DMG MORI

FINANCIAL REVIEW

Fiscal Year Ended December 31, 2016

DMG MORI CO., LTD.

CONTENTS

Consolidated Financial Highlights

	Billions of yen		Billions of yen			Millions of U.S. dollars*
	Japanese GAAP*2		IFRS			
	2013/3	2014/3	2015/3 *3	2015/12 *3,4,5,6	**2016/12 *3,4**	**2016/12 *3,4**
Financial Performance						
Sales revenues	148.6	160.7	174.4	318.4	**376.6**	**3,233**
Operating result	4.1	9.4	18.2	31.1	**2.0**	**17**
Earnings (loss) before income taxes	5.6	11.4	23.1	29.7	**(1.1)**	**(9)**
Profit (loss) attributable to owners of the parent	5.2	9.4	17.1	26.9	**(7.8)**	**(67)**
Profitability Ratio						
Return on investment (ROI) (%) *7	2.6	5.1	7.6	9.7	**0.6**	
Return on equity (ROE) (%) *8,9	5.3	7.4	10.9	17.0	**(6.1)**	
Return on total assets (ROA) (%) *10	2.8	4.4	6.0	5.8	**(1.4)**	
Financial Position						
Total assets	186.7	241.7	323.8	598.0	**558.2**	**4,792**
Shareholders' equity *8,11	102.7	151.3	162.0	155.3	**100.4**	**862**
Cash Flows						
Net cash flows from operating activities	21.4	5.9	7.3	18.6	**18.2**	**157**
Net cash flows used in investing activities	(10.1)	(17.5)	(58.7)	(26.9)	**(10.0)**	**(86)**
Net cash flows from (used in) financing activities	(10.1)	23.9	53.6	71.9	**(18.4)**	**(158)**
Free cash flow *12	11.3	(11.6)	(51.3)	(8.3)	**8.2**	**71**
Number of Employees	4,117	4,159	4,324	12,230	**12,307**	

*1 The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥116.49 = U.S.$1.00, the exchange rate prevailing on 31st December, 2016.
*2 Itemization in accordance with International Financial Reporting Standards (IFRS).
*3 Starting from the fiscal period ended 31st December, 2015, IFRS has been voluntarily adopted.
*4 For the fiscal periods ended 31st March, 2015, 31st December, 2015 and 31st December, 2016, the consolidated financial data are presented in accordance with IFRS.
*5 The fiscal period ended 31st December, 2015 is a period of nine months only due to the change in the fiscal period-end.
*6 From the fiscal period ended 31st December, 2015, the Company's accounts are consolidated with those of DMG MORI AG.
*7 Return on investment (ROI) (%) = Operating result / (Average equity + Average interest-bearing debt) × 100
*8 Under IFRS, shareholders' equity is shown as equity attributable to owners of the parent (including hybrid capital).
*9 Return on equity (ROE) (%) = Profit attributable to owners of the parent / Average equity × 100
*10 Return on total assets (ROA) (%) = Profit attributable to owners of the parent company / Average total assets × 100
*11 Shareholders' equity = Total equity − Stock acquisition rights − Non-controlling interests
*12 Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities

The following is an analysis of our financial situation, business results and cash flows during the fiscal year ended 31st December, 2016.

Analysis of Financial Position

(1) Assets

Current assets totaled 259,983 million yen ($2,231,805 thousand), mainly due to decreases of 15,826 million yen in cash and cash equivalents, 3,950 million yen in trade and other receivables, and 7,771 million yen in inventories.

Non-current assets stood at 298,238 million yen ($2,560,203 thousand), mainly due to decreases of 4,477 million yen in property, plant and equipment, 6,487 million yen in other intangible assets, 2,577 million yen in goodwill, and 4,249 million yen in other financial assets.

As a result, total assets stood at 558,222 million yen ($4,792,016 thousand).

(2) Liabilities

Current liabilities totaled 180,261 million yen ($1,547,438 thousand). This mainly reflected decreases of 10,787 million yen in trade and other payables and 54,732 million yen in interest-bearing bonds and borrowings, which balanced increases of 7,925 million yen in advances received and 14,016 million yen in other financial liabilities.

Non-current liabilities amounted to 275,477 million yen ($2,364,812 thousand), this primarily reflected increases of 44,609 million yen in interest-bearing bonds and borrowings and 90,516 million yen in other financial liabilities.

As a result, total liabilities stood at 455,739 million yen ($3,912,259 thousand).

(3) Equity

Equity totaled 102,482 million yen ($879,749 thousand). Major changes were decreases of 53,057 million yen in capital surplus, 36,602 million yen in retained earnings, 14,666 million yen in other components of equity, and 74,803 million yen in non-controlling interests, which were counterbalanced by an increase of 49,505 million yen in hybrid capital.

Analysis of Business Results

(1) Analysis of business results for the consolidated fiscal year ended 31st December, 2016

Due to a change in the fiscal period-end from 31st March to 31st December, the consolidated fiscal year ended 31st December, 2015, consisted of the resulting transitional period.

Accordingly, the percentage increase/decrease from the previous corresponding fiscal period is not shown.

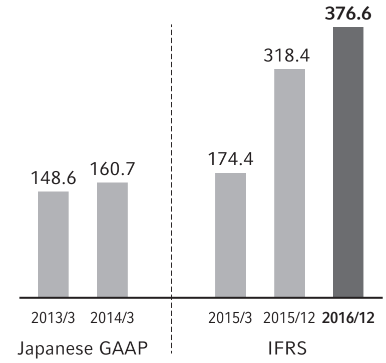
1. Sales revenues

Sales revenues for the fiscal year amounted to 376,631 million yen ($3,233,162 thousand). The share of sales by segment was 71.1% for machine tools and 28.9% for industrial services, while the share of sales by region was 14.7% for Japan, 26.4% for Germany, 14.8% for the Americas, 31.7% for Europe other than Germany, and 12.4% for China and Asia.

2. Costs

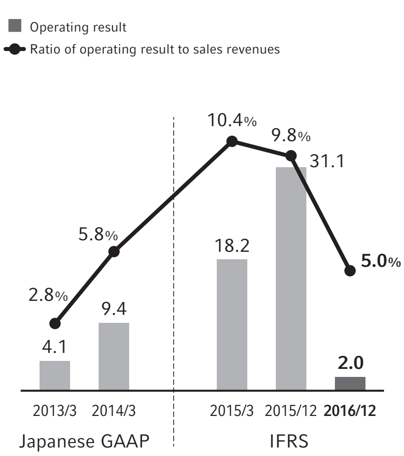
Costs for the fiscal year totaled 383,845 million yen ($3,295,090 thousand). The main components included 165,662 million yen ($1,422,113 thousand) for costs of raw materials, consumables and goods for resale, 114,121 million yen ($979,663 thousand) for personnel costs, and 17,691 million yen ($151,867 thousand) for depreciation and amortization.

Sales revenues (Billions of yen)



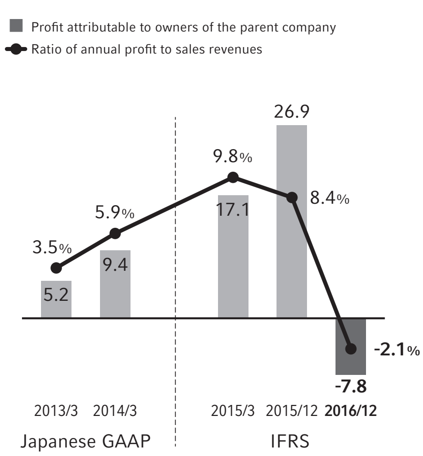
Operating result (Billions of yen)

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 (%)



3. Operating result

In the fiscal year, the operating result came to 1,961 million yen ($16,834 thousand). By segment, the machine tools segment posted operating income of 11,669 million yen ($100,172 thousand) and the industrial services segment posted operating income of 1,777 million yen ($15,255 thousand).

4. Net income or loss

Loss before income taxes for the fiscal year amounted to 1,064 million yen ($9,134 thousand).

Following the application of tax effect accounting, income taxes came to 4,684 million yen ($40,209 thousand).

As a result, the net loss totaled 5,749 million yen ($49,352 thousand), and loss attributable to owners of the parent came to 7,826 million yen ($67,182 thousand).

Analysis of Cash Flows

(1) Cash flows from operating activities

Net cash flows from operating activities totaled 18,237 million yen ($156,554 thousand). The main positive factors were 17,691 million yen ($151,867 thousand) in depreciation and amortization, 3,223 million yen ($27,668 thousand) in financial income and costs, 4,188 million yen ($35,952 thousand) in other non-cash transactions, a decrease of 2,065 million yen ($17,727 thousand) in inventories, and a decrease of 1,331 million yen ($11,426 thousand) in trade and other receivables. The main negative factors were a decrease of 7,480 million yen ($64,212 thousand) in trade and other payables and income taxes paid of 6,100 million yen ($52,365 thousand).

(2) Cash flows from investing activities

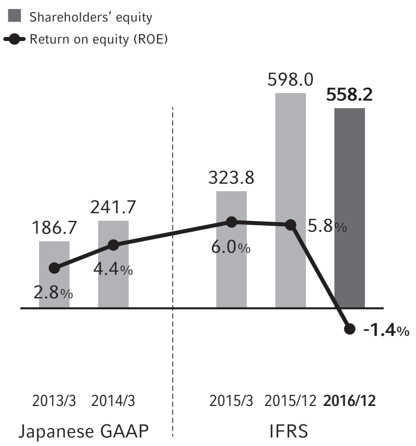
Net cash flows used in investing activities came to 10,008 million yen ($85,913 thousand). The main positive item was 4,963 million yen ($42,605 thousand) in proceeds from sales of financial instruments, while the main negative factors were 11,607 million yen ($99,639 thousand) for purchases of property, plant and equipment and 3,634 million yen ($31,196 thousand) for purchases of intangible assets.

(3) Cash flows from financing activities

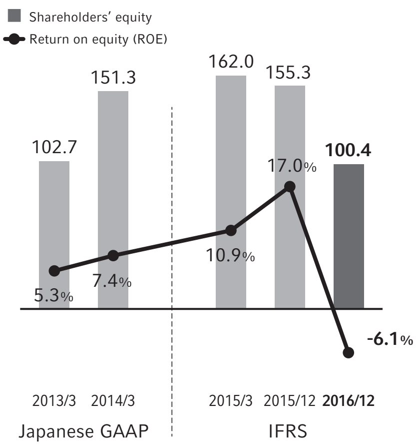
Net cash flows used in financing activities amounted to 18,376 million yen ($157,747 thousand). The main positive contributions were 59,870 million yen ($513,950 thousand) in proceeds from non-current borrowings, 29,872 million yen ($256,434 thousand) in amount proceeds from issuance of bonds, and 49,505 million yen ($424,972 thousand) in amount proceeds from issuance of hybrid capital. The main negative factors were a net decrease of 58,978 million yen ($506,292 thousand) in current borrowings, 16,765 million yen ($143,918 thousand) in payments for non-current borrowings, 15,000 million yen ($128,766 thousand) in redemption of bonds, and 61,543 million yen ($528,311 thousand) in acquisition of non-controlling interests.

As a result, cash and cash equivalents as of 31st December, 2016, stood at 67,750 million yen ($581,595 thousand), a decrease of 15,826 million yen from 31st December, 2015.

