recognized as a provision is measured based on the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability.

(15) Employee benefits

The Group recognizes the undiscounted amount of any short-term benefits attributable to services that have been rendered in the period as an expense. When a present legal or constructive obligation to make payments associated with bonus plans or accumulating paid absences exists, and a reliable estimate of the provision can be made, the amount to be paid in accordance with these benefits is accounted for as a liability.

Projected benefit obligations are measured using the projected unit credit method. This actuarial method also determines the current service cost and any past service costs.

The projected unit credit method is used to make a reliable estimate of the ultimate cost to the entity for benefits that employees have earned in return for their services in current and prior periods. This requires the Group to make estimates (actuarial assumptions) about demographic variables and financial variables, such as future increases in salaries that will affect the cost of the benefit. The valuation is based on a report prepared by independent actuaries.

Net defined benefit liabilities are based on the present value of the defined benefit obligation less the fair value of plan assets at the reporting date.
The present value of a defined benefit obligation is based on the discounted future cash flows at a rate determined by reference to market yield on high-quality corporate bonds whose currency and term are consistent with the obligation.
Actuarial differences arising from changes in actuarial assumptions and experience adjustments are recognized immediately in other comprehensive income in the consolidated statement of comprehensive income.
Past service costs are recognized immediately in profit or loss.
The contribution payable for a defined contribution plan in exchange for employee service is recognized as an expense, unless another IFRS requires or permits its capitalization.
When there is a surplus in a defined benefit plan, the net defined benefit asset recognized is restricted to the lower of the surplus in the plan and the asset ceiling.

(16) Equity and equity instruments

1. Common stock
   Equity instruments issued by the Company are included in subscribed capital and capital surplus. Transaction costs related to the issuance of equity instruments are deducted from capital surplus.
2. Treasury shares
   When the Company repurchases its own ordinary shares, the amount of the consideration paid, including transaction costs, is deducted from equity. When the Company sells or reissues treasury shares, the consideration received is recognized directly in equity, and the gain or loss resulting from the transaction is included in capital surplus-treasury shares.
3. Perpetual subordinated loan and perpetual subordinated bonds
   Perpetual subordinated loan and perpetual subordinated bonds are classified as equity instruments as no specific date is determined for repayment of the principal and optional deferral of interest payments is possible. The proceeds from the perpetual subordinated loan and perpetual subordinated bonds, after deduction of issuance costs, are recorded as "Hybrid capital" in the consolidated statement of financial position.

(17) Share-based payment

The Group has stock option plans as incentive plans for directors, executive officers, and employees. The fair value of stock options at the grant date is recognized as a personnel cost over the vesting period from the grant date as a corresponding increase in other components of equity. The fair value of the stock options is measured using the Black-Scholes model or other models, taking into account for the terms of the options granted. The Group regularly reviews the terms and revises estimates of the number of options that are expected to vest, as necessary.

(18) Revenue recognition

The Group measures revenue at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.
Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have been transferred to the buyer, it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured and the costs incurred or to be incurred in respect of the transaction can be measured reliably.
Revenue from rendering of services is recognized as the services have been rendered.

(19) Financial income

Interest income is recorded using the effective interest method.
Dividend income is recognized when the Group's right to receive payment is established.

(20) Government grants

Government grants are recognized at fair value where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods in which the related costs, for which it is intended to compensate, are expensed.
When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset and as deferred income for the remaining portion in the consolidated statement of financial position.

(21) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets that necessarily take a substantial period of time to get ready for their intended use or sale are capitalized as part of the cost of the assets.

(22) Foreign currency translation

Transactions in foreign currencies are initially recorded by Group entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.
Assets and liabilities of foreign subsidiaries are translated into Japanese yen using the closing rate at the reporting date and income and expense items are translated using the average exchange rates for the period.
The exchange differences arising on translation of financial statements of foreign subsidiaries are recognized in other comprehensive income and the cumulative effect from the exchange differences is recognized in "Other components of equity" in the consolidated statement of financial position.
Monetary assets and liabilities denominated in foreign currencies are translated using the functional currency spot rates at the reporting date.
Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.
The gain or loss arising on settlements or translation is recognized in profit or loss.
Any goodwill and other intangible assets arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(23) Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements requires management of the Group to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions are reviewed on an ongoing basis.

Changes in accounting estimates are accounted for prospectively; defined as recognizing the effect of the change in the accounting estimate in the current and future periods affected by the change.

In the process of applying the Group's accounting policies, management has made the following estimations and judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

1. Fair value of acquired assets and assumed liabilities as a result of business combinations
   Assets acquired and liabilities assumed as a result of a business combination are initially measured at fair value at the date of acquisition. The key assumptions, including future cash flow and discount rates, serving as the basis for the valuation of fair value may change due to market changes or circumstances arising that are beyond the control of the Group and, accordingly, prospectively significant adjustments to the carrying amount of goodwill and other intangible assets and respective amortization expenses may occur.
2. Impairment of goodwill and other intangible assets
   An impairment test is performed annually or at any time if indications of impairment exist.
   For the impairment testing of goodwill and other intangible assets, the recoverable amount is defined as the higher of fair value less costs of disposal and value in use based on the identified cash generating units.
   The key assumptions, including the measurement of fair value less cost of disposal and the cash flow that the Group will derive from the use and disposal, in order to calculate the value in use of the cash generating unit and the respective discount rates may change due to market changes or circumstances arising that are beyond the control of the Group and, accordingly, prospectively significant adjustments to the impairment loss of goodwill and other intangible assets may occur.
3. Recoverability of deferred tax assets
   Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. However, judgment of the recoverability is based on the premise of estimated taxable income estimated from business plans of the Group. The estimation of taxable income may change due to market changes or circumstances arising that are beyond the control of the Group and, accordingly, prospectively significant adjustments to the recognized amount of deferred tax assets may occur.
4. Measurement of provisions
   The amount to be recognized as a provision is measured based on the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
   The estimated outcome and financial effects are determined by the judgment of the management of the Group, supplemented by evidence provided by events occurring after the reporting period.
   The assumptions used for measuring a provision may change due to market changes or circumstances arising that are beyond the control of the Group and, accordingly, prospectively significant adjustments to the measurement of a provision may occur.
5. Financial liabilities arising from the Domination, Profit and Loss Transfer Agreement (hereinafter, the "DPLTA")
   The Group estimates the amount of its obligation for the share purchase option and the annual compensation amount at the end of the reporting period based on a re-purchase price per share, annual compensation amount per share and the number of outstanding shares. At the same time, the Group reasonably estimates the expected payment timing. Based on this information, the Group recognizes the present discounted value of financial liabilities arising from the DPLTA.
   The conditions for the Group's obligation and future economic conditions may change and, accordingly, prospectively significant adjustments to the measurement of the liability may occur.

4. New Accounting Standards Not Yet Adopted by the Group

The new accounting standards, amended standards and new interpretations that are issued or amended, but not yet adopted by the Group up to the date of approval of the consolidated financial statements are as follows:

Also, the effects on the Group due to the application of the standards or interpretations listed below are still under consideration and cannot be estimated at this time.

IFRS		Mandatory adoption (Effective)	To be adopted by the Group	Description of new accounting standards and amendments
IFRS 2	Share-based Payment	1st January, 2018	Fiscal year ending 31st December, 2018	Clarification of classification and measurement to specific share-based payment
IFRS 9	Financial Instruments	1st January, 2018	Fiscal year ending 31st December, 2018	Amendments to classification, measurement and recognition of financial instruments and hedge accounting
IFRS 15	Revenue from Contracts with Customers	1st January, 2018	Fiscal year ending 31st December, 2018	Comprehensive framework for revenue recognition
IFRS 16	Leases	1st January, 2019	Fiscal year ending 31st December, 2019	Amendments to recognition of assets and liabilities for lessees
IFRIC 23	Uncertainty over Income Tax Treatments	1st January, 2019	Fiscal year ending 31st December, 2019	Clarification of the accounting for uncertainties in income taxes.

5. Significant Change in Scope of Consolidation

There was no significant change in scope of consolidation during the fiscal year ended 31st December, 2017.

6. Segment Information

(1) Outline of reportable segments
The reportable segments of the Group are based on its business areas for which discrete financial information is available, and they are regularly reviewed by the Board of Directors and corporate officers for the purpose of making decisions about resource allocation and performance assessment. The classification of the reportable segments is based on the products and services and the associated internal reporting and management methods.
As a result, the business activities of the Group are categorized into “Machine Tools” and “Industrial Services,” as its two reportable segments.
The “Machine Tools” segment generates its revenue through the production and sales of machine tools. The “Industrial Services” segment generates its revenue through providing services and solutions related to machine tools.

(2) Calculation methods of sales revenues, income or loss, assets and other items by each reportable segment
The accounting methods for the reportable segments are essentially the same as those described in Note 3, “Significant Accounting Policies.”
The amount of segment income (loss) is the aggregate of operating income (loss) and share of profits (losses) of associates and joint ventures. Inter-segment sales revenues and transfers between the segments are based on market prices.

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

Sales revenues and income by each reportable segment for the year ended 31st December, 2017 and 31st December, 2016 are summarized as follows:

Fiscal year 2017 (1st January, 2017 through 31st December, 2017)

	Millions of yen					
	Reportable segments			Adjustments		Consolidated
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	
Sales revenues						
External customers	¥312,073	¥117,556	¥429,630	¥ 34	¥ –	¥429,664
Other segments	131,133	18,580	149,714	2,067	(151,782)	–
Total	443,207	136,136	579,344	2,101	(151,782)	429,664
Segment income (Note 1)	31,407	9,087	40,495	(9,511)	(1,529)	29,453
Financial income	–	–	–	–	–	647
Financial costs	–	–	–	–	–	(5,297)
Earnings before income taxes	–	–	–	–	–	24,803
Segment assets (Note 2)	687,366	502,990	1,190,356	431,189	(1,054,134)	567,411
Other items						
Depreciation and amortization	9,364	5,289	14,653	3,690	–	18,344
Investments in associates and joint ventures	413	1,815	2,229	–	–	2,229
Capital expenditure	4,116	1,569	5,686	3,916	(218)	9,384

	Thousands of U.S. dollars					
	Reportable segments			Adjustments		Consolidated
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	
Sales revenues						
External customers	$2,761,708	$1,040,319	$ 3,802,035	$ 301	$ –	$3,802,336
Other segments	1,160,469	164,425	1,324,903	18,292	(1,343,204)	–
Total	3,922,186	1,204,743	5,126,938	18,593	(1,343,204)	3,802,336
Segment income (Note 1)	277,938	80,416	358,363	(84,168)	(13,531)	260,646
Financial income	–	–	–	–	–	5,726
Financial costs	–	–	–	–	–	(46,876)
Earnings before income taxes	–	–	–	–	–	219,496
Segment assets (Note 2)	6,082,885	4,451,239	10,534,124	3,815,832	(9,328,619)	5,021,336
Other items						
Depreciation and amortization	82,867	46,805	129,673	32,655	–	162,336
Investments in associates and joint ventures	3,655	16,062	19,726	–	–	19,726
Capital expenditure	36,425	13,885	50,319	34,655	(1,929)	83,044

(Note 1) "Adjustments to segment income" include elimination of inter-segment transactions and expenses related to corporate services.
(Note 2) "Adjustments to segment assets" mainly include corporate assets not attributable to any business segment and elimination of inter-segment receivables.

Fiscal year 2016 (1st January, 2016 through 31st December, 2016)

	Millions of yen					
	Reportable segments			Adjustments		
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	Consolidated
Sales revenues						
External customers	¥267,873	¥108,731	¥ 376,604	¥ 26	¥ –	¥376,631
Other segments	120,711	24,628	145,340	2,629	(147,969)	–
Total	388,585	133,359	521,945	2,655	(147,969)	376,631
Segment income (Note 1)	11,669	1,777	13,446	(11,678)	390	2,158
Financial income	–	–	–	–	–	711
Financial costs	–	–	–	–	–	(3,935)
Loss before income taxes	–	–	–	–	–	(1,064)
Segment assets (Note 2)	644,252	464,240	1,108,492	382,961	(933,232)	558,222
Other items						
Depreciation and amortization	11,411	5,654	17,065	626	–	17,691
Investments in associates and joint ventures	364	1,622	1,987	–	–	1,987
Capital expenditure	7,664	6,958	14,622	782	(163)	15,242

(Note 1) “Adjustments to segment income” include elimination of inter-segment transactions and expenses related to corporate services.
(Note 2) “Adjustments to segment assets” includes corporate assets not attributable to each business segment and elimination of inter-segment receivables.

(4) Information on products and services
As the classification for the reportable segments is based on the type of products and services of the Group, no additional disclosure is required.

(5) Information on geographical areas
Sales revenues from external customers and non-current assets by geographic areas are as follows:

Sales revenues from external customers

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Japan	**¥ 65,756**	¥ 55,282	**$ 581,912**
Germany	**99,952**	99,438	**884,531**
The Americas	**78,524**	55,860	**694,903**
Europe other than Germany	**141,802**	119,263	**1,254,885**
China and Asia	**43,627**	46,786	**386,080**
Total	**¥429,664**	¥376,631	**$3,802,336**

(Note) Sales revenues by geographical areas are categorized by countries or regions based on the geographical location of the respective sales entities.

Non-current assets

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Japan	**¥ 60,028**	¥ 61,047	**$ 531,221**
Germany	**97,785**	84,389	**865,354**
The Americas	**10,334**	13,697	**91,451**
Europe other than Germany	**115,220**	108,594	**1,019,646**
China and Asia	**11,081**	14,194	**98,062**
Eliminations	**(17,803)**	(12,493)	**(157,549)**
Total	**¥276,646**	¥269,429	**$2,448,195**

(Note) Non-current assets by geographical areas are classified by countries or regions based on the locations of the assets, and consist of property, plant and equipment, goodwill and other intangible assets.

