Fiscal Year Ended 31st March, 2003

Annual Report

MORI SEIKI
THE MACHINE TOOL COMPANY

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Issued by Accounting Group

MORI SEIKI Mission Statement

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

Enable our customers to maximize their advantages and excel in their respective markets by continually striving to provide innovative, accurate, and trouble-free machines at competitive prices;

Increase our customers' productivity and efficiency through our latest developments in technology as manifested by our increasingly accurate and progressive manufacturing capabilities;

Support our customers with our knowledgeable and responsive sales, applications, and service personnel.

As befits a worldwide corporation, we will:

Foster a fair and open corporate culture, utilizing appropriate management initiatives;

Emphasize company-wide communication with the recognition of earnest and enthusiastic team-oriented efforts;

Respect each other's opinions and continually develop through friendly competition in energetic and cheerful workplaces.

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

Work to increase the value of our company, the investment of all shareholders knowledgeable of the true nature of the machine tool industry and the prosperity of our suppliers;

Always remember that the pricing of our products and services is an integral factor of the prosperity and perpetuity of the corporation;

Generate suitable profits to ensure the cash flow necessary to provide for the healthy operation of our corporation, research and development, stable customer services, employee training and development, and, the maintenance of safe and efficient manufacturing facilities.

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

Contribute our fair share to our local community and society;

Conserve environmental resources at all times to preserve the global environment;

Incorporate the highest standard of ethics while still encouraging an aggressive approach to our business activities.

A Message from The President

Masahiko Mori
President & Representative Director

Dear Shareholders,

We are pleased to report on the outlook of business operations and present our Group's various work sheets for the 55th Term (from 1st April, 2002 through 31st March, 2003): these documents are included.

In spite of some exceptional strength in the automotive sector and related industries, the machine tool industry still faces uncertain prospects. Present challenges include sluggishness in business, stagnation of investments in facilities as a result of falling share prices in the domestic market, exhaustion in the U.S. economy after the war with Iraq, and the influence of severe acute respiratory syndrome (SARS) on the Asian economy among other factors.

We have seen, in the meantime, that the business unit (BU) system, which we introduced for the purpose of promoting the optimum distribution of management resources, maximizing profit, and the selection and concentration of enterprises, has now firmly taken root. This system has shown its effectiveness through the clarification of responsibility and authority of execution at each business unit. In order to further enhance the business unit system, we have resolved to organize cross-functional teams (CFTM) which can act outside the BU framework and are managed from the top down. The teams' function is to speedily deal with problems that are related to more than one BU and cannot be solved within a specific BU.
MORI SEIKI HITECH CO., LTD. (hereinafter "HITECH"), a 100% subsidiary of the Company, a business acquired from Hitachi Seiki Co., Ltd. and Hitachi Seiki Service Co., Ltd., companies which are now in proceedings under the Civil Regeneration Law, started full-scale business activities 1st October, 2002. This has positively impacted our development system group by increasing the number of design personnel from 250 to 400.
HITECH has also already put new products on the market, specifically four models which respect a combination of the merits of the two companies: high accuracy and high rigidity, features unique to MORI SEIKI, plus the operability unique to HITECH. The positive results from the launch of these products are showing up already. Construction of Chiba factory and a new office building at our Chiba Technical Center is in progress as scheduled.

MORI SEIKI's newest vertical machining center called the NV5000 has risen in public opinion both in the domestic and the international markets and has become the most successful product in the current term, recording a total number of orders of more than 900 units within one year after the commencement of sales. In addition to this, MORI SEIKI's new horizontal machining center, the NH5000, which was introduced to the market last September, has also seen excellent results with total orders received standing at 240 units.

Turning to production, we have been strongly promoting our "2-2-2 Project" by closing down the rack warehouses at the Nara and the Iga plants with the intention of imposing strict time limits of two months on the retention of inventories of raw materials, production, and the storage of completed products in inventory. Confusion on the assembly floors has been completely stamped out, delays in production caused by shortages of parts delivered have been eliminated and there is now a smooth transition between orders and sales. We have also seen that our system of receiving and delivering inventories utilizing the QR (quick response) code is close to completion and has started operations. The cell production system introduced at the start of production of the NV5000 is now established and we plan to extend this system to other models. The switch to in-house production has been completed for electrical cabinets, sheet metal parts, fixtures, loaders, linear pallet pools and certain other items. More items are now being considered for future in-house production. The break-even point now stands at 62 billion yen of sales as a single entity and we are on the brink of achieving the "1/2 Project," meaning a reduction in the ratio of cost of materials to sales prices to 50% or less.

These new production systems reflect our strenuous efforts to build up our systems by implementing our original concept of the "Auto campsite assembly method" that can reduce lead times and slash costs. The assembly factory is conceptualized as an auto campsite where new systems are introduced to the actual manufacturing sites and are then refined through practical modification so that cell production can be promoted more efficiently in combination with the timely delivery of the necessary parts.

Regarding the profit dividend for the current term, we have resolved to pay 5 yen per share starting 30th June, 2003 in consideration of our operational performance and the circumstances surrounding the Japanese economy.

We would appreciate it very much if you the shareholders would extend your further kind support and encouragement to us.

July, 2003

Masahiko Mori
President & Representative Director

Outlook of Business

Managing policy

MORI SEIKI established a management policy to "Enable our customers to maximize their advantages and excel in their respective markets by continually striving to provide innovative, accurate, and trouble-free machines at competitive prices" as the mainstay of our operations. Looking forward to becoming the world's largest and most respected international manufacturer of machine tools, our Group has been endeavoring to disclose information positively and speedily in order to enhance the fairness and transparency of management. At the same time we have made it our standard practice to be prompt in our decision-making so that we can always satisfy our customers as well as our shareholders, business partners and employees. To make these practices clearer and enable every one of the executives and employees to engage in open and fair business activities, we have annually distributed to all members our company handbook which comprehensively covers our management principles, expected standards of behavior, and our corporate bylaws.

In the field of development, we are determined to continue our efforts to produce highly original products with higher added value by pursuing technical innovations based on the technologies nurtured in the development of our vertical machining center, the NV5000, whose novel concept covering everything from development to production and sales and whose mechanical capabilities have been widely acclaimed. It won the "Nikkei Business Daily Awards for Excellence" in the "2002 Nikkei Superior Products and Services Awards" category in the "The Best Ten New Products Awards" (presented by Nikkan Kogyo Shimbun) in the previous year.

In the overseas markets, after completing the reorganization of our sales network in Germany, we are starting direct sales activity in July 2003 in the large markets of the states of Baden Wurttemberg and Bayern. In preparation for this, we plan to expand the Technical Center at Stuttgart and open a new office in Munich.

Preparation for the construction of the new Technical Center in France is also in progress as scheduled to be opened within 2003. Completion of the French Technical Center is expected to contribute to a further extension of our share in the European markets.

In Asia, where leading automakers, electrical goods enterprises and affiliated firms are expanding their businesses in addition to the existing facilities in Hong Kong and Shanghai, in order to cover the markets in China, we have resolved to establish a strong presence in Beijing, Shenzhen, Tianjin, Dongguan and Chongqing, making a total of seven sites.

In Indonesia, the economy has exhibited remarkable growth in recent years and the expansion of Japanese enterprises is reviving after a period of temporary suspension caused by the change of government in 1998. The status of our existing residential office will be upgraded to a local corporation in July 2003 and its function as a technical center will be expanded at a new strong point in Jakarta City.

Regarding after-sales service, we have relocated all service personnel to the Call Center at the Iga factory and established a solid system to support our "customer first" policy by achieving the first 24/7 (24 hours a day, 7 days a week) service support in the industry. The scope of our service activities has been further extended since we joined operations with HITECH.

Our basic policy concerning the distribution of profit is to provide stable dividends. We plan to declare dividends based on such factors as net income, resources for internal retention, and cash-flows, while strengthening our financial constitution at the same time, thus meeting the expectations of our shareholders.

We are considering paying a through-the-term dividend of 10 yen per share as a minimum objective with the possibility of additional dividends depending on our performance results in view of the following considerations. In subsequent and later terms our efforts to shed excessive burdens from the balance sheet will have been completed as a result of the introduction of market value accounting and the elimination of our liability for the welfare pension after dissolving the welfare pension fund plan. Our PBR (price-book-value ratio) has depreciated more than the actual value because our share price is currently undervalued and a stable level of ordinary profit is anticipated effective the next fiscal year. In addition to this, we are considering to pay an interim dividend of 5 yen per share.

Managerial performance

In order to achieve the status of the world's largest and most respected international machine tool manufacturer, we have endeavored to develop, produce, and sell products of higher quality and higher added-value as represented by our main products-machining centers, numerically controlled lathes and multi-axis turning centers (MT). However, during the current year we have not observed clear indications of recovery in the machine tool industry overseas, except in the Asian area. Both sales and profits were lower than those of the same period of the previous year influenced by a recession both in Europe and the U.S.
In Japan, we have had to face a severe environment for incoming orders with the constriction of investments in facilities by our customers (excluding certain exceptional industries), because of uncertain prospects in the economy. In terms of production, we were troubled by the dilemma that production may not be able to catch up with our sales schedule in the first half because of temporary confusion at the initial stage following the introduction of our new production system. Although the system started up successfully in the second half and processed shipments of 488 units by this March for both domestic and overseas markets, we were not able recover from the deficit incurred in the first half of the year. Under these circumstances, our Group has been obliged to accept decreases in income and profit. Incidentally, we withdrew from the Welfare Pension Fund Plan on 20th March, 2003, and introduced an extensive defined contribution pension scheme in its place. As a result of this change in our corporate pension fund system, we were able to record a special profit of 517 million yen.

According to the foregoing, we have recorded a on consolidated basis sales of 63,864 million yen, an 8.3% decrease from the same term of the previous year, an operating loss of 4,013 million yen, compared with 3,200 million yen in the previous fiscal year, and a net loss of 5,555 million yen, compared with 16,607 million yen for the year ended 31st March, 2002.

Financial condition

Cash and cash equivalents at the end of current accounting year have accounted for 8,381 million yen on a consolidated basis, in comparison with 13,512 million yen at the end of the previous year.

Cash flows, as a result of our operating activities, decreased by 3,754 million yen, reflecting a decrease in retirement and severance benefits of 2,538 million yen, an increase in trade receivables of 3,495 million yen, an increase in inventories of 4,676 million yen, and an increase in accounts payables of 2,567 million yen, etc.

Cash flows as a result of investing activities, on the other hand, decreased by 5,378 million yen, reflecting payments for acquisition of tangible fixed assets of 3,103 million yen, payments for assignment of operations of 2,450 million yen, income from sales of investment securities of 1,164 million yen, etc.

Cash flows as a result of financing activities increased by 3,958 million yen, reflecting the inflow of short-term bank loans of 7,000 million yen, and the repayment of long-term debt of 1,922 million yen, etc.

Problems in the future and prospect for the next term

As for future prospects, although the recovery of local demand in the U.S. market was influenced by the war with Iraq, the will to invest will recover thanks to the earlier-than-expected cessation of the war.

In European markets, we have already achieved a higher market share in Italy, Britain and Switzerland and the inflow of orders is progressing favorably in Central Europe, namely in the Czech Republic, Poland, Hungary, Slovenia, etc. which are all showing remarkable developments recently. In Germany, the largest industrial country in Europe, we are developing a strong presence in sales and services at four locations with the aim of establishing a direct sales system. By obtaining a secure foothold in the German market where the fiercest competition is, we look forward to doubling our market share over the next three years, with projected sales of 10 billion yen a year.