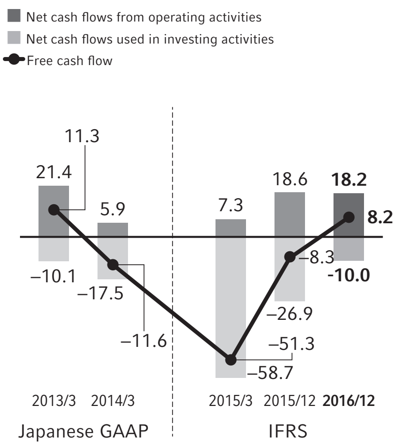
Total assets (Billions of yen)
Return on total assets (ROA) (%)



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



Free cash flow (Billions of yen)



Consolidated Statement of Financial Position

DMG MORI CO., LTD. and Consolidated Subsidiaries
31st December, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Assets			
Current assets:			
Cash and cash equivalents (Notes 7 and 24)	¥ 67,750	¥ 83,577	$ 581,595
Trade and other receivables (Notes 8 and 24)	51,008	54,958	437,874
Other financial assets (Notes 12 and 24)	8,228	5,489	70,633
Inventories (Note 9)	122,172	129,943	1,048,777
Other current assets	10,823	10,592	92,909
Total current assets	259,983	284,561	2,231,805
Non-current assets:			
Property, plant and equipment (Note 10)	137,441	141,919	1,179,852
Goodwill (Note 11)	65,641	68,218	563,490
Other intangible assets (Note 11)	66,346	72,834	569,542
Other financial assets (Notes 12 and 24)	13,310	17,560	114,259
Investments in associates and joint ventures (Note 13)	1,987	2,230	17,057
Deferred tax assets (Note 20)	5,809	4,047	49,867
Other non-current assets	7,701	6,663	66,109
Total non-current assets	298,238	313,473	2,560,203
Total assets	¥558,222	¥598,034	$4,792,016

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Liabilities			
Current liabilities:			
Trade and other payables (Notes 14 and 24)	**¥ 55,861**	¥ 66,648	**$ 479,535**
Interest-bearing bonds and borrowings (Notes 15 and 24)	**45,960**	100,692	**394,540**
Advances received	**26,683**	18,757	**229,058**
Other financial liabilities (Notes 16, 24 and 34)	**14,796**	780	**127,015**
Accrued income taxes (Note 20)	**5,409**	5,733	**46,433**
Provisions (Note 19)	**26,045**	25,752	**223,581**
Other current liabilities	**5,505**	5,385	**47,257**
Total current liabilities	**180,261**	223,750	**1,547,438**
Non-current liabilities:			
Interest-bearing bonds and borrowings (Notes 15 and 24)	**160,820**	116,210	**1,380,548**
Other financial liabilities (Notes 16, 24 and 34)	**94,824**	4,307	**814,010**
Net employee defined benefit liabilities (Note 18)	**6,200**	6,224	**53,223**
Provisions (Note 19)	**4,088**	4,788	**35,093**
Deferred tax liabilities (Note 20)	**7,309**	8,664	**62,744**
Other non-current liabilities	**2,234**	1,980	**19,178**
Total non-current liabilities	**275,477**	142,175	**2,364,812**
Total liabilities	**455,739**	365,926	**3,912,259**
Equity			
Subscribed capital	**51,115**	51,115	**438,793**
Capital surplus	**–**	53,057	**–**
Hybrid capital (Note 21)	**49,505**	–	**424,972**
Treasury shares	**(23,769)**	(23,768)	**(204,043)**
Retained earnings	**34,863**	71,466	**299,279**
Other components of equity (Note 21)	**(11,266)**	3,399	**(96,712)**
Equity attributable to owners of the parent	**100,449**	155,270	**862,297**
Non-controlling interests	**2,033**	76,837	**17,452**
Total equity	**102,482**	232,107	**879,749**
Total liabilities and equity	**¥558,222**	¥598,034	**$4,792,016**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Profit or Loss

DMG MORI CO., LTD. and Consolidated Subsidiaries
Fiscal year ended 31st December, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Fiscal year ended 31st December, 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period ended 31st December, 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year ended 31st December, 2016 (1st January, 2016 through 31st December, 2016)
Revenues:			
Sales revenues (Note 25)	**¥376,631**	¥318,449	**$3,233,162**
Gain on step acquisition	**–**	37,296	**–**
Other operating revenues (Note 26)	**9,175**	5,617	**78,762**
Total revenue	**385,806**	361,362	**3,311,924**
Costs:			
Changes in merchandise, finished goods and work in progress for sale	**5,604**	5,206	**48,107**
Costs of raw materials, consumables and goods for resale (Note 9)	**165,662**	144,567	**1,422,113**
Personnel costs (Note 28)	**114,121**	92,278	**979,663**
Depreciation and amortization (Notes 10 and 11)	**17,691**	14,638	**151,867**
Other operating costs (Notes 10 and 27)	**80,765**	73,532	**693,321**
Total costs	**383,845**	330,222	**3,295,090**
Operating result	**1,961**	31,140	**16,834**
Financial income (Note 29)	**711**	450	**6,104**
Financial costs (Notes 30 and 34)	**3,935**	2,078	**33,780**
Share of profits of associates and joint ventures accounted for using equity method (Note 13)	**196**	168	**1,683**
(Loss) earnings before income taxes	**(1,064)**	29,681	**(9,134)**
Income taxes (Note 20)	**4,684**	652	**40,209**
Net (loss) income	**¥ (5,749)**	¥ 29,029	**$ (49,352)**
(Loss) profit attributable to:			
Owners of the parent	**¥ (7,826)**	¥ 26,900	**$ (67,182)**
Non-controlling interests	**2,077**	2,129	**17,830**
Net (loss) income	**¥ (5,749)**	¥ 29,029	**$ (49,352)**

	Yen		U.S. dollars
(Loss) earnings per share			
Basic (Note 32)	**¥ (67.80)**	¥ 216.53	**$ (0.58)**
Diluted (Note 32)	**¥ (67.80)**	¥ 216.53	**$ (0.58)**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

DMG MORI CO., LTD. and Consolidated Subsidiaries
Fiscal year ended 31st December, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Fiscal year ended 31st December, 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period ended 31st December, 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year ended 31st December, 2016 (1st January, 2016 through 31st December, 2016)
Net (loss) income	**¥ (5,749)**	¥ 29,029	**$ (49,352)**
Other comprehensive income (loss):			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of defined benefit plans	**(120)**	(110)	**(1,030)**
Subtotal	**(120)**	(110)	**(1,030)**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**(20,099)**	(5,268)	**(172,538)**
Effective portion of changes in fair value of cash flow hedge	**(67)**	(171)	**(575)**
Changes in fair value measurements of available-for-sale financial assets	**(1,734)**	(344)	**(14,885)**
Share of other comprehensive (loss) income of associates accounted for using equity method	**(0)**	0	**(0)**
Subtotal	**(21,901)**	(5,783)	**(188,008)**
Total other comprehensive (loss) income for the period (Note 31)	**(22,022)**	(5,893)	**(189,046)**
Comprehensive (loss) income	**¥(27,771)**	¥ 23,135	**$(238,398)**
Comprehensive (loss) income attributable to:			
Owners of the parent	**(22,412)**	21,210	**(192,394)**
Non-controlling interests	**(5,359)**	1,925	**(46,004)**
Total	**¥(27,771)**	¥ 23,135	**$(238,398)**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

DMG MORI CO., LTD. and Consolidated Subsidiaries
Fiscal year ended 31st December, 2016

	Millions of yen								
	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Subscribed capital	Capital surplus	Hybrid capital	Treasury shares	Retained earnings	Other components of equity (Note 21)	Subtotal		
As at 1st April, 2015	¥51,115	¥ 64,185	¥ –	¥ (6,030)	¥ 47,769	¥ 4,952	¥161,992	¥ 4,380	¥ 166,373
Net income	–	–	–	–	26,900	–	26,900	2,129	29,029
Other comprehensive income	–	–	–	–	–	(5,689)	(5,689)	(204)	(5,893)
Total comprehensive income	–	–	–	–	26,900	(5,689)	21,210	1,925	23,135
Issue of hybrid capital	–	–	–	–	–	–	–	–	–
Issue cost of hybrid capital	–	–	–	–	–	–	–	–	–
Cash dividends (Note 22)	–	–	–	–	(3,121)	–	(3,121)	(2,925)	(6,046)
Share-based payments	–	–	–	–	–	–	–	–	–
Changes due to business combinations	–	–	–	(5,925)	–	4,057	(1,867)	84,517	82,649
Changes due to sale of subsidiaries	–	–	–	–	–	(2)	(2)	(414)	(416)
Transfers	–	–	–	–	(82)	82	–	–	–
Other	–	–	–	(1)	–	–	(1)	–	(1)
Total transactions with owners of the parent	–	–	–	(5,926)	(3,203)	4,137	(4,992)	81,177	76,185
Acquisition of non-controlling interests	–	(11,128)	–	(11,811)	–	–	(22,939)	(10,646)	(33,585)
Payment obligation for non-controlling interests	–	–	–	–	–	–	–	–	–
Changes in ownership interests in subsidiaries and others	–	(11,128)	–	(11,811)	–	–	(22,939)	(10,646)	(33,585)
As at 31st December, 2015	¥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)
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
Changes due to sale of subsidiaries	–	–	–	–	–	–	–	–	–
Transfers	–	–	–	–	164	(164)	–	–	–
Other	–	(0)	–	(0)	–	–	(0)	–	(0)
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

See accompanying notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 2)								
	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Subscribed capital	Capital surplus	Hybrid capital	Treasury shares	Retained earnings	Other components of equity (Note 21)	Subtotal		
As at 1st January, 2016	**$438,793**	**$ 455,464**	**$ –**	**$(204,035)**	**$ 613,495**	**$ 29,178**	**$1,332,904**	**$ 659,602**	**$1,992,506**
Net loss	**–**	**–**	**–**	**–**	**(67,182)**	**–**	**(67,182)**	**17,830**	**(49,352)**
Other comprehensive loss	**–**	**–**	**–**	**–**	**–**	**(125,204)**	**(125,204)**	**(63,834)**	**(189,046)**
Total comprehensive loss	**–**	**–**	**–**	**–**	**(67,182)**	**(125,204)**	**(192,394)**	**(46,004)**	**(238,398)**
Issue of hybrid capital (Note 21)	**–**	**–**	**429,221**	**–**	**–**	**–**	**429,221**	**–**	**429,221**
Issue cost of hybrid capital (Note 21)	**–**	**–**	**(4,241)**	**–**	**–**	**–**	**(4,241)**	**–**	**(4,241)**
Cash dividends (Note 22)	**–**	**–**	**–**	**–**	**(26,792)**	**–**	**(26,792)**	**(12,035)**	**(38,827)**
Share-based payments (Note 23)	**–**	**–**	**–**	**–**	**–**	**713**	**713**	**–**	**713**
Changes due to business combinations	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**558**	**558**
Changes due to sale of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Transfers	**–**	**–**	**–**	**–**	**1,408**	**(1,408)**	**–**	**–**	**–**
Other	**–**	**(0)**	**–**	**(0)**	**–**	**–**	**(0)**	**–**	**(0)**
Total transactions with owners of the parent	**–**	**(0)**	**424,972**	**(0)**	**(25,376)**	**(687)**	**398,901**	**(11,469)**	**387,424**
Acquisition of non-controlling interests	**–**	**(279,440)**	**–**	**–**	**–**	**–**	**(279,440)**	**(248,863)**	**(528,311)**
Payment obligation for non-controlling interests (Note 34)	**–**	**(176,024)**	**–**	**–**	**(221,641)**	**–**	**(397,674)**	**(335,788)**	**(733,462)**
Changes in ownership interests in subsidiaries and others	**–**	**(455,464)**	**–**	**–**	**(221,641)**	**–**	**(677,114)**	**(584,660)**	**(1,261,774)**
As at 31st December, 2016	**$438,793**	**$ –**	**$424,972**	**$(204,043)**	**$ 299,279**	**$ (96,712)**	**$ 862,297**	**$ 17,452**	**$ 879,749**