(6) Information on major customers
Disclosure of major customers was omitted because the proportion of revenue from an individual customer did not exceed 10% of consolidated sales revenues for the fiscal year 2017 and 2016, respectively.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents at 31st December, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Cash on hand and at banks with maturities of three months or less	**¥64,973**	¥67,750	**$574,982**
Total	**¥64,973**	¥67,750	**$574,982**

(Note) The balance of cash and cash equivalents in the consolidated statement of financial position at 31st December, 2017 and 2016 agreed with the respective balances in the consolidated statement of cash flows.

8. Trade and Other Receivables

The breakdown of trade and other receivables at 31st December, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Notes and trade receivables	**¥59,343**	¥49,391	**$525,159**
Other	**3,525**	3,837	**31,195**
Allowance for doubtful receivables	**(2,127)**	(2,220)	**(18,823)**
Total	**¥60,741**	¥51,008	**$537,531**

9. Inventories

The breakdown of inventories at 31st December, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Raw materials and supplies	**¥ 50,770**	¥ 47,241	**$ 449,292**
Work in process	**30,152**	25,309	**266,832**
Merchandise and finished goods	**42,059**	49,621	**372,204**
Total	**¥122,981**	¥122,172	**$1,088,327**

(Note 1) Cost of raw materials, consumables and goods for resale in the consolidated statement of profit or loss included the write-downs of inventories of ¥3,215 million ($28,451 thousand) and ¥4,020 million for the year ended 31st December, 2017 and 2016, respectively.

(Note 2) Cost of inventories recognized in profit or loss for the year ended 31st December, 2017 and 2016 amounted to ¥268,125 million ($2,372,788 thousand) and ¥241,224 million, respectively, including the above write-downs of inventories.

10. Property, Plant and Equipment

(1) The movement in cost, accumulated depreciation and impairment losses and carrying amount for property, plant and equipment is as follows:

Fiscal year 2017 (1st January, 2017 through 31st December, 2017)
Cost

	Millions of yen				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 2)	Total
Beginning balance	**¥153,703**	**¥30,172**	**¥39,343**	**¥8,859**	**¥232,078**
Acquisitions	**1,802**	**935**	**2,153**	**1,163**	**6,054**
Acquisitions through business combinations	**-**	**15**	**9**	**–**	**24**
Disposals	**(4,439)**	**(3,778)**	**(1,272)**	**(310)**	**(9,800)**
Reclassification from construction in progress	**6,392**	**642**	**992**	**(8,163)**	**(136)**
Exchange differences on translation of foreign operations	**4,995**	**746**	**2,696**	**57**	**8,496**
Other	**780**	**194**	**(1,261)**	**–**	**(285)**
Ending balance	**¥163,235**	**¥28,927**	**¥42,661**	**¥1,605**	**¥236,430**

	Thousands of U.S. dollars				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 2)	Total
Beginning balance	$1,360,204	$267,009	$348,168	$78,398	$2,053,788
Acquisitions	15,947	8,274	19,053	10,292	53,575
Acquisitions through business combinations	-	133	80	–	212
Disposals	(39,283)	(33,434)	(11,257)	(2,743)	(86,726)
Reclassification from construction in progress	56,566	5,681	8,779	(72,239)	(1,204)
Exchange differences on translation of foreign operations	44,204	6,602	23,858	504	75,186
Other	6,903	1,717	(11,159)	–	(2,522)
Ending balance	$1,444,558	$255,991	$377,531	$14,204	$2,092,301

Accumulated depreciation and impairment losses

	Millions of yen				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 3)	Total
Beginning balance	¥(57,033)	¥(13,632)	¥(23,970)	¥–	¥ (94,636)
Depreciation (Note 1)	(3,388)	(3,373)	(4,420)	–	(11,182)
Impairment losses (Note 2)	(950)	(570)	–	–	(1,520)
Disposals	3,487	3,414	1,027	–	7,930
Exchange differences on translation of foreign operations	(1,749)	(380)	(1,767)	–	(3,897)
Other	(583)	521	920	–	858
Ending balance	¥(60,217)	¥(14,019)	¥(28,210)	¥–	¥(102,447)

	Thousands of U.S. dollars				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 3)	Total
Beginning balance	$(504,717)	$(120,637)	$(212,124)	$–	$(837,487)
Depreciation (Note 1)	(29,982)	(29,850)	(39,115)	–	(98,956)
Impairment losses (Note 2)	(8,407)	(5,044)	–	–	(13,451)
Disposals	30,858	30,212	9,088	–	70,177
Exchange differences on translation of foreign operations	(15,478)	(3,363)	(15,637)	–	(34,487)
Other	(5,159)	4,611	8,142	–	7,593
Ending balance	$(532,894)	$(124,062)	$(249,646)	$–	$(906,611)

Carrying amount

	Millions of yen				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 3)	Total
Beginning balance	¥96,670	¥16,540	¥15,372	¥8,859	¥137,441
Ending balance	103,018	14,908	14,450	1,605	133,983

(Note 1) Depreciation is included in “Depreciation and amortization” in the consolidated statement of profit or loss.
(Note 2) Impairment losses are included in “Other Operating Costs” in the consolidated statement of profit or loss.
(Note 3) Amounts for property, plant and equipment under construction are presented in “Construction in progress.”

	Thousands of U.S. dollars				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress(Note 3)	Total
Beginning balance	$855,487	$146,372	$136,035	$78,398	$1,216,292
Ending balance	911,664	131,929	127,876	14,204	1,185,690

(Note 1) Depreciation is included in “Depreciation and amortization” in the consolidated statement of profit or loss.
(Note 2) Impairment losses are included in “Other Operating Costs” in the consolidated statement of profit or loss.
(Note 3) Amounts for property, plant and equipment under construction are presented in “Construction in progress.”

Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Cost

	Millions of yen				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 2)	Total
Beginning balance	¥149,576	¥27,720	¥37,015	¥13,580	¥227,892
Acquisitions	916	2,101	3,333	5,299	11,650
Acquisitions through business combinations	26	219	26	–	273
Disposals	(1,051)	(1,344)	(913)	(203)	(3,512)
Reclassification from construction in progress	7,234	1,953	960	(10,148)	–
Exchange differences on translation of foreign operations	(3,000)	(942)	(1,079)	331	(4,691)
Other	–	464	–	–	464
Ending balance	¥153,703	¥30,172	¥39,343	¥ 8,859	¥232,078

Accumulated depreciation and impairment losses

	Millions of yen				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 3)	Total
Beginning balance	¥(52,819)	¥(11,746)	¥(21,406)	¥–	¥(85,972)
Depreciation (Note 1)	(3,820)	(3,393)	(4,198)	–	(11,413)
Impairment losses (Note 2)	(1,750)	–	–	–	(1,750)
Disposals	472	1,047	728	–	2,249
Exchange differences on translation of foreign operations	884	459	905	–	2,250
Other	–	–	–	–	–
Ending balance	¥(57,033)	¥(13,632)	¥(23,970)	¥–	¥(94,636)

Carrying amount

	Millions of yen				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 3)	Total
Beginning balance	¥96,757	¥15,973	¥15,608	¥13,580	¥141,919
Ending balance	96,670	16,540	15,372	8,859	137,441

(Note 1) Depreciation is included in “Depreciation and amortization” in the consolidated statement of profit or loss.
(Note 2) Impairment losses are included in “Other Operating Costs” in the consolidated statement of profit or loss.
(Note 3) Amounts for property, plant and equipment under construction are presented in “Construction in progress.”

(2) Impairment losses

The carrying value of certain assets, including buildings and machinery, were written down to their recoverable amount during the fiscal year ended 31st December, 2017 as their profitability declined and they were not expected to be used for business purposes. ¥1,520 million ($13,451 thousands) of impairment loss was allocated to the Industrial Services segment.

The carrying value of certain assets, including buildings, were written down to their recoverable amount during the fiscal year ended 31st December, 2016 as they were not expected to be used for business purposes. ¥1,488 million and ¥262 million of impairment losses were allocated to the Machine Tools segment and the Industrial Services segment, respectively.

(3) Leased assets

The carrying amounts of the assets held under finance lease contracts included in property, plant and equipment are as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Land, buildings and structures	**¥2,642**	¥2,928	**$23,381**
Machinery and vehicles	**768**	1,432	**6,796**
Tools, furniture and fixtures	**138**	82	**1,221**
Total	**¥3,549**	¥4,444	**$31,407**

(4) Collateral

Assets pledged as collateral and secured liabilities are as follows:

Assets pledged as collateral

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Land and buildings	**¥5,376**	¥5,449	**$47,575**
Total	**¥5,376**	¥5,449	**$47,575**

Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Interest-bearing bonds and borrowings	**¥2,052**	¥2,206	**$18,159**
Total	**¥2,052**	¥2,206	**$18,159**

11. Goodwill and Other Intangible Assets

(1) The movement in cost and accumulated impairment losses for goodwill is as follows:

Fiscal year 2017
(1st January, 2017 through 31st December, 2017)

	Millions of yen		
	Cost	Accumulated impairment losses	Carrying amount
Beginning balance	**¥65,641**	**¥–**	**¥65,641**
Acquisitions	**–**	**–**	**–**
Acquisitions through business combinations	**1,727**	**–**	**1,727**
Disposals	**–**	**–**	**–**
Impairment losses	**–**	**–**	**–**
Exchange differences on translation of foreign operations	**5,979**	**–**	**5,979**
Ending balance	**¥73,347**	**¥–**	**¥73,347**

	Thousands of U.S. dollars		
	Cost	Accumulated impairment losses	Carrying amount
Beginning balance	**$580,894**	**$–**	**$580,894**
Acquisitions	**–**	**–**	**–**
Acquisitions through business combinations	**15,283**	**–**	**15,283**
Disposals	**–**	**–**	**–**
Impairment losses	**–**	**–**	**–**
Exchange differences on translation of foreign operations	**52,912**	**–**	**52,912**
Ending balance	**$649,088**	**$–**	**$649,088**

Fiscal year 2016
(1st January, 2016 through 31st December, 2016)

	Millions of yen		
	Cost	Accumulated impairment losses	Carrying amount
Beginning balance	¥68,218	¥–	¥68,218
Acquisitions	–	–	–
Acquisitions through business combinations	2,190	–	2,190
Disposals	–	–	–
Impairment losses	–	–	–
Exchange differences on translation of foreign operations	(4,767)	–	(4,767)
Ending balance	¥65,641	¥–	¥65,641

(2) The movement in cost and accumulated amortization and impairment losses for other intangible assets is as follows:

Fiscal year 2017 (1st January, 2017 through 31st December, 2017)
Cost

	Millions of yen						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**¥41,356**	**¥7,658**	**¥5,813**	**¥1,669**	**¥6,003**	**¥29,402**	**¥ 91,904**
Acquisitions	–	–	–	–	–	2,695	2,695
Acquisitions through business combinations	–	–	–	–	–	1	1
Additions due to internal development	–	–	–	–	1,529	–	1,529
Disposals	–	–	–	–	–	(88)	(88)
Reclassification	–	154	–	–	107	(125)	136
Exchange differences on translation of foreign operations	4,112	620	583	–	1,313	1,805	8,433
Other	–	–	–	–	–	(32)	(32)
Ending balance	**¥45,468**	**¥8,432**	**¥6,396**	**¥1,669**	**¥8,953**	**¥33,659**	**¥104,581**

	Thousands of U.S. dollars						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**$365,982**	**$67,770**	**$51,442**	**$14,770**	**$53,124**	**$260,195**	**$813,310**
Acquisitions	–	–	–	–	–	23,850	23,850
Acquisitions through business combinations	–	–	–	–	–	9	9
Additions due to internal development	–	–	–	–	13,531	–	13,531
Disposals	–	–	–	–	–	(779)	(779)
Reclassification	–	1,363	–	–	947	(1,106)	1,204
Exchange differences on translation of foreign operations	36,389	5,487	5,159	–	11,619	15,973	74,628
Other	–	–	–	–	–	(283)	(283)
Ending balance	**$402,372**	**$74,619**	**$56,602**	**$14,770**	**$79,230**	**$297,867**	**$925,496**

Accumulated amortization and impairment losses

	Millions of yen						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**¥ (761)**	**¥(1,918)**	**¥(1,769)**	**¥(1,581)**	**¥(1,537)**	**¥(17,989)**	**¥(25,557)**
Amortization	(336)	(530)	(1,043)	(29)	(1,533)	(3,687)	(7,161)
Impairment losses	–	–	–	–	–	(190)	(190)
Reversal of impairment losses	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	80	80
Reclassification	–	(16)	–	–	–	16	–
Exchange differences on translation of foreign operations	(68)	(182)	(246)	–	(676)	(1,294)	(2,468)
Other	–	–	–	–	–	32	32
Ending balance	**¥(1,166)**	**¥(2,648)**	**¥(3,059)**	**¥(1,611)**	**¥(3,747)**	**¥(23,031)**	**¥(35,265)**

	Thousands of U.S. dollars						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**$ (6,735)**	**$(16,973)**	**$(15,655)**	**$(13,991)**	**$(13,602)**	**$(159,195)**	**$(226,168)**
Amortization	(2,973)	(4,690)	(9,230)	(257)	(13,566)	(32,628)	(63,372)
Impairment losses	–	–	–	–	–	(1,681)	(1,681)
Reversal of impairment losses	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	708	708
Reclassification	–	(142)	–	–	–	142	–
Exchange differences on translation of foreign operations	(602)	(1,611)	(2,177)	–	(5,982)	(11,451)	(21,841)
Other	–	–	–	–	–	283	283
Ending balance	**$(10,319)**	**$(23,434)**	**$(27,071)**	**$(14,257)**	**$(33,159)**	**$(203,814)**	**$(312,080)**

Carrying amount

	Millions of yen						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥40,595	¥5,740	¥4,044	¥88	¥4,465	¥11,413	¥66,346
Ending balance	44,302	5,784	3,337	58	5,205	10,627	69,315

	Thousands of U.S. dollars						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	$359,248	$50,796	$35,788	$779	$39,513	$101,000	$587,133
Ending balance	392,053	51,186	29,531	513	46,062	94,044	613,407

Other intangible assets in the above table with finite useful lives are amortized over their useful economic lives. Amortization of intangible assets is included in "Depreciation and amortization" in the consolidated statement of profit or loss.