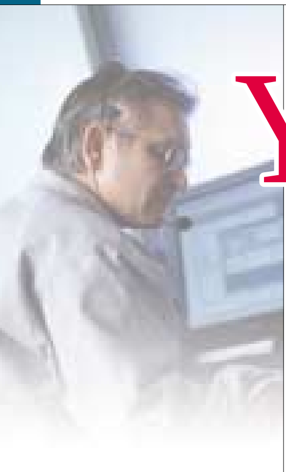
In Japan and Asian Pacific, manufacturers of automobiles and electric home appliances are showing a strong inclination to invest in facilities in mainland China. Continued favorable achievements by leading automakers in Japan are considered to work as a strong drag on the stable movement of investments in the related industries such as parts, dies and molds.

As we have seen above, the economic situation appears to have taken off from its worst stage and is now in an upturn, supported by demands for updating superannuated facilities. We will make our system more capable of increasing our market share by developing new products and winning customers from our competitors. We will strive to build a corporate constitution capable of securing stable profits for the mid- to long-term in the current situation in which we cannot expect a steady growth of the economy. We are determined to continue working positively on cost reductions for our products by establishing measures to improve the cost structure such as: ① the development of new models which can realize a material cost-to-sales ratio not exceeding 50%, ② a reduction of inventories for products, raw materials, etc, ③ a decrease in the lead time for production, and ④ a rise in our in-house production of significant components.

Accordingly, our projection for our operational performance in the next term, on a consolidated basis is sales of 75,000 million yen, operating profit of 1,000 million yen, ordinary profit of 1,000 million yen and net profit of 900 million yen.

Regarding our operational performance as single entity, we project sales of 70,000 million yen, operating profit of 600 million yen, ordinary profit of 600 million yen and net income of 500 million yen.

Departmental Activities



Your Solution for Profitability

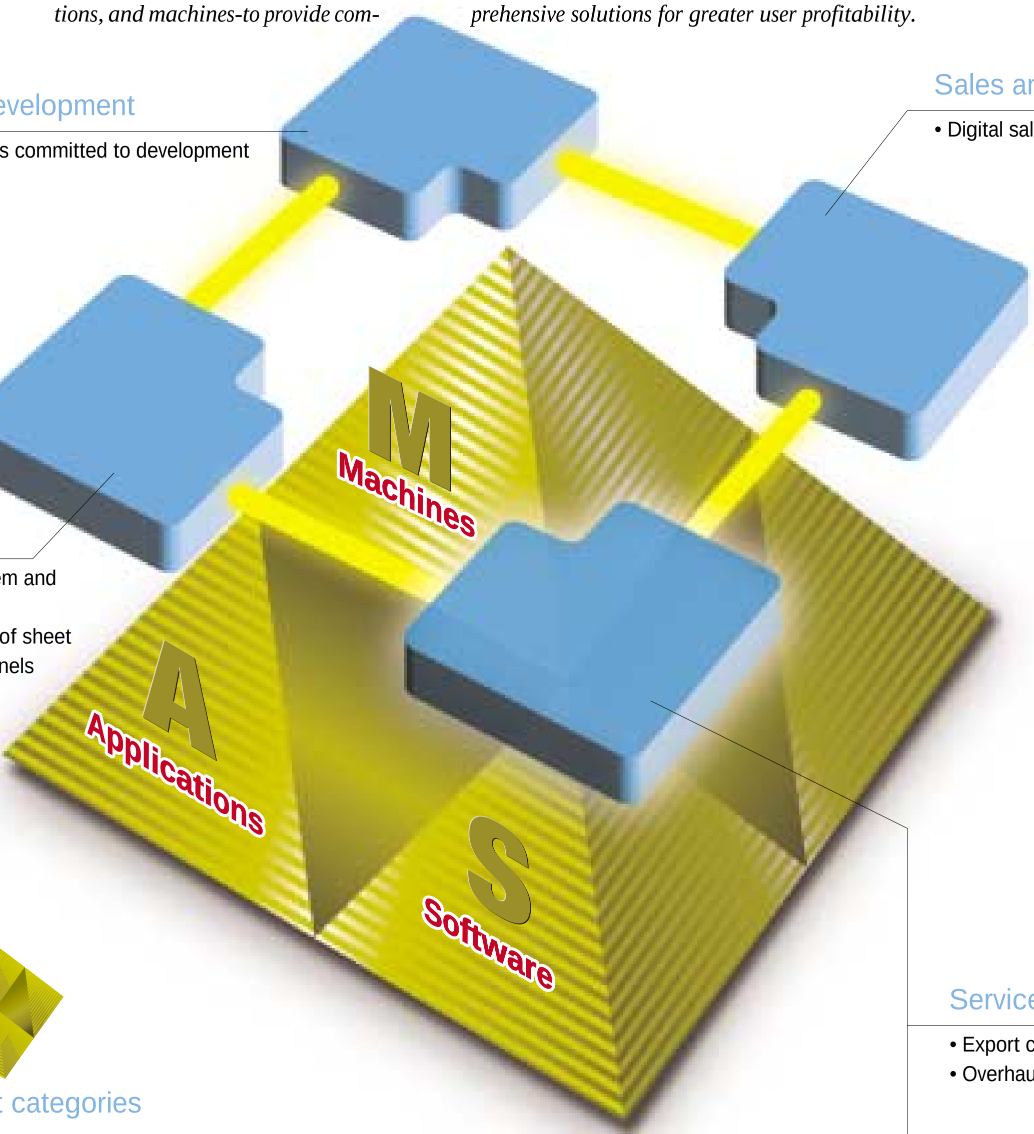
In the midst of sustained growth, MORI SEIKI has delivered over 102,000 machines, pushing the MORI SEIKI Group total to 143,000. We're focused on bringing our customers the highest level of machining precision and productivity for their environment consistent with their needs and objectives. To offer users an optimal production environment, we emphasize three aspects of business equally: software that establishes optimal production conditions, applications that lead the way for the best machining conditions, and our machines. We coordinate these three product categories-software, applications, and machines-to provide comprehensive solutions for greater user profitability.

Design and development

- 400 staff members committed to development

Sales and management

- Digital sales promotion tools

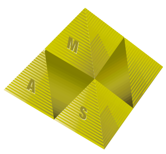


Manufacturing

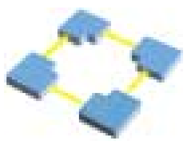
- Cell production system and camp-style system
- In-house production of sheet metal and control panels

Services

- Export consulting
- Overhauling services

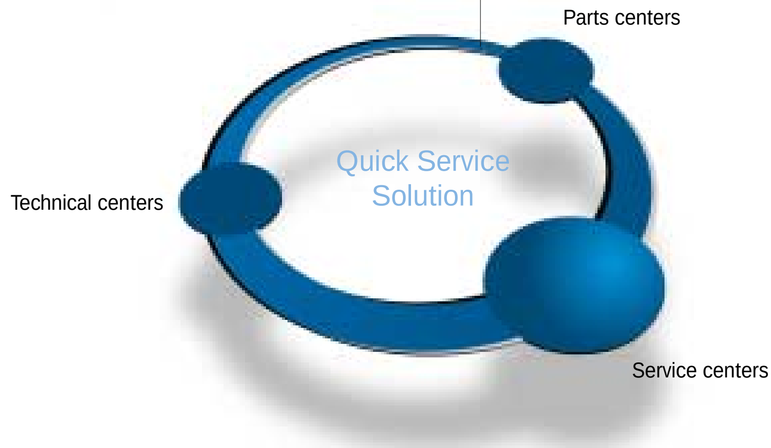


Three product categories



Four business engines

Three service sections



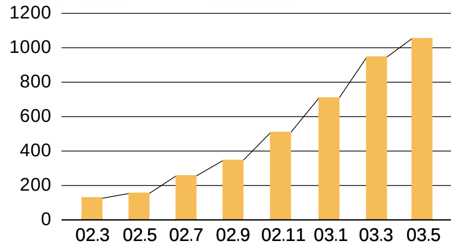
Integrated Digital Manufacturing

New Vertical Machining Center

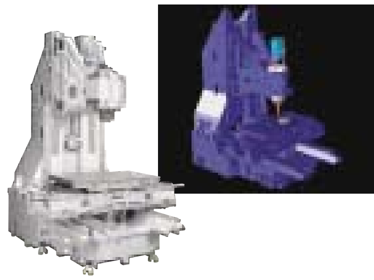
A new standard for a new age

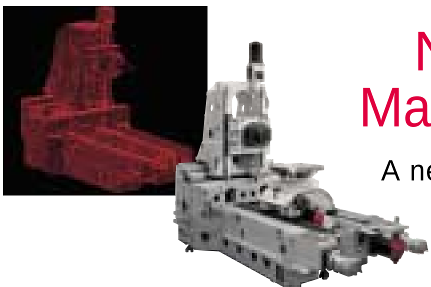
NV5000

We developed the NV5000 to bring higher productivity and greater profitability to our users. Compared to its predecessor (SV-503), the performance ratio has increased by 30 percent. We improved its cost performance with the use of common parts and the in-house production of its control panels and sheet metal casing. Designed with 3-D CAD and repeated Finite Element Method (FEM) analysis have assured the rigidity of the product during its design stage. The base can fully demonstrate basic performance capacity. The NV5000, which is the culmination of MORI SEIKI's new technology and know-how, has been well received by customers since its release in March 2002.



NV5000 Sales Trends (Cumulative)
Orders have risen steadily since the NV5000 was launched in March 2002, reaching 1,035 units by May 2003.





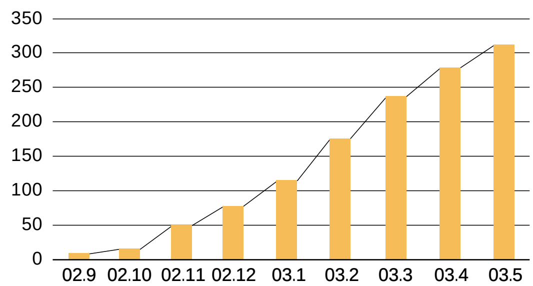
New Horizontal Machining Center

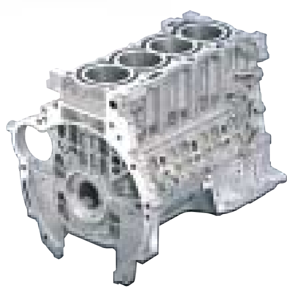
A new standard for a new age

NH5000

The NH5000's innovative triple-trough construction enables thorough chip disposal as never before. While boosting the operating rate significantly, we've succeeded in making the principal mechanisms work faster, sharply reducing idle time. By cutting the total required machining time, we've pushed productivity up 8.0 to 8.9% over conventional models. At the same time, we've incorporated functions to lighten the NH5000's environmental load, such as an ATC unit with oil-bath construction. The unit uses 80% less lubricant than before and offers a tremendous gain in energy efficiency. We made easier maintenance a reality by designing all areas of the NH5000 for simple and speedy servicing. Our customers take advantage of comprehensive support for the optimal fixtures and automation equipment as well as software to ensure maximum efficiency. It's not surprising that the NH5000 has won a steady increase in orders since hitting the market in September 2002.

NH5000 Sales Trends (Cumulative)
Sales of the NH5000 have been growing at a constant rate, with 307 units sold between the launch in September 2002 to May 2003.



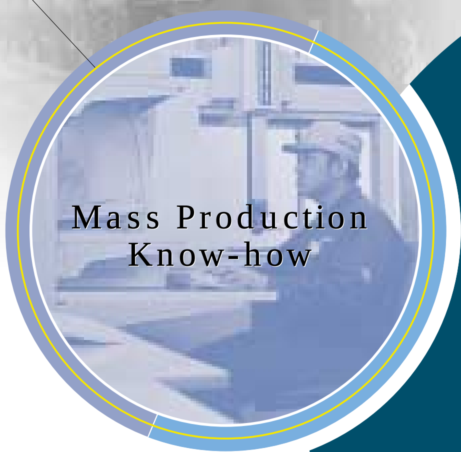


Integrated Research Technology

MORI SEIKI has established five laboratories to verify our technology from a neutral point of view while making practical research and development. By integrating the results of each study and development, MORI SEIKI is always pioneering new technologies under its mission as an advanced manufacturer.