See accompanying notes to consolidated financial statements

Consolidated Statement of Cash Flows

DMG MORI CO., LTD. and Consolidated Subsidiaries
Fiscal year ended 31st December, 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	Fiscal year ended 31st December, 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period ended 31st December, 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year ended 31st December, 2016 (1st January, 2016 through 31st December, 2016)
Cash flows from operating activities:			
(Loss) earnings before income taxes	**¥ (1,064)**	¥ 29,681	**$ (9,134)**
Depreciation and amortization	**17,691**	14,638	**151,867**
Gain on step acquisition	**–**	(37,296)	**–**
Loss on sales or disposal of property, plant and equipment	**716**	24	**6,146**
Financial income and costs	**3,223**	1,628	**27,668**
Share of profits of associates and joint ventures accounted for using equity method	**(196)**	(168)	**(1,683)**
Other non-cash transactions	**4,188**	(40)	**35,952**
Changes in asset and liability items:			
Inventories	**2,065**	6,547	**17,727**
Trade and other receivables	**1,331**	4,633	**11,426**
Trade and other payables	**(7,480)**	8,737	**(64,212)**
Provisions	**2,086**	880	**17,907**
Other	**4,110**	1,073	**35,282**
Subtotal	**26,672**	30,339	**228,964**
Interest received	**373**	137	**3,202**
Dividends received	**341**	315	**2,927**
Interest paid	**(3,049)**	(1,994)	**(26,174)**
Income tax paid	**(6,100)**	(10,170)	**(52,365)**
Net cash flows from operating activities	**18,237**	18,628	**156,554**
Cash flows from investment activities:			
Purchases of property, plant and equipment	**(11,607)**	(19,739)	**(99,639)**
Proceeds from sales of property, plant and equipment	**1,507**	1,257	**12,937**
Purchases of intangible assets	**(3,634)**	(4,727)	**(31,196)**
Acquisition of subsidiaries, net of cash acquired	**(1,047)**	(4,808)	**(8,988)**
Proceeds from sales of financial instruments	**4,963**	1,460	**42,605**
Other	**(189)**	(335)	**(1,622)**
Net cash flows from investing activities	**(10,008)**	(26,892)	**(85,913)**
Cash flows from financing activities:			
Net (decrease) increase in current borrowings	**(58,978)**	13,208	**(506,292)**
Proceeds from non-current borrowings	**59,870**	104,725	**513,950**
Payments for non-current borrowings	**(16,765)**	(10,875)	**(143,918)**
Proceeds from issuance of bonds	**29,872**	–	**256,434**
Redemption of bonds	**(15,000)**	–	**(128,766)**
Proceeds from issuance of hybrid capital (Note 21)	**49,505**	–	**424,972**
Dividends paid	**(3,118)**	(3,119)	**(26,766)**
Dividends paid to non-controlling interests	**(1,392)**	(2,782)	**(11,950)**
Acquisition of non-controlling interests	**(61,543)**	(28,861)	**(528,311)**
Payments for obligations for non-controlling interests	**(267)**	–	**(2,292)**
Others	**(559)**	(436)	**(4,799)**
Net cash flows from financing activities	**(18,376)**	71,859	**(157,747)**
Effect of exchange rate changes on cash and cash equivalents	**(5,678)**	(1,426)	**(48,742)**
(Decrease) increase in cash and cash equivalents	**(15,826)**	62,168	**(135,857)**
Cash and cash equivalents at the beginning of period	**83,577**	21,408	**717,461**
Cash and cash equivalents at the end of period (Note 7)	**¥ 67,750**	¥ 83,577	**$ 581,595**

See accompanying notes to consolidated financial statements.

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, 2016 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 ¥116.49 to U.S. $1.00 at 31st December, 2016. 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 22nd March, 2017.

(5) Change in fiscal year end

In the previous reporting period, the Company and certain consolidated subsidiaries changed their fiscal year end to 31st December from 31st March. As a result of this change, the consolidated closing date for the Company and its consolidated subsidiaries is 31st December.

The current reporting period begins on 1st January, 2016 and ends on 31st December, 2016, while the previous fiscal period began on 1st April, 2015 and ended on 31st December 2015. As a result, the consolidated financial statements for the current reporting period are not completely comparable to those for the previous fiscal period.

(6) 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 1	Presentation of Financial Statements	Clarification of disclosure requirements regarding materiality considerations
IAS 16	Property, Plant and Equipment	Clarification of acceptable methods of depreciation
IAS 38	Intangible Assets	Clarification of acceptable methods of amortization
IFRS 11	Joint Arrangements	Amendments to the accounting treatment for the acquisition of an interest in a joint operation

(7) Changes in presentation

In accordance with a revision of IAS 1, in order to disclose revenue of the Group more clearly, “Gain on step acquisition” (¥37,296 million) is presented separately in the consolidated statement of profit or loss for the previous fiscal period.

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, 2016, 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 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.

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.
   For details, please refer to Note 34 "Domination and Profit and Loss Transfer Agreement."

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

5. Significant Change in Scope of Consolidation

There was no significant change in scope of consolidation during the fiscal year ended 31st December, 2016.

During the nine months ended 31st December, 2015, 95 consolidated subsidiaries of DMG MORI AG were newly included in the scope of consolidation due to the acquisition of DMG MORI AG shares by the Group.

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, 2016 and the nine months ended 31st December, 2015 are summarized as follows:

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

	Millions of yen					
	Reportable segments			Adjustments		Consolidated
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	
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" mainly include corporate assets not attributable to any business segment and elimination of inter-segment receivables.

Fiscal period 2015 (1st April, 2015 through 31st December, 2015)

	Millions of yen					
	Reportable segments			Adjustments		Consolidated
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	
Sales revenues						
External customers	¥229,332	¥89,094	¥318,426	¥ 22	¥ –	¥318,449
Other segments	107,669	22,212	129,881	2,109	(131,991)	–
Total	337,001	111,306	448,308	2,132	(131,991)	318,449
Segment income (Note 1)	23,040	15,878	38,919	(11,257)	3,647	31,309
Financial income	–	–	–	–	–	450
Financial costs	–	–	–	–	–	(2,078)
Earnings before income taxes	–	–	–	–	–	29,681
Segment assets (Note 2)	515,480	481,526	997,006	369,803	(768,775)	598,034
Other items						
Depreciation and amortization	9,207	4,915	14,122	515	–	14,638
Investments in associates and joint ventures	339	1,890	2,230	–	–	2,230
Capital expenditure	16,173	7,481	23,654	992	(180)	24,467

(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.

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

	Thousands of U.S. dollars					
	Reportable segments			Adjustments		Consolidated
	Machine Tools	Industrial Services	Total	Corporate Services	Elimination	
Sales revenues						
External customers	$2,299,536	$ 933,393	$3,232,930	$ 223	$ –	$3,233,162
Other segments	1,036,235	211,417	1,247,661	22,568	(1,270,229)	–
Total	3,335,780	1,144,811	4,480,599	22,792	(1,270,229)	3,233,162
Segment income (Note 1)	100,172	15,255	115,426	(100,249)	3,348	18,525
Financial income	–	–	–	–	–	6,104
Financial costs	–	–	–	–	–	(33,780)
Loss before income taxes	–	–	–	–	–	(9,134)
Segment assets (Note 2)	5,530,535	3,985,235	9,515,770	3,287,501	(8,011,263)	4,792,016
Other items						
Depreciation and amortization	97,957	48,536	146,493	5,374	–	151,867
Investments in associates and joint ventures	3,125	13,924	17,057	–	–	17,057
Capital expenditure	65,791	59,730	125,522	6,713	(1,399)	130,844

(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.

(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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Japan	¥ 55,282	¥ 48,324	$ 474,564
Germany	99,438	89,460	853,618
The Americas	55,860	40,393	479,526
Europe other than Germany	119,263	99,940	1,023,805
China and Asia	46,786	40,329	401,631
Total	¥376,631	¥318,449	$3,233,162

(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, 2016	31st December, 2015	31st December, 2016
Japan	¥ 61,047	¥ 60,978	$ 524,054
Germany	84,389	94,944	724,431
The Americas	13,697	16,835	117,581
Europe other than Germany	108,594	111,181	932,217
China and Asia	14,194	16,784	121,847
Eliminations	(12,493)	(17,751)	(107,245)
Total	¥269,429	¥282,972	$2,312,894

(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 2016 and fiscal period 2015, respectively.

7. Cash and Cash Equivalents

The breakdown of cash and cash equivalents at 31st December, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	31st December, 2016
Cash on hand and at banks with maturities of three months or less	¥67,750	¥83,577	$581,595
Total	¥67,750	¥83,577	$581,595

The balance of cash and cash equivalents in the consolidated statement of financial position at 31st December, 2016 and 2015 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, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	31st December, 2016
Notes and trade receivables	¥49,391	¥50,182	$423,993
Other	3,837	6,901	32,938
Allowance for doubtful receivables	(2,220)	(2,126)	(19,057)
Total	¥51,008	¥54,958	$437,874

9. Inventories

The breakdown of inventories at 31st December, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	31st December, 2016
Raw materials and supplies	¥ 47,241	¥ 48,700	$ 405,537
Work in process	25,309	29,581	217,263
Merchandise and finished goods	49,621	51,661	425,968
Total	¥122,172	¥129,943	$1,048,777

(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 ¥4,020 million ($34,509 thousand) and ¥2,791 million for the year ended 31st December, 2016 and the nine months ended 31st December, 2015, respectively.

(Note 2) Cost of inventories recognized in profit or loss for the year ended 31st December, 2016 and the nine months ended 31st December, 2015 amounted to ¥241,224 million ($2,070,770 thousand) and ¥211,910 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 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."

Fiscal period 2015 (1st April, 2015 through 31st December, 2015)

Cost

	Millions of yen				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 2)	Total
Beginning balance	¥108,027	¥20,004	¥23,908	¥ 1,295	¥153,235
Acquisitions	5,036	2,241	4,313	8,293	19,885
Acquisitions through business combinations	35,991	9,530	9,817	7,424	62,764
Disposals	(1,433)	(3,036)	(1,578)	(366)	(6,415)
Reclassification from construction in progress	1,538	1,200	256	(3,142)	(146)
Exchange differences on translation of foreign operations	415	568	298	74	1,357
Other	–	(2,789)	–	–	(2,789)
Ending balance	¥149,576	¥27,720	¥37,015	¥13,580	¥227,892

Accumulated depreciation and impairment losses

	Millions of yen				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 2)	Total
Beginning balance	¥(49,833)	¥(11,655)	¥(19,559)	¥–	¥(81,048)
Depreciation (Note 1)	(3,103)	(2,662)	(2,697)	–	(8,463)
Impairment losses	–	–	–	–	–
Disposals	591	1,568	1,302	–	3,462
Exchange differences on translation of foreign operations	(473)	(257)	(452)	–	(1,183)
Other	–	1,260	–	–	1,260
Ending balance	¥(52,819)	¥(11,746)	¥(21,406)	¥–	¥(85,972)

Carrying amount

	Millions of yen				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 2)	Total
Beginning balance	¥58,194	¥ 8,348	¥ 4,348	¥ 1,295	¥ 72,187
Ending balance	96,757	15,973	15,608	13,580	141,919

(Note 1) Depreciation is included in "Depreciation and amortization" in consolidated statement of profit or loss.
(Note 2) 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

	Thousands of U.S. dollars				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 2)	Total
Beginning balance	$1,284,024	$237,960	$317,753	$116,577	$1,956,322
Acquisitions	7,863	18,036	28,612	45,489	100,009
Acquisitions through business combinations	223	1,880	223	–	2,344
Disposals	(9,022)	(11,537)	(7,838)	(1,743)	(30,149)
Reclassification from construction in progress	62,100	16,765	8,241	(87,115)	–
Exchange differences on translation of foreign operations	(25,753)	(8,087)	(9,263)	2,841	(40,270)
Other	–	3,983	–	–	3,983
Ending balance	$1,319,452	$259,009	$337,737	$ 76,049	$1,992,257

Accumulated depreciation and impairment losses

	Thousands of U.S. dollars				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 3)	Total
Beginning balance	$(453,421)	$(100,833)	$(183,758)	$–	$(738,020)
Depreciation (Note 1)	(32,793)	(29,127)	(36,037)	–	(97,974)
Impairment losses (Note 2)	(15,023)	–	–	–	(15,023)
Disposals	4,052	8,988	6,249	–	19,306
Exchange differences on translation of foreign operations	7,589	3,940	7,769	–	19,315
Other	–	–	–	–	–
Ending balance	$(489,596)	$(117,023)	$(205,769)	$–	$(812,396)

Carrying amount

	Thousands of U.S. dollars				
	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress (Note 3)	Total
Beginning balance	$830,603	$137,119	$133,986	$116,577	$1,218,293
Ending balance	829,857	141,986	131,960	76,049	1,179,852

(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, 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 ($12,774 thousand) and ¥262 million ($2,249 thousand) of impairment loss were allocated to the Machine Tools segment and the Industrial Services segment, respectively.