The amount of intangible assets in the above table with indefinite useful lives was ¥35,009 million ($309,814 thousand) at 31st December, 2017.

Intangible assets with indefinite useful lives were mainly trademarks, which were recognized as a result of the integration between DMG MORI AG and the Company. Trademarks are classified as intangible assets with indefinite useful lives since there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group to the extent that their respective operations continue.

Internally generated intangible assets (after deducting accumulated amortization and impairment losses) at 31st December, 2017 were ¥5,205 million ($46,062 thousand) and included in capitalized development costs in the above table.

Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Cost

	Millions of yen						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥44,291	¥7,675	¥6,238	¥1,669	¥5,807	¥26,925	¥92,607
Acquisitions	–	–	–	–	–	1,951	1,951
Acquisitions through business combinations	70	449	–	–	–	–	519
Additions due to internal development	–	–	–	–	1,640	–	1,640
Disposals	–	–	–	–	–	–	–
Reclassification	–	–	–	–	43	–	43
Exchange differences on translation of foreign operations	(3,004)	(466)	(425)	–	(1,487)	526	(4,857)
Other	–	–	–	–	–	–	–
Ending balance	¥41,356	¥7,658	¥5,813	¥1,669	¥6,003	¥29,402	¥91,904

Accumulated amortization and impairment losses

	Millions of yen						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥(469)	¥(1,551)	¥ (813)	¥(1,550)	¥(1,076)	¥(14,310)	¥(19,773)
Amortization	(309)	(385)	(991)	(30)	(1,340)	(3,219)	(6,278)
Impairment losses	–	–	–	–	–	–	–
Reversal of impairment losses	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–	–
Exchange differences on translation of foreign operations	17	19	36	–	880	(459)	494
Other	–	–	–	–	–	–	–
Ending balance	¥(761)	¥(1,918)	¥(1,769)	¥(1,581)	¥(1,537)	¥(17,989)	¥(25,557)

Carrying amount

	Millions of yen						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥43,821	¥6,124	¥5,424	¥119	¥4,730	¥12,614	¥72,834
Ending balance	40,595	5,740	4,044	88	4,465	11,413	66,346

Other intangible assets in the above table with finite useful lives are amortized over their useful economic lives. Amortization of intangible assets is included in “Depreciation and amortization” in the consolidated statement of profit or loss.
The amount of intangible assets in the above table with indefinite useful lives was ¥31,817 million at 31st December, 2016.
Intangible assets with indefinite useful lives were mainly trademarks, which were recognized as a result of the integration between DMG MORI AG and the Company. Trademarks are classified as intangible assets with indefinite useful lives since there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group to the extent that their respective operations continue.
Internally generated intangible assets (after deducting accumulated amortization and impairment losses) at 31st December, 2016 were ¥4,465 million and included in capitalized development costs in the above table.

(3) Impairment losses

The carrying value of certain assets, including software, were written down to their recoverable amount during the fiscal year ended 31st December, 2017 as they were not expected to be used for business purposes. ¥190 million ($1,681 thousands) of impairment loss was allocated to the Machine Tools segment.

The Group recognized no impairment losses on goodwill and other intangible assets for the year ended 31st December, 2016.

(4) Significant goodwill and other intangible assets

Significant goodwill and other intangible assets in the consolidated statement of financial position were recognized as a result of the integration with DMG MORI AG and the Company as follows.

	Millions of yen			Thousands of U.S. dollars
	Carrying amount (31st December, 2017)	Carrying amount (31st December, 2016)	Remaining amortization period	**Carrying amount (31st December, 2017)**
Goodwill	**¥70,203**	¥62,254	–	**$621,265**
Other intangible assets:				
Trademarks	**44,254**	40,527	28 years or non-amortizable	**391,628**
Customer-related assets	**4,913**	4,837	approximately 13 years	**43,478**
Technology-related assets	**3,337**	4,044	approximately 4 years	**29,531**

(5) Impairment test of goodwill and other intangible assets

Carrying amounts of goodwill and other intangible assets with indefinite useful lives allocated to each CGU (or group of CGUs) are as follows:

		Millions of yen		Thousands of U.S. dollars
	CGU	**31st December, 2017**	31st December, 2016	**31st December, 2017**
Goodwill	Machine Tools	**¥31,157**	¥28,076	**$275,726**
	Industrial Services	**42,190**	37,564	**373,363**
	Total	**¥73,347**	¥65,641	**$649,088**
Other intangible assets with indefinite useful lives	Machine Tools	**¥15,775**	¥14,337	**$139,602**
	Industrial Services	**19,233**	17,479	**170,204**
	Total	**¥35,009**	¥31,817	**$309,814**

The recoverable amount of goodwill and other intangible assets (allocated to each CGU) with indefinite useful lives related to DMG MORI AG is measured at value in use. In assessing the value in use, the estimated future cash flows of each CGU are discounted to their present value. The key assumptions used for the calculation are as follows:

Estimation of future cash flow: The Group estimates future cash flow based on a five-year business plan. The expected growth rate of future cash flow beyond the period of the business plan is estimated as 2.1%.

Discount rate: The Group used a discount rate of 9.7% in the cash flow projection at the end of fiscal year ended 31st December, 2017, considering the corresponding WACC in similar business industries.

At the end of fiscal year 2017 (31st December, 2017), the recoverable amounts of goodwill and other intangible assets (allocated to each CGU) with indefinite useful lives related to DMG MORI AG exceeded the corresponding carrying amounts by ¥18,594 million ($164,549 thousand) in the Machine Tools segment and ¥27,245 million ($241,106 thousand) in the Industrial Services segment, respectively. Future business plans or the discount rate used for the calculation of the value in use may change, and, as a result, the recognition of impairment may be required in some cases.

The value in use currently exceeds the carrying amounts and the Group believes any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

12. Other Financial Assets

The breakdown of other financial assets at 31st December, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Financial assets measured at amortized cost:			
Other financial assets including loans	**¥10,474**	¥ 8,266	**$ 92,690**
Financial assets measured at fair value through profit or loss:			
Derivative assets	**95**	1,912	**841**
Available-for-sale financial assets	**7,079**	11,360	**62,646**
Total	**¥17,649**	¥21,539	**$156,186**
Current assets	**¥ 8,652**	¥ 8,228	**$ 76,566**
Non-current assets	**8,996**	13,310	**79,611**
Total	**¥17,649**	¥21,539	**$156,186**

13. Investments in Associates and Joint Ventures

The carrying amount of the Group's investment in associates is as follows:

	Millions of yen		Thousand s of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Carrying amount of investments in associates (at the reporting date)	**¥2,229**	¥1,987	**$19,726**

Income and other comprehensive income attributable to the Group are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Net income attributable to the Group	**¥62**	¥196	**$549**
Other comprehensive income (loss) attributable to the Group	**18**	(0)	**159**
Total	**¥80**	¥196	**$708**

14. Trade and Other Payables

The breakdown of trade and other payables at 31st December, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Trade payables	**¥32,913**	¥41,554	**$291,265**
Other payables	**8,536**	8,250	**75,540**
Others	**6,267**	6,056	**55,460**
Total	**¥47,717**	¥55,861	**$422,274**

15. Interest-bearing Bonds and Borrowings

The breakdown of interest-bearing bonds and borrowings at 31st December, 2017 and 2016 is as follows:

	Millions of yen				Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	Average interest rate (%) (Note 1)	Maturity (Note 1)	**31st December, 2017**
Financial liabilities measured at amortized cost:					
Current borrowings	**¥ 5,590**	¥ 2,444	0.20~0.56	–	**$ 49,469**
Non-current borrowings due within one year	**17,063**	23,534	0.19~1.70	–	**151,000**
Non-current borrowings (excluding those due within one year)	**126,788**	130,938	0.19~6.25	2019-2027	**1,122,018**
Interest-bearing bonds due within one year	**–**	19,981	–	–	**-**
Interest-bearing bonds (excluding those due within one year)	**29,918**	29,881	0.15	2019-2021	**264,761**
Total	**¥179,359**	¥206,780			**$1,587,248**
Current liabilities	**¥ 22,653**	¥ 45,960			**$ 200,469**
Non-current liabilities	**156,706**	160,820			**1,386,779**
Total	**¥179,359**	¥206,780			**$1,587,248**

(Note 1) Average interest rate and maturity are based on the respective information at the end of fiscal year 2017.

A summary of the issuing conditions of the bonds is as follows:

			Millions of yen		Thousands of U.S. dollars			
Company	Name of bond	Date of issuance	31st December, 2017	1st January, 2017	31st December, 2017	Interest rate (%)	Collateral	Date of maturity
DMG MORI CO., LTD.	3rd debenture bond (Note 1)	13th June, 2013	–	19,981	–	0.515	None	13th June, 2017
DMG MORI CO., LTD.	4th debenture bond (Note 1)	26th September, 2016	19,953	19,927	176,575	0.120	None	26th September, 2019
DMG MORI CO., LTD.	5th debenture bond (Note 1)	26th September, 2016	9,964	9,954	88,177	0.210	None	24th September, 2021
Total			¥29,918	¥49,863	$264,761			
Current liabilities			¥ –	¥19,981	$ –			
Non-current liabilities			29,918	29,882	264,761			

(Note 1) With respect to the outstanding balances of the 4th and 5th debenture bonds, adjustments to these principal portions are made in accordance with IFRS. Annual maturities of bonds subsequent to 31st December, 2017 over five years are summarized as follows:

Millions of yen				
Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
¥–	¥19,953	¥–	¥9,964	¥–

Thousands of U.S. dollars				
Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years
$–	$176,575	$–	$88,177	$–

16. Other Financial Liabilities

The breakdown of other financial liabilities at 31st December, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Financial liabilities measured at amortized cost:			
Payment obligation for non-controlling interests (Note 1)	**¥101,691**	¥ 92,802	**$ 899,920**
Preferred stocks (Note 2)	**14,838**	–	**131,310**
Finance lease obligations	**4,580**	5,569	**40,531**
Others	**1,185**	–	**10,487**
Financial liabilities at fair value through profit or loss:			
Derivative liabilities	**2,469**	11,249	**21,850**
Total	**¥124,765**	¥109,620	**$1,104,115**
Current liabilities	**¥ 3,857**	¥ 14,796	**$ 34,133**
Non-current liabilities	**120,907**	94,824	**1,069,973**
Total	**¥124,765**	¥109,620	**$1,104,115**

(Note 1) The payment obligation for non-controlling interests arose from the DPLTA. For details, please refer to Note 34 "Domination and Profit and Loss Transfer Agreement."
(Note 2) A certain subsidiary of the Group issued the cumulative preferred stocks. The preferred stocks are not converted into corporate bonds and the Group has the obligation to redeem the principal in cash to the shareholders on a particular date (5 months after issuance). Considering these contractual conditions, the preferred stocks are classified as financial liabilities because the Group has the contractual obligation to delivery cash under IFRS on redemption date. Related interest will be paid in terms of base amount calculated from 6 month Japanese Yen TIBOR. If interest amount is lower than this base amount, this balance due will be accumulated to next fiscal year.

The net present value of finance lease obligations at 31st December, 2017 and 2016 is as follows:

	Millions of yen				Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	Average interest rate (%) (Note 1)	Maturity (Note 2)	**31st December, 2017**
Minimum lease payments	**¥5,767**	¥6,664	–	–	**$51,035**
Less: Future financing costs	**(1,186)**	(1,095)	–	–	**(10,496)**
Net present value of minimum lease payments	**4,580**	5,569	–	–	**40,531**
Current finance lease obligations (Not later than one year)	**724**	872	3.51	–	**6,407**
Non-current finance lease obligations (Later than one year)	**3,856**	4,696	5.34	2019-2029	**34,124**
Total	**¥4,580**	¥5,569	–	–	**$40,531**

(Note 1) Average interest rate is based on the weighted-average rate that applied to interest rates and balances at the end of fiscal year 2017.
(Note 2) Average interest rate and maturity are based on the respective information at the end of fiscal year 2017.

17. Operating Leases

Minimum lease payments under operating lease contracts recognized as an expense are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017 (1st January, 2017 through 31st December, 2017)**
Minimum lease payments	**¥4,831**	¥5,432	**$42,752**
Total	**¥4,831**	¥5,432	**$42,752**

Minimum lease payments are included in "Other expenses" in the consolidated statement of profit or loss.

Future minimum lease payments under non-cancelable operating lease contracts are as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Not later than one year	**¥ 3,981**	¥ 4,337	**$ 35,230**
Later than one year and not later than five years	**9,668**	10,323	**85,558**
Later than five years	**1,606**	3,283	**14,212**
Total	**¥15,256**	¥17,944	**$135,009**

Operating lease payments represent rental fees payable by the Group for certain rental buildings. Some lease contracts include renewal options. However, there are no significant restrictions on variable lease fees, purchase options, sublease agreements, escalation clauses and significant limits under any lease contracts.

18. Retirement Benefits

The Company and its 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.

(1) Defined benefit plans

1. Defined contribution plans adopted in Japan as post-employment benefit
   The Company and its domestic consolidated subsidiaries have established defined contribution pension plans. Although certain domestic subsidiaries had established defined benefit pension plans, the change of post-employment benefits from defined benefit plans to defined contribution plans has been completed.
2. Defined benefit plans of overseas subsidiaries as post-employment benefits.
   Overseas consolidated subsidiaries, mainly in Germany and Switzerland, have primarily established defined benefit plans for post-employment benefits. The contributions to these plans are determined based on the employee's length of service, salary level and other factors depending on general laws, economic conditions and taxation regulations of the respective countries. These plans expose the Group to the risks arising from fluctuations in interest rates, market and foreign exchanges rates, as well as actuarial differences due to changes in estimations, such as average life expectancy.
   For the year ended 31st December, 2016, certain subsidiaries in Switzerland recognized a gain on settlement of defined benefit plans. This gain was included in past service cost.