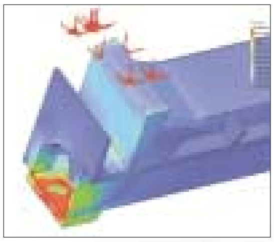
High Precision Machining R&D

The High Precision Machining R&D simulates a user environment to allow us to improve our product quality from the point of view of the customer. By processing automobile parts using the same system specification that we actually delivered, we evaluate machine performance considering the highest priority productivity, analyze errors, and verify reasons for and solutions of the problems. While accumulating mass production know-how for parts machining, we are making efforts studying high efficiency production and system installation, mass production tests for our machine tools, environment management, and cost reduction.



DTL (Digital Technology Laboratory)

DTL was established to make production sites and machine tools intelligent. We made the focus of the activity in Sacramento California, U.S.A. and in Nara Campus. They mainly research, develop, and analyze for software, operating systems, and machine tool elements technology. Machine networking and MAPPS, which is our original integrated operation panel, are also developed here. DTL plays a vital role to improve MORI SEIKI's Information Technology on the front line of the digital technology.

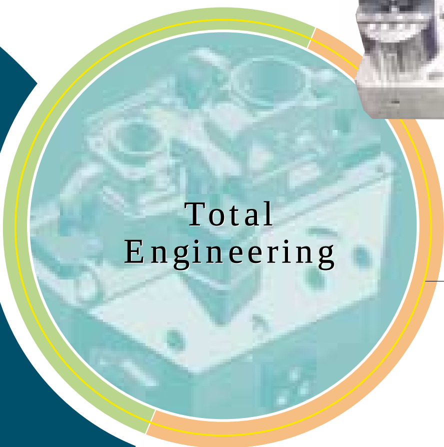


Technology R&D

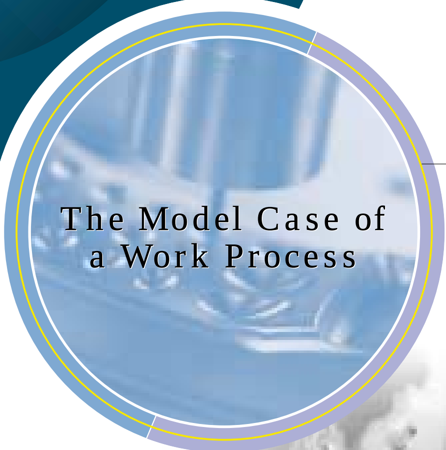
The Technology R&D is dedicated to the establishment of the key technology and to the development of the new technology with more flexibility and higher value. Its research targets are expanding to the micro-fine processing field, which is mainly focused on electronic or medical related parts. The Technology R&D is conducting collaborative research with university research organizations and pursuing new technology development without being bound by existing ideas.

Fixture R&D

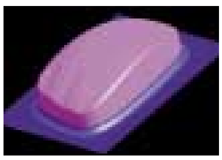
The Fixture laboratory uses our knowledge and experience fully to develop tough, uncompromisingly precise, but easy-to-use fixtures for our customers. To make this possible, we design and produce actual customers' fixtures. The fixtures handled in this laboratory are distinguished as for customers, for in-house equipment, and for in-house measurement. They are all designed while operating detailed interference checking using 3-D CAD software to achieve the highest quality fixtures.



Benefit
stomers.



DM (Die&Mold)

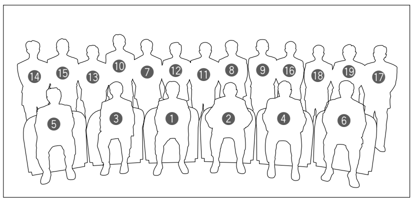


The DM(Die&Mold) designs and produces users' designs to promote research and development of variable manufacturing technologies, machines for die and mold manufacture, 3-D design manufacturing systems, etc. The results obtained at each stage, or test manufacturing results, are entered into the database and given to die and mold manufacturers and our basic research department. We conduct practical approaches for both software and hardware through collaborative research with domestic and overseas universities or collaborative development with users.

Board of Directors

Masahiko Mori	*President & Representative Director* ...... ①
Kyoji Umeoka	*Senior Executive Managing Director* ...... ②
Hiroshi Mizuguchi	*Managing Director* ...... ③
Takeshi Saito	*Managing Director* ...... ④
Tadashi Saito	*Managing Director* ...... ⑤
Kazuyuki Hiramoto	*Managing Director* ...... ⑥

Koji Okura	*Director* ...... ⑦
Yoshimi Ota	*Director* ...... ⑧
Hiraku Nakata	*Director* ...... ⑨
Yasunori Hamabe	*Director* ...... ⑩
Yoshitsugu Shigeta	*Director* ...... ⑪
Hiroshi Yonetani	*Director* ...... ⑫
Yoshinori Yamaguchi	*Director* ...... ⑬
Hiroaki Tamai	*Director* ...... ⑭
Makoto Fujishima	*Director* ...... ⑮
Yuzo Matsuyama	*Standing Statutory Auditor* ...... ⑯
Koji Kageyama	*Standing Statutory Auditor* ...... ⑰
Katsuhiko Maehori	*Statutory Auditor* ...... ⑱
Yasuo Noishiki	*Statutory Auditor* ...... ⑲
Takashi Nakanishi	*Statutory Auditor*



MORI SEIKI Organization Structure

Business unit

MORI SEIKI has integrated our entire group into three major departments: Development & Manufacturing, Sales & Marketing, and Administrative HQ. We adapted the business unit system to provide clear responsibilities and rights for each business unit set up under each major department. With this system, we achieve more efficient business for the whole group while reinforcing the profit, loss, and budget management by each business unit, improving asset efficiency, and speeding up business processes.

- **Chairman Emeritus**
- **President** (&Chairman of The Board of Directors of Overseas sub-Sidiaries)
  - Auditing
  - The Board of Directors
  - Corporate Planning
    - Export Control
    - Overseas Subsidiaries

Development & Manufacturing HQ

- Iga Plant Machining
- Spindle Major Component
- Nara Plant Machining
- NL
- MV
- MH
- High Production
- MT
- Technology R&D
- Technology
- Electrical Circuit
- Control Technology Laboratory
- DTL
- EG
- DM
- High Precision Machining Laboratory
- Techno

Sales & Marketing HQ

- Overseas Sales
- Domestic Sales
- MORI SEIKI Machine Sales
- America
- Europe
- Asia
- S&P

Administrative HQ

- Purchasing
- Administrative

Information of Headquarters

Providing high-speed and high-quality service

For the Sales Marketing Headquarters, attaining our sales and operating profit objectives is everything. To secure results unaffected by economic fluctuations or changes in the sales environment requires a solid grasp of the market. We keep our sights set on planning and implementing strategies for increased customer profitability while building an organization that produces consistent results. By implementing this vision, it is important for the individual representatives active at the forefront of sales and service to recognize the significance of their role in relaying customer opinions throughout the company, as well as communicating customer opinions effectively so MORI SEIKI staff members focus on our customers' needs. It's my mission to see that we maintain a work environment where this communication comes naturally. With our focus firmly on high value-added services, our primary task is to reorganize how we take care of business. What we used to manage in days or half-days is now carried out on the basis of hours or even minutes as we fulfill our duty to work at a faster pace than our clients' ever-accelerating sense of timing. We do not equate after-sales service simply with repair. We are involved with cutting our customers' startup time after shipments, advising customers on enhancing productivity, and establishing the systems that enable us to report the latest machining technology. We will remain committed to providing high-quality service with impressive responsiveness so that customers continue to seek us out for our service and cannot imagine turning to any other companies after they have experienced MORI SEIKI.

Kyoji UMEOKA
Senior Executive Managing Director and Executive Officer of Sales Marketing HQ

Enjoying greater production efficiency with a new manufacturing system

Hiroshi MIZUGUCHI
Managing Director and Executive Officer specializing in manufacturing of Development & Manufacturing HQ

At MORI SEIKI Manufacturing Headquarters, we are implementing ways to ensure manufacturing quality and to enhance productivity. We've boosted manufacturing quality through QA checks as we operate units after each process is completed until they've been running a total of 100 hours. We're even dedicated to making factories more attractive environments. Storing only the required parts and tools in specific locations and striving to keep things organized ensures better product quality. To improve production efficiency, the cell production assembly system (which proved highly advantageous for the NV5000) is now under development for a new model. After implementing this cell production system-the first trial of its kind for the machine tool industry-we succeeded in reducing the number of days required for assembly in half. Cutting the assembly time lowered production costs, and clarifying each worker's scope of responsibility led to better product quality. We combined this system with an innovative camp-style assembly system where parts required for assembly were arranged in the assembly area beforehand. In-house production of sheet metal and control panels began, offering benefits in lower transportation costs and shorter production lead-time. The result: 50% faster delivery times. We were also able to respond instantly to revisions in specifications and thorough quality control slashed the number of defects. These are the new kinds of production systems that we are putting in place to take production efficiency to the next level.

Dedicating a workforce of 400 in Japan and the U.S. to take on next-generation technology and machines

Last year saw the creation of two hit machines: the NV5000 and NH5000. We succeeded in streamlining the manufacturing process with next-generation design with these machines. This year, expanding on this success has inspired our bold new offering: the NV4000 vertical machining center, the NH4000 and NH6300 horizontal machining centers, and the NT Series of multi-axis turning centers. Leveraging the center of gravity has enabled shorter machining times and better surface machining quality. For lathes, we've improved machining performance by focusing on speeding up the cutting time, which itself takes up 95% of the processing time. Our Chiba factory has developed the SuperMILLER 400, a versatile machining center combining milling performance from its heritage as a machining center with support for loading a variety of workpieces, to the CS2000 pickup center, designed to be faster while keeping the line slimmer. We've added Windows XP support to MAPPS, the control panel standardized among all the different MORI SEIKI machines. An array of software can be installed, such as VEGA™ Milling Edition for solid-model CAM. We've also strengthened our solutions teams for our users specializing in mass production of automotive parts and machining of dies and molds. Technical advisors serve as project coordinators to offer comprehensive support throughout all stages of the machine process: from orders to startup. Now more than ever, MORI SEIKI commands a substantial R&D workforce of 400 engineers in Nara, Iga, Chiba, and Nagoya, Japan and the U.S. after adding former Hitachi Seiki staff last September. Looking ahead to 2004, we're already well underway in developing new machines, and we'll be announcing several new models soon: the ND Series of dedicated machining centers for dies and molds (including the desktop version, ND1000); the NH Series of large-format horizontal machining centers; and the NX Series of multi-axis turning centers for desktop lines in machining mass-produced auto parts.