The Group recognized no impairment losses on property, plant and equipment for the nine months ended 31st December, 2015.

(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, 2016	31st December, 2015	31st December, 2016
Land, buildings and structures	¥2,928	¥3,238	$25,135
Machinery and vehicles	1,432	358	12,293
Tools, furniture and fixtures	82	141	704
Total	¥4,444	¥3,739	$38,149

(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, 2016	31st December, 2015	31st December, 2016
Land and buildings	¥5,449	¥5,817	$46,777
Total	¥5,449	¥5,817	$46,777

Secured liabilities

	Millions of yen		Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	31st December, 2016
Interest-bearing bonds and borrowings	¥2,206	¥2,426	$18,937
Total	¥2,206	¥2,426	$18,937

11. Goodwill and Other Intangible Assets

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

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

Fiscal period 2015 (1st April, 2015 through 31st December, 2015)

	Millions of yen		
	Cost	Accumulated impairment losses	Carrying amount
Beginning balance	¥ 1,164	¥–	¥ 1,164
Acquisitions	327	–	327
Acquisitions through business combinations	72,176	–	72,176
Disposals	–	–	–
Impairment losses	–	–	–
Exchange differences on translation of foreign operations	(5,449)	–	(5,449)
Ending balance	¥68,218	¥–	¥68,218

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

	Thousands of U.S. dollars		
	Cost	Accumulated impairment losses	Carrying amount
Beginning balance	$585,612	$–	$585,612
Acquisitions	–	–	–
Acquisitions through business combinations	18,800	–	18,800
Disposals	–	–	–
Impairment losses	–	–	–
Exchange differences on translation of foreign operations	(40,922)	–	(40,922)
Ending balance	$563,490	$–	$563,490

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

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

Fiscal period 2015 (1st April, 2015 through 31st December, 2015)

Cost

	Millions of yen						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ 221	¥ 732	¥ –	¥1,669	¥ –	¥18,673	¥21,297
Acquisitions	–	–	–	–	–	2,453	2,453
Acquisitions through business combinations	43,614	6,868	6,174	–	3,862	6,516	67,035
Additions due to internal development	–	–	–	–	1,813	–	1,813
Disposals	–	–	–	–	–	–	–
Reclassification	–	–	–	–	34	98	133
Exchange differences on translation of foreign operations	455	74	64	–	96	(779)	(88)
Other	–	–	–	–	–	(36)	(36)
Ending balance	¥44,291	¥7,675	¥ 6,238	¥1,669	¥5,807	¥26,925	¥92,607

Accumulated amortization and impairment losses

	Millions of yen						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ –	¥ (146)	¥ –	¥(1,524)	¥ –	¥(12,986)	¥(14,658)
Amortization	(477)	(1,432)	(830)	(26)	(993)	(2,414)	(6,174)
Impairment losses	–	–	–	–	–	–	–
Reversal of impairment losses	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–
Reclassification	–	–	–	–	–	–	–
Exchange differences on translation of foreign operations	7	27	16	–	(83)	1,055	1,025
Other	–	–	–	–	–	33	33
Ending balance	¥(469)	¥(1,551)	¥(813)	¥(1,550)	¥(1,076)	¥(14,310)	¥(19,773)

Carrying amount

	Millions of yen						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	¥ 221	¥ 586	¥ –	¥145	¥ –	¥ 5,686	¥ 6,639
Ending balance	43,821	6,124	5,424	119	4,730	12,614	72,834

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

The amount of other intangible assets in the above table with indefinite useful lives was ¥34,143 million at 31st December, 2015.

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, 2015 were ¥4,730 million and included in capitalized development costs in the above table.

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

	Thousands of U.S. dollars						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**$380,213**	**$65,885**	**$53,550**	**$14,327**	**$ 49,850**	**$231,136**	**$794,978**
Acquisitions	**–**	**–**	**–**	**–**	**–**	**16,748**	**16,748**
Acquisitions through business combinations	**601**	**3,854**	**–**	**–**	**–**	**–**	**4,455**
Additions due to internal development	**–**	**–**	**–**	**–**	**14,078**	**–**	**14,078**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Reclassification	**–**	**–**	**–**	**–**	**369**	**–**	**369**
Exchange differences on translation of foreign operations	**(25,788)**	**(4,000)**	**(3,648)**	**–**	**(12,765)**	**4,515**	**(41,695)**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Ending balance	**$355,018**	**$65,740**	**$49,901**	**$14,327**	**$ 51,532**	**$252,399**	**$788,943**

Accumulated amortization and impairment losses

	Thousands of U.S. dollars						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**$(4,026)**	**$(13,314)**	**$ (6,979)**	**$(13,306)**	**$ (9,237)**	**$(122,843)**	**$(169,740)**
Amortization	**(2,653)**	**(3,305)**	**(8,507)**	**(258)**	**(11,503)**	**(27,633)**	**(53,893)**
Impairment losses	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Reversal of impairment losses	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Reclassification	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Exchange differences on translation of foreign operations	**146**	**163**	**309**	**–**	**7,554**	**(3,940)**	**4,241**
Other	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Ending balance	**$(6,533)**	**$(16,465)**	**$(15,186)**	**$(13,572)**	**$(13,194)**	**$(154,425)**	**$(219,392)**

Carrying amount

	Thousands of U.S. dollars						
	Trademarks	Customer -related assets	Technology -related assets	Patents	Capitalized development costs	Others	Total
Beginning balance	**$376,178**	**$52,571**	**$46,562**	**$1,022**	**$40,604**	**$108,284**	**$625,238**
Ending balance	**348,485**	**49,275**	**34,715**	**755**	**38,329**	**97,974**	**569,542**

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 ($273,131 thousand) 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 ($38,329 thousand) and included in capitalized development costs in the above table.

(3) Impairment losses

The Group recognized no impairment losses on goodwill and other intangible assets for the year ended 31st December, 2016 and the nine months ended 31st December, 2015.

(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, 2016)	Carrying amount (31st December, 2015)	Remaining amortization period	Carrying amount (31st December, 2016)
Goodwill	**¥65,641**	¥66,806	–	**$563,490**
Other intangible assets:				
Trademarks	**40,527**	43,821	29 years or non-amortizable	**347,901**
Customer-related assets	**4,837**	5,591	approximately 14 years	**41,523**
Technology-related assets	**4,044**	5,424	approximately 5 years	**34,715**

(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:

	CGU	Millions of yen 31st December, 2016	Millions of yen 31st December, 2015	Thousands of U.S. dollars 31st December, 2016
Goodwill	Machine Tools	¥28,076	¥30,129	$241,016
	Industrial Services	37,564	38,088	322,465
	Total	¥65,641	¥68,218	$563,490
Other intangible assets with indefinite useful lives	Machine Tools	¥14,337	¥15,385	$123,075
	Industrial Services	17,479	18,758	150,047
	Total	¥31,817	¥34,143	$273,131

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 1.8%.

Discount rate: The Group used a discount rate of 7.9% in the cash flow projection at the end of fiscal year ended 31st December, 2016, considering the corresponding WACC in similar business industries.

At the end of fiscal year 2016 (31st December, 2016), 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 ¥9,002 million ($77,277 thousand) in the Machine Tools segment and ¥38,046 million ($326,603 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, 2016 and 2015 is as follows:

	Millions of yen 31st December, 2016	Millions of yen 31st December, 2015	Thousands of U.S. dollars 31st December, 2016
Financial assets measured at amortized cost:			
Other financial assets including loans	¥ 8,266	¥ 7,039	$ 70,959
Financial assets measured at fair value through profit or loss:			
Derivative assets	1,912	913	16,413
Available-for-sale financial assets	11,360	15,097	97,519
Total	¥21,539	¥23,050	$184,900
Current assets	¥ 8,228	¥ 5,489	$ 70,633
Non-current assets	13,310	17,560	114,259
Total	¥21,539	¥23,050	$184,900

13. Investments in Associates and Joint Ventures

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

	Millions of yen 31st December, 2016	Millions of yen 31st December, 2015	Thousands of U.S. dollars 31st December, 2016
Carrying amount of investments in associates (at the reporting date)	¥1,987	¥2,230	$17,057

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

	Millions of yen Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Millions of yen Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Thousands of U.S. dollars Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Net income attributable to the Group	¥196	¥168	$1,683
Other comprehensive income (loss) attributable to the Group	(0)	0	(0)
Total	¥196	¥169	$1,683

14. Trade and Other Payables

The breakdown of trade and other payables at 31st December, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	31st December, 2016
Trade payables	**¥41,554**	¥48,014	**$356,717**
Other payables	**8,250**	11,738	**70,822**
Others	**6,056**	6,895	**51,987**
Total	**¥55,861**	¥66,648	**$479,535**

15. Interest-bearing Bonds and Borrowings

The breakdown of interest-bearing bonds and borrowings at 31st December, 2016 and 2015 is as follows:

	Millions of yen				Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	Average interest rate (%) (Note 1)	Maturity (Note 1)	31st December, 2016
Financial liabilities measured at amortized cost:					
Current borrowings	**¥ 2,444**	¥ 67,896	0.53~11.50	–	**$ 20,980**
Non-current borrowings due within one year	**23,534**	17,731	0.18~	–	**202,026**
Non-current borrowings (excluding those due within one year)	**130,938**	96,332	6.25	2018–2026	**1,124,028**
Interest-bearing bonds due within one year	**19,981**	15,064	0.515	–	**171,525**
Interest-bearing bonds (excluding those due within one year)	**29,881**	19,877	0.150	2019–2021	**256,511**
Total	**¥206,780**	¥216,903			**$1,775,088**
Current liabilities	**¥ 45,960**	¥100,692			**$ 394,540**
Non-current liabilities	**160,820**	116,210			**1,380,548**
Total	**¥206,780**	¥216,903			**$1,775,088**

(Note 1) Average interest rate and maturity are based on the respective information at the end of fiscal year 2016.

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, 2016	1st January, 2016	31st December, 2016	Interest rate (%)	Collateral	Date of maturity
DMG MORI CO., LTD.	2nd debenture bond (Note 1)	27th September, 2011	**–**	15,064	**–**	0.545	None	27th September, 2016
DMG MORI CO., LTD.	3rd debenture bond (Note 1)	13th June, 2013	**19,981**	19,877	**171,525**	0.515	None	13th June, 2017
DMG MORI CO., LTD.	4th debenture bond (Note 1)	26th September, 2016	**19,927**	–	**171,062**	0.120	None	26th September, 2019
DMG MORI CO., LTD.	5th debenture bond (Note 1)	26th September, 2016	**9,954**	–	**85,449**	0.210	None	24th September, 2021
Total			**¥49,863**	¥34,941	**$ 428,045**			
Current liabilities			**¥19,981**	¥15,064	**$ 171,525**			
Non-current liabilities			**29,882**	19,877	**256,520**			

(Note 1) With respect to the outstanding balances of the 3rd, 4th and 5th debenture bonds, adjustments to these principal portions are made in accordance with IFRS.Annual maturities of bonds subsequent to 31st December, 2016 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
¥ 19,981	**¥–**	**¥ 19,927**	**¥–**	**¥ 9,954**

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
$171,525	**$–**	**$171,062**	**$–**	**$85,449**

16. Other Financial Liabilities

The breakdown of other financial liabilities at 31st December, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	31st December, 2016
Financial liabilities measured at amortized cost:			
Finance lease obligations	**¥ 5,569**	¥4,757	**$ 47,807**
Payment obligation for non-controlling interests	**92,802**	–	**796,652**
Financial liabilities at fair value through profit or loss:			
Derivative liabilities	**11,249**	329	**96,566**
Total	**¥109,620**	¥5,087	**$941,025**
Current liabilities	**¥ 14,796**	¥ 780	**$127,015**
Non-current liabilities	**94,824**	4,307	**814,010**
Total	**¥109,620**	¥5,087	**$941,025**

(Note) 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."