Assets and liabilities of defined benefit plans recognized in the consolidated statement of financial position at 31st December, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Present value of defined benefit obligations	**¥10,116**	¥10,645	**$89,522**
Fair value of plan assets	**(3,862)**	(4,444)	**(34,177)**
Funded status	**6,254**	6,200	**55,345**
Effect of asset ceiling	**–**	–	**–**
Net defined benefit liabilities	**¥ 6,254**	¥ 6,200	**$55,345**
Amounts in consolidated statement of financial position:			
Employee defined benefit assets	**–**	–	**–**
Net employee defined benefit liabilities	**¥ 6,254**	¥ 6,200	**$55,345**

Costs of defined benefit plans recognized in the consolidated statements of profit or loss for the year ended 31st December, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017 (1st January, 2017 through 31st December, 2017)**
Current service cost	**¥195**	¥460	**$1,726**
Past service cost	**39**	(554)	**345**
Subtotal of operating costs	**234**	(93)	**2,071**
Net interest cost	**70**	93	**619**
Subtotal of financial costs	**70**	93	**619**
Other	**–**	4	**–**
Total	**¥304**	¥ 3	**$2,690**

The movement in the present value of defined benefit obligations for the year ended 31st December, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Beginning balance	**¥10,645**	¥11,862	**$94,204**
Pension cost charged to profit or loss:			
Current service cost	**195**	460	**1,726**
Past service cost	**39**	(554)	**345**
Interest cost	**106**	158	**938**
Subtotal	**340**	64	**3,009**
Remeasurement (gains) losses in other comprehensive income:			
Actuarial gains and losses arising from changes in demographic assumptions	**–**	(276)	**–**
Actuarial gains and losses arising from changes in financial assumptions	**29**	261	**257**
Actuarial gains and losses arising from experience adjustments	**218**	336	**1,929**
Subtotal	**248**	321	**2,195**
Other:			
Benefits paid	**(793)**	(795)	**(7,018)**
Contributions to the plan by participants	**82**	178	**726**
Paid due to settlement	**–**	(863)	**–**
Acquisitions through business combinations	**–**	34	**–**
Decrease through business disposals	**(114)**	–	**(1,009)**
Exchange differences on translation of foreign operations	**(292)**	(158)	**(2,584)**
Subtotal	**(1,117)**	(1,603)	**(9,885)**
Ending balance	**¥10,116**	¥10,645	**$89,522**

The movement in the fair value in the plan assets for the year ended 31st December, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Beginning balance	**¥4,444**	¥5,638	**$39,327**
Amount recognized in profit or loss:			
Interest income	**36**	65	**319**
Subtotal	**36**	65	**319**
Amount recognized in other comprehensive income:			
Remeasurements of fair value of plan assets			
Return on plan assets	**47**	(68)	**416**
Subtotal	**47**	(68)	**416**
Other:			
Contributions to the plan by the employer	**478**	507	**4,230**
Benefits paid	**(773)**	(691)	**(6,841)**
Contributions to the plan by participants	**17**	221	**150**
Paid due to settlement	**–**	(863)	**–**
Exchange differences on translation of foreign operations	**(389)**	(365)	**(3,442)**
Subtotal	**(666)**	(1,190)	**(5,894)**
Ending balance	**¥3,862**	¥4,444	**$34,177**

(Note) The Group expects to contribute ¥546 million ($4,832 thousand) to its defined benefit pension plans for the year ending 31st December, 2017.

Significant actuarial assumptions used for the calculation of the present value of defined benefit obligations are as follows:

	31st December, 2017	31st December, 2016
Discount rates (%)	**0.59-3.01**	0.45-1.31
Rate of increase in benefits paid (%)	**0.00-2.00**	0.00-2.00

(Note) The weighted average duration of the defined benefit obligation as of 31st December, 2017 and 2016 were 13.5 years and 15.3 years, respectively.

The sensitivity analysis does not consider correlations between assumptions, assuming that all other assumptions are held constant. In practice, changes in some of the assumptions may occur in a correlated manner. When calculating the sensitivity of the defined benefit obligations, the same method has been applied as when calculating the defined benefit obligations in the consolidated statement of financial position.

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Discount rate:			
0.25% increase	**¥(234)**	¥(326)	**$(2,071)**
0.25% decrease	**317**	348	**2,805**
Changes in rate of increase in benefits paid:			
0.25% increase	**213**	218	**1,885**
0.25% decrease	**(205)**	(209)	**(1,814)**

The breakdown of the fair value of plan assets at 31st December, 2017 is as follows:

	Millions of yen		
	Quoted prices in active market	Quoted prices in active market unavailable	Total
Cash and cash equivalents	**¥–**	**¥ –**	**¥ –**
Equities	**–**	**–**	**–**
Bonds	**–**	**–**	**–**
Real estate	**–**	**–**	**–**
Insurance	**–**	**2,209**	**2,209**
Other	**–**	**1,652**	**1,652**
Total	**¥–**	**¥3,862**	**¥3,862**

	Thousands of U.S. dollars		
	Quoted prices in active market	Quoted prices in active market unavailable	Total
Cash and cash equivalents	**$–**	**$ –**	**$ –**
Equities	**–**	**–**	**–**
Bonds	**–**	**–**	**–**
Real estate	**–**	**–**	**–**
Insurance	**–**	**19,549**	**19,549**
Other	**–**	**14,619**	**14,619**
Total	**$–**	**$34,177**	**$34,177**

The breakdown of the fair value of plan assets at 31st December, 2016 is as follows:

	Millions of yen		
	Quoted prices in active market	Quoted prices in active market unavailable	Total
Cash and cash equivalents	¥ 21	¥ –	¥ 21
Equities	209	–	209
Bonds	470	–	470
Real estate	159	–	159
Insurance	–	2,015	2,015
Other	–	1,568	1,568
Total	¥860	¥3,584	¥4,444

The investment strategy of the global pension assets in the Group is based on the goal of assuring pension payments over the long term. In Germany, plan assets mainly comprise insurance contracts and are held by a legally separate and independent entity whose sole purpose is to hedge and finance employee benefit liabilities. In Switzerland, external plan assets are invested in a traditional pension fund. Plan assets in Switzerland are subject to customary minimum funding requirements.

(2) Defined contribution plans

The expenses related to the defined contribution plans charged to profit or loss for the year ended 31st December, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Expenses for defined contribution plans	**¥2,807**	¥2,961	**$24,841**

19. Provisions

The movement in provisions for the year ended 31st December, 2017 and 2016 is as follows:

Fiscal year 2017 (1st January, 2017 through 31st December, 2017)

	Millions of yen				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	**¥4,820**	**¥4,149**	**¥13,345**	**¥7,818**	**¥30,133**
Increase	**5,478**	**2,377**	**10,343**	**1,815**	**20,014**
Decrease due to intended use	**(4,753)**	**(1,621)**	**(8,690)**	**(2,313)**	**(17,378)**
Reversal	**(65)**	**(395)**	**(620)**	**(578)**	**(1,658)**
Increase due to passage of time	**0**	**–**	**1**	**0**	**2**
Increase due to business combinations	**30**	**–**	**4**	**21**	**56**
Exchange differences on translation of foreign operations	**388**	**330**	**1,008**	**961**	**2,689**
Ending balance	**¥5,899**	**¥4,840**	**¥15,392**	**¥7,727**	**¥33,859**

	Thousands of U.S. dollars				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	**$42,655**	**$36,717**	**$118,097**	**$69,186**	**$266,664**
Increase	**48,478**	**21,035**	**91,531**	**16,062**	**177,115**
Decrease due to intended use	**(42,062)**	**(14,345)**	**(76,903)**	**(20,469)**	**(153,788)**
Reversal	**(575)**	**(3,496)**	**(5,487)**	**(5,115)**	**(14,673)**
Increase due to passage of time	**3**	**–**	**9**	**0**	**18**
Increase due to business combinations	**265**	**–**	**35**	**186**	**496**
Exchange differences on translation of foreign operations	**3,434**	**2,920**	**8,920**	**8,504**	**23,796**
Ending balance	**$52,204**	**$42,832**	**$136,212**	**$68,381**	**$299,637**

Fiscal year 2016 (1st January, 2016 through 31st December, 2016)

	Millions of yen				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	¥4,652	¥5,281	¥14,251	¥6,354	¥30,541
Increase	2,868	2,429	8,637	7,114	21,050
Decrease due to intended use	(2,330)	(2,812)	(8,026)	(4,680)	(17,848)
Reversal	(186)	(224)	(715)	(653)	(1,780)
Increase due to passage of time	(0)	–	1	(5)	(3)
Increase due to business combinations	14	–	90	12	117
Exchange differences on translation of foreign operations	(198)	(525)	(894)	(325)	(1,942)
Ending balance	¥4,820	¥4,149	¥13,345	¥7,818	¥30,133

The breakdown of provisions at 31st December, 2017 and 2016 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Current liabilities:			
Provision for product warranties	**¥ 5,899**	¥ 4,820	**$ 52,204**
Provision for sales commissions	**4,567**	4,040	**40,416**
Provision for personnel costs	**12,325**	10,262	**109,071**
Other provisions	**7,094**	6,922	**62,779**
Subtotal	**29,886**	26,045	**264,478**
Non-current liabilities:			
Provision for sales commissions	**273**	108	**2,416**
Provision for personnel costs	**3,067**	3,083	**27,142**
Other provisions	**632**	896	**5,593**
Subtotal	**3,973**	4,088	**35,159**
Total	**¥33,859**	¥30,133	**$299,637**

Provision for product warranties
Provision for product warranties is calculated based on the actual historical ratio of repair costs as a portion of the corresponding product sales to provide for future repairs during free-of-charge product warranty periods.
Provision for sales commissions
Provision for sales commissions is calculated based on the estimated commissions to be paid to sales dealers.
Provision for personnel costs
Provision for personnel costs mainly consists of a provision for annual paid leaves and bonuses.

The outflows of economic benefits related to provisions included in current liabilities and non-current liabilities are expected within one year from the end of the reporting period and after one year from the end of the reporting period, respectively.

20. Income Taxes

(1) Deferred tax assets and liabilities
The breakdown and movement of deferred tax assets and liabilities by major causes of their occurrence for each corresponding fiscal year and period are as follows:

Fiscal year 2017 (1st January, 2017 through 31st December, 2017)

	Millions of yen				
	Beginning balance	Increase due to business combinations	Recognized in profit or loss (Note 1)	Recognized in other comprehensive income	Ending balance
Deferred tax assets :					
Intangible assets	**¥ 2,503**	**¥ –**	**¥ 218**	**¥ –**	**¥ 2,722**
Property, plant and equipment	**1,051**	**–**	**(63)**	**–**	**988**
Inventories	**4,371**	**–**	**(433)**	**–**	**3,937**
Trade and other receivables	**1,415**	**–**	**(85)**	**–**	**1,329**
Unused tax losses (Note 2)	**4,803**	**–**	**(1,989)**	**–**	**2,813**
Other	**4,760**	**–**	**1,576**	**–**	**6,336**
Total	**18,905**	**–**	**(777)**	**–**	**18,128**
Deferred tax liabilities:					
Intangible assets	**(12,182)**	**(68)**	**(417)**	**–**	**(12,668)**
Property, plant and equipment	**(2,493)**	**–**	**15**	**–**	**(2,478)**
Available-for-sale financial assets	**(1,623)**	**–**	**(1)**	**766**	**(858)**
Inventories	**(180)**	**–**	**(113)**	**–**	**(293)**
Other	**(3,925)**	**–**	**248**	**85**	**(3,590)**
Total	**(20,405)**	**(68)**	**(268)**	**852**	**(19,890)**
Net amount	**¥ (1,500)**	**¥(68)**	**¥(1,045)**	**¥852**	**¥ (1,762)**

	Thousands of U.S. dollars				
	Beginning balance	Increase due to business combinations	Recognized in profit or loss(Note 1)	Recognized in other comprehensive income	Ending balance
Deferred tax assets：					
Intangible assets	**$ 22,150**	**$ –**	**$ 1,929**	**$ –**	**$ 24,088**
Property, plant and equipment	**9,301**	**–**	**(558)**	**–**	**8,743**
Inventories	**38,681**	**–**	**(3,832)**	**–**	**34,841**
Trade and other receivables	**12,522**	**–**	**(752)**	**–**	**11,761**
Unused tax losses (Note 2)	**42,504**	**–**	**(17,602)**	**–**	**24,894**
Other	**42,124**	**–**	**13,947**	**–**	**56,071**
Total	**167,301**	**–**	**(6,876)**	**–**	**160,425**
Deferred tax liabilities:					
Intangible assets	**(107,805)**	**(602)**	**(3,690)**	**–**	**(112,106)**
Property, plant and equipment	**(22,062)**	**–**	**133**	**–**	**(21,929)**
Available-for-sale financial assets	**(14,363)**	**–**	**(9)**	**6,779**	**(7,593)**
Inventories	**(1,593)**	**–**	**(1,000)**	**–**	**(2,593)**
Other	**(34,735)**	**–**	**2,195**	**752**	**(31,770)**
Total	**(180,575)**	**(602)**	**(2,372)**	**7,540**	**(176,018)**
Net amount	**$ (13,274)**	**$(602)**	**$ (9,248)**	**$7,540**	**$ (15,593)**

Fiscal year 2016 (1st January, 2016 through 31st December, 2016)

	Millions of yen				
	Beginning balance	Increase due to business combinations	Recognized in profit or loss (Note 1)	Recognized in other comprehensive income	Ending balance
Deferred tax assets：					
Intangible assets	¥ 1,538	¥ –	¥ 965	¥ –	¥ 2,503
Property, plant and equipment	910	–	140	–	1,051
Inventories	5,155	–	(783)	–	4,371
Trade and other receivables	1,179	–	236	–	1,415
Unused tax losses (Note 2)	5,512	–	(709)	–	4,803
Other	4,821	–	(61)	–	4,760
Total	19,117	–	(212)	–	18,905
Deferred tax liabilities:					
Intangible assets	(13,642)	(191)	1,650	–	(12,182)
Property, plant and equipment	(2,676)	(1)	185	–	(2,493)
Available-for-sale financial assets	(2,530)	–	10	896	(1,623)
Inventories	(166)	–	(14)	–	(180)
Other	(4,719)	–	492	301	(3,925)
Total	(23,735)	(193)	2,324	1,197	(20,405)
Net amount	¥ (4,617)	¥(193)	¥2,112	¥1,197	¥ (1,500)

(Note 1) Exchange differences arising on translation of foreign operations are included.
(Note 2) The cause of deferred tax assets associated with unused tax losses as of 31st December, 2017 and 2016 is non-recurring in nature, and it is probable that the tax benefit will be realizable based on the forecast of future taxable income in the business plan approved by the Board of Directors of the Company.