Kazuyuki HIRAMOTO

Managing Director and Executive Officer specializing in development of Development & Manufacturing HQ

Optimizing our company's total system and accomplish our business target

Hiroaki TAMAI

Director and Executive Officer of Administrative HQ

We oversee a spectrum of work at Mori Seiki's Administrative Headquarters-planning, accounting, personnel, general affairs, IT systems, purchasing, supply chain management, and marketing. This work involves transcending departmental boundaries in business operations for R&D, manufacturing, sales, and service so that we can optimize a coordinated workflow from materials procurement to product delivery, maximize throughput (contributions to profitability) and cashflow, cut inventory, and reduce overall expenses. In short, the administrative department targets company-wide optimization, and we fulfill our mission through a commitment to profitability. To come within ±10% of management objectives, this year our department must restore profitability in the following ways:

1. Confirming monthly accounts for each business unit swiftly and accurately
2. Organizing a work environment where each employee knows their individual role and fulfills detailed objectives
3. Putting in place the framework for marketing products and services that customers desire
4. Heeding customer opinions and building brand identity

Information of Business Unit

NL BU

The manufacture of Medium・Large CNC lathe

SL2500Y

The NL Business Unit develops and manufactures midsize and large NC lathes with standard chuck sizes from 6" to 24". Our production is focused on the SL and ZL Series, and we cover about 50 models. Several features in these Series have been attracting attention recently, and our leading models are highly efficient machining centers supporting milling, Y-axis work, and sub spindle work. Our primary objective in all production is to maintain our lead from the standpoints of quality, cost, and delivery. In 2003, we took a new look at our flagship SL Series for substantial enhancements. We introduced the NL Series as a strategic new product line drawing on concepts of the N Series (as represented by the NV5000 and NH5000), setting our sights on capturing the lead worldwide. The design remains faithful to previous models while incorporating new and innovative technology. We've added support for networking and advances in IT while ensuring energy-efficiency to produce machines that are profitable for our users.

Mitsuji MATSUMOTO

General Manager
of the NL Business Unit

MT BU

The manufacture of Multi-Axis Turning Center

We at the MT (Milling and Turning) Business Unit head MORI SEIKI's multi-axis turning center development and production from the Chiba facility, highlighted by the ZT Series, Super HiCELL Series, and MT Series. Over the past few years, we've focused on providing a product line of combined machining equipment that supports NC lathe and machining center functionality in a single unit. We've developed an array of products: the ZT Series, offering high productivity through process integration advantageous in volume manufacturing; the Super HiCELL Series, with highly flexible process integration useful in general machining; and the MT Series, which supports the dual goals of high productivity and advanced process integration. And this year, we developed the Super MILLER Series to supplement our product line. These multi-axis turning centers are positioned to achieve the world's greatest machining capacity in units with the smallest footprint ever for outstanding milling and contouring performance. We're looking ahead to expanding existing models while developing next-generation multi-axis turning centers that offer revolutionary cost-performance to support even greater profitability for our customers.

Hikaru ISHIGAKI

General Manager
of the MT Business Unit

MT1500S

MV BU

The manufacture of Vertical Machining Center

NV5000

Our MV Business Unit handles MORI SEIKI's design and production of vertical machining centers as well as manufacturing sheet metal. Our emphasis is on the NV5000, MV-653, and MV-1003. This March saw the launch of worldwide sales for the NV5000-a high-speed unit designed for exceptional precision and greater productivity-and this machine has won international acclaim. Here at the MV Business Unit, we've adopted a cell production system in which we assign individual workers to an entire process. This system has cut lead time over conventional production where workers oversee individual processes, giving us the framework to respond to production with prompt delivery requirements. In developing the NV Series from NV5000 design methods, our development department has also succeeded in establishing a development system leveraging digital design, eliminating reliance on prototypes. We've significantly cut the required development time so that products can be marketed promptly. Building on our track record and the confidence we inspired with the NV5000, the MV Business Unit is committed to maintaining our lead in quality, cost, and delivery so that the machines we produce support a new level of customer profitability.

Yasufumi TAKAI

General Manager
of the MV Business Unit

MH BU

The manufacture of Horizontal Machining Center

NH5000

Developing and manufacturing horizontal machining centers is our specialty at the MH Business Unit. We have designed strategic new products in the NH Series, drawing on advances in the NH5000 launched last year, and our new models are scheduled for release in December. Beyond meeting the obvious requirements of high-speed, highly accurate production, the NH Series sets new standards in better operating rates to boost productivity and secure greater profitability for our customers. Machines in the NH Series demonstrate exceptionally refined engineering in many ways: they support a range of peripheral equipment and systems; they are compatible with software, and many fixtures are available for them. We offer the NH Series with confidence that it will prove its competitive edge in the global marketplace.

Yoshiaki SUGIMOTO

General Manager
of the MH Business Unit

High Production BU

The manufacture of Small CNC lathe,and Small Machining Center

MORI SEIKI's High Production Business Unit designs and produces NC lathes and machining centers specialized for palm-sized workpieces. Our leading products are the CL2000 Series, RL-203, VL-25, ACCUMILL4000, TV-300 and 400, FM Series, and ULTIMILL Series. While developing each of these models to uphold consistent quality, we also emphasized high-speed productivity in their design, applying innovation to shave any extra second off their production time. The design stage involved repeated analysis with 3-D CAD and Critical Design Review to create prototypes with the best profiles for quality, cost, and delivery. At the same time, we're focusing efforts to establish a more eco-friendly and safety-conscious production framework. Future development by our business unit will target design and production of mass production equipment that withstands coolant and chips better and is more resistant to thermal displacement, as well as uploader set CNC lathes and machining centers with outstanding cost-performance.

Naoshi TAKAYAMA

General Manager
of the HP Business Unit

CL2000

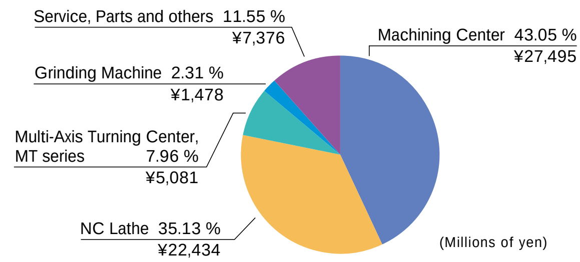
ACCUMILL 4000

Sales by The Section

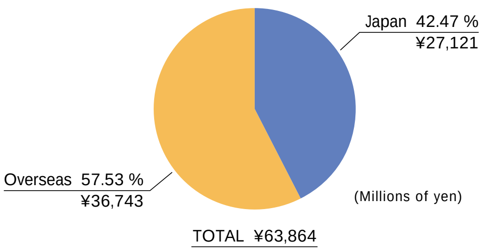
Sales by The BU

	Millions of yen	Rate
HP BU	14,771	23.13 %
MV BU	11,845	18.55 %
MH BU	10,770	16.86 %
NL BU	8,569	13.42 %
MT BU	5,838	9.14 %
S&P BU	5,378	8.42 %
MORI SEIKI HITECH	3,515	5.50 %
TAIYO KOKI	1,742	2.73 %
OTHER	1,436	2.25 %
TOTAL	63,864	100.00 %

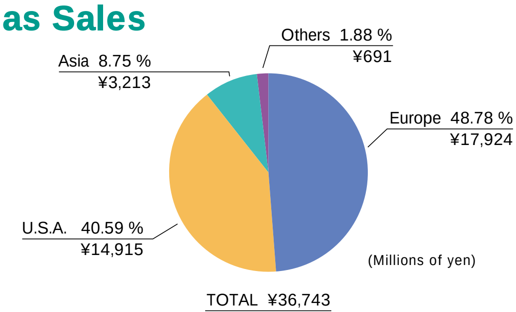
Sales by The Product



Sales of Domestic and Overseas



Overseas Sales



MORI SEIKI Group

Domestic consolidated subsidiaries

MORI SEIKI HITECH CO., LTD.
TAIYO KOKI CO., LTD.
MORI SEIKI TECHNO, LTD.
MORI SEIKI PRECISION, LTD.
MORI SEIKI FIXTURE LABORATORY, LTD.
MORI SEIKI HIGH PRECISION MACHINING LABORATORY, LTD.
MORI SEIKI MACHINE SALES, LTD.

Affiliates

UNITED MANUFACTURING SOLUTIONS LTD.

Overseas

MORI SEIKI U.S.A., INC.
MORI SEIKI GmbH
MORI SEIKI (UK) LTD.
MORI SEIKI FRANCE S.A.
MORI SEIKI ITALIANA S.R.L.
MORI SEIKI ESPAÑA S.A.
MORI SEIKI SINGAPORE PTE LTD.
MORI SEIKI (TAIWAN) CO., LTD.
MORI SEIKI BRASIL LTDA.
MORI SEIKI HONG KONG LTD.
MORI SEIKI MEXICO,S.A. DE C.V.
MORI SEIKI (THAILAND) CO., LTD.
MORI SEIKI (SHANGHAI) CO., LTD.
MORI SEIKI KOREA CO., LTD.
DTL MORI SEIKI, INC.
MORI SEIKI MÜNCHEN GmbH
PT. MORI SEIKI INDONESIA
MORI SEIKI AUSTRALIA PTY LTD.

Asian Territory

MORI SEIKI is expanding sales programs in our Asia and Oceana territories. Last year, we moved beyond Taiwan, Singapore, Shanghai, and Hong Kong into Korea, and in 2003 we've established affiliates in Indonesia and Australia. To expand our sales force in China, we set up affiliates in Beijing, Tianjin, Shenzhen, Dongguan, and Chongqing. This empowers us with more than local management and service: now we can maintain parts inventories and conduct sales in these areas. We're firmly committed to cutting any downtime users experience with existing machines. We expect sustained growth in orders from the Asian market-not just from Japanese affiliates but from locally established companies as well-and MORI SEIKI sales are surging here. We've put into practice a meticulous sales program that goes beyond adequate pre-sales and after-sales service to penetrate the user market.

Koji OKURA
Director and Executive Officer of Sales & Marketing HQ Asia Business Unit

American Territory

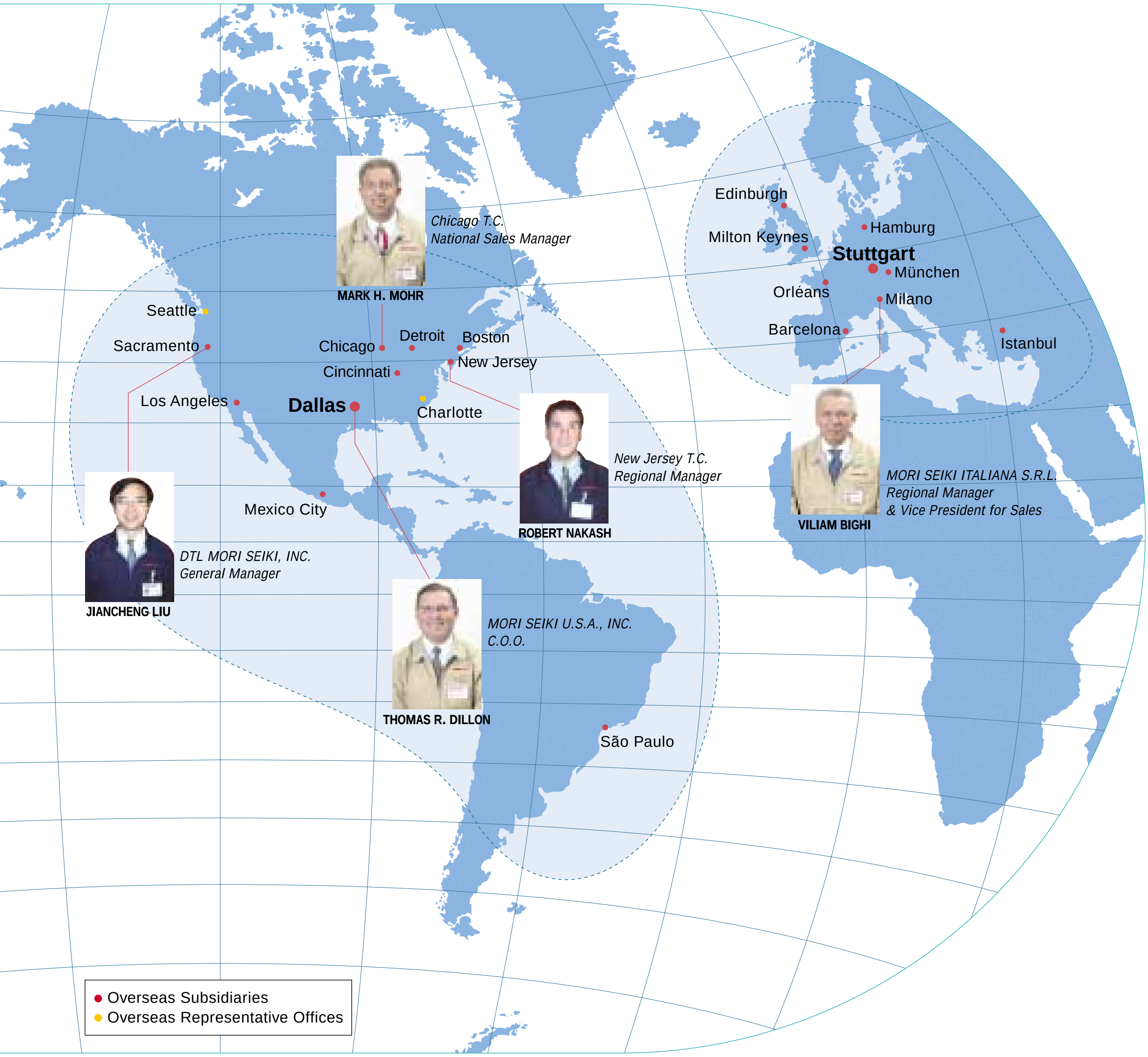
Users throughout the Americas can take advantage of the support network of dealers MORI SEIKI has established here. For even greater market expansion, we've scheduled the deployment of a new sales system complementing the dealers and in line with existing customer expectations. From the standpoint of support, this year we have taken our Extended Service Support to a new level by offering 24-7 support. Our success rate for delivering parts within 24 hours is better than 95%, and to push this figure even higher, we're practicing more effective methods for inventory control. We have been studying the trend of Japanese businesses expansion in the U.S., and we've dispatched MORI SEIKI sales engineers to provide support and strengthen sales during their business development. In this sales effort, we've also dispatched strategic sales engineers to focus on serving leading corporations here. Looking ahead, we anticipate working from within a new framework to target the peak renewal of facilities purchases expected around 2005.