The net present value of finance lease obligations at 31st December, 2016 and 2015 is as follows:

	Millions of yen				Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	Average interest rate (%) (Note 1)	Maturity (Note 2)	31st December, 2016
Minimum lease payments	**¥ 6,664**	¥ 6,615	–	–	**$57,207**
Less: Future financing costs	**(1,095)**	(1,858)	–	–	**(9,400)**
Net present value of minimum lease payments	**5,569**	4,757	–	–	**47,807**
Current finance lease obligations (Not later than one year)	**872**	450	3.71	–	**7,486**
Non-current finance lease obligations (Later than one year)	**4,696**	4,307	5.49	2018–2029	**40,312**
Total	**¥ 5,569**	¥ 4,757			**$47,807**

(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 2016.
(Note 2) Average interest rate and maturity are based on the respective information at the end of fiscal year 2016.

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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Minimum lease payments	**¥5,432**	¥4,609	**$46,631**
Total	**¥5,432**	¥4,609	**$46,631**

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, 2016	31st December, 2015	31st December, 2016
Not later than one year	**¥ 4,337**	¥ 4,530	**$ 37,231**
Later than one year and not later than five years	**10,323**	10,605	**88,617**
Later than five years	**3,283**	4,212	**28,183**
Total	**¥17,944**	¥19,349	**$154,039**

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, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	31st December, 2016
Present value of defined benefit obligations	**¥10,645**	¥11,862	**$ 91,381**
Fair value of plan assets	**(4,444)**	(5,638)	**(38,149)**
Funded status	**6,200**	6,224	**53,223**
Effect of asset ceiling	**–**	–	**–**
Net defined benefit liabilities	**¥ 6,200**	¥ 6,224	**$ 53,223**
Amounts in consolidated statement of financial position:			
Employee defined benefit assets	**¥ –**	¥ –	**$ –**
Net employee defined benefit liabilities	**6,200**	6,224	**53,223**

Costs of defined benefit plans recognized in the consolidated statements of profit or loss for the year ended 31st December, 2016 and the nine months ended 31st December, 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Current service cost	**¥ 460**	¥455	**$ 3,949**
Past service cost	**(554)**	67	**(4,756)**
Subtotal of operating costs	**(93)**	523	**(798)**
Net interest cost	**93**	76	**798**
Subtotal of financial costs	**93**	76	**798**
Other	**4**	3	**34**
Total	**¥ 3**	¥602	**$ 26**

The movement in the present value of defined benefit obligations for the year ended 31st December, 2016 and the nine months ended 31st December, 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Beginning balance	**¥11,862**	¥ 1,886	**$101,828**
Pension cost charged to profit or loss:			
Current service cost	**460**	455	**3,949**
Past service cost	**(554)**	67	**(4,756)**
Interest cost	**158**	153	**1,356**
Subtotal	**64**	676	**549**
Remeasurement (gains) losses in other comprehensive income:			
Actuarial gains and losses arising from changes in demographic assumptions	**(276)**	6	**(2,369)**
Actuarial gains and losses arising from changes in financial assumptions	**261**	50	**2,241**
Actuarial gains and losses arising from experience adjustments	**336**	(76)	**2,884**
Subtotal	**321**	(19)	**2,756**
Other:			
Benefits paid	**(795)**	(121)	**(6,825)**
Contributions to the plan by participants	**178**	90	**1,528**
Paid due to settlement	**(863)**	–	**(7,408)**
Acquisitions through business combinations	**34**	9,645	**292**
Exchange differences on translation of foreign operations	**(158)**	(295)	**(1,356)**
Subtotal	**(1,603)**	9,319	**(13,761)**
Ending balance	**¥10,645**	¥11,862	**$ 91,381**

The movement in the fair value in the plan assets for the year ended 31st December, 2016 and nine months ended 31st December, 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Beginning balance	**¥ 5,638**	¥1,209	**$ 48,399**
Amount recognized in profit or loss:			
Interest income	**65**	76	**558**
Subtotal	**65**	76	**558**
Amount recognized in other comprehensive income:			
Remeasurements of fair value of plan assets			
Return on plan assets	**(68)**	(97)	**(584)**
Subtotal	**(68)**	(97)	**(584)**
Other:			
Contributions to the plan by the employer	**507**	1,441	**4,352**
Benefits paid	**(691)**	(114)	**(5,932)**
Contributions to the plan by participants	**221**	211	**1,897**
Paid due to settlement	**(863)**	–	**(7,408)**
Acquisitions through business combinations	**–**	3,201	**–**
Exchange differences on translation of foreign operations	**(365)**	(289)	**(3,133)**
Subtotal	**(1,190)**	4,450	**(10,215)**
Ending balance	**¥ 4,444**	¥5,638	**$ 38,149**

(Note) The Group expects to contribute ¥447 million ($3,837 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, 2016	31st December, 2015
Discount rates (%)	**0.45～1.31**	0.85～2.00
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, 2016 and 2015 was 15.3 years.

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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Discount rate:			
0.25% increase	**¥(326)**	¥(404)	**$(2,799)**
0.25% decrease	**348**	439	**2,987**
Changes in rate of increase in benefits paid:			
0.25% increase	**218**	129	**1,871**
0.25% decrease	**(209)**	(121)	**(1,794)**

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 breakdown of the fair value of plan assets at 31st December, 2015 is as follows:

	Millions of yen		
	Quoted prices in active market	Quoted prices in active market unavailable	Total
Cash and cash equivalents	¥ 141	¥ –	¥ 141
Equities	295	297	592
Bonds	513	142	655
Real estate	179	306	486
Insurance	–	2,006	2,006
Other	–	1,755	1,755
Total	¥1,130	¥4,508	¥5,638

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

	Thousands of U.S. dollars		
	Quoted prices in active market	Quoted prices in active market unavailable	Total
Cash and cash equivalents	**$ 180**	**$ –**	**$ 180**
Equities	**1,794**	**–**	**1,794**
Bonds	**4,035**	**–**	**4,035**
Real estate	**1,365**	**–**	**1,365**
Insurance	**–**	**17,298**	**17,298**
Other	**–**	**13,460**	**13,460**
Total	**$7,383**	**$30,767**	**$38,149**

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, 2016 and the nine months ended 31st December, 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Expenses for defined contribution plans	**¥2,961**	¥2,592	**$25,418**

19. Provisions

The movement in provisions for the year ended 31st December, 2016 and the nine months ended 31st December, 2015 is as follows:

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, 2016 and 2015 is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	31st December, 2016
Current liabilities:			
Provision for product warranties	**¥ 4,820**	¥ 4,652	**$ 41,377**
Provision for sales commissions	**4,040**	4,947	**34,681**
Provision for personnel costs	**10,262**	10,919	**88,093**
Other provisions	**6,922**	5,232	**59,421**
Subtotal	**26,045**	25,752	**223,581**
Non-current liabilities:			
Provision for sales commissions	**108**	334	**927**
Provision for personnel costs	**3,083**	3,332	**26,466**
Other provisions	**896**	1,122	**7,692**
Subtotal	**4,088**	4,788	**35,093**
Total	**¥30,133**	¥30,541	**$258,675**

Fiscal period 2015 (1st April, 2015 through 31st December, 2015)

	Millions of yen				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	¥ 939	¥ –	¥ 1,514	¥ 49	¥ 2,503
Increase	2,334	3,921	7,625	5,612	19,495
Decrease due to intended use	(2,459)	(3,919)	(5,919)	(1,927)	(14,226)
Reversal	(112)	(276)	(366)	(544)	(1,298)
Increase due to passage of time	0	–	63	140	204
Increase due to business combinations	3,954	5,922	11,354	3,519	24,750
Exchange differences on translation of foreign operations	(6)	(367)	(19)	(495)	(887)
Ending balance	¥ 4,652	¥ 5,281	¥14,251	¥ 6,354	¥ 30,541

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

	Thousands of U.S. dollars				
	Provision for product warranties	Provision for sales commissions	Provision for personnel costs	Other provisions	Total
Beginning balance	$ 39,935	$ 45,334	$122,337	$ 54,545	$ 262,177
Increase	24,620	20,852	74,144	61,070	180,702
Decrease due to intended use	(20,002)	(24,139)	(68,899)	(40,175)	(153,215)
Reversal	(1,597)	(1,923)	(6,138)	(5,606)	(15,280)
Increase due to passage of time	(0)	–	9	(43)	(26)
Increase due to business combinations	120	–	773	103	1,004
Exchange differences on translation of foreign operations	(1,700)	(4,507)	(7,674)	(2,790)	(16,671)
Ending balance	$ 41,377	$ 35,617	$114,559	$ 67,113	$ 258,675

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 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)

Fiscal period 2015 (1st April, 2015 through 31st December, 2015)

	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	¥ 284	¥ 1,248	¥ 4	¥ –	¥ 1,538
Property, plant and equipment	20	945	(56)	–	910
Inventories	2,011	4,011	(867)	–	5,155
Trade and other receivables	–	1,090	88	–	1,179
Unused tax losses (Note 2)	–	1,132	4,379	–	5,512
Other	2,142	3,420	(741)	–	4,821
Total	4,459	11,849	2,807	–	19,117
Deferred tax liabilities:					
Intangible assets	–	(14,187)	544	–	(13,642)
Property, plant and equipment	(8)	(2,461)	(207)	–	(2,676)
Available-for-sale financial assets	(2,516)	(41)	142	(115)	(2,530)
Inventories	–	(3,330)	3,164	–	(166)
Other	(3,995)	(1,287)	462	100	(4,719)
Total	(6,519)	(21,307)	4,106	(15)	(23,735)
Net amount	¥(2,059)	¥ (9,457)	¥6,914	¥ (15)	¥ (4,617)

(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, 2016 and 2015 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.

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

	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	**$ 13,203**	**$ –**	**$ 8,284**	**$ –**	**$ 21,487**
Property, plant and equipment	**7,812**	**–**	**1,202**	**–**	**9,022**
Inventories	**44,253**	**–**	**(6,722)**	**–**	**37,523**
Trade and other receivables	**10,121**	**–**	**2,026**	**–**	**12,147**
Unused tax losses (Note 2)	**47,317**	**–**	**(6,086)**	**–**	**41,231**
Other	**41,386**	**–**	**(524)**	**–**	**40,862**
Total	**164,109**	**–**	**(1,820)**	**–**	**162,289**
Deferred tax liabilities:					
Intangible assets	**(117,109)**	**(1,640)**	**14,164**	**–**	**(104,576)**
Property, plant and equipment	**(22,972)**	**(9)**	**1,588**	**–**	**(21,401)**
Available-for-sale financial assets	**(21,719)**	**–**	**86**	**7,692**	**(13,933)**
Inventories	**(1,425)**	**–**	**(120)**	**–**	**(1,545)**
Other	**(40,510)**	**–**	**4,224**	**2,584**	**(33,694)**
Total	**(203,751)**	**(1,657)**	**19,950**	**10,276**	**(175,165)**
Net amount	**$ (39,634)**	**$(1,657)**	**$18,130**	**$10,276**	**$ (12,877)**

(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, 2016	31st December, 2015	31st December, 2016
Deductible temporary differences	**¥10,540**	¥10,298	**$ 90,480**
Unused tax losses	**12,759**	7,521	**109,529**
Unused tax credits	**335**	311	**2,876**
Total	**¥23,635**	¥18,132	**$202,893**