(2) Unrecognized deferred tax assets

Deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized are as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Deductible temporary differences	**¥13,221**	¥10,540	**$117,000**
Unused tax losses	**11,795**	12,759	**104,381**
Unused tax credits	**297**	335	**2,628**
Total	**¥25,313**	¥23,635	**$224,009**

Unused tax losses and unused tax credits for which no deferred tax asset is recognized will expire as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Unused tax losses			
Year 1	**¥ 401**	¥ 833	**$ 3,549**
Year 2	**101**	415	**894**
Year 3	**1,428**	788	**12,637**
Year 4	**1,010**	1,868	**8,938**
Year 5 or later	**8,854**	8,853	**78,354**
Total	**¥11,795**	¥12,759	**$104,381**
Unused tax credits			
Year 1	**¥ 264**	¥ –	**$ 2,336**
Year 2	**32**	302	**283**
Year 3	**–**	32	**–**
Year 4	**–**	–	**–**
Year 5 or later	**–**	–	**–**
Total	**¥ 297**	¥ 335	**$ 2,628**

(3) Income tax expense

The breakdown of income tax expense recognized in profit or loss is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Current income tax expense	**¥8,716**	¥6,770	**$77,133**
Deferred income tax expense:			
Relating to origination and reversal of temporary differences	**(1,271)**	(1,545)	**(11,248)**
Changes in tax rate or imposition of new taxation	**1,892**	127	**16,743**
Unused tax losses recognized in prior years or temporary differences	**(209)**	(667)	**(1,850)**
Total	**411**	(2,085)	**3,637**
Total income taxes	**¥9,127**	¥4,684	**$80,770**

(4) Reconciliation of effective tax rate

The Company is mainly subject to corporate tax, inhabitant tax and enterprise tax. The effective statutory tax rate calculated based on these taxes was 30.69% and 32.83% for the year ended 31st December, 2017 and 2016, respectively. Foreign subsidiaries are subject to income taxes in their respective jurisdictions.

The reconciliation of the effective statutory tax rate and the average actual tax rates for fiscal year 2017 and 2016 is as follows:

	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Effective statutory tax rate	**30.69%**	32.83%
Non-deductible expenses, such as entertainment expenses	**3.49**	(103.23)
Tax credits	**(0.83)**	0.01
Non-taxable income, such as dividend income	**(0.10)**	2.35
Inhabitant tax on per capita basis	**0.17**	(3.93)
Temporary differences arising from investments in associates	**0.08**	76.66
Changes in unrecognized deferred tax assets	**(3.44)**	(150.30)
Effect of change in applicable tax rates	**7.63**	(11.94)
Gain on step acquisition	**–**	(3.73)
Effect from elimination of gain on sales of shares of the subsidiary	**–**	(358.06)
Effective tax rate difference in overseas consolidated subsidiaries	**(1.30)**	80.22
Other	**0.41**	(0.84)
Average actual tax rates	**36.80%**	(439.96)%

(5) Revision of amounts of deferred tax assets and deferred tax liabilities due to changes in tax rate, such as corporate tax, etc.

Based on the enactment of the new US tax legislation on 22 December 2017, which includes a reduction of the federal corporate tax rate from 35 percent to 21 percent from fiscal year 2018. The Group has evaluated the deferred tax balances in the US and recognized a one-time deferred tax charge of ¥1,890 million ($16,726 thousand) for the year ended 31st December, 2017, arising from reversal of the deferred tax assets on the loss carryforward of the past years and devaluation.

21. Equity and Other Components of Equity

(1) Number of authorized shares and issued shares

The number of authorized shares and issued shares is as follows:

	Shares	
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Number of authorized shares	**300,000,000**	300,000,000
Number of issued shares:		
At the beginning of reporting period	**132,943,683**	132,943,683
Increase/(decrease)	**(6,990,000)**	–
At the end of reporting period	**125,953,683**	132,943,683

The shares issued by the Company are ordinary shares with no par value. Issued shares are fully paid-in.
The number of issued shares decreased by 6,990,000 during fiscal year 2017 is due to cancellation of treasury stocks.

(2) Treasury shares

The movement in treasury shares is as follows:

	Shares	
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
At the beginning of reporting period	**12,924,920**	12,924,543
Increase (Notes 1 and 2)	**2,619,933**	440
Decrease (Note 1 and 2)	**10,490,000**	63
At the end of reporting period	**5,054,853**	12,924,920

(Note 1) The number of treasury shares increased by 2,619,933 shares due to purchases of 2,619,100 treasury shares based on the resolution in the Board of Directors' meeting and purchases of 833 shares of treasury shares less than one unit during fiscal year 2017. The number of treasury shares decreased by 10,490,000 shares due to disposal of 3,500,000 treasury shares (¥6,446 million, $57,044 thousand) at 31st March, 2017, cancellation of 3,500,000 treasury shares (¥6,446 million, $57,044 thousand) at 31st March, 2017 based on the resolution in the Board of Directors' meeting on 13th January, 2017, and cancellation of 3,490,000 treasury shares (¥6,401 million, $56,646 thousand) at 30th June, 2017 based on the resolution in the Board of Directors' meeting on 10th May, 2017, for the purpose of supporting the social contribution activities of Mori Manufacturing Research and Technology Foundation.

(Note 2) The number of treasury shares increased by 440 shares due to purchases of treasury shares less than one unit, and decreased by 63 shares due to sales of less than one unit during fiscal year 2016.

(3) Capital surplus and retained earnings

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 and retained earnings be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals to 25% of the capital stock account.

(4) Hybrid capital

The Company raised funds in the amounts of ¥40 billion through a perpetual subordinated loan (hereinafter, "the subordinated loan") and ¥10 billion through perpetual subordinated bonds (hereinafter, "the subordinated bonds") in September, 2016.

The subordinated loan and the subordinated bonds are classified as equity instruments since no date for repayment of the principal is specified and optional deferral of interest payments is possible. The proceeds from the subordinated loan and the subordinated bonds after deducting issue costs are recorded as "Hybrid capital" under "Equity" in the consolidated statement of financial position.

1. Overview of Subordinated Loan

(1)Amount	¥40 billion
(2)Lender	Mizuho Bank, Ltd., and Sumitomo Mitsui Banking Corporation
(3)Execution date	20th September, 2016
(4)Repayment date	No repayment date is specified. Provided, however, that on each interest payment date from 20th September, 2021 onward, optional repayment of all or part of the principal is possible.
(5)Interest rate	From 20th September, 2016 to 20th September, 2026: Variable interest based on 6-month Japanese yen TIBOR From 21st September, 2026 onward: Variable interest stepped up by 1.00%
(6)Clauses relating to payment of interest	Deferral of interest payment is optional.
(7)Subordinated loan clause	The subordinated creditors have right to claim for repayment only after the all claims by senior creditors are satisfied in case an event defined in the loan contract such as liquidation occurs.

2. Overview of Subordinated Bonds

(1)Amount	¥10 billion
(2)Execution date	2nd September, 2016
(3)Repayment date	No repayment date is specified. Provided, however, that on each interest payment date from 2nd September, 2021 onward, optional repayment of all principal is possible.
(4)Interest rate	From 2nd September, 2016 to 2nd September, 2021: Fixed interest From 3rd September, 2021 onward: Variable interest based on 6-month Japanese yen LIBOR
(5)Clauses relating to payment of interest	Deferral of interest payment is optional.
(6)Subordinated loan clause	The subordinated creditors have right to claim for repayment only after the all claims by senior creditors are satisfied in case an event defined in the loan contract such as liquidation occurs. When making optional redemption or repurchase of the subordinated bonds, it is assumed that the subordinated bonds are being replaced with equivalent bonds or loans certified by a credit rating agency, that satisfy necessary conditions to be classified as equity instruments. Provided, however, that if, after five years elapse, both of the following items are satisfied, it is possible not to refinance with equivalent financial instruments.
(7)Replacement restrictions	(a)Consolidated shareholders' equity after the adjustment is more than ¥151.2 billion. (b)The consolidated equity ratio after the adjustment is more than 26.8%. The values stated above shall be calculated according to the following method. (a)Consolidated shareholders' equity after the adjustment is equal to total equity attributable to owners of parent less other components of equity and hybrid capital. (b)The consolidated equity ratio after the adjustment is equal to consolidated shareholders' equity after the adjustment as calculated above divided by total assets.

3. Paid amount for hybrid capital

Category	Payment date	Payment amount: Millions of yen	Payment amount: Thousands of U.S. dollars
Subordinated loan	21st March, 2017	¥440	$3,894
	20th September, 2017	¥442	$3,912
Subordinated bonds	2nd March, 2017	¥ 93	$ 823
	1st September, 2017	¥ 93	$ 823

4. Payment amount for hybrid capital

Category	Payment date	Payment amount: Millions of yen	Payment amount: Thousands of U.S. dollars
Subordinated loan	20th March, 2018	¥437	$3,867
Subordinated bonds	1st March, 2018	¥ 93	$ 823

(5) Other components of equity

The movement in other components of equity is as follows:

Fiscal year 2017 (1st January, 2017 through 31st December, 2017)

	Millions of yen					
	Re-measurements of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Changes in fair value measurements of available-for-sale financial assets	Stock options	Total
Beginning balance	**¥ –**	**¥(15,613)**	**¥(167)**	**¥4,429**	**¥ 83**	**¥(11,266)**
Other comprehensive income (loss)	**(129)**	**4,048**	**(31)**	**(2,584)**	**–**	**1,302**
Share-based payments	**–**	**–**	**–**	**–**	**328**	**328**
Transfer from other components of equity to retained earnings	**129**	**–**	**–**	**–**	**–**	**129**
Ending balance	**¥ –**	**¥(11,564)**	**¥(198)**	**¥1,845**	**¥412**	**¥ (9,504)**

	Thousands of U.S dollars					
	Re-measurements of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Changes in fair value measurements of available-for-sale financial assets	Stock options	Total
Beginning balance	**$ –**	**$(138,168)**	**$(1,478)**	**$39,195**	**$ 735**	**$(99,699)**
Other comprehensive income (loss)	**(1,142)**	**35,823**	**(274)**	**(22,867)**	**–**	**11,522**
Share-based payments	**–**	**–**	**–**	**–**	**2,903**	**2,903**
Transfer from other components of equity to retained earnings	**1,142**	**–**	**–**	**–**	**–**	**1,142**
Ending balance	**$ –**	**$(102,336)**	**$(1,752)**	**$16,327**	**$3,646**	**$ 84,106**

Fiscal year 2016 (1st January, 2016 through 31st December, 2016)

	Millions of yen					
	Re-measurements of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of changes in fair value of cash flow hedges	Changes in fair value measurements of available-for-sale financial assets	Stock options	Total
Beginning balance	¥ –	¥ (2,674)	¥ (89)	¥6,164	¥ –	¥ 3,399
Other comprehensive income (loss)	164	(12,938)	(77)	(1,734)	–	(14,585)
Share-based payments	–	–	–	–	83	83
Transfer from other components of equity to retained earnings	(164)	–	–	–	–	(164)
Ending balance	¥ –	¥(15,613)	¥(167)	¥4,429	¥83	¥(11,266)

Other components of equity are explained as follows:

Remeasurements of defined benefit plans
Remeasurements of defined benefit plans comprise actuarial gains and losses, the return on plan assets, excluding amounts included in interest income, and any changes in the effect of the asset ceiling, excluding amounts included in interest income.

Exchange differences on translation of foreign operations
Exchange differences on translation of foreign operations arising from the translation of the foreign currency financial statements of foreign subsidiaries.

Effective portion of changes in fair value of cash flow hedges
This is the effective portion of changes in the fair value of derivative transactions designated as cash flow hedges.

Changes in fair value measurements of available-for-sale financial assets
This is a valuation difference between the fair value and acquisition cost of available-for-sale financial assets, which are measured at fair value.

Stock options
The Company has stock option plans and issues stock options under the Law. For details on the conditions and amounts, please refer to Note 23 “Share-based Payment.”

22. Dividends

Fiscal year 2017
(1st January, 2017 through 31st December, 2017)

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of yen) (Thousands of U.S. dollars)	Dividends per share (Yen) (U.S. dollars)	Record date	Effective date
Annual general meeting of shareholders held on 22th March, 2017	**Ordinary shares**	**¥ 1,560** **$13,805**	**¥ 13** **$0.12**	**31st December, 2016**	**23rd March, 2017**
Board of Directors meeting held on 8th August, 2017	**Ordinary shares**	**¥ 1,844** **$16,319**	**¥ 15** **$0.13**	**30th June, 2017**	**15th September, 2017**

(Note) The difference between total dividends above and cash dividends presented in the consolidated statement of changes in equity is due to inter-company eliminations.