Yasunori HAMABE
Director and General Manager of Sales & Marketing HQ America Business Unit

European Territory

MORI SEIKI commands a leading market share in Italy, the U.K., and Switzerland. We've established a sales and technical support system that can respond to direct competition from European manufacturers. One way we've done this is to set up MORI SEIKI Europe as our headquarters within MORI SEIKI GmbH to coordinate management, sales, and service for our European territory. Currently, we're involved with organizing our sales network for the German market to enable direct sales to Southern Germany and, from 2004, to Northern Germany as well. Meanwhile, construction is underway in Paris for our European demo center within the France T.C. We're moving ahead with ensuring consistent sales from countries neighboring Germany and expanding operations into new EU members in Central and Eastern Europe. When MORI SEIKI's market share here doubles as expected in three years, prospects are good for a 10-billion yen market in Germany alone.

Takeshi SAITO
Managing Director and General Manager of Sales & Marketing HQ Europe Business Unit



Eco-Policy

Treat resources and energy with importance.

The use of resources such as electrical power and paper, and the use of fossil fuel energy such as heavy oil, will be reduced. Also, the recycling and reduction of waste will be promoted.

Manufacture products that are environmentally friendly.

We promote the product development that consumes less energy, fewer natural resources, and provides a longer life time. We offer environmentally friendly products by improving our product recycling rate and reducing product noise.

Increase the awareness of employees of environment preservation.

To increase awareness and to practice environment preservation activities, all employees will be educated and trained. Also, all related companies are requested to do the same.

Environmental goals will be set and appraised periodically.

Environmental goals and results will be checked periodically and efforts will be made for continued improvements in environment management.

Cooperate with environmental policies as a member of society.

Laws on environment and other related matters will be maintained. Also, our own management standards will set and strive for satisfactory environment preservation activities.

The upmost will be done to make available any information on environment preservation.

President & Representative Director

We are working together as a whole company to preserve environment.

MORI SEIKI, Environmental Management Committee.

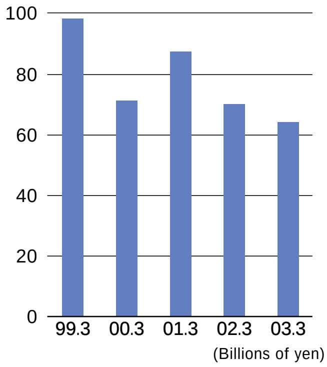
Financial Section

Consolidated Financial Highlights

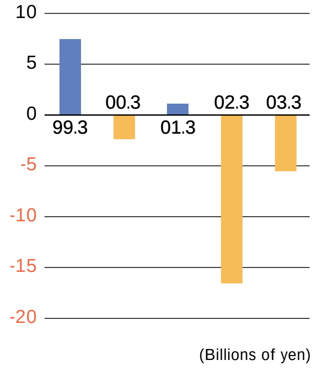
Years ended 31st March, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
For the year :			
Net sales	¥ 63,864	¥ 69,656	$ 531,314
Net loss	(5,555)	(16,607)	(46,215)
Per share amounts (Yen and U.S. dollars)			
Net loss :			
Basic	¥ (61.96)	¥ (178.93)	$ (0.52)
Diluted	–	–	–
Net assets	975.50	1,039.22	8.12
Cash dividends	5.00	5.00	0.04
At the year end :			
Total assets	¥ 115,123	¥ 113,415	$ 957,762
Shareholders' equity	86,875	93,551	722,753

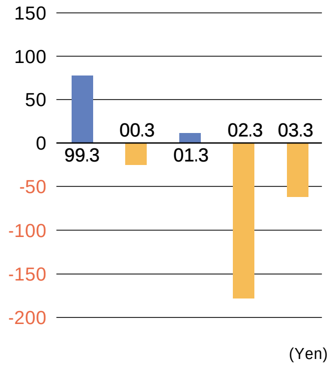
Sales



Net (loss) income



Net (loss) income per share

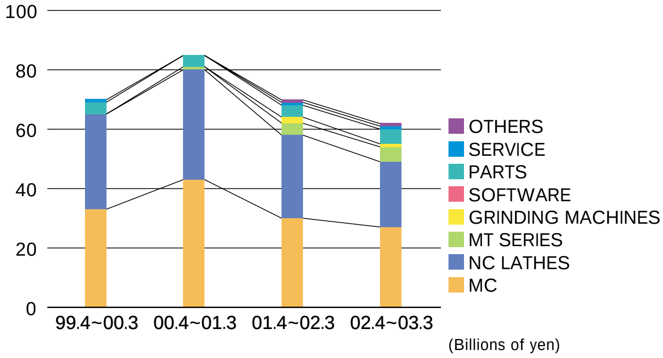


The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at the rate of ¥120.20 = U.S.$1.00, the exchange rate prevailing on 31st March, 2003.

Sales

Fiscal Year	MC	NC LATHES	MT SERIES	GRINDING MACHINES	SOFTWARE	PARTS	SERVICE	OTHERS	TOTAL
1999.4.1~ 2000.3.31	33,065	32,451	296	–	43	4,216	721	86	70,878
	46.6 %	45.8 %	0.4 %	–	0.1 %	6.0 %	1.0 %	0.1 %	100.0 %
2000.4.1~ 2001.3.31	42,820	37,066	1,489	–	61	4,397	933	112	86,878
	49.3 %	42.7 %	1.7 %	–	0.1 %	5.0 %	1.1 %	0.1 %	100.0 %
2001.4.1~ 2002.3.31	29,699	28,179	3,884	1,940	62	4,041	1,053	798	69,656
	42.6 %	40.5 %	5.6 %	2.8 %	0.1 %	5.8 %	1.5 %	1.1 %	100.0 %
2002.4.1~ 2003.3.31	27,494	22,434	5,081	1,478	55	5,205	1,224	893	63,864
	43.1 %	35.1 %	8.0 %	2.3 %	0.1 %	8.1 %	1.9 %	1.4 %	100.0 %

(Millions of yen)

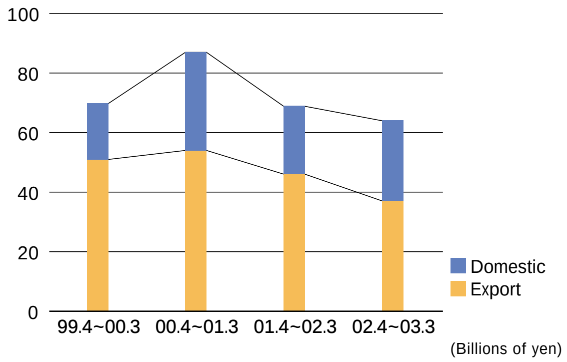


Overseas Sales

Fiscal Year	TOTAL
1999.4.1~2000.3.31	51,425
	72.6 %
2000.4.1~2001.3.31	54,081
	62.2 %
2001.4.1~2002.3.31	46,463
	66.7 %
2002.4.1~2003.3.31	36,743
	57.5 %

(Millions of yen)

•Each amount above has been included in net sales.
•Each percentage above has been calculated based on the net sales for the respective fiscal years.



Depreciation and Investments in Plant and Equipment

Fiscal Year	Depreciation	Net (loss) income	Investments
1998.4~1999.3	5,405	7,446	10,309
1999.4~2000.3	6,092	(2,436)	6,158
2000.4~2001.3	5,795	1,119	5,690
2001.4~2002.3	5,679	(16,607)	5,226
2002.4~2003.3	5,114	(5,555)	4,862

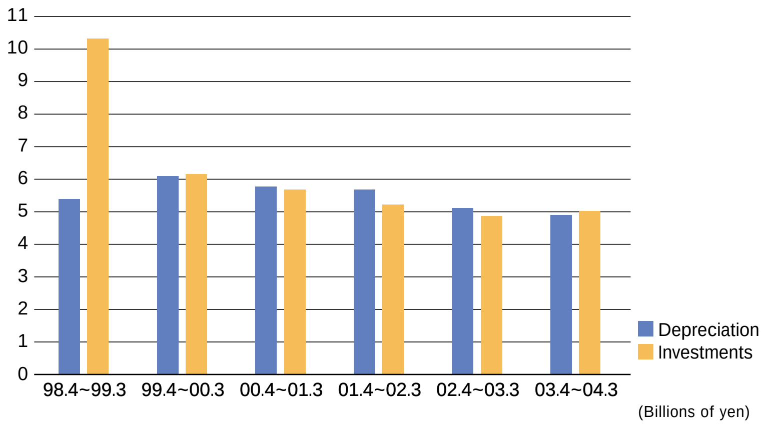
(Millions of yen)

Estimate

2003.4~2004.3	4,900	900	5,000

(Millions of yen)

•MORI SEIKI CO., LTD.'s investments in fixed assets over the past five years totaled approximately ¥32,245 million.



Five-year Summary

Fiscal Year	Millions of yen 2002.4~2003.3	2001.4~2002.3	2000.4~2001.3	1999.4~2000.3	1998.4~1999.3	Thousands of U.S. dollars 2002.4~2003.3
Net sales	¥ 63,864	¥ 69,656	¥ 86,878	¥ 70,878	¥ 97,754	$531,314
Net (loss) income	(5,555)	(16,607)	1,119	(2,436)	7,446	(46,215)
Ratio of net (loss) income to sales	(8.7%)	(23.8%)	1.3%	(3.4%)	7.6%	(8.7%)
Selling, general and administrative expenses	22,755	19,492	18,247	17,260	18,024	189,309
Cash dividends	445	450	663	577	962	3,702
Total assets	115,123	113,415	146,091	150,071	173,918	957,762
Shareholders' equity	86,875	93,551	125,171	131,467	134,802	722,753
Property, plant and equipment, net	56,977	59,575	73,333	75,038	75,723	474,018
Working capital	¥ 23,970	¥ 36,728	¥ 49,255	¥ 47,941	¥ 48,354	$199,417

Per share amounts (Yen and U.S. dollars) :

Net (loss) income	¥(61.96)	¥(178.93)	¥11.68	¥(25.32)	¥77.39	$(0.52)
Cash dividends	5.00	5.00	7.00	6.00	10.00	0.04

1. Net (loss) income per share is computed based upon the weighted average number of shares of common stock outstanding during each fiscal year as adjusted for free share distributions.