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, 2016	31st December, 2015	31st December, 2016
Unused tax losses			
Year 1	**¥ 833**	¥ 757	**$ 7,151**
Year 2	**415**	282	**3,563**
Year 3	**788**	324	**6,765**
Year 4	**1,868**	736	**16,036**
Year 5 or later	**8,853**	5,422	**75,998**
Total	**¥12,759**	¥7,521	**$109,529**
Unused tax credits			
Year 1	**¥ –**	¥ 22	**$ –**
Year 2	**302**	–	**2,592**
Year 3	**32**	289	**275**
Year 4	**–**	–	**–**
Year 5 or later	**–**	–	**–**
Total	**¥ 335**	¥ 311	**$ 2,876**

(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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Current income tax expense	**¥ 6,770**	¥ 7,823	**$ 58,117**
Deferred income tax expense:			
Relating to origination and reversal of temporary differences	**(1,545)**	(6,976)	**(13,263)**
Changes in tax rate or imposition of new taxation	**127**	97	**1,090**
Unused tax losses recognized in prior years or temporary differences	**(667)**	(293)	**(5,726)**
Total	**(2,085)**	(7,171)	**(17,899)**
Total income taxes	**¥ 4,684**	¥ 652	**$ 40,209**

(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 32.83% for the year ended 31st December, 2016 and the nine months ended 31st December, 2015. 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 2016 and fiscal period 2015 is as follows:

	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)
Effective statutory tax rate	**32.83%**	32.83%
Non-deductible expenses, such as entertainment expenses	**(103.23)**	3.70
Tax credits	**0.01**	(0.07)
Non-taxable income, such as dividend income	**2.35**	(0.08)
Inhabitant tax on per capita basis	**(3.93)**	0.12
Temporary differences arising from investments in associates	**76.66**	6.30
Changes in unrecognized deferred tax assets	**(150.30)**	(4.42)
Effect of change in applicable tax rates	**(11.94)**	–
Gain on step acquisition	**(3.73)**	(41.25)
Effect from elimination of gain on sales of shares of the parent by a consolidated subsidiary	**–**	5.80
Effect from elimination of gain on sales of shares of the subsidiary	**(358.06)**	–
Effective tax rate difference in overseas consolidated subsidiaries	**80.22**	(4.08)
Other	**(0.84)**	3.35
Average actual tax rates	**(439.96)%**	2.20%

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

The "Act for Partial Revision of the Income Tax Act and Others" (Act No.15 of 2016) and the "Act for Partial Revision of the Local Tax Act and Others" (Act No.13 of 2016) were enacted in the Japanese Diet session on 29th March, 2016. In addition, the "Act for Partial Amendment of The Act for Partial Amendment of the Consumption Tax Act and for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" (Act No. 85 of 2016) and the "Act for Partial Amendment of The Act for Partial Amendment of the Local Tax Act and the Local Allocation Tax Act and for the Drastic Reform of the Taxation System for Ensuring Stable Financial Resources for Social Security" (Act No. 86 of 2016) were enacted in the Japanese Diet session on 18th November, 2016.

Accordingly, the effective statutory tax rates used to measure deferred tax assets and deferred tax liabilities were changed from 32.06% to 30.69% for deductible temporary differences expected to be realized in the fiscal years beginning on 1st January, 2017 and 2018, and 30.46% for those expected to be realized in the fiscal year beginning on 1st January, 2019 and thereafter.

The effect of this tax rate revision on the deferred tax assets and liabilities at the end of fiscal year ended 2016 was immaterial.

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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)
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)	**–**	–
At the end of reporting period	**132,943,683**	132,943,683

The shares issued by the Company are ordinary shares with no par value. Issued shares are fully paid-in.

(2) Treasury shares

The movement in treasury shares is as follows:

	Shares	
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)
At the beginning of reporting period	**12,924,543**	5,015,329
Increase (Notes 1 and 2)	**440**	7,909,214
Decrease (Note 2)	**63**	–
At the end of reporting period	**12,924,920**	12,924,543

(Note 1) The number of treasury shares increased by 1,510,047 shares is due to an associate accounted for using the equity method becoming a consolidated subsidiary, increased by 1,369,279 shares as a result of changes in ownership interests in equity of consolidated subsidiaries, increased by 5,029,219 shares as a result of the acquisition of treasury shares from a consolidated subsidiary and increased by 669 shares due to acquisitions of treasury shares less than one unit during fiscal period 2015.

(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 ($343 million) through a perpetual subordinated loan (hereinafter, "the subordinated loan") and ¥10 billion ($86 million) through perpetual subordinated bonds (hereinafter, "the subordinated bonds") in August, 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 ($343 million)
(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 ($86 million)
(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.
(7) Replacement restrictions	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. (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. Payment amount for hybrid capital

Category	Payment date	Payment amount Millions of yen	Payment amount Thousands of U.S. dollars
Subordinated loan	20th March, 2017	¥440	$3,777
Subordinated bonds	2nd March, 2017	¥ 92	$ 790

(5) Other components of equity

The movement in other components of equity is as follows:

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

	Millions of yen					
	Remeasure-ments 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**
Change due to business combinations	**–**	**–**	**–**	**–**	**–**	**–**
Changes due sales of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**
Transfer from other components of equity to retained earnings	**(164)**	**–**	**–**	**–**	**–**	**(164)**
Ending balance	**¥ –**	**¥(15,613)**	**¥(167)**	**¥ 4,429**	**¥83**	**¥ (11,266)**

Fiscal period 2015 (1st April, 2015 through 31st December, 2015)

	Millions of yen					
	Remeasure-ments 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	¥ –	¥(1,998)	¥ 443	¥6,507	¥–	¥ 4,952
Other comprehensive income (loss)	(82)	(4,851)	(412)	(343)	–	(5,689)
Share-based payments	–	–	–	–	–	–
Changes due to business combinations	–	4,153	(96)	–	–	4,057
Change due to sales of a subsidiary	–	21	(23)	–	–	(2)
Transfer from other components of equity to retained earnings	82	–	–	–	–	82
Ending balance	¥ –	¥(2,674)	¥ (89)	¥6,164	¥–	¥ 3,399

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

	Thousands of U.S dollars					
	Remeasure-ments 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	**$ –**	**$ (22,955)**	**$ (764)**	**$ 52,914**	**$ –**	**$ 29,178**
Other comprehensive income (loss)	**1,408**	**(111,065)**	**(661)**	**(14,885)**	**–**	**(125,204)**
Share-based payments	**–**	**–**	**–**	**–**	**713**	**713**
Change due to business combinations	**–**	**–**	**–**	**–**	**–**	**–**
Change due to sales of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**
Transfer from other components of equity to retained earnings	**(1,408)**	**–**	**–**	**–**	**–**	**(1,408)**
Ending balance	**$ –**	**$(134,029)**	**$(1,434)**	**$ 38,020**	**$713**	**$ (96,712)**

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

(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 24th March, 2016	Ordinary shares	¥ 1,560 $13,392	¥ 13 $0.11	31st December, 2015	25th March, 2016
Board of Directors meeting held on 5th August, 2016	Ordinary shares	¥ 1,560 $13,392	¥ 13 $0.11	30th June, 2016	16th September, 2016

(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, 2016 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, 2017	Ordinary shares	¥ 1,560 $13,392	¥ 13 $0.11	31st December, 2016	23rd March, 2017

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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Total expenses recorded from granting stock options	**¥83**	¥–	**$713**
Total	**¥83**	¥–	**$713**

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

	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)
Beginning balance	–	–
Granted	**2,410,000**	–
Exercised	–	–
Exercisable outstanding balance at the reporting date	**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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)
Issue price per options (Yen)	**27,700**	–
Share price at the grant date (Yen)	**1,042**	–
Exercise price of the option (Yen)	**1,121**	–
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 2016 (1st January, 2016 through 31st December, 2016)
Issue price per options (U.S. dollars)	**238**
Share price at the grant date (U.S. dollars)	**9**
Exercise price of the option (U.S. dollars)	**10**

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.

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, 2016	31st December, 2015	31st December, 2016
Within three months past due	**¥5,862**	¥3,613	**$50,322**
Within six months past due	**805**	698	**6,910**
Within twelve months past due	**1,059**	1,171	**9,091**
Over one year past due	**552**	490	**4,739**
Total	**¥8,280**	¥5,974	**$71,079**

(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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Beginning balance	**¥2,126**	¥ 182	**$18,250**
Increase	**671**	336	**5,760**
Decrease due to intended use	**(192)**	(160)	**(1,648)**
Increase due to business combinations	**–**	2,288	**–**
Other	**(385)**	(520)	**(3,305)**
Ending balance	**¥2,220**	¥2,126	**$19,057**

(Note) These balances at 31st December, 2016 and 2015 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, 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	**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**

As of 31st December, 2015

	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	¥ 66,648	¥ 66,648	¥ 66,648	¥ –	¥ –
Bonds and borrowings	216,903	219,625	101,824	117,655	145
Other financial liabilities	4,757	6,615	941	3,520	2,153
Derivative financial liabilities:					
Other financial liabilities	329	329	329	–	–
Total	¥288,639	¥293,220	¥169,744	¥121,176	¥2,299

As of 31st December, 2016

	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	**$ 479,535**	**$ 479,535**	**$ 479,535**	**$ –**	**$ –**
Bonds and borrowings	**1,775,088**	**1,804,206**	**403,425**	**1,140,321**	**260,452**
Other financial liabilities (Payment obligation for non-controlling interests)	**796,652**	**843,678**	**23,195**	**820,474**	**–**
Other financial liabilities	**47,807**	**59,670**	**9,958**	**28,286**	**21,418**
Derivative financial liabilities:					
Other financial liabilities	**96,566**	**96,566**	**96,566**	**–**	**–**
Total	**$3,195,656**	**$3,283,664**	**$1,012,696**	**$1,989,089**	**$281,878**

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, 2016	31st December, 2015	31st December, 2016
Credit line	**¥266,199**	¥180,335	**$2,285,166**
Borrowings	**7,646**	53,495	**65,637**
Unused balance	**¥258,552**	¥126,840	**$2,219,521**

(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, 2016

	Millions of yen		
	Japanese yen	U.S. dollars	Euro
Net exposures	**¥(1,292)**	**¥892**	**¥28,122**
Per each local currency	**–**	**$7,657 thousand**	**€229,231 thousand**

As of 31st December, 2015

	Millions of yen		
	Japanese yen	U.S. dollars	Euro
Net exposures	¥(2,371)	¥25,904	¥(4,598)
Per each local currency	–	$214,923 thousand	€(34,929) thousand

As of 31st December, 2016

	Thousands of U.S. dollars		
	Japanese yen	U.S. dollars	Euro
Net exposures	**$(11,091)**	**$7,657**	**$241,411**

Foreign currency sensitivity analysis

The financial impact on earnings before income taxes for the year ended 31st December, 2016 and the nine months ended 31st December, 2015 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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Japanese yen	**¥ 12**	¥ 23	**$ 103**
U.S. dollar	**(8)**	(259)	**(69)**
Euro	**(281)**	45	**(2,412)**

(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, 2016 and the nine months ended 31st December, 2015 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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Loss before income taxes	**¥(682)**	¥(604)	**$(5,855)**

(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, 2016 and the nine months ended 31st December, 2015 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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Other comprehensive loss	**¥(831)**	¥(1,104)	**$(7,134)**

(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, 2016		31st December, 2015		31st December, 2016	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Financial assets measured at amortized cost:						
Cash and cash equivalents	**¥ 67,750**	**¥ 67,750**	¥ 83,577	¥ 83,577	**$ 581,595**	**$ 581,595**
Trade and other receivables	**51,008**	**51,008**	54,958	54,958	**437,874**	**437,874**
Other financial assets including loans	**8,266**	**8,266**	7,039	7,039	**70,959**	**70,959**
Financial assets measured at fair value through profit or loss included in other financial assets:						
Derivative assets	**1,912**	**1,912**	913	913	**16,413**	**16,413**
Available-for-sale financial assets	**11,360**	**11,360**	15,097	15,097	**97,519**	**97,519**
Total	**¥140,298**	**¥140,298**	¥161,585	¥161,585	**$1,204,378**	**$1,204,378**
Financial liabilities measured at amortized cost:						
Trade and other payables	**¥ 55,861**	**¥ 55,861**	¥ 66,648	¥ 66,648	**$ 479,535**	**$ 479,535**
Interest-bearing bonds and borrowings	**206,780**	**206,996**	216,903	217,076	**1,775,088**	**1,776,942**
Other financial liabilities (Payment obligation for non-controlling interests)	**92,802**	**92,802**	–	–	**796,652**	**796,652**
Other financial liabilities	**5,569**	**5,569**	4,757	4,757	**47,807**	**47,807**
Financial liabilities measured at fair value through profit or loss included in other financial liabilities:						
Derivative liabilities	**11,249**	**11,249**	329	329	**96,566**	**96,566**
Total	**¥372,262**	**¥372,478**	¥288,639	¥288,813	**$3,195,656**	**$3,197,511**

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.

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.

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, 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**

As of 31st December, 2015

	Millions of yen				
	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Interest-bearing non-current borrowings	¥114,064	¥–	¥ –	¥114,064	¥114,064
Interest-bearing bonds	34,941	–	35,115	–	35,115
Other financial liabilities (Payment obligation for non-controlling interests)	–	–	–	–	–

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

As of 31st December, 2016

	Thousands of U.S. dollars				
	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Interest-bearing non-current borrowings	**$1,326,062**	**$–**	**$ –**	**$1,327,256**	**$1,327,256**
Interest-bearing bonds	**428,045**	**–**	**428,706**	**–**	**428,706**
Other financial liabilities (Payment obligation for non-controlling interests)	**796,652**	**–**	**–**	**796,652**	**796,652**

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, 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

As of 31st December, 2015

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Other financial assets:				
Derivative assets	¥ –	¥913	¥ –	¥ 913
Available-for-sale financial assets	14,752	–	344	15,097
Total	¥14,752	¥913	¥344	¥16,010
Other financial liabilities:				
Derivative liabilities	¥ –	¥329	¥ –	¥ 329
Total	¥ –	¥329	¥ –	¥ 329

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

As of 31st December, 2016

	Thousands of U.S. dollars			
	Level 1	Level 2	Level 3	Total
Other financial assets:				
Derivative assets	$ –	$16,413	$ –	$ 16,413
Available-for-sale financial assets	94,343	–	3,168	97,519
Total	$94,343	$16,413	$3,168	$113,933
Other financial liabilities:				
Derivative liabilities	$ –	$96,566	$ –	$ 96,566
Total	$ –	$96,566	$ –	$ 96,566

(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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Beginning balance	¥ 344	¥1,664	$ 2,953
Total gain and loss:			
Profit or loss (Note 1)	529	(700)	4,541
Other comprehensive income (loss) (Note 2)	6	(296)	52
Purchase	137	–	1,176
Sales	(500)	–	(4,292)
Other	(149)	(322)	(1,279)
Ending balance	¥ 369	¥ 344	$ 3,168
Changes of unrealized gain which is recognized as profit or loss on financial instruments held at the end of reporting period (Note 1)	¥ 29	¥ (700)	$ 249

(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, 2016			31st December, 2015			31st December, 2016		
	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	**¥124,263**	**¥93**	**¥(10,511)**	¥32,332	¥4,339	¥69	**$1,066,727**	**$798**	**$(90,231)**
Cross currency interest rate swaps	**–**	**–**	**–**	–	–	–	**–**	**–**	**–**
Total	**¥124,263**	**¥93**	**¥(10,511)**	¥32,332	¥4,339	¥69	**$1,066,727**	**$798**	**$(90,231)**

Derivative transactions which qualify for hedge accounting

	Millions of yen						Thousands of U.S. dollars		
	31st December, 2016			31st December, 2015			31st December, 2016		
	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	**¥ 7,417**	**¥ –**	**¥ (86)**	¥14,397	¥ 2,892	¥ 34	**$ 63,671**	**$ –**	**$ (738)**
Cross currency interest rate swaps	**41,377**	**41,377**	**1,261**	53,515	53,515	478	**355,198**	**355,198**	**10,825**
Total	**¥48,794**	**¥41,377**	**¥1,175**	¥67,912	¥56,408	¥513	**$418,869**	**$355,198**	**$10,087**

25. Sales Revenues

The breakdown of sales revenues is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Sales of products	**¥267,873**	¥229,332	**$2,299,536**
Service revenue	**108,731**	89,094	**933,393**
Other	**26**	22	**223**
Total	**¥376,631**	¥318,449	**$3,233,162**

26. Other Operating Revenues

The breakdown of other operating revenues is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Gain on sales of property, plant and equipment	**¥ 245**	¥ 218	**$ 2,103**
Gain on sales of investments in associates	**–**	47	**–**
Gain on sales of financial instruments	**3,830**	595	**32,878**
Other	**5,100**	4,756	**43,781**
Total	**¥9,175**	¥5,617	**$78,762**

27. Other Operating Costs

The breakdown of other operating costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Commissions	**¥19,713**	¥17,911	**$169,225**
Sales promotion costs	**9,107**	8,805	**78,178**
Outward freight and packaging	**13,415**	11,357	**115,160**
Research and development costs (except for amortization of capitalized development costs)	**7,098**	5,892	**60,932**
Exchange losses	**834**	255	**7,159**
Other	**30,595**	29,309	**262,641**
Total	**¥80,765**	¥73,532	**$693,321**

28. Personnel Costs

The breakdown of personnel costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Remuneration and salaries	**¥ 77,881**	¥60,829	**$668,564**
Bonuses	**13,361**	12,894	**114,697**
Social security and welfare expenses	**16,522**	11,720	**141,832**
Retirement benefit expenses	**2,965**	3,194	**25,453**
Share-based compensation expenses	**83**	–	**713**
Other employee benefit expenses	**3,307**	3,641	**28,389**
Total	**¥114,121**	¥92,278	**$979,663**

29. Financial Income

The breakdown of financial income is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Financial income			
Interest income:			
Financial assets measured at amortized cost	**¥371**	¥137	**$3,185**
Dividend income:			
Available-for-sale financial assets	**340**	312	**2,919**
Total	**¥711**	¥450	**$6,104**

30. Financial Costs

The breakdown of financial costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Financial costs			
Interest expenses on bonds and borrowings:			
Financial liabilities measured at amortized cost	**¥3,234**	¥2,078	**$27,762**
Financial costs arising from domination and profit and loss transfer agreement:			
Financial liabilities measured at amortized cost	**700**	–	**6,009**
Total	**¥3,935**	¥2,078	**$33,780**

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 2016 (1st January, 2016 through 31st December, 2016)			Fiscal period 2015 (1st April, 2015 through 31st December, 2015)			Fiscal year 2016 (1st January, 2016 through 31st December, 2016)		
	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	**¥ (390)**	**¥ 269**	**¥ (120)**	¥ (128)	¥ 18	¥ (110)	**$ (3,348)**	**$ 2,309**	**$ (1,030)**
Net changes during the year	**(390)**	**269**	**(120)**	(128)	18	(110)	**(3,348)**	**2,309**	**(1,030)**
Subtotal	**(390)**	**269**	**(120)**	(128)	18	(110)	**(3,348)**	**2,309**	**(1,030)**
Items that may be reclassified subsequently to profit or loss:									
Exchange differences on translation of foreign operations:									
Amount arising during the year	**(20,099)**	**–**	**(20,099)**	(5,246)	–	(5,246)	**(172,538)**	**–**	**(172,538)**
Reclassification adjustments to profit or loss	**–**	**–**	**–**	(21)	–	(21)	**–**	**–**	**–**
Net change during the year	**(20,099)**	**–**	**(20,099)**	(5,268)	–	(5,268)	**(172,538)**	**–**	**(172,538)**
Effective portion of changes in fair value of cash flow hedges:									
Amount arising during the year	**(232)**	**74**	**(157)**	263	(88)	175	**(1,992)**	**635**	**(1,348)**
Reclassification adjustments to profit or loss	**132**	**(42)**	**89**	(516)	169	(346)	**(1,133)**	**(361)**	**764**
Net change during the year	**(100)**	**32**	**(67)**	(252)	81	(171)	**(858)**	**275**	**(575)**
Changes in fair value measurements of available-for-sale financial assets:									
Amount arising during the year	**1,200**	**(240)**	**959**	365	(257)	108	**10,301**	**(2,060)**	**8,232**
Reclassification adjustments to profit or loss	**(3,830)**	**1,137**	**(2,693)**	(595)	142	(452)	**(32,878)**	**9,760**	**(23,118)**
Net change during the year	**(2,630)**	**896**	**(1,734)**	(229)	(115)	(344)	**(22,577)**	**7,692**	**(14,885)**
Share of other comprehensive (loss) income of associates and joint ventures accounted for using equity method:									
Amount arising during the year	**(0)**	**–**	**(0)**	0	–	0	**(0)**	**–**	**(0)**
Reclassification adjustments to profit or loss	**–**	**–**	**–**	–	–	–	**–**	**–**	**–**
Net change during the year	**(0)**	**–**	**(0)**	0	–	0	**(0)**	**–**	**(0)**
Subtotal	**(22,829)**	**928**	**(21,901)**	(5,749)	(34)	(5,783)	**(195,974)**	**7,966**	**(188,008)**
Total other comprehensive (loss) income	**¥(23,220)**	**¥1,197**	**¥(22,022)**	¥(5,877)	¥ (15)	¥(5,893)	**$(199,330)**	**$10,276**	**$(189,046)**

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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)
(Loss) profit attributable to owners of the parent company	¥ (7,826)	¥ 26,900
Profit not attributable to owners of the parent company	311	–
(Loss) profit used for basic earnings per share	(8,137)	26,900
Adjustment for diluted profit	–	–
Diluted (loss) earnings	(8,137)	26,900
Weighted-average number of shares (Thousands of shares)	120,019	124,233
Increase in number of common stock shares for diluted earnings per share		
Increase due to exercising stock options (Thousands of shares)	–	–
Weighted-average number of shares outstanding for diluted earnings per share (Thousands of shares)	120,019	124,233
Basic (loss) earnings per share (Yen)	¥ (67.80)	¥ 216.53
Diluted (loss) earnings per share (Yen)	(67.80)	216.53

	Thousands of U.S. dollars, except as otherwise indicated
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Loss attributable to owners of the parent company	$(67,182)
Profit not attributable to owners of the parent company	2,670
Loss used for diluted earnings per share	(69,851)
Adjustment for diluted profit	–
Diluted loss	(69,851)
Basic loss per share (U.S. dollars)	$ (0.58)
Diluted loss per share (U.S. dollars)	(0.58)

(Note) 1. Diluted earnings per share for the period ended 31st December, 2015 equals basic earnings per share because there are no potential shares.
2. Diluted loss per share for the year ended 31st December, 2016 equals basic loss per share because there are no dilutive potential shares.
3. Basic loss per share and diluted loss per share for the year ended 31st December, 2016 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

Acquisition of DMG MORI AG shares during the nine months ended 31st December, 2015

(1) Outline of business combination

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 ($526,251 thousand) 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 ($242,613 thousand) and capital surplus decreased by ¥33,040 million ($283,629 thousand) 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."

Acquisition of DMG MORI AG shares during the nine months ended 31st December, 2015

As the Company and DMG MORI AG have continued to collaborate in the areas of sales, development, procurement, production and certain other fields since March 2009, both have come to the conclusion that, in order to further create corporate value, the best solution is for both to be operated together in an integrated manner and also to enter into a capital tie-up. The Company implemented tender offers through its consolidated subsidiary, DMG MORI GmbH, for DMG MORI AG.

The tender offer periods are as follows:

1) Initial tender offer period: from 11th February, 2015 to 25th March, 2015 (for six weeks)
2) Additional tender offer period: from 31st March, 2015 to 13th April, 2015 (for two weeks)

The Company acquired an additional 28.21% of voting rights for a total of acquisition cost of ¥89,065 million and the percentage of voting rights held by the Company and DMG MORI GmbH in DMG MORI AG increased to 52.54%.

The change in shareholding ratio is as follows:

Before the tender offers:	24.33% (the Company 24.33%)
Individual purchases:	16.31% (the Company 9.37% and DMG MORI GmbH 6.94%)
Tender offers:	11.90% (DMG MORI GmbH 11.90%) Purchase price: €30.55 per share
After the tender offers:	52.54% (the Company 33.70%, and DMG MORI GmbH 18.84%)

DMG MORI AG was included in the scope of consolidation effective 13th April, 2015, the date of the business combinations because the Company substantially held a majority of voting rights in DMG MORI AG after the tender offers.

After this tender offers, the Company acquired an additional 8.13% of voting rights for a total of acquisition cost of ¥28,861 million and the percentage of voting rights held by the Company and DMG MORI GmbH in DMG MORI AG increased to 60.67%.

With the integration of the Company and DMG MORI AG, even greater co-operation is expected. In the areas of sales, proposals and support that better meet customers' needs through the centralization of information will contribute to further sales. In the areas of development and production, fusion with DMG MORI AG's technologies, such as its 5-axis control technology, and laser technology, will promote the development of more attractive products, and will lead to enhanced profitability through the promotion of product models, integration of components, expansion of component distribution utilizing in-house production technology and localized production using internally developed manufacturing technology. In the field of service, the Group will enlarge its service network to facilitate technology exchanges and strengthen the service support structure on a global basis. As for human resources, the Group continuously focuses on personnel training through improvement of productivity, reduction of working hours and employee training.

(2) Purchase consideration transferred

The breakdown of purchase consideration transferred at the date of acquisition is as follows:

	Millions of yen
Cash and cash equivalents	¥ 38,709
Fair value of equity interests in DMG MORI AG already held by the Company before obtaining control	146,628
Total	¥185,337

(3) Assets acquired and liabilities assumed

The fair values of assets acquired and liabilities assumed as at the date of acquisition are as follows:

	Millions of yen
Current assets:	
Cash and cash equivalents	¥ 31,738
Trade and other receivables	40,989
Inventories	83,429
Other current assets	23,699
Non-current assets:	
Property, plant and equipment	62,780
Other intangible assets	67,022
Other non-current assets	42,735
Fair value of assets acquired	352,395
Current liabilities:	
Trade and other payables	(49,405)
Advances received	(19,005)
Provisions	(24,520)
Other current liabilities	(11,065)
Non-current liabilities:	
Interest-bearing bonds and borrowings	(5,823)
Provisions	(10,709)
Other non-current liabilities	(18,035)
Fair value of liabilities assumed	(138,566)
Net fair value of assets acquired and liabilities assumed	¥ 213,829
Shares of the Company owned by DMG MORI AG	¥ (13,552)
Non-controlling interests	(87,116)
Goodwill	72,176

(4) Amendments made to provisional amounts

The purchase price is allocated to assets acquired and liabilities assumed based on the respective fair value at the date of acquisition. Purchase price allocation was completed as of 31st December, 2015. The major adjustments made to provisional amounts are as follows:

Inventories:	increased by ¥9,404 million
Property, plant and equipment:	increased by ¥7,394 million
Other intangible assets:	increased by ¥56,656 million
Other non-current liabilities:	increased by ¥16,980 million

As a result, non-controlling interests increased by ¥28,237 million and goodwill decreased by ¥28,237 million compared with the corresponding provisional amounts.

(5) Fair value of trade and other receivables

The fair value of trade and other receivables acquired at the date of acquisition in the amount of ¥40,989 million consists of the total contract amount totaling ¥43,277 million less an estimated uncollectible amount totaling ¥2,288 million.

(6) Non-controlling interests

Non-controlling interests of ¥87,116 million are measured at the non-controlling interest's proportionate share after the business combination of the acquiree's identifiable net assets as at the date of acquisition.

(7) Goodwill

Goodwill of ¥72,176 million was based on the future economic benefit arising from synergistic effects and excess earnings power acquired in the business combination that are not individually identified and separately recognized.

(8) Acquisition-related costs

Acquisition-related costs amounted to ¥768 million including ¥53 million incurred in the previous fiscal year and were included in "Other operating costs" in the consolidated statement of profit or loss.

(9) Gain on step acquisition

As a result of a remeasurement of DMG MORI AG group shares that the Company already owned at the date of acquisition based on the fair market value as at the date of acquisition, gain on step acquisition of ¥36,656 million was recognized. The gain was included in "Other operating revenues" in the consolidated statement of profit or loss for the nine months ended 31st December, 2015.

(10) Acquisition of non-controlling interests

The Company acquired additional shares of DMG MORI AG for a consideration of ¥28,861 million and increased its voting rights in DMG MORI AG to 60.67%. In addition, the Company acquired its own shares of 12,797 thousand shares held by DMG MORI AG for a consideration of ¥20,193 million. This acquisition is accounted for as the equity transaction with the non-controlling interests. As a result, treasury shares increased by ¥11,811 million and non-controlling interests and capital surplus decreased by ¥10,646 million and ¥6,404 million, respectively.

(11) Effect on operating results of the Group

DMG MORI AG contributed ¥237,344 million of sales revenues and ¥18,819 million of net income of the Group for the nine months ended 31st December, 2015.

If the combination had taken place at the beginning of the reporting period, the effects on sales revenues and net income would have been immaterial.

34. Domination and 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 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

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, following changes in liabilities, non-controlling interests, capital surplus and retained earnings are recognized:

Liabilities:	increased by ¥85,441 million ($733,462 thousand)
Non-controlling interests:	decreased by ¥39,116 million ($335,788 thousand)
Capital surplus:	decreased by ¥20,505 million ($176,024 thousand)
Retained earnings:	decreased by ¥25,819 million ($221,641 thousand)

Also, as a result of a revaluation of the discounted present value of future payment obligations to external shareholders at the end of fiscal year ended 31st December, 2016, the Group recognized ¥2,687 million ($23,066 thousand) of other financial liabilities (current), and ¥90,114 million ($773,577 thousand) of other financial liabilities (non-current) in the consolidated statement of financial position, and ¥700 million ($6,009 thousand) of financial costs in the consolidated statement of profit or loss.

35. Significant Subsidiaries

At the end of fiscal period 2015 (1st April, 2015 through 31st December, 2015), the Group recognized significant non-controlling interests in the following subsidiary. During the fiscal year 2016 (1st January, 2016 through 31st December, 2016), since the DPLTA came into force, such significant non-controlling interests no longer exist.

Name of subsidiary	Proportion of issued ordinary shares held (%) (As of 31st December, 2015)	Country of operation and incorporation	Principal activity
DMG MORI AG	60.7%	North Rhine-Westfalen, Germany	Control of affiliates

Accumulated balance of non-controlling interests, net income allocated to non-controlling interests, dividends paid to non-controlling interests and summarized financial statements are as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	31st December, 2016
Current assets	¥–	¥189,237	$–
Non-current assets	–	111,396	–
Current liabilities	–	104,677	–
Non-current liabilities	–	17,283	–
Total equity	¥–	¥178,672	$–
Attributable to non-controlling interests	¥–	¥ 74,266	$–

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Sales revenues	¥–	¥237,334	$–
Net income	–	18,819	–
Other comprehensive income after tax	–	(11,709)	–
Total comprehensive income	–	7,110	–
Net income attributable to non-controlling interests	–	1,737	–
Dividends paid to non-controlling interests	–	2,912	–

	Millions of yen		Thousands of U.S. dollars
	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Net cash flows from operating activities	¥–	¥41,686	$–
Net cash flows from investing activities	–	7,064	–
Net cash flows from financing activities	–	(6,670)	–
Total	¥–	¥42,080	$–

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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Associates	DMG MORI Finance GmbH	Guarantee obligations	¥ –	¥21,844	$ –
		Sales of products	13,298	–	114,156

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

	Millions of yen				Thousands of U.S. dollars	
	31st December, 2016		31st December, 2015		31st December, 2016	
	Receivables	Payables	Receivables	Payables	Receivables	Payables
Associates	¥679	¥451	¥–	¥–	$5,829	$3,872
Total	¥679	¥451	¥–	¥–	$5,829	$3,872

(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 2016 (1st January, 2016 through 31st December, 2016)	Fiscal period 2015 (1st April, 2015 through 31st December, 2015)	Fiscal year 2016 (1st January, 2016 through 31st December, 2016)
Compensation and bonuses	¥1,792	¥1,938	$15,383
Share-based payments	–	–	–
Retirement benefit payments	954	–	8,190
Total	¥2,746	¥1,938	$23,573

(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 ¥1,263 million ($10,842 thousand) for the year ended 31st December, 2016 and ¥1,470 million for the nine months ended 31st December, 2015, respectively.

37. Contingent Liabilities

The breakdown of guarantee obligations is as follows:

	Millions of yen		Thousands of U.S. dollars
	31st December, 2016	31st December, 2015	31st December, 2016
Guarantees for lease payments by customers	¥3,060	¥ 3,858	$26,268
Guarantees of loans from financial institutions by associates:			
DMG MORI Finance GmbH	–	21,844	–
Other guarantee obligations	214	270	1,837
Total	¥3,275	¥25,972	$28,114

(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

Following discussion and approval of a basic policy at a Board of Directors' meeting held on 10th January, 2017, the Board of Directors of the Company has passed a resolution in its meeting on 13th January, 2017, pursuant to Article 370 of the Law (resolutions based on documents in lieu of resolutions by the Board of Directors) to dispose of treasury shares through a third-party allotment, to repurchase the shares pursuant to Article 156 of the Law, as applied pursuant to paragraph 3, Article 165 of the Law, and to cancel the treasury shares pursuant to Article 178 of the Law, and by which the Company supports the social contributions of the Mori Manufacturing Research and Technology Foundation.

The disposition of the treasury shares was approved at the Company's 69th annual shareholders meeting held on 22nd March, 2017, and the repurchase of the treasury shares and cancellation of the treasury shares will be executed accordingly.

1. Disposition of treasury shares

(1) Number of shares	3,500,000 ordinary shares
(2) Amount per share	¥1 ($0.01) per share
(3) Amount of funds raised	¥3,500,000 ($30,045.50)
(4) Subscription or disposal method	Disposition through a third-party allotment
(5) Trustee	Japan Trustee Services Bank, Ltd. (sub-trustee, with Sumitomo Mitsui Trust Bank, Limited as trustee)
(6) Disposal date	31st March, 2017

2. Repurchase of treasury shares

(1) Reason for repurchasing treasury shares
To mitigate the risk of dilution of share value by the disposition of treasury shares described in above, and to achieve the capital efficiency and agile capital policy according to the management environment.

(2) Details of matters relating to repurchase

a. Class of shares to be repurchased	Ordinary shares of the Company
b. Total number of shares to be repurchased	3,500,000 shares (maximum) (Represents 2.92% of the total number of issued shares (excluding treasury shares))
c. Total purchase price for repurchase of shares	¥5,250,000,000 ($45,068,246) (maximum)
d. Effective period	From 22nd March, 2017 to 31st December, 2017

3. Cancellation of treasury shares

(1) Reason for cancellation of treasury shares
To mitigate the risk of dilution of share value due to disposition of treasury shares in the future.

(2) Details of matters relating to cancellation

a. Class of shares to be cancelled	Ordinary shares of the Company
b. Number of shares to be cancelled	3,500,000 shares (Represents 2.63% of the total number of issued shares before cancellation)
c. Scheduled cancellation date	31st March, 2017

Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
DMG MORI CO., LTD.

We have audited the accompanying consolidated financial statements of DMG MORI CO., LTD. and its consolidated subsidiaries, which comprise the consolidated statement of financial position as at 31st December, 2016, and the consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DMG MORI CO., LTD. and its consolidated subsidiaries as at 31st December, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with International Financial Reporting Standards.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

22nd March, 2017
Osaka, Japan

A member firm of Ernst & Young Global Limited

DMG MORI