(2) Dividends whose record date is in the year ended 31st December, 2017 but whose effective date is in the following fiscal year are as follows:

Resolution	Class of shares	Total dividends (Millions of yen) (Thousands of U.S. dollars)	Dividends per share (Yen) (U.S. dollars)	Record date	Effective date
Annual general meeting of shareholders held on 22nd March, 2018	Ordinary shares	**¥ 3,022** **$26,743**	**¥ 25** **$0.22**	**31st December, 2017**	**23rd March, 2018**

23. Share-based Payment

(1) Description of stock options
The Company grants stock options to its corporate officers and certain of its and its subsidiaries employees, in order to raise their motivation for enhancing the corporate value of the Company and secure talented personnel.

The outline of stock option plan is as follows:

Issuer	The Company (DMG MORI CO., LTD.)	
Date of resolution at the Board of Directors Meeting	13th September, 2016	
Grantees	Corporate officers of the Company Employees of the Company Executive officers of the Company's subsidiaries Employees of the Company's subsidiaries	20 75 15 49
Class and number of granted shares	Common stock, 2,410,000 shares	
Grant date	30th September, 2016	
Vesting Conditions	Continuous service with the Company or its subsidiaries in the state of being employed or entrusted from the grant date (30th September, 2016) to the vesting date (13th September, 2018)	
Service period	From 30th September, 2016 to 13th September, 2018	
Exercisable period	From 14th September, 2018 to 13th September, 2021	

(2) Expenses recorded in consolidated statement of profit or loss

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Total expenses recorded from granting stock options	**¥328**	¥83	**$2,903**
Total	**¥328**	¥83	**$2,903**

(3) Changes in the number of shares for outstanding stock options (100 shares per 1 option)

	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Beginning balance	**2,410,000**	–
Granted	**–**	2,410,000
Expired	**(105,000)**	–
Exercised	**–**	–
Exercisable outstanding balance at the reporting date	**2,305,000**	2,410,000

(4) Measurement approach for fair value of stock options

The fair value of stock options has been estimated using the Black-Scholes model. The fair value and assumptions used in the calculation are as follows.

	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Issue price per options (Yen)	**–**	27,700
Share price at the grant date (Yen)	**–**	1,042
Exercise price of the option (Yen)	**–**	1,090
Expected volatility of the share price (%)	**–**	47.724
Expected remaining life of the option (years)	**–**	3.46
Expected dividend yield (%)	**–**	2.495
Risk-free interest rate for the remaining life of the option (%)	**–**	(0.267)

	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)
Issue price per options (U.S. dollars)	**–**
Share price at the grant date (U.S. dollars)	**–**
Exercise price of the option (U.S. dollars)	**–**

The exercise price shall be the amount that is equal to the average of the daily closing prices (excluding days on which no transactions are established) of common stock of the Company in regular transactions at the Tokyo Securities Exchange during the calendar month immediately prior to the month in which the grant date of the stock acquisition rights belongs, multiplied by 1.05, and any fraction less than one yen resulting therefrom shall be rounded down; provided, however, that in the event that this amount is less than the closing price of common stock of the Company in regular transactions at the Tokyo Securities Exchange as of the grant date (the closing price on the day immediately preceding the grant date if no transactions are established on the grant date), the relevant closing price shall be the exercise price.

The expected volatility of the share price is calculated based on past weekly share prices corresponding to the remaining life of the option.

The Company sold its treasury stocks of common stock below the market price whose due date for payment was 31st March, 2017. Thus, the Company adjusted exercise price of the option from ¥1,121 to ¥1,090 for the options granted on 30th September, 2016.

24. Financial Instruments

(1) Capital management

The Group's capital management policy is to maintain an optimal capital structure in order to achieve sustained improvement in the enterprise value for further growth in global machine tool markets. The Group monitors financial indicators, such as ROE (return on equity), EPS (earnings per share) and the equity ratio, in order to maintain an optimal capital structure. The Group is not subject to any material capital regulation.

The Group raises necessary capital partly by issuing new shares and bonds, borrowings from banks and liquidation of receivables for mainly operations related to the manufacturing and sales of machine tools based on the demand for funds from its operating activities.

(2) Risk management policy

The Group is exposed to financial risk, credit risk, liquidity risk, foreign exchange risk, interest rate risk and market volatility risk in operating its business and manages these risks based on its policy to mitigate them.

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, in principle, to hedge the risks as described herein, and transactions are not carried out for speculative purposes.

(3) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss.

Cash and cash equivalents are held only with banks and financial institutions with high credit ratings, therefore, the corresponding credit risk is very limited.

Trade and other receivables are exposed to the credit risk of customers. The Group regularly monitors the credit information related to customer operating claims and manages collection dates and outstanding balances in accordance with its credit control policy.

Derivative transactions included in other financial assets and liabilities are exposed to credit risks associated with the banks and financial institutions with which the Group has a business relationship. To minimize the counterparty risk when entering into derivative transactions, counterparties are limited to financial institutions with high credit ratings.

The Group has granted certain financial guarantees and these are exposed to the credit risk of those entities for which the guarantees were granted.

Other than guarantee obligations, the Group's maximum exposures to credit risk, without taking into account any collateral held or other credit enhancements, is the carrying amount of the financial instruments less impairment losses in the consolidated statement of financial position and the amount of guarantee obligations as disclosed in Note 37, "Contingent Liabilities."

An aging analysis of trade and other receivables that are past due but not impaired is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Within three months past due	**¥5,080**	¥5,862	**$44,956**
Within six months past due	**856**	805	**7,575**
Within twelve months past due	**710**	1,059	**6,283**
Over one year past due	**584**	552	**5,168**
Total	**¥7,231**	¥8,280	**$63,991**

(Note) The amounts in the above table are before any allowance for doubtful receivables.

The movement in the allowance for doubtful receivables is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Beginning balance	**¥2,220**	¥2,126	**$19,646**
Increase	**628**	671	**5,558**
Decrease due to intended use	**(423)**	(192)	**(3,743)**
Increase due to business combinations	**(8)**	–	**(71)**
Other	**(178)**	(385)	**(1,575)**
Ending balance	**¥2,238**	¥2,220	**$19,805**

(Note) These balances at 31st December, 2017 and 2016 in the table above include impairment losses on trade and other receivables in consideration of the creditworthiness of customers and the status of the overdue balances.

(4) Liquidity risk

The Group is exposed to liquidity risk that it might have difficulty settling its financial obligations.
Trade and other payables, bonds and borrowings and other financial liabilities are exposed to liquidity risk. However, the Group manages liquidity risk by maintaining liquidity on hand and credit lines from financial institutions that enable the Group to meet its obligations based on funding plans that are updated in a timely manner.
Financial liabilities by maturity date are as follows:
The contractual cash flows in the table are based on the undiscounted cash flows, reflecting interest payments.

As of 31st December, 2017

	Millions of yen				
	Carrying amount	Contractual cash flows	Within one year	Over one year within five years	Over five years
Non-derivative financial liabilities:					
Trade and other payables	**¥ 47,717**	**¥ 47,717**	**¥47,717**	**¥ –**	**¥ –**
Bonds and borrowings	**179,359**	**181,952**	**33,604**	**148,348**	**–**
Other financial liabilities (Payment obligation for non-controlling interests)	**101,691**	**105,510**	**2,973**	**102,536**	**–**
Other financial liabilities (Preferred stocks)	**14,838**	**15,000**	**–**	**15,000**	**–**
Other financial liabilities	**5,766**	**6,953**	**941**	**3,894**	**2,117**
Derivative financial liabilities:					
Other financial liabilities	**2,469**	**2,469**	**186**	**2,283**	**–**
Total	**¥351,842**	**¥359,602**	**¥85,435**	**¥272,049**	**¥2,117**

	Thousands of U.S. dollars				
	Carrying amount	Contractual cash flows	Within one year	Over one year within five years	Over five years
Non-derivative financial liabilities:					
Trade and other payables	**$ 422,274**	**$ 422,274**	**$422,274**	**$ –**	**$ –**
Bonds and borrowings	**1,587,248**	**1,610,195**	**297,381**	**1,312,814**	**–**
Other financial liabilities (Payment obligation for non-controlling interests)	**899,920**	**933,717**	**26,310**	**907,398**	**–**
Other financial liabilities (Preferred stocks)	**131,310**	**132,743**	**–**	**132,743**	**–**
Other financial liabilities	**51,027**	**61,531**	**8,327**	**34,460**	**18,735**
Derivative financial liabilities:					
Other financial liabilities	**21,850**	**21,850**	**1,646**	**20,204**	**–**
Total	**$3,113,646**	**$3,182,319**	**$756,062**	**$2,407,513**	**$18,735**

As of 31st December, 2016

	Millions of yen				
	Carrying amount	Contractual cash flows	Within one year	Over one year within five years	Over five years
Non-derivative financial liabilities:					
Trade and other payables	¥ 55,861	¥ 55,861	¥ 55,861	¥ –	¥ –
Bonds and borrowings	206,780	210,172	46,995	132,836	30,340
Other financial liabilities (Payment obligation for non-controlling interests)	92,802	98,280	2,702	95,577	–
Other financial liabilities (Preferred stocks interests)	–	–	–	–	–
Other financial liabilities	5,569	6,951	1,160	3,295	2,495
Derivative financial liabilities:					
Other financial liabilities	11,249	11,249	11,249	–	–
Total	¥372,262	¥382,514	¥117,969	¥231,709	¥32,836

Borrowing commitments and other credit lines

For effective financing purposes, the Group concluded line-of-credit agreements with several banks and financial institutions. The status of such agreements is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Credit line	**¥282,132**	¥266,199	**$2,496,743**
Borrowings	**12,494**	7,646	**110,566**
Unused balance	**¥269,637**	¥258,552	**$2,386,168**

(5) Foreign exchange risk

The Group operates globally and its business transactions denominated in foreign currencies other than the functional currencies of each group entity are exposed to foreign exchange risks. The underlying currencies of these transactions are mainly the Japanese yen, the U.S. dollar and the Euro.

Trade receivables denominated in foreign currencies are exposed to foreign exchange risk, which is, in principle, hedged using foreign exchange forward contracts, limited to the necessary amounts, in order to mitigate the risk of fluctuations of foreign currencies identified by each currency. Trade payables denominated in foreign currencies, mainly related to the import of raw materials, are also exposed to foreign exchange risk.

The analysis of exposures to foreign exchange risk of the Group is as follows:

As of 31st December, 2017

	Millions of yen		
	Japanese yen	U.S. dollars	Euro
Net exposures	**¥(1,303)**	**¥ 24,357**	**¥ (8,439)**
Per each local currency	**–**	**$215,556 thousand**	**€ (62,515) thousand**

	Thousands of U.S. dollars		
	Japanese yen	U.S. dollars	Euro
Net exposures	**$(11,531)**	**$215,549**	**$ (74,681)**

As of 31st December, 2016

	Millions of yen		
	Japanese yen	U.S. dollars	Euro
Net exposures	¥(1,292)	¥892	¥28,122

Foreign currency sensitivity analysis

The financial impact on earnings before income taxes for the year ended 31st December, 2017 and 2016 in the case of a 1% increase in the Japanese yen, which is the Company's functional currency, against the U.S. dollar and Euro is as follows:

It is based on the assumption that all parameters other than the currencies used for the calculation do not fluctuate. In addition, these amounts are based on the effect of translation. The effects of forecasted sales and purchases are not taken into account.

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Japanese yen	**¥ 13**	¥ 12	**$ 115**
U.S. dollar	**(243)**	(8)	**(2,150)**
Euro	**84**	(281)	**743**

(Note) The impact on profit or loss due to the fluctuation of the Japanese yen in the above table is related to financial assets or financial liabilities denominated in Japanese yen of foreign subsidiaries.

(6) Interest rate risk

Non-current floating rate borrowings in the Group are exposed to interest rate risk. In order to manage the exposure and hedge interest rate risk, the Group enters into interest rate swaps in which the Group agrees to exchange interest payments at specified intervals.

Interest rate sensitivity analysis

The financial impact on earnings before income taxes for the year ended 31st December, 2017 and 2016 in the case of a 1% increase in interest rates is as follows:
It is based on the assumption that all parameters other than the interest rates used for the calculation do not fluctuate. In addition, the table below represents the sensitivity analyses to the balance of floating rate borrowings, excluding the portion of borrowings whose interest payments are substantially fixed through a corresponding interest rate swap.

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Loss before income taxes	**¥(703)**	¥(682)	**$(6,221)**

(7) Market volatility risk

The Group holds equity instruments, which are mainly shares of companies with which the Group has a business relationship, and these equity instruments are exposed to market volatility risk. The Group continually assesses the market situation by periodically reviewing share prices and the financial position of the issuers.

Market volatility sensitivity analysis

The financial impact on other comprehensive income (net of tax) for the year ended 31st December, 2017 and 2016 in the case of a 10% decrease in listed share prices is as follows:
It is based on the assumption that all parameters other than the share prices used for the calculation do not fluctuate.

