MORI SEIKI

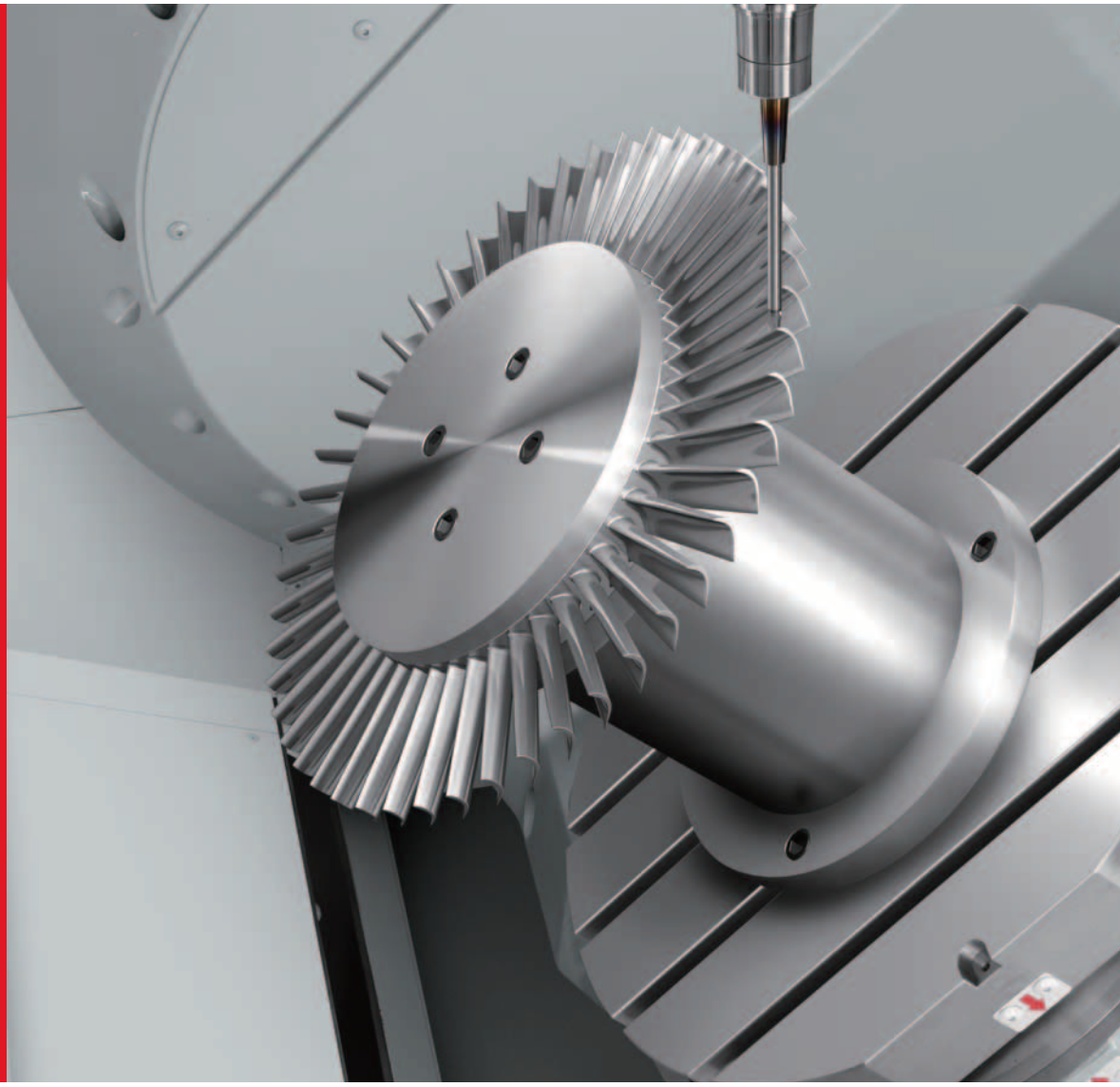
THE MACHINE TOOL COMPANY

ANNUAL REPORT 2007

FISCAL YEAR ENDED MARCH 31, 2007

Striving to become GLOBAL ONE

Striving to become **GLOBAL ONE**



■ Note concerning statements about the future, etc.