2. Cash dividends per share are those declared as applicable to each respective fiscal year and cash dividends charged to retained earnings are those actually paid.

3. The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at the rate of ¥120.20 = U.S.$1.00, the exchange rate prevailing on 31st March, 2003.

Consolidated Balance Sheets

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31st March,		31st March,
	2003	2002	2003
Current assets:			
Cash and deposits (Note 3)	¥ 8,453	¥ 13,515	$ 70,324
Notes and accounts receivable:			
Trade	17,398	13,192	144,742
Allowance for doubtful receivables	(107)	(136)	(890)
Notes and accounts receivable, net	17,291	13,056	143,852
Inventories (Note 4)	21,944	16,426	182,562
Deferred income taxes (Note 8)	272	354	2,263
Other current assets	1,670	1,467	13,894
Total current assets	49,630	44,818	412,895
Property, plant and equipment:			
Land (Note 16)	20,656	20,619	171,847
Buildings and structures	60,360	59,466	502,163
Machinery and equipment	37,638	41,036	313,128
Construction in progress	829	128	6,897
	119,483	121,249	994,035
Accumulated depreciation	(62,506)	(61,674)	(520,017)
Property, plant and equipment, net	56,977	59,575	474,018
Investments and other assets:			
Investments in securities:			
Unconsolidated subsidiaries and an affiliates	174	230	1,447
Other (Note 5)	4,722	6,471	39,286
Total investments in securities	4,896	6,701	40,733
Deferred income taxes (Note 8)	70	675	582
Other assets:			
Goodwill	2,000	–	16,639
Other	1,550	2,307	12,895
Allowance for doubtful receivables	–	(661)	–
Other assets, net	3,550	1,646	29,534
Total investments and other assets	8,516	9,022	70,849
Total assets:	¥115,123	¥113,415	$957,762

See accompanying Notes to Consolidated Financial Statements.

Liabilities, Minority Interests and Shareholders' Equity

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31st March,		31st March,
	2003	2002	2003
Current liabilities:			
Short-term bank loans (Note 7)	¥ 7,000	¥ –	$ 58,236
Current portion of long-term debt (Note 7)	5,159	84	42,920
Notes and accounts payable	5,733	3,136	47,696
Accrued income taxes	359	393	2,987
Accrued expenses	2,042	1,333	16,988
Deferred income taxes (Note 8)	253	115	2,105
Other current liabilities	5,114	3,029	42,546
Total current liabilities	25,660	8,090	213,478
Long-term liabilities:			
Long-term debt (Note 7)	376	7,345	3,128
Accrued retirement benefits (Note 6)	–	2,538	–
Deferred income taxes (Note 8)	368	–	3,062
Deferred income taxes on reserve for land revaluation (Note 8)	1,824	1,866	15,174
Other long-term liabilities	–	1	–
Total long-term liabilities	2,568	11,750	21,364
Minority Interests	20	24	167
Contingent liabilities (Note 11)			
Shareholders' equity (Notes 9 and 17):			
Common stock:			
Authorized – 157,550,000 shares – 31st March, 2003 and 2002			
Issued – 94,775,427 shares – 31st March, 2003 and 2002	28,191	28,191	234,534
Capital surplus	40,931	40,931	340,524
Reserve for land revaluation (Note 16)	(13,576)	(13,617)	(112,945)
Retained earnings	37,920	43,920	315,474
Net unrealized holding gain(loss) on securities (Note 5)	42	(15)	349
Translation adjustments	(1,605)	(1,546)	(13,353)
Treasury stock, at cost ; 5,718,088 shares – 31st March, 2003 4,755,008 shares – 31st March, 2002	(5,028)	(4,313)	(41,830)
Total shareholders' equity	86,875	93,551	722,753
Total liabilities, minority interests and shareholders' equity	¥115,123	¥113,415	$957,762

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Year ended 31st March,		Year ended 31st March,
	2003	2002	2003
Net sales	¥ 63,864	¥ 69,656	$531,314
Cost of sales	45,122	53,364	375,391
Gross profit	18,742	16,292	155,923
Selling, general and administrative expenses (Note 10)	22,755	19,492	189,309
Operating loss	(4,013)	(3,200)	(33,386)
Other income (expenses):			
Interest and dividend income	80	100	666
Interest expense	(117)	(69)	(973)
Loss on devaluation of investments in securities	(1,214)	(7,205)	(10,101)
Foreign exchange gain	528	44	4,393
Loss on disposition and valuation of inventories	–	(5,574)	–
Gain on change in retirement benefit plan	517	–	4,301
Other, net	(313)	(92)	(2,604)
Loss before income taxes and minority interests	(4,532)	(15,996)	(37,704)
Income taxes (Note 8):			
Current	67	562	557
Refund	(198)	–	(1,647)
Deferred	1,147	59	9,542
Minority interests in net (income) loss of consolidated subsidiaries	(7)	10	(59)
Net loss	¥ (5,555)	¥(16,607)	$ (46,215)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

	Number of shares of common stock	Millions of yen						
		Common stock	Capital surplus	Reserve for land revaluation (Note 16)	Retained earnings	Net unrealized holding gain (loss) on securities (Note 5)	Translation adjust-ments	Treasury stock
Balance at 31st March, 2001	94,775,427	¥28,191	¥40,931	¥ –	¥61,229	¥(2,234)	¥(2,942)	¥ (4)
Net loss	–	–	–	–	(16,607)	–	–	–
Cash dividends	–	–	–	–	(663)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	–	(39)	–	–	–
Reserve for land revaluation	–	–	–	(13,617)	–	–	–	–
Net unrealized holding gain on securities	–	–	–	–	–	2,219	–	–
Translation adjustments	–	–	–	–	–	–	1,396	–
Treasury stock – acquired	–	–	–	–	–	–	–	(4,320)
Treasury stock – sold	–	–	–	–	–	–	–	11
Balance at 31st March, 2002	94,775,427	28,191	40,931	(13,617)	43,920	(15)	(1,546)	(4,313)
Net loss	–	–	–	–	(5,555)	–	–	–
Cash dividends	–	–	–	–	(450)	–	–	–
Adjustment resulting from initial inclusion of subsidiaries in consolidation	–	–	–	–	5	–	–	–
Reserve for land revaluation	–	–	–	41	–	–	–	–
Net unrealized holding gain on securities	–	–	–	–	–	57	–	–
Translation adjustments	–	–	–	–	–	–	(59)	–
Treasury stock – acquired	–	–	–	–	–	–	–	(715)
Treasury stock – sold	–	–	–	–	–	–	–	–
Balance at 31st March, 2003	94,775,427	¥28,191	¥40,931	¥(13,576)	¥37,920	¥ 42	¥(1,605)	¥(5,028)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Reserve for land revaluation (Note 16)	Retained earnings	Net unrealized holding gain (loss) on securities (Note 5)	Translation adjust-ments	Treasury stock
Balance at 31st March, 2001	$234,534	$340,524	$ –	$509,392	$(18,586)	$(24,476)	$ (42)
Net loss	–	–	–	(138,161)	–	–	–
Cash dividends	–	–	–	(5,516)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(324)	–	–	–
Reserve for land revaluation	–	–	(113,286)	–	–	–	–
Net unrealized holding gain on securities	–	–	–	–	18,461	–	–
Translation adjustments	–	–	–	–	–	11,614	–
Treasury stock – acquired	–	–	–	–	–	–	(35,940)
Treasury stock – sold	–	–	–	–	–	–	100
Balance at 31st March, 2002	234,534	340,524	(113,286)	365,391	(125)	(12,862)	(35,882)
Net loss	–	–	–	(46,215)	–	–	–
Cash dividends	–	–	–	(3,744)	–	–	–
Adjustment resulting from initial inclusion of subsidiaries in consolidation	–	–	–	42	–	–	–
Reserve for land revaluation	–	–	341	–	–	–	–
Net unrealized holding gain on securities	–	–	–	–	474	–	–
Translation adjustments	–	–	–	–	–	(491)	–
Treasury stock – acquired	–	–	–	–	–	–	(5,948)
Treasury stock – sold	–	–	–	–	–	–	–
Balance at 31st March, 2003	$234,534	$340,524	$(112,945)	$315,474	$ 349	$(13,353)	$(41,830)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Year ended 31st March,		Year ended 31st March,
	2003	2002	2003
Operating activities:			
Loss before income taxes and minority interests	¥(4,532)	¥(15,996)	$(37,704)
Adjustments to reconcile loss before income taxes and minority interests to net cash (used in) provided by operating activities:			
Depreciation and amortization	5,114	5,679	42,546
Loss on devaluation of investments in securities	1,214	7,205	10,101
Decrease in allowance for doubtful receivables	(702)	(112)	(5,840)
(Increase) decrease in retirement allowances	(2,538)	159	(21,115)
Increase (decrease) in accrued bonuses	547	(250)	4,551
Interest and dividend income	(80)	(100)	(666)
Interest expense	117	69	973
Unrealized exchange gain	(380)	(836)	(3,161)
Changes in operating assets and liabilities:			
Notes and accounts receivable	(3,495)	7,630	(29,077)
Inventories	(4,676)	15,293	(38,902)
Accounts payable	2,567	(4,423)	21,356
Bonuses to directors and statutory auditors	–	(39)	–
Other, net	3,151	159	26,214
Subtotal	(3,693)	14,438	(30,724)
Interest and dividend income received	79	100	657
Interest paid	(117)	(69)	(973)
Income taxes paid	(23)	(633)	(191)
Net cash (used in) provided by operating activities	(3,754)	13,836	(31,231)
Investing activities:			
Purchases of property, plant and equipment	(3,103)	(2,137)	(25,815)
Proceeds from sales of property, plant and equipment	28	20	233
Purchase of investments in securities	(537)	(927)	(4,468)
Proceeds from sales of investment securities	1,164	–	9,685
Purchase of investments in a subsidiary and affiliates	(40)	(17)	(333)
Purchase of other assets	(337)	(482)	(2,804)
Acquisition of businesses	(2,450)	–	(20,383)
Other, net	(103)	(6)	(857)
Net cash used in investing activities	(5,378)	(3,549)	(44,742)
Financing activities:			
Decrease (increase) in short-term bank loans	7,000	(174)	58,236
Proceeds from long-term debt	–	801	–
Repayment of long-term debt	(1,922)	(936)	(15,990)
Purchases of treasury stock	(715)	(4,320)	(5,948)
Cash dividends	(450)	(663)	(3,744)
Other, net	45	8	374
Net cash (used in) provided by financing activities	3,958	(5,284)	32,928
Effect of exchange rate changes on cash and cash equivalents	(50)	(59)	(416)
(Decrease) increase in cash and cash equivalents	(5,224)	4,944	(43,461)
Cash and cash equivalents at beginning of year	13,512	8,444	112,412
Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	93	124	774
Cash and cash equivalents at end of year (Note 3)	¥ 8,381	¥ 13,512	$ 69,725

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements 31st March, 2003

1. Basis of Presentation

ⓐ MORI SEIKI CO., LTD. (the "Company"), and its domestic consolidated subsidiaries maintain their accounts and records in accordance with accounting principles and practices generally accepted and applied in Japan. Its foreign consolidated subsidiaries maintain their accounts and records in conformity with the requirements of their countries of domicile.
The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and have been compiled from those prepared by the Company as required by the Securities and Exchange Law of Japan.
In preparing the accompanying financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.
The accompanying U.S. dollar financial statements have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at the rate of ¥120.20 = U.S.$1.00, the exchange rate prevailing on 31st March, 2003. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

ⓑ Certain reclassifications of previously reported amounts have been made to the consolidated financial statements for the year ended 31st March, 2002 to conform them to the 2003 presentation. These reclassifications had no effect on consolidated net loss or shareholders' equity.