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Other comprehensive loss	**¥(470)**	¥(831)	**$(4,159)**

(8) Fair value of financial instruments

Carrying amounts and fair value of financial instruments are as follows:

	Millions of yen				Thousands of U.S. dollars	
	31st December, 2017		31st December, 2016		**31st December, 2017**	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Financial assets measured at amortized cost:						
Cash and cash equivalents	**¥ 64,973**	**¥ 64,973**	¥ 67,750	¥ 67,750	**$ 574,982**	**$ 574,982**
Trade and other receivables	**60,741**	**60,741**	51,008	51,008	**537,531**	**537,531**
Other financial assets including loans	**10,474**	**10,474**	8,266	8,266	**92,690**	**92,690**
Financial assets measured at fair value through profit or loss included in other financial assets:						
Derivative assets	**95**	**95**	1,912	1,912	**841**	**841**
Available-for-sale financial assets	**7,079**	**7,079**	11,360	11,360	**62,646**	**62,646**
Total	**¥143,364**	**¥143,364**	¥140,298	¥140,298	**$1,268,708**	**$1,268,708**
Financial liabilities measured at amortized cost:						
Trade and other payables	**¥ 47,717**	**¥ 47,717**	¥ 55,861	¥ 55,861	**$ 422,274**	**$ 422,274**
Interest-bearing bonds and borrowings	**179,359**	**179,456**	206,780	206,996	**1,587,248**	**1,588,106**
Other financial liabilities (Payment obligation for non-controlling interests)	**101,691**	**101,186**	92,802	92,802	**899,920**	**895,451**
Other financial liabilities (Preferred stocks)	**14,838**	**14,838**	–	–	**131,310**	**131,310**
Other financial liabilities	**5,766**	**5,766**	5,569	5,569	**51,027**	**51,027**
Financial liabilities measured at fair value through profit or loss included in other financial liabilities:						
Derivative liabilities	**2,469**	**2,469**	11,249	11,249	**21,850**	**21,850**
Total	**¥351,842**	**¥351,434**	¥372,262	¥372,478	**$3,113,646**	**$3,110,035**

Methods to determine the fair value of financial assets and liabilities measured at amortized cost are summarized as follows:

Cash and cash equivalents
The carrying amount approximates the fair value due to the short maturities of the instruments.

Trade and other receivables
The carrying amount approximates the fair value due to the short maturities of the instruments.

Other financial assets including loans
The fair value of the non-current loans and other financial assets including loans is calculated based on the present value of total amount of principal and interest discounted by the expected interest rate based on the maturity term and credit risk considering years to maturity. On the other hand, the carrying amount of the current portion approximates the fair value due to the short maturities of the instruments.

Trade and other payables
The carrying amount approximates the fair value due to the short maturities of the instruments.

Interest-bearing bonds and borrowings
The fair value of interest-bearing bonds is determined based on the market price at the end of the reporting period.
The fair value of non-current borrowings with fixed interest rates is calculated based on the present value of total amount of principal and interest discounted by the expected interest rate based on the maturity term and credit risks considering years to maturity. On the other hand, the carrying amount of the current portion approximates the fair value due to the short maturities of the instruments.

Other financial liabilities
The fair value of the payment obligations for non-controlling interests (the liabilities arising from the entry into force of the DPLTA) is calculated based on the present value of total amount of estimated future payments to the non-controlling interests discounted by the expected interest rate based on the payment period and credit risk considering years to payments.
Under IFRS, a certain type of preferred stock is treated as financial liabilities because the Group has an obligation to deliver cash to holders of preferred stock. The fair value of the preferred stock is calculated by the present value of future cash flows discounted using the interest rate adjusted for the remaining maturity period and credit risk.
The fair value of other financial liabilities is calculated based on the present value of total amount of principal and interest discounted by the expected interest rate based on the maturity term and credit risks considering years to maturity.
Financial assets and liabilities measured at fair value through profit or loss included in other financial assets and liabilities.

Derivative assets and liabilities
The fair value of foreign exchange forward contracts included in derivative assets and liabilities is determined based on respective market price at the end of the reporting period.
The fair value of interest rate swaps is calculated based on the present value of estimated future cash flows discounted by the expected interest rate based on the maturity term and applicable swap rates at the end of the reporting period.

Available-for-sale financial assets
The fair value of listed securities included in available-for sale financial assets is based on the market price, and when no market price exists for non-listed securities, a rationally calculated amount principally measured based on net assets value is used. In addition, the fair value of the debt securities included in available-for-sale financial assets is measured based on prices provided by counterparty financial institutions.

The levels of the fair value hierarchy are as follows:
Fair value of financial instruments is categorized within the fair value hierarchy described as follows from Level 1 to Level 3. Any significant transfers of the financial instruments between levels are recognized at the date of events that causes the transfers or changes on the status.
Level 1 – Fair value measured using quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – Fair value measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly
Level 3 – Fair value measured using unobservable inputs for the asset or liability

Financial instruments measured at amortized cost
The carrying amount and the respective level in the fair value hierarchy of financial instruments measured at amortized cost at the end of the reporting period are as follows:

As of 31st December, 2017

	Millions of yen				
	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Interest-bearing non-current borrowings	¥143,851	¥–	¥ –	¥143,935	¥143,935
Interest-bearing bonds	29,918	–	29,931	–	29,931
Other financial liabilities (Payment obligation for non-controlling interests)	101,691	–	–	101,186	101,186
Other financial liabilities (Preferred stock)	14,838	–	–	14,838	14,838

(Note) The balance of interest-bearing non-current borrowings and interest-bearing bonds includes those due within one year.

	Thousands of U.S. dollars				
	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Interest-bearing non-current borrowings	$1,273,018	$–	$ –	$1,273,761	$1,273,761
Interest-bearing bonds	264,761	–	264,876	–	264,876
Other financial liabilities (Payment obligation for non-controlling interests)	899,920	–	–	895,451	895,451
Other financial liabilities (Preferred stock)	131,310	–	–	131,310	131,310

(Note) The balance of interest-bearing non-current borrowings and interest-bearing bonds includes those due within one year.

As of 31st December, 2016

	Millions of yen				
	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Interest-bearing non-current borrowings	¥154,473	¥–	¥ –	¥154,612	¥154,612
Interest-bearing bonds	49,863	–	49,940	–	49,940
Other financial liabilities (Payment obligation for non-controlling interests)	92,802	–	–	92,802	92,802

(Note) The balance of interest-bearing non-current borrowings and interest-bearing bonds includes those due within one year.

The carrying amount of financial instruments measured at amortized cost, except for non-current borrowings and bonds, approximates the fair value. The fair value of non-current borrowings with fixed interest rates is calculated based on the present value of the total amount of principal and interest discounted by the expected interest rate for a similar new borrowing.

Financial instruments measured at fair value
The carrying amount and the respective level in the fair value hierarchy of financial instruments measured at fair value at the end of reporting period are as follows:

As of 31st December, 2017

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Other financial assets:				
Derivative assets	¥ –	¥ 95	¥ –	¥ 95
Available-for-sale financial assets	6,141	–	937	7,079
Total	¥6,141	¥ 95	¥937	¥7,174
Other financial liabilities:				
Derivative liabilities	¥ –	¥2,469	¥ –	¥2,469
Total	¥ –	¥2,469	¥ –	¥2,469

(Note) There have been no significant transfers between Levels 1, 2, and 3 of the fair value measurement hierarchy during the fiscal year.

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Other financial assets:				
Derivative assets	$ –	$ 841	$ –	$ 841
Available-for-sale financial assets	54,345	–	8,292	62,646
Total	$54,345	$ 841	$8,292	$63,487
Other financial liabilities:				
Derivative liabilities	$ –	$21,850	$ –	$21,850
Total	$ –	$21,850	$ –	$21,850

(Note) There have been no significant transfers between Levels 1, 2, and 3 of the fair value measurement hierarchy during the fiscal year.

As of 31st December, 2016

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Other financial assets:				
Derivative assets	¥ –	¥ 1,912	¥ –	¥ 1,912
Available-for-sale financial assets	10,990	–	369	11,360
Total	¥10,990	¥ 1,912	¥369	¥13,272
Other financial liabilities:				
Derivative liabilities	¥ –	¥11,249	¥ –	¥11,249
Total	¥ –	¥11,249	¥ –	¥11,249

(Note) There have been no significant transfers between Levels 1, 2 and 3 of the fair value measurement hierarchy during the fiscal year.

The financial assets and financial liabilities categorized in Level 2 are mainly derivative transactions related to foreign exchange forward contracts and interest rate and currency swaps. The fair values of foreign exchange forward contracts and interest rate and currency swaps are measured based on observable market data, such as interest rates mainly provided by counterparty financial institutions.
The fair value of non-listed shares is measured using the respective net asset values and is categorized within Level 3 because unobservable inputs such as estimates of future net operating profit after tax and the weighted average cost of capital are used for the measurement.

The movement in fair value of financial instruments categorized within Level 3 of the fair value hierarchy is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017 (1st January, 2017 through 31st December, 2017)**
Beginning balance	**¥369**	¥344	**$3,265**
Total gain and loss:			
Profit or loss (Note 1)	**(58)**	529	**(513)**
Other comprehensive income (loss) (Note 2)	**14**	6	**124**
Purchase	**695**	137	**6,150**
Sales	**–**	(500)	**–**
Other	**(83)**	(149)	**(735)**
Ending balance	**¥937**	¥369	**$8,292**
Changes of unrealized gain which is recognized as profit or loss on financial instruments held at the end of reporting period (Note 1)	**¥(58)**	¥29	**$ (513)**

(Note 1) Gain and loss included in profit or loss are included in other operating revenues and other operating costs in the consolidated statement of profit or loss.
(Note 2) Gain and loss included in other comprehensive income (loss) are related to unquoted shares, which are not traded in any market at the reporting date. These are included in changes in fair value measurements of available-for-sale financial assets in the consolidated statement of comprehensive income.

(9) Derivative and hedge accounting

The Group uses foreign exchange forward contracts to hedge the risk of future fluctuations in cash flow in regard to foreign currency transactions and a cash flow hedge is designated if the transaction meets the qualifying conditions.
If a cash flow hedge meets the qualifying conditions, the portion of the gain or loss on a hedging instrument that is determined to be an effective hedge should be recognized in other comprehensive income and the ineffective portion should be recognized immediately in profit or loss.
Also, the Group uses cross currency swap transactions to hedge the risk of fluctuations in exchange rates in regard to interest-bearing borrowings denominated in foreign currencies and uses interest rate swap transactions to hedge the risk of fluctuations in interest rates in regard to these borrowings.

The fair value of derivatives is as follows:
Derivative transactions which do not qualify for hedge accounting

	Millions of yen						Thousands of U.S. dollars		
	31st December, 2017			31st December, 2016			**31st December, 2017**		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Foreign exchange forward contracts	**¥23,318**	**¥–**	**¥(59)**	¥124,263	¥93	¥(10,511)	**$206,354**	**$–**	**$(522)**
Cross currency interest rate swaps	**–**	**–**	**–**	–	–	–	**–**	**–**	**–**
Total	**¥23,318**	**¥–**	**¥(59)**	¥124,263	¥93	¥(10,511)	**$206,354**	**$–**	**$(522)**

Derivative transactions which qualify for hedge accounting

	Millions of yen						Thousands of U.S. dollars		
	31st December, 2017			31st December, 2016			**31st December, 2017**		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Foreign exchange forward contracts	**¥ 3,465**	**¥ —**	**¥ (31)**	¥ 7,417	¥ —	¥ (86)	**$ 30,664**	**$ —**	**$ (274)**
Cross currency interest rate swaps	**30,103**	**30,103**	**(2,283)**	41,377	41,377	1,261	**266,398**	**266,398**	**(20,204)**
Total	**¥33,569**	**¥30,103**	**¥(2,314)**	¥48,794	¥41,377	¥1,175	**$297,071**	**$266,398**	**$(20,478)**

(10) Reconciliation of liabilities arising from financing activities
Reconciliation of liabilities arising from financing activities is as follows:

Fiscal year 2017 (1st January, 2017 through 31st December, 2017)

Millions of yen

	Beginning balance	Cash flows from financing activities	Cash flows from operating activities	Non-cash changes: Foreign exchange differences	Non-cash changes: Measuring at amortized cost	Non-cash changes: Appropriation of retained earnings	Ending balance
Current borrowings	¥ 2,444	¥ 17	¥ –	¥ 3,128	¥ –	¥ –	¥ 5,590
Non-current borrowings	154,473	(22,117)	–	11,171	324	–	143,851
Interest-bearing bonds	49,863	(20,000)	–	–	54	–	29,918
Dividends payable	25	(3,461)	–	–	–	3,462	27
Payment obligation for non-controlling interests	92,802	(11)	(2,406)	9,235	2,071	–	101,691
Preferred stock	–	14,838	–	–	–	–	14,838
Finance lease obligations	5,569	(462)	–	(525)	–	–	4,580
Total	¥305,177	¥(31,198)	¥(2,406)	¥23,010	¥2,450	¥3,462	¥300,496

Thousands of U.S dollars

	Beginning balance	Cash flows from financing activities	Cash flows from operating activities	Non-cash changes: Foreign exchange differences	Non-cash changes: Measuring at amortized cost	Non-cash changes: Appropriation of retained earnings	Ending balance
Current borrowings	$ 21,628	$ 150	$ –	$ 27,681	$ –	$ –	$ 49,469
Non-current borrowings	1,367,018	(195,726)	–	98,858	2,867	–	1,273,018
Interest-bearing bonds	441,265	(176,991)	–	–	478	–	264,761
Dividends payable	221	(30,628)	–	–	–	30,637	239
Payment obligation for non-controlling interests	821,257	(97)	(21,292)	81,726	18,327	–	899,920
Preferred stock	–	131,310	–	–	–	–	131,310
Finance lease obligations	49,283	(4,088)	–	(4,646)	–	–	40,531
Total	$2,700,681	$(276,088)	$(21,292)	$203,628	$21,681	$30,637	$2,659,257

25. Sales Revenues

The breakdown of sales revenues is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Sales of products	¥312,073	¥267,873	$2,761,708
Service revenue	117,556	108,731	1,040,319
Other	34	26	301
Total	¥429,664	¥376,631	$3,802,336

26. Other Operating Revenues

The breakdown of other operating revenues is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Gain on sales of property, plant and equipment	¥ 459	¥ 245	$ 4,062
Gain on sales of financial instruments	5,536	3,830	48,991
Other	6,032	5,100	53,381
Total	¥12,028	¥9,175	$106,442

27. Other Operating Costs

The breakdown of other operating costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Commissions	**¥18,575**	¥19,713	**$164,381**
Sales promotion costs	**7,756**	9,107	**68,637**
Outward freight and packaging	**14,465**	13,415	**128,009**
Research and development costs (except for amortization of capitalized development costs)	**9,151**	7,098	**80,982**
Exchange losses	**594**	834	**5,257**
Other	**28,107**	30,595	**248,735**
Total	**¥78,650**	¥80,765	**$696,018**