This material contains earnings estimates, plans, policies, business strategies, targets, forecasts, and perceptions and judgments about matters of fact concerning the future of Mori Seiki and the Mori Seiki Group. Its predictions, expectations, assumptions, plans, perceptions and judgments are based on information available to Mori Seiki at the time of writing. For this reason, there is a possibility that actual results may differ significantly from these forecasts. There are various risks or factors, such as facts which are not included here, or premises which may be objectively inaccurate, which may prevent these predictions from coming true. Among these, we are able to identify the major assumptions which we are currently making as listed below. (Please note, however, that the risks and factors are not limited to these.)

(1) The economic conditions in key markets (Japan, the Americas, Europe, Asia, etc.) (2) Sudden fluctuations in demand for investment in plant and equipment (3) Significant changes in the exchange rate against the yen of the U.S. dollar, the Euro, etc. (4) Significant changes in the cost of natural resources or raw materials (5) Future trends in Japan's relationships with the U.S.A. and with China (6) Changes in the international situation resulting from increased risk of terrorism, etc. (7) Damage from natural disasters such as hurricanes, earthquakes, etc.

Since its foundation in 1948, Mori Seiki has delivered more than 170,000 machines. We have achieved steady growth as a leading company in the machine tool industry, while supporting manufacturing by customers throughout the world. It is no exaggeration to describe the road that Mori Seiki has walked thus far as one of constant revolution and challenge. We have consistently set high standards and have generated numerous innovations by offering creative, cutting-edge technological development, customer-based service support and business processes for total quality, without being limited by existing methods and industry frameworks. Our next goal is to be the "Global One" machine tool manufacturer. To achieve this goal, we are creating a stable business model that is not contingent on the business environment. We are also releasing new products which are the fruits of Mori Seiki's many innovations, such as the NMV5000 DCG high-precision, 5-axis control vertical machining center, delivering new value for machine tools. As a general machine tool manufacturer, Mori Seiki will continue to support the starting point and the future of manufacturing. Watch us as we work towards our next challenge of becoming "Global One."

NMV5000 DCG

■ 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 in 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.

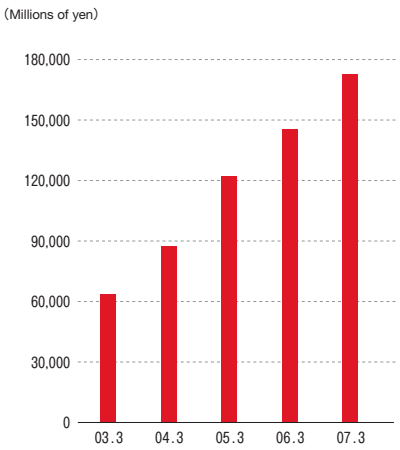
Consolidated Financial Highlights I

Fiscal Year Ended March 31, 2007

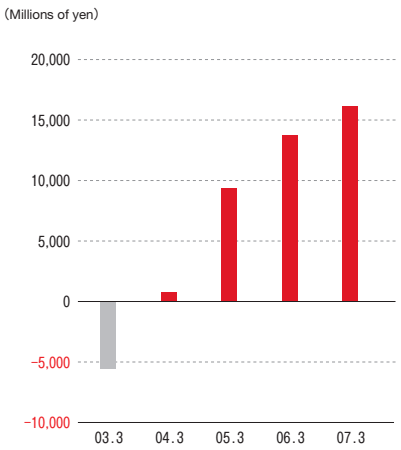
	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
For the year:			
Net sales	¥172,262	¥145,340	$ 1,458,735
Net income	16,194	13,802	137,133
Per share (Units: yen and U.S. dollars)			
Net income:			
Basic	¥ 174.78	¥ 153.62	$ 1.48
Diluted	166.12	150.31	1.41
Net assets	1,358.82	1,264.32	11.51
Cash dividends	44.00	40.00	0.37
At the year end:			
Total assets	¥169,034	¥162,779	$ 1,431,400
Net assets	131,036	116,347	1,109,629

The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥118.09 = U.S.$1.00, the exchange rate prevailing on 31st March, 2007.

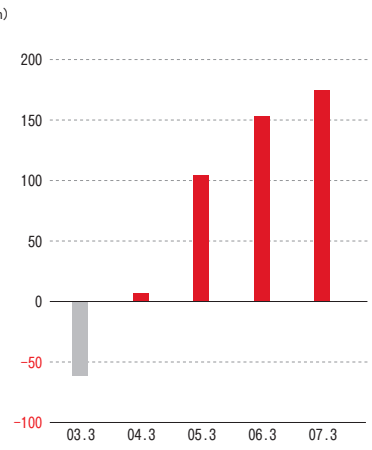
> Sales



> Net income (loss)

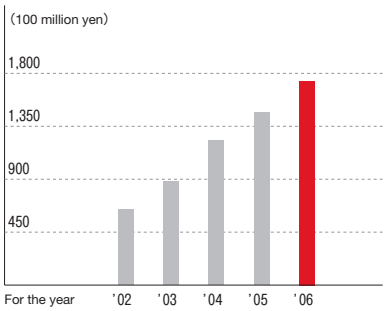


> Net income (loss) per share



Results Summary

Net sales

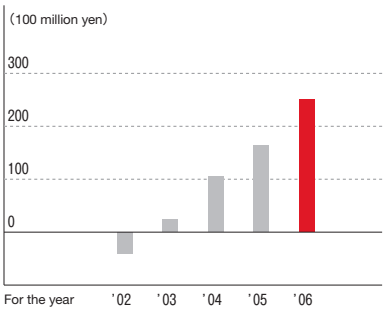


Compared with previous year

+18.5 %

172.3 billion yen

Operating income

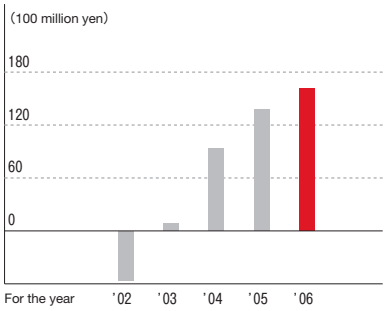


Compared with previous year

+53.7 %

25.0 billion yen

Net income

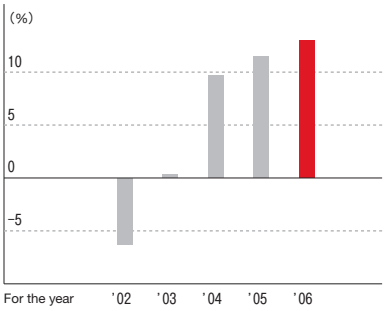


Compared with previous year

+17.3 %

16.2 billion yen

Return on equity

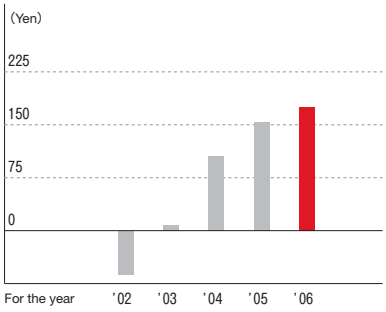


Compared with previous year

+0.5 %

12.4 %

Net income per share

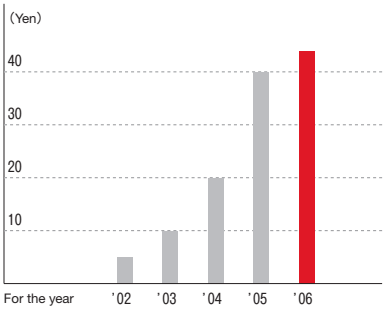


Compared with previous year

+13.8 %

174.78 yen

Cash dividends per share

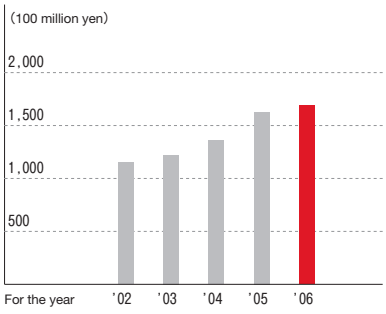


Compared with previous year

+4 yen

44 yen

Total assets

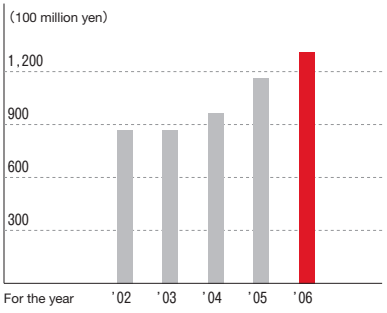


Compared with previous year

+3.8 %

169.0 billion yen

Shareholders' equity



Compared with previous year

+12.6 %

131.0 billion yen

Message from the President

To the Shareholders

Thank you very much for your continued support of Mori Seiki.

We are pleased to present the 59th Annual Report (from April 1, 2006 to March 31, 2007) of the Mori Seiki Group.

We manufacture machine tools, which are capital assets, and we are expanding our distribution throughout the world. It is a source of great satisfaction to us to be able to supply our customers with innovations in production efficiency and improvements in quality and accuracy through the use of Mori Seiki machine tools.

The Mori Seiki Group is promoting our medium-term management plan for the three-year period from FY 2005 to FY 2007, the Mori-568PLAN, which has as its basic policy "to make the 10 best companies in each industry our major customers, and to become Global One in the machine tool industry." The Mori-568PLAN commits us to three business targets: "Mori 5: Attain a 5% share of the world market," "Mori-6: Achieve a consolidated cost of sales ratio of 60%" and "Mori-8: Establish a system that produces a minimum of 800 machines per month."

FY 2005, the first year of the Mori-568PLAN, progressed satisfactorily, partly because of the favorable order environment and the advantage of the weak yen. These advantages continued in FY 2006, and we almost achieved our targets for the three years in only two.

In FY 2007, the final year of our 3-year plan, we will all do everything in our power to strengthen our corporate structure, so that we will be able to achieve our business targets without being dependent on the order environment or the exchange rate. We are also in the process of drawing up our next medium-term management plan, which will start from FY 2008.

As the Mori Seiki Group expands, we believe that it becomes even more important that we strengthen our management structure. Our goal is to increase customer satisfaction in all aspects of quality related to products and customers, from development and manufacturing to sales and service.

At our Development Departments, we carry out correction and prevention for problems which occur in the field, and conduct checks on every single one of our newly developed models and after design modifications. At the Manufacturing Departments, when errors are discovered, we make sure that we find out the real causes, even to the level of checking who the operators were. At our Service Centers in Iga and Chiba, which are the bases for all the service calls in Japan, we offer a customer support system 24 hours a day, 365 days a year. Through these efforts, we have extended our cost-free repair warranty from 1 year to 2 years for most parts since April this year.

We are greatly concerned about preventing the proliferation of weapons of mass destruction. As well as strictly enforcing our internal regulations to ensure that we comply with all export control laws, we have also established an Export Control Committee, which consists of Directors and which meets every month, and a permanent Export Control Section with specialist staff.

As a result of the enactment of the Financial Instruments and Exchange Law (the "J-SOX" Act, Japan's equivalent of the Sarbanes-Oxley Act), the assessment of companies' internal control systems for financial reporting will be mandatory from FY 2008. Since October 2005, the Mori Seiki Group has been constructing our internal control systems and steadily completing preparations, such as the documentation of our workflow processes, through a specialist team in the Internal Auditing Department.

Our policy for distribution of profits is to continue to invest in the development of pivotal new products and technologies, as well as consolidating our production equipment, in order to reinforce our competitive strength in the market, based on an overall judgment concerning our future business plan, business results and financial conditions. For FY 2006, in addition to the interim dividend of 20 yen per share which we introduced in FY 2005, we have increased the year-end dividend by 4 yen, for a full-year total of 44 yen per share. Also, since this fiscal year (FY 2007) represents the milestone of our 50th year of machine tool manufacture, we are hoping to issue an interim dividend of 25 yen and a full-year dividend of 50 yen.

Mori Seiki will continue to aim for growth in the future, so we look forward to continued support and guidance from you, the shareholders.

July 2007

Masahiko Mori
President Dr. Eng.

Outline of Business

Management policy

As a machine tool manufacturer, the Mori Seiki Group (“the Group”) has made “the supply of innovative, accurate and trouble-free machines at competitive prices” the mainstay of its management policy, and looks forward to “Global One” status in the fields of CNC lathes, machining centers, multi-axis machines and grinding machines.

Analysis of financial condition and management performance

1. Important accounting policies and estimates

The consolidated financial statements of the Group have been prepared based on accounting standards generally accepted as fair and reasonable in Japan and analyzed as follows with respect to the financial condition and management performance. Please note that all information in this document that refers to the future, including forecasts, estimates, prospects and policies, is based on judgments made by the Group as of July 2007, and since these references to the future involve uncertainties or risks, these figures could be substantially different from the eventual results.

2. Analysis of management performance in the current fiscal year

① Sales

Sales were 172.262 billion yen, an increase of 18.5% from FY 2005. The sales percentage distribution by region was 40.6% in Japan, 22.6% in the Americas, 27.2% in Europe and 9.6% in the Asia/Oceania area. The main factors that contributed to this increase were good demand for investment in plant and equipment in Japan and overseas, and the cultivation of new customers through our strengthened sales and service system.

② Cost of sales, selling, general and administrative expenses

Cost of sales increased to 102.312 billion yen (an increase of 13.7% from FY 2005), along with the increase in sales amount.

The ratio of sales to cost of sales dropped by 2.5 points to 59.4%, largely because there has been a significant increase in the proportion of sales of new products whose costs we have managed to reduce.

Selling, general and administrative expenses were 44.907 billion yen (an increase of 15% from FY 2005). The main reasons for this increase were the recording of the following items: salary/bonus of 11.185 billion yen (an increase of 12.0% from FY 2005), freight costs of 7.851 billion yen (an increase of 17.4% from FY 2005), and sales promotion costs of 4.634 billion yen (an increase of 39.0% from FY 2005). The ratio of selling, general and administrative expenses to sales dropped by 0.8 points to 26.1%.

③ Operating income

Operating income was 25.043 billion yen (an increase of 53.7% from FY 2005), mainly because of increased sales. A closer look at the operating income on a regional basis reveals that there were operating profits of 22.263 billion yen in Japan, 579 million yen in the Americas, 2.121 billion yen in Europe and 130 million yen in Asia and Oceania.

④ Other income and expenses
(non-operating profit and loss + extraordinary profit and loss)

Other income and expenses changed from 1.141 billion yen (net value) in the previous fiscal year to 5.640 billion yen (net value). The main items for this fiscal year were a foreign exchange loss of 340 million yen, service fees of 218 million yen, impairment of fixed assets of 4.209 billion yen and recording previous years' allowance for warranties of 657 million yen.

⑤ Current income taxes and deferred income taxes

Current income tax expense increased to 5.308 billion yen, from 1.146 billion yen in the previous fiscal year, and deferred income tax expense changed from 126 million yen in the previous year to negative 2.202 billion yen, as a result of reassessing the realizability of deferred tax assets.

As a result of these factors, net income for the current term was 16.194 billion yen (an increase of 17.3% from FY 2005).

3. Factors with a significant impact on management performance

As for the business environment of the Group, capital investment has increased in the automobile and general machinery, construction machinery, hydraulic equipment and semi-conductor industries, behind the strong operating performance of domestic companies. The demand for both replacement machines and new machines to strengthen plant and equipment has contributed to this increase.

Capital investment is progressing strongly in the aircraft, energy and general machinery industries in Europe, the aircraft and energy industries in North America and the automobile and general machinery industries in Asia. The outlook of demand for capital investment in plant and equipment in each region of the world is considered to have a significant impact on the operating performance of the Group.

4. Current strategic status and prospects

The Group is promoting our medium-term management plan, the Mori-568PLAN, for the three-year period from FY 2005 to FY 2007. The Mori-568PLAN has as its basic policy "to make the 10 best companies in each industry our major customers, and to become Global One in the machine tool industry," and commits us to three business targets: "Mori 5: Attain a 5% share of the world market," "Mori-6: Achieve a consolidated cost of sales ratio of 60%" and "Mori-8: Establish a system that produces a minimum of 800 machines per month." The second year of the Mori-568PLAN progressed satisfactorily because of the favorable order environment and the advantage of the weak yen. Hereafter, we plan to do everything in our power to strengthen our corporate structure, so that we will still be able to achieve our sales targets even with changes in the order environment or the foreign currency exchange rate.

5. Analysis of capital resources and fund liquidity

Looking at the financial condition of the Group, the cash flow from operating activities generated 23.495 billion yen, which is up 6.367 billion yen from the previous fiscal year's figure of 17.128 billion yen. This resulted mainly from an increase in income before income taxes and minority interests. Loss on impairment of fixed assets increased because of the sale of land and buildings used for our sales offices, and accounts payable rose because of increases in material purchases resulting from the increase in the number of units produced.

Cash flow attributable to investing activities was 8.083 billion yen, compared with 3.001 billion yen for the previous fiscal year. This is primarily due to purchases of tangible and intangible fixed assets, which were 8.386 billion yen, up 3.525 billion yen from the year before.

Looking at cash flow attributable to financing activities, there were expenditures of 16.989 billion yen, compared with income of 4.525 billion yen in the previous fiscal year. This resulted mainly from the repayment of long-term loans of 10.208 billion yen and payment of cash dividends of 5.529 billion yen.

As a result of the activities described above, and the influence of exchange rate fluctuations on the yen value of cash and cash equivalents owned by overseas subsidiaries, the balance of cash and cash equivalents is 29.959 billion yen, a decrease of 1.624 billion yen from the previous year's figure of 31.583 billion yen.

Future activities

The Group is promoting our medium-term management plan, the Mori-568PLAN, for the three-year period from FY 2005 to FY 2007. This has as its basic policy "to make the 10 best companies in each industry our major customers, and to become Global One in the machine tool industry," and commits us to the following three business targets:

① Mori-5: Attain a 5% share of the world market

This target calls for expanding our share of the world market to 5%. In order to do this, we have formed sales teams dedicated to individual industries and individual customers, and are cultivating new customers. We are also seriously addressing the demand from our existing customers for replacement machines. And we are looking to boost our sales activities in India, Russia, Central Europe (the Czech Republic, Hungary, Poland, Slovenia, etc.), and Mexico.

② Mori-6: Achieve a consolidated cost of sales ratio of 60%

In order to achieve a consolidated cost of sales ratio of 60%, we are conducting strict cost controls at the design stage, and promoting the in-house manufacture of parts and the use of more shared parts to reduce material costs. To increase the in-house production ratio, we have built the Casting Plant, Heat Treatment Plant and Sheet Metal Plant at the Iga Campus and the Machining Plant at the Chiba Campus. In addition, by raising the machine operating rate and shortening working hours, we are aiming to increase productivity by 50% per person.

③ Mori-8: Establish a system that produces a minimum of 800 machines per month

We are promoting innovations in production, such as cell production and the auto campsite system, and monthly production is currently steady at 600 units, but the market's demands for shorter delivery times are stricter than ever before.

To meet these requirements, we are investing 22 billion yen in plant and equipment over three years. Also, by strengthening our cooperation with our business partners, raising our procurement capability and reducing lead time, we are building a system which can respond quickly to changes in demand.

Prospects for the next term

The forecast for the business results for FY 2007 is as follows:

	Half Year	Full Year
Sales	94,000	188,000
Operating income	14,000	28,000
Ordinary income	14,000	28,000
Net income	8,400	16,800

(Millions of yen)

The above forecast takes into account the following points:

- We are assuming an average yen-U.S. dollar market rate of ¥117 = U.S. $1 and an average yen-Euro market rate of ¥151 = 1 Euro.
- We expect that our medium-term management plan, the Mori-568PLAN, which is being implemented over the three years from FY 2005 to FY 2007, will progress favorably in its third year.

Corporate Governance

Basic concept for corporate governance

In order to increase the transparency of management for shareholders, investors and society as a whole, including business partners, employees and local communities, and to ensure fair and effective corporate management, Mori Seiki has identified the reinforcement of its corporate governance and the strengthening of its management oversight functions as its top priorities. We will continue to improve our corporate value for long-term stability, and will endeavor to ensure that our business activities are rooted in an even greater sense of corporate ethics.

Details of company institutions and maintenance of an internal control system

① Basic explanation of company institutions

Mori Seiki has adopted an auditing system.

As of June 28, 2007, the Board of Directors consists of 15 Directors and the Board of Auditors consists of 5 statutory auditors, 3 of whom are external auditors.

The Board of Directors meets regularly and whenever necessary to debate important management issues, and to make decisions through lively discussions in which Directors state their opinions freely. Also, by making the term served by Board members one year, we have a system in which the mission and responsibilities of the Directors are made clear. Management Meetings, consisting of Directors and General Managers, are held every month, and important matters are reported and discussed. Also, in 2006 we established a management council, with the President as chairperson, to speed up the decision-making process and improve the soundness of our administration, strengthening the corporate governance of the whole Mori Seiki Group.

In recent years, international concern about measures to prevent the proliferation of weapons of mass destruction and the excess stockpiling of conventional weapons has been growing. To address this, the Mori Seiki Group has set up an Export Control Committee, with the President as chairperson, to monitor our Compliance Program. This committee reviews the content of and changes to the internal regulations to ensure compliance with export control laws, and conducts rigorous discussions on matters such as the propriety of exports of our products.

In 2005, as part of the establishment of our internal control system, we established an Information Disclosure Control Committee, with the Executive Officer of the Administrative HQ as its chairperson, which acts as an advisory body to decide rules for the disclosure of information, in order to improve the transparency and soundness of our management.

In accordance with the auditing policy, the auditors attend meetings of the Board of Directors, Management Meetings and other key meetings, where they express their opinions. In addition to this, they peruse documents about important decisions, and conduct strict audits of every department at the Head Office, as well as each Campus, Technical Center and consolidated Group company.

② Maintenance of an internal control system and risk management system

Mori Seiki continues to maintain the following systems, in accordance with the "Basic Policy on Internal Controls" which was decided by the Board of Directors:

- A system to ensure that the business conduct of Directors and employees conforms with all relevant laws and articles.
- A system for the storage and management of information concerning the business conduct of Directors.
- Regulations to manage risks of loss, and other systems
- A system to ensure that the Directors' business is conducted efficiently.
- A system to ensure that the corporate group conducts business in an appropriate manner.
- Matters for employees who were appointed by the auditors to assist their business.
- A system in which Directors and employees report to the auditors, and systems for other reports to the auditors.
- A system to ensure that other audits conducted by the auditors are carried out effectively.

③ Status of the internal audit and the audit conducted by statutory auditors

As part of our internal audit, we have set up an Internal Auditing Department with seven full-time staff, under the direct supervision of the President, which checks that the business operations of the whole Mori Seiki Group are conducted appropriately and effectively. Also, since October 2005 we have been constructing our internal control systems, in anticipation of the implementation of the Financial Instruments and Exchange Law (the "J-SOX" Act, Japan's equivalent of the Sarbanes-Oxley Act), and steadily completing preparations such as the documentation of our workflow processes.

In accordance with the policy decided by the board of auditors and the auditing plan, the auditors attend meetings of the Board of Directors, Management Meetings and other key meetings, and hear the status of execution of relevant work from the Directors, the Internal Auditing Department and others. They also peruse documents about important decisions, and examine the status of work and assets at every department at the Head Office, as well as each Campus, Technical Center and consolidated Group company.

The auditors provide guidance for and auditing of the directors concerning corporate governance, compliance, risk management and overall business management.

The auditors and the Internal Auditing Department cooperate closely, and the Internal Auditing Department provides the auditors with regular reports about the status of internal controls.

④ The relationship with directors from outside the company and external auditors

No directors from outside the company have been appointed. The external auditors have no special financial interests in relation to Mori Seiki.

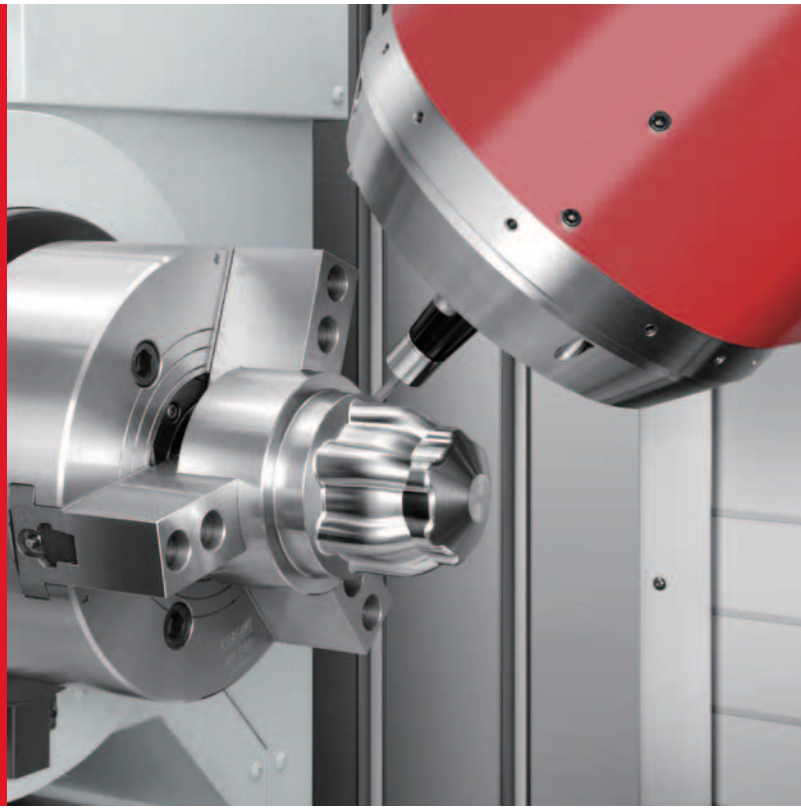
Maintenance of risk management systems

Mori Seiki will exercise risk management concerning the environment, occupational health and safety and quality through the management system, concerning the reliability of financial reports and export control through the compliance program, and for daily business through the company's internal electronic decision-making system.

Products Created with Machine Tools

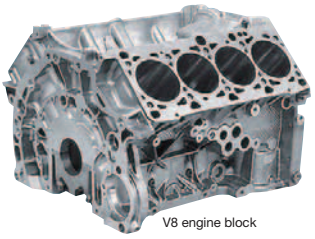
Machine tools
which enrich your life

Most of the parts or dies and molds which make up the many industrial products which we come into contact with every day are manufactured with machine tools. And the industrial machines which play a vital role in every industry are also produced by machine tools. For this reason, machine tools are known as “mother machines,” or “machines which make machines,” and they are indispensable for all industries.



Automobiles/ Construction machinery

All forms of transportation benefit from machine tools, from familiar ones such as cars and motorbikes to the bulldozers and power shovels which build our cities. Out of all industries, it is the automobile sector where machine tools are most heavily involved.



V8 engine block

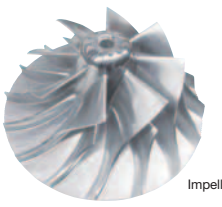
② Absorber (automobile)

① Cam

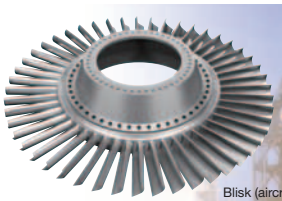
Camshaft

Aircraft/Aerospace

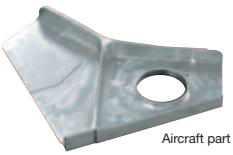
The aircraft/aerospace industry, which demands high levels of technology and precision for airplanes, rockets, artificial satellites and others, is one of the pioneering fields in our modern information society. Machines tools are supporting the development of the latest planes and rockets through high-precision parts machining.