2. Summary of Significant Accounting Policies

(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted either through majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.
The financial statements of one consolidated subsidiary whose fiscal year end is 31st December have been included in consolidation on the basis of a full fiscal year closing on 31st March for consolidation purposes.
All assets and liabilities of the subsidiaries are revaluated on acquisition, if applicable, and the excess of cost over the underlying net assets at each respective date of acquisition is amortized over a period of five years on a straight-line basis.

(2) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen amounts at the fiscal year-end rates. Gains or losses resulting from such translation adjustments are credited or charged to income as incurred. The balance sheet accounts of the foreign consolidated subsidiaries have been translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of shareholders' equity, which have been translated at their historical rates. The differences resulting from such translations are presented as components of shareholders' equity and minority interests. Revenues, expenses and cash flows are translated at the average rates for the year.

(3) Cash and cash equivalents

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

(4) Inventories

Merchandise, finished goods and work-in-process at the Company and its domestic consolidated subsidiaries are stated at cost determined principally by the average method and those at the foreign consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the first-in, first-out method.
Raw materials are stated at cost determined by the moving average method. Supplies are stated at cost determined by the last purchase price method.

(5) Property, plant and equipment

Depreciation of property, plant and equipment of the Company and the domestic consolidated subsidiaries, except for buildings acquired on or subsequent to 1st April, 1998, is calculated by the declining-balance method over the useful lives of the respective assets. Depreciation of buildings of the Company and the domestic consolidated subsidiaries acquired on or subsequent to 1st April, 1998 is calculated by the straight-line method. Depreciation of property, plant and equipment of the foreign consolidated subsidiaries is calculated by the straight-line method.
The useful lives of property, plant and equipment are summarized as follows :

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

(6) Leases

Non-cancelable lease transactions of the Company and the domestic consolidated subsidiaries are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases, except that leases which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.
Leases other than operating leases of the foreign subsidiaries are accounted for as finance leases.

(7) Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates are stated at cost determined by the moving average method.

(8) Investments in securities

Other securities with determinable market value are stated at market value. Unrealized holding gain or loss is accounted for as a component of shareholders' equity. Cost of securities sold is determined by the moving average method.
Other securities without determinable market value are stated at cost determined by the moving average method.

(9) Retirement benefits

Up to the year ended 31st March, 2002, to provide for the payment of retirement benefits and pension plan payments to employees, the Company had recorded a reserve equivalent to the amount recognized as necessary at the end of the period under review based on the estimated retirement benefit obligation and the fair value of the pension plan assets at the fiscal year end.
Actual gain and loss had been amortized in the years following the year in which the gain or loss was recognized by the straight-line method within a specific period (10 years) which falls within the average remaining years of service of the eligible employees'.
Effective 20th March, 2003, the Company dissolved the employee welfare pension fund plan and implemented an employees' defined contribution pension plan. The effect of this change in the Company's retirement benefit plan was accounted for under the accounting standard for change in retirement benefit plans.

(10) Income taxes

Provision has been made to reflect the interperiod allocation of income taxes arising from timing differences in the recognition of certain income and expenses for financial reporting and tax purposes.

(11) Derivatives

Derivatives are stated at fair value.

(12) Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the gain or loss on the underlying hedged item is recognized.

(13) Research and development costs and computer software

Research and development costs are charged to income when incurred. Expenditures relating to software developed for internal use are charged to income when incurred, unless these contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over the useful life of the software, which is generally 5 years.

(14) Goodwill

Goodwill is amortized by the straight-line method over a 5 year period.

3. Cash and Cash Equivalents

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in the balance sheets at 31st March, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash and deposits	¥8,453	¥13,515	$70,324
Time deposits with an original maturity in excess of 3 months Included in cash and deposits	(72)	(3)	(599)
Cash and cash equivalents at end of year	¥8,381	¥13,512	$69,725

During the year ended 31st March, 2002, the Company acquired shares of TAIYO KOKI CO., LTD. and included this company in consolidation. The assets and liabilities of TAIYO KOKI CO., LTD. when initially consolidated, the acquisition cost of the shares of TAIYO KOKI CO., LTD. and the Company's total expenditure to acquire these shares are summarized as follows:

	Millions of yen
Current assets	¥1,200
Non-current assets	552
Excess of cost over underlying net assets	443
Current liabilities	(1,792)
Long-term liabilities	(353)
Acquisition cost of shares	50
Cash and cash equivalents held by Taiyo Koki Co., Ltd.	(33)
The Company's expenditure to acquire shares	¥ 17

Effective 21st September, 2002, the Company's consolidated subsidiary, MORI SEIKI HITECH CO., LTD. (formerly by MORI SEIKI KOSAN CO., LTD.) acquired the business of Hitach Seiki Co., Ltd. for manufacturing and selling high precision machine tools and the business of Hitach Seiki Service Co., Ltd. for the related repairs and after-sales services. Consequently, assets increased on 21st September, 2002 as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 88	$ 732
Non-current assets	2,512	20,899
Total assets	¥2,600	$21,631

The difference of ¥150 million ($1,248 thousand) between the expenditure of ¥2,450 million ($20,383 thousand) to acquire the business and the above total assets of ¥2,600 million ($21,631 thousand) has been recorded as a component of other current liabilities at 31st March, 2003.

4. Inventories

Inventories at 31st March, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Merchandise	¥ 53	¥ 38	$ 441
Finished goods	13,018	10,270	108,303
Work in process	3,941	3,289	32,787
Raw materials and supplies	4,932	2,829	41,031
Total	¥21,944	¥16,426	$182,562

5. Securities

Marketable securities classified as other securities at 31st March, 2003 and 2002 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2003			2003		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
(1)Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥2,873	¥2,975	¥102	$23,902	$24,750	$849
Debt securities	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	2,873	2,975	102	23,902	24,750	849
(2)Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	1,756	1,724	(32)	14,609	14,343	(267)
Debt securities	–	–	–	–	–	–
Other	–	–	–	–	–	–
Subtotal	1,756	1,724	(32)	14,609	14,343	(267)
Total	¥4,629	¥4,699	¥ 70	$38,511	$39,093	$582

	Millions of yen		
	2002		
	Acquisition cost	Carrying value	Unrealized gain (loss)
(1)Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 167	¥ 177	¥ 10
Debt securities	–	–	–
Other	–	–	–
Subtotal	167	177	10
(2)Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	6,306	6,270	(36)
Debt securities	–	–	–
Other	–	–	–
Subtotal	6,306	6,270	(36)
Total	¥6,473	¥6,447	¥(26)

The Company and its subsidiaries recorded an impairment loss of ¥1,214 million ($10,101 thousand) on marketable equity securities included in other securities for the year ended 31st March, 2003. An impairment loss is recorded when the market value falls by 30% or more from the carrying value.

The carrying value of investments in non-marketable securities at 31st March, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Unlisted equity securities	¥23	¥23	$191

Sales of other securities for the years ended 31st March, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Proceeds	¥1,164	¥ –	$9,685
Aggregate gain	4	–	33
Aggregate loss	7	–	58

6. Retirement benefits

The following table sets forth the funded and accrued status of the plan, and the amounts recognized in the consolidated balance sheet at 31st March, 2002 for the Company's defined benefit plan, and the employees' welfare pension fund plan:

	Millions of yen
Retirement benefit obligation	¥(18,280)
Plan assets at fair value	14,299
Benefit obligation in excess of plan assets	(3,981)
Unrecognized actuarial loss	1,443
Accrued retirement benefits	¥ (2,538)

As mentioned in Note 2 (9), the Company dissolved the employees' welfare pension fund plan and implemented the employees' defined contribution pension plan effective 20th March, 2003. Under the accounting standard for change in retirement benefit plans, the effect is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Decrease in retirement benefit obligation	¥19,180	$159,567
Decrease in plan assets	(16,572)	(137,870)
Decrease in unrecognized actuarial loss	(1,292)	(10,749)
Decrease in accrued retirement benefits	¥ 1,316	$ 10,948

The components of retirement benefit expenses for the years ended 31st March, 2003 and 2002 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥924	¥ 929	$7,687
Interest cost	533	514	4,434
Expected return on plan assets	(139)	(204)	(1,156)
Net retirement benefit obligation at transition	–	–	–
Amortization of unrecognized actuarial loss	151	114	1,256
	1,469	1,353	12,221
Gain on change in a retirement benefit plan	(517)	–	(4,301)
Retirement benefit expenses	¥952	¥1,353	$7,920

The assumptions used in accounting for the above plans were as follows:

(1)Allocation method of estimated benefits: Straight-line method

(2)Discount rate: 3.0% at 31st March, 2002

(3)Expected rates of return on plan assets: 1.0% and 1.5% at 31st March, 2003 and 2002, respectively

(4)Number of years over which the actuarial differences are being expensed:

10 years (determined by the straight-line method over a period which falls within the average remaining years of service of the employees participating in the plans and amortized commencing the year following the year in which the gain or loss is recognized)

7. Short-term bank loans and long-term debt

The weighted average interest rate on short-term bank loans was 0.35% at 31st March, 2003.

For effective financing purposes, the Company concluded lines of credit agreements with three banks. The status of such commitment lines at 31st March, 2003 was as follows:

	Millions of yen	Thousands of U.S. dollars
Lines of credit	¥10,000	$83,194
Short-term loans	7,000	58,236
Remaining lines	¥ 3,000	$24,958

Long-term debt at 31st March, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
1.8 per cent. yen convertible bonds due 2004	¥ 743	¥ 743	$ 6,181
0.45 per cent. yen convertible bonds due 2004	4,332	6,143	36,040
Unsecured bank loans due through 2009	460	543	3,827
	5,535	7,429	46,048
Less current portion	5,159	84	42,920
	¥ 376	¥7,345	$ 3,128

The weighted-average interest rate on long-term unsecured bank loans was 2.75% at 31st March, 2003 and 2002.

The aggregate annual maturities of long-term debt subsequent to 31st March, 2003 are summarized as follows:

Years ending 31st March,	Millions of yen	Thousands of U.S. dollars
2004	¥5,159	$42,920
2005	84	699
2006	84	699
2007	84	699
2008	84	699
2009 and thereafter	40	332
	¥5,535	$46,048

The 1.8 per cent. yen convertible bonds due 2003 (convertible at ¥2,430 per share subject to adjustment under the terms of the bonds) can be repurchased at any time.

The 0.45 per cent. yen convertible bonds due 2003 (convertible at ¥2,409 per share subject to adjustment under the terms of the bonds) can be repurchased at any time.

8. Income taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which in the aggregate, resulted in a statutory tax rate of approximately 41.41% for the years ended 31st March, 2003 and 2002. Foreign subsidiaries are subject to the income tax regulations of the countries in which they operate.
The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at 31st March, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current			
Deferred tax assets (reflected in current assets):			
Accrued bonuses	¥ 540	¥ 225	$ 4,493
Inventories	120	269	998
Other	277	174	2,304
	937	668	7,795
Less valuation allowance	(602)	–	(5,008)
	335	668	2,787
Offset of deferred tax liabilities	(63)	(314)	(524)
Deferred tax assets, net	¥ 272	¥ 354	$ 2,263
Deferred tax liabilities (reflected in current liabilities):			
Undistributed earnings of foreign subsidiaries	¥ (203)	¥ (314)	$ (1,689)
Other	(113)	(115)	(940)
	(316)	(429)	(2,629)
Offset of deferred tax assets	63	314	524
Deferred tax liabilities, net	¥ (253)	¥ (115)	$ (2,105)
Non-current			
Deferred tax assets (reflected in investments and other assets):			
Accrued retirement benefits	¥ –	¥ 1,051	$ –
Allowance for doubtful receivables	–	59	–
Loss on devaluation of listed equity securities	2,321	2,984	19,309
Tax loss carryforwards	6,661	3,624	55,417
Unrealized holding loss on securities	–	11	–
Other	110	10	915
	9,092	7,739	75,641
Less, valuation allowance	(8,882)	(6,496)	(73,894)
	210	1,243	1,747
Offset of deferred tax liabilities	(140)	(568)	(11,647)
Deferred tax assets, net	¥ 70	¥ 675	$ 582
Deferred tax liabilities:			
Deferred capital gains on property	¥ (182)	¥ (144)	$ (1,514)
Reserve for depreciation for tax purposes	(135)	(255)	(1,123)
Unrealized holding gain on securities	(29)	–	(241)
Other	(162)	(169)	(1,348)
	(508)	(568)	(4,226)
Offset of deferred tax assets	140	568	1,164
Deferred tax liabilities, net	¥ (368)	¥ –	$ 3,062
Deferred tax liabilities on land revaluation(reflected in long-term liabilities):			
Deferred tax liabilities on reserve for land revaluation	¥ (1,824)	¥ (1,866)	$ (15,174)

In accordance with a law on amendments to local tax laws, etc. announced on 31st March, 2003, the Company and its domestic consolidated subsidiaries applied a statutory tax rate of 40.49% to the calculation of deferred tax assets and liabilities at 31st March, 2003, which are expected to be reversed on 1st April, 2004 and thereafter. The effect of this change in the statutory tax rate applied was to decrease non-current deferred tax assets (net of non-current deferred tax liabilities) and non-current deferred tax liabilities on reserve for land revaluation at 31st March, 2003 by ¥7 million ($58 thousand) and ¥41 million ($341 thousand), respectively, and to decrease income taxes-deferred for the year ended 31st March, 2003 by ¥7 million ($58 thousand), and to increase net unrealized holding gain on securities at 31st March, 2003 by ¥0 million ($5 thousand).

9. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of cash dividends paid and bonuses to directors and statutory auditors, and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital and the legal reserve equals 25% of stated capital. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to stated capital by resolution of the Board of Directors. The Code also provides that, to the extent that the sum of the additional paid-in capital and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. The Company's legal reserve, which is included in retained earnings, amounted to ¥2,650 million ($22,047 thousand) and ¥2,650 million at 31st March, 2003 and 2002, respectively.

Effective 1st April, 2002, the Company and its consolidated subsidiaries adopted a new accounting standard for treasury stock and reversal of legal reserves. The effect of the adoption of this standard on the consolidated results of their operations for the year ended 31st March, 2003 was immaterial.

In accordance with the revised regulations on consolidated financial statements, additional paid-in capital reported in shareholders' equity in the previous year has been presented as capital surplus at 31st March, 2002.

10. Research and Development Costs

Research and development costs for the years ended 31st March, 2003 and 2002 were as follows:

Millions of yen		Thousands of U.S. dollars
2003	2002	2003
¥3,238	¥3,012	$26,938

11. Contingent Liabilities

At 31st March, 2003, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of lease payments by customers	¥890	$7,404

12. Derivative Financial Instruments

To avoid the adverse effects resulting from the fluctuation in foreign currency exchange rates, the Company enters into forward foreign exchange contracts. The Company utilizes these derivatives as hedges to reduce the risk inherent to their assets and liabilities. These transactions are not likely to have a major impact on the performance of the Company. In addition, derivatives transactions are not entered into for speculative trading purposes in accordance with the internal guidelines established by the Company.

In accordance with the Company's internal policies on derivatives, the Finance Division of the Company is responsible for managing the market and credit risk relating to these transactions, and this division manages the position limits, credit limits and the status of all open derivatives positions subject to approval by the director responsible.

The Company employs hedge accounting for derivative transactions and hedges against the risk of fluctuation in foreign exchange rates within the scope of the needs arising from the actual underlying items hedged.

The fair value of the derivatives positions outstanding at 31st March, 2003 and 2002 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2003			2003		
Sell:	Contract value (Notional principal amount)	Estimated fair value	Unrealized gain (loss)	Contract value (Notional principal amount)	Estimated fair value	Unrealized gain (loss)
U.S. dollars	¥2,891	¥2,830	¥ 61	$24,051	$23,544	$507
Euro	2,350	2,452	(102)	19,551	20,399	(848)
Total	¥5,241	¥5,282	¥(41)	$43,602	$43,943	$(341)

	Millions of yen		
	2002		
Sell:	Contract value (Notional principal amount)	Estimated fair value	Unrealized loss
U.S. dollars	¥3,679	¥3,869	¥(190)
Euro	660	694	(34)
Pounds sterling	333	338	(5)
Total	¥4,672	¥4,901	¥(229)

13. Leases

(1) Finance leases

The following pro forma amounts present the acquisition costs, accumulated depreciation and net book value of property leased to the Company and its consolidated subsidiaries at 31st March, 2003 and 2002, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries (which are currently accounted for as operating leases) were capitalized:

	Millions of yen			Thousands of U.S. dollars		
	2003			2003		
Category:	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥2,320	¥332	¥1,989	$19,304	$2,759	$16,545
Tools and furniture	289	75	214	2,402	621	1,781
Software	8	8	0	70	69	1
Total	¥2,617	¥415	¥2,203	$21,776	$3,449	$18,327

	Millions of yen		
	2002		
Category:	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥785	¥ 59	¥726
Tools and furniture	133	108	25
Software	9	7	2
Total	¥927	¥174	¥753

Lease payments of the Company and its consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥347 million ($2,887 thousand) and ¥54 million for the years ended 31st March, 2003 and 2002, respectively.

Depreciation related to leased property of the Company and its consolidated subsidiaries is recognized by the straight-line method over the lease terms and amounted to ¥347 million ($2,887 thousand) and ¥54 million for the years ended 31st March, 2003 and 2002,respectively.

Future minimum payments (including the interest portion thereon) subsequent to 31st March, 2003 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2004	¥ 521	$ 4,334
2005 and thereafter	1,682	13,993
Total	¥2,203	$18,327

(2) Operating leases

Future minimum payments subsequent to 31st March, 2003 under operating leases were as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2004	¥34	$283
2005 and thereafter	17	141
Total	¥51	$424

14. Amounts per Share

Amounts per share at 31st March, 2003 and 2002 and for the years then ended were as follows:

	Yen		U.S. dollars
Amounts per share:	2003	2002	2003
Net assets	¥975.50	¥1,039.22	$8.12
Net loss	(61.96)	(178.93)	(0.52)
Cash dividends	5.00	5.00	0.04

Diluted net income per share for the years ended 31st March, 2003 and 2002 has not been presented because a net loss was recorded for those years.

Until the year ended 31st March, 2002, basic net income (loss) per share was computed based on the net income (loss) reported in the consolidated statements of operations and the weighted average number of shares of common stock outstanding during each year, and diluted net income per share was computed based on the net income reported and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds. Amounts per share of net assets were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

In accordance with new accounting standards for earnings per share which became effective April 1, 2002, net loss per share for the year ended 31st March, 2003 was computed based on the net loss attributable to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and amounts per share of net assets at 31st March, 2003 was computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end. Amounts per share at 31st March, 2002 and for the year then ended computed by the new method were same as those computed by the previous method.

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

15. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of computerized numerically-controlled lathes, vertical-type and horizontal-type machining centers, and engine lathes produced in a wide variety of models to meet their customers' diverse needs.

As the machinery tool business segment recorded more than 90% of the total net sales of all business segments and of the absolute value of the total operating loss of the business segments which recorded operating loss for the years ended 31st March, 2003 and 2002, and of the total assets of all business segments at 31st March, 2003 and 2002, the disclosure of business segment information has been omitted.

The geographical segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2003 and 2002 is outlined as follows:

	Millions of yen						
	2003						
	Japan	U.S.A.	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥33,684	¥13,523	¥16,035	¥ 622	¥ 63,864	¥ –	¥ 63,864
Inter-group sales	25,638	567	401	290	26,896	(26,896)	–
Total sales	59,322	14,090	16,436	912	90,760	(26,896)	63,864
Operating expenses	61,799	14,953	16,946	1,070	94,768	(26,891)	67,877
Operating loss	(2,477)	(863)	(510)	(158)	(4,008)	(5)	(4,013)
Assets	¥97,686	¥12,706	¥15,802	¥1,369	¥127,563	¥(12,440)	¥115,123

	Thousands of U.S. dollars						
	2003						
	Japan	U.S.A.	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	$280,233	$112,504	$133,402	$ 5,175	$ 531,314	$ –	$531,314
Inter-group sales	213,295	4,717	3,336	2,413	223,761	(223,761)	–
Total sales	493,528	117,221	136,738	7,588	755,075	(223,761)	531,314
Operating expenses	514,135	124,401	140,981	8,902	788,419	(223,719)	564,700
Operating loss	(20,607)	(7,180)	(4,243)	(1,314)	(33,344)	(42)	(33,386)
Assets	$812,696	$105,707	$131,464	$11,389	$1,061,256	$ (103,494)	$957,762

	Millions of yen						
	2002						
	Japan	U.S.A.	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥28,217	¥21,959	¥18,893	¥ 587	¥ 69,656	¥ –	¥ 69,656
Inter-group sales	28,127	1,176	721	131	30,155	(30,155)	–
Total sales	56,344	23,135	19,614	718	99,811	(30,155)	69,656
Operating expenses	59,310	23,734	19,708	918	103,670	(30,814)	72,856
Operating loss	(2,966)	(599)	(94)	(200)	(3,859)	659	(3,200)
Assets	¥89,526	¥15,109	¥12,280	¥1,711	¥118,626	¥ (5,211)	¥113,415

Overseas sales, which include export sales of the Company and sales (other than exports to Japan) of the foreign consolidated subsidiaries, totaled ¥36,743 million ($305,682 thousand) and ¥46,463 million, or 57.5% and 66.7% of consolidated net sales for the years ended 31st March, 2003 and 2002, respectively.

16. Land Revaluation

Effective 31st March, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the applicable tax effect on revaluation gain, has been stated as a component of shareholders' equity under "Revaluation reserve for land." The applicable tax effect has been included in deferred tax liabilities-non-current. The fair value of the revalued land at 31st March, 2003 was less than its corresponding carrying value by ¥931 million ($7,745 thousand).

17. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2003, were approved at the annual meeting of the shareholders of the Company held on 27th June, 2003:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥5.00 ($0.04) per share	¥445	$3,702

Report of Independent Auditors on Consolidated Financial Statements

The Board of Directors
MORI SEIKI CO., LTD.

We have audited the accompanying consolidated balance sheets of MORI SEIKI CO., LTD. and consolidated subsidiaries as of 31st March, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of MORI SEIKI CO., LTD. and consolidated subsidiaries at 31st March, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Shin Nihon & Co.

Shin Nihon & Co.

Osaka, Japan
27th June, 2003

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of MORI SEIKI CO., LTD. and consolidated subsidiaries under Japanese accounting principles and practices.

MORI SEIKI

THE MACHINE TOOL COMPANY