28. Personnel Costs

The breakdown of personnel costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Remuneration and salaries	**¥ 82,157**	¥ 77,881	**$ 727,053**
Bonuses	**14,300**	13,361	**126,549**
Social security and welfare expenses	**17,379**	16,522	**153,796**
Retirement benefit expenses	**3,111**	2,965	**27,531**
Share-based compensation expenses	**328**	83	**2,903**
Other employee benefit expenses	**3,450**	3,307	**30,531**
Total	**¥120,728**	¥114,121	**$1,068,389**

29. Financial Income

The breakdown of financial income is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Financial income			
Interest income:			
Financial assets measured at amortized cost	**¥393**	¥371	**$3,478**
Dividend income:			
Available-for-sale financial assets	**254**	340	**2,248**
Total	**¥647**	¥711	**$5,726**

30. Financial Costs

The breakdown of financial costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Financial costs			
Interest expenses on bonds and borrowings:			
Financial liabilities measured at amortized cost	**¥3,014**	¥3,234	**$26,673**
Financial costs arising from domination and profit and loss transfer agreement:			
Financial liabilities measured at amortized cost	**2,071**	700	**18,327**
Others	**211**	–	**1,867**
Total	**¥5,297**	¥3,935	**$46,876**

31. Other Comprehensive Income

The breakdown of each component of other comprehensive (loss) income and the corresponding tax effects (including non-controlling interests) is as follows:

	Millions of yen						Thousands of U.S. dollars		
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)			Fiscal year 2016 (1st January, 2016 through 31st December, 2016)			**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)		
	Before tax effect	Tax effect	After tax effect	Before tax effect	Tax effect	After tax effect	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified subsequently to profit or loss:									
Remeasurements of defined benefit plans:									
Amount arising during the year	**¥ (201)**	**¥ 71**	**¥ (129)**	¥ (390)	¥ 269	¥ (120)	**$ (1,779)**	**$ 628**	**$ (1,142)**
Net changes during the year	**(201)**	**71**	**(129)**	(390)	269	(120)	**(1,779)**	**628**	**(1,142)**
Subtotal	**(201)**	**71**	**(129)**	(390)	269	(120)	**(1,779)**	**628**	**(1,142)**
Items that may be reclassified subsequently to profit or loss:									
Exchange differences on translation of foreign operations:									
Amount arising during the year	**4,044**	**–**	**4,044**	(20,099)	–	(20,099)	**35,788**	**–**	**35,788**
Reclassification adjustments to profit or loss	**–**	**–**	**–**	–	–	–	**–**	**–**	**–**
Net change during the year	**4,044**	**–**	**4,044**	(20,099)	–	(20,099)	**35,788**	**–**	**35,788**
Effective portion of changes in fair value of cash flow hedges:									
Amount arising during the year	**(291)**	**93**	**(198)**	(232)	74	(157)	**(2,575)**	**823**	**(1,752)**
Reclassification adjustments to profit or loss	**246**	**(78)**	**167**	132	(42)	89	**2,177**	**(690)**	**1,478**
Net change during the year	**(45)**	**14**	**(31)**	(100)	32	(67)	**(398)**	**124**	**(274)**
Changes in fair value measurements of available-for-sale financial assets:									
Amount arising during the year	**2,167**	**(776)**	**1,390**	1,200	(240)	959	**19,177**	**(6,867)**	**12,301**
Reclassification adjustments to profit or loss	**(5,536)**	**1,543**	**(3,993)**	(3,830)	1,137	(2,693)	**(48,991)**	**13,655**	**(35,336)**
Net change during the year	**(3,369)**	**766**	**(2,602)**	(2,630)	896	(1,734)	**(29,814)**	**6,779**	**(23,027)**
Share of other comprehensive (loss) income of associates and joint ventures accounted for using equity method:									
Amount arising during the year	**18**	**–**	**18**	(0)	–	(0)	**159**	**–**	**159**
Reclassification adjustments to profit or loss	**–**	**–**	**–**	–	–	–	**–**	**–**	**–**
Net change during the year	**18**	**–**	**18**	(0)	–	(0)	**159**	**–**	**159**
Subtotal	**647**	**781**	**1,428**	(22,829)	928	(21,901)	**5,726**	**6,912**	**12,637**
Total other comprehensive (loss) income	**¥ 446**	**¥ 852**	**¥1,298**	¥(23,220)	¥1,197	¥(22,022)	**$ 3,947**	**$ 7,540**	**$11,487**

32. Earnings Per Share

The basis of the calculation of basic loss or earning per share and diluted loss or earnings per share is as follows:

	Millions of yen, except as otherwise indicated	
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Profit (loss) attributable to owners of the parent company	**¥ 15,263**	¥ (7,826)
Profit not attributable to owners of the parent company	**1,068**	311
Profit (loss) used for basic earnings per share	**14,195**	(8,137)
Adjustment for diluted profit	**–**	–
Diluted earnings (loss)	**14,195**	(8,137)
Weighted-average number of shares (Thousands of shares)	**121,909**	120,019
Increase in number of common stock shares for diluted earnings per share		
Increase due to exercising stock options (Thousands of shares)	**892**	–
Weighted-average number of shares outstanding for diluted earnings per share (Thousands of shares)	**122,801**	120,019
Basic earnings (loss) per share (Yen)	**¥ 116.44**	¥ (67.80)
Diluted earnings (loss) per share (Yen)	**115.59**	(67.80)

	Thousands of U.S. dollars, except as otherwise indicated
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)
Profit attributable to owners of the parent company	**$135,071**
Profit not attributable to owners of the parent company	**9,451**
Profit used for diluted earnings per share	**125,619**
Adjustment for diluted profit	**–**
Diluted earnings	**125,619**
Basic earnings per share (U.S. dollars)	**$ 1.03**
Diluted earnings per share (U.S. dollars)	**1.02**

(Note) 1.Diluted loss per share for the period ended 31st December, 2016 equals basic earnings per share because there are no potential shares.
2.Basic loss per share and diluted loss per share were calculated dividing by the average number of shares after deducting the average number of treasury shares during the period from loss attributable to owners of the parent company after deducting the amount attributable to owners of hybrid capital.

33. Business Combinations

There was no business combination during the fiscal year ended December, 2017.
Acquisition of DMG MORI AG shares during the fiscal year ended 31st December, 2016
The Company acquired additional shares of DMG MORI AG for a consideration of ¥61,303 million for the fiscal year ended 31st December, 2016.
This transaction was accounted for as an equity transaction with non-controlling interests, and as a result non-controlling interests decreased by ¥28,262 million and capital surplus decreased by ¥33,040 million in the consolidated statement of financial position.

For the related transaction that occurred after this transaction, please refer to Note 34 "Domination and Profit and Loss Transfer Agreement."

34. Domination, Profit and Loss Transfer Agreement

(1) Entry into force of Domination, Profit and Loss Transfer Agreement

On 24th August, 2016, the DPLTA between DMG MORI GmbH (hereinafter "GmbH"), one of the Company's consolidated subsidiaries, and DMG MORI AKTIENGESELLSCHAFT (hereinafter, "AG") came into effect.
AG is subject to the DPLTA based on German Company Law, which enables an entity to give direct instructions to a decision-making body, normally the board meeting, of another entity. In addition, under the agreement all profit or loss of AG is transferred to GmbH.
Shareholders of AG, except for GmbH (hereinafter the "external shareholders"), have two options; either to offer their shares to GmbH in exchange for a cash compensation amount, or to receive a recurring annual cash compensation from GmbH.
Therefore, GmbH undertakes upon demand of the external shareholders to purchase their shares in exchange for the amount of €37.35 per share, or to pay them the recurring annual cash compensation of €1.17 (including tax) per share. The obligation of GmbH to purchase the shares was originally limited to two months after the effective date of the agreement. However, since some external shareholders initiated a judicial appraisal proceeding to achieve a higher recurring compensation or a higher exercise price of the share purchase option, as the result, the time limitation period has been extended to two months after the date on which the final ruling has been announced in the Federal Gazette based on the German law.
The amounts of the recurring cash compensation and the exercise price of the share purchase option have been audited and certified as fair by independent auditors appointed by a German court and therefore, the Group believes that those amounts are appropriate.

(2) Outline of accounting treatments and significant non-cash transactions

Due to the entry into force of the DPLTA, the Group recognized the net present value of the expected future payment obligations as other financial liabilities in the consolidated statement of financial position.

As a result of revaluation of the net present value of the expected future payment obligations to external shareholders at the end of fiscal year ended 31st December, 2017, the Group recognized ¥2,947 million ($26,080 thousand) of other financial liabilities (current) and ¥98,744 million ($873,841 thousand) of other financial liabilities (noncurrent) in the consolidated statement of financial position, and ¥2,071 million ($18,327 thousand) of financial expenses in the consolidated statement of profit or loss.

35. Significant Subsidiaries

The Group does not recognize significant non-controlling interests in the subsidiary.

36. Related Party Transactions

(1) Transactions with related parties
Transactions with related parties carried out during the reporting period are as follows:

			Millions of yen		Thousands of U.S. dollars
			Transaction amounts		Transaction amounts
Category	Name of related parties	Details of transactions	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Associates	DMG MORI Finance GmbH	Sales of products	**¥12,948**	¥13,298	**$114,584**

Receivables and payables due from and to major related parties are as follows:

			Millions of yen				Thousands of U.S. dollars	
			31st December, 2017		31st December, 2016		**31st December, 2017**	
Category	Name of related parties	Details of transactions	Receivables	Payables	Receivables	Payables	Receivables	Payables
Associates	DMG MORI Finance GmbH	Sales of products	**¥1,485**	**¥ 801**	¥679	¥451	**$13,142**	**$7,088**

(2) Key management compensation
The breakdown of key management compensation in the Group is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2017 (1st January, 2017 through 31st December, 2017)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	**Fiscal year 2017** (1st January, 2017 through 31st December, 2017)
Compensation and bonuses	**¥1,789**	¥1,792	**$15,832**
Share-based payments	**–**	–	**–**
Retirement benefit payments	**–**	954	**–**
Total	**¥1,789**	¥2,746	**$15,832**

(Note) Key management compensation is paid to directors, including outside directors, of the Company, and important director executive officers of subsidiaries such as DMG MORI AG. The compensation and bonuses paid to the directors of DMG MORI AG totaled ¥1,096 million ($9,699 thousand) and ¥1,263 million for the year ended 31st December, 2017 and 2016, respectively.

37. Contingent Liabilities

The breakdown of guarantee obligations is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2017	31st December, 2016	**31st December, 2017**
Guarantees for lease payments by customers	**¥2,486**	¥3,060	**$22,000**
Other guarantee obligations	**535**	214	**4,735**
Total	**¥3,021**	¥3,275	**$26,735**

(Note) Guarantee obligations are not recognized as a financial liability, as the probability of executing these guarantees is very low.

38. Events after Reporting Period

There is no applicable event.

Basic information as of December 31, 2017

Corporate Profile

Company Name	DMG MORI CO., LTD.
Capital	51,115 million yen
Established	October, 1948
Registered Head Office	Yamato-Koriyama City, Nara, Japan
National Head Office	2-35-16 Meieki, Nakamura-ku, Nagoya City, Aichi 450-0002, Japan
Tokyo Global Headquarters	2-3-23, Shiomi, Koto-ku, Tokyo 135-0052, Japan
Business Operations	Manufacture and Sale of Machine Tools (Machining Centers, CNC lathes and other products)
Number of employees	12,375 (consolidated)
Website	https://www.dmgmori.co.jp

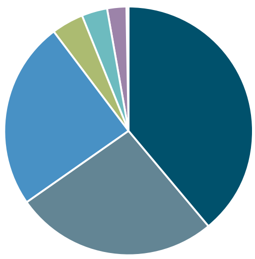
Share

Total number of authorized shares	300,000,000
Number of shares outstanding	120,918,518 (excluding 5,035,165 treasury shares)
Number of shareholders	28,884

Top share holders

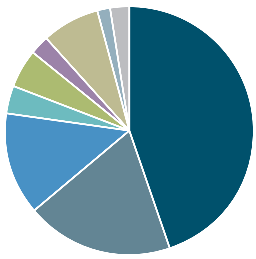
Name	Position (in thousand shares)	% of outstanding shares
Japan Trustee Services Bank, Ltd. (Trust account)	4,942	4.09
The Master Trust Bank of Japan, Ltd. (Trust account)	4,108	3.40
Masahiko Mori	3,540	2.93
GOLDMAN SACHS INTERNATIONAL	3,526	2.92
MORI MANUFACTURING RESEARCH AND TECHNOLOGY FOUNDATION	3,500	2.89
DMG Mori Co., Ltd. Employee Stock Ownership Plan	2,651	2.19
Japan Trustee Services Bank, Ltd. (Trust account 9)	2,645	2.19
STATE STREET BANK AND TRUST COMPANY	2,324	1.92
The Nomura Trust and Banking Co., Ltd (Investment trust)	2,232	1.85
Japan Trustee Services Bank, Ltd. (Trust account 5)	2,087	1.73

Shareholder composition



	Number of shares (1,000 shares)	Number of shareholders
Foreign corporate bodies (other than individuals)	49,014	312
Individuals/ Others	33,514	28,236
Financial institutions	30,692	61
Treasury shares	5,035	1
Other corporate bodies (Japan)	4,297	202
Securities companies	3,383	51
Foreign individual investors	15	21

Distribution by position



	Number of shares (1,000 shares)	Number of shareholders
1,000,000 shares or more	56,660	25
500,000 shares or more	23,827	35
100,000 shares or more	16,912	72
50,000 shares or more	4,559	64
10,000 shares or more	6,492	340
5,000 shares or more	2,875	468
1,000 shares or more	9,411	5,829
500 shares or more	2,084	3,548
Up to 500 shares	3,130	18,503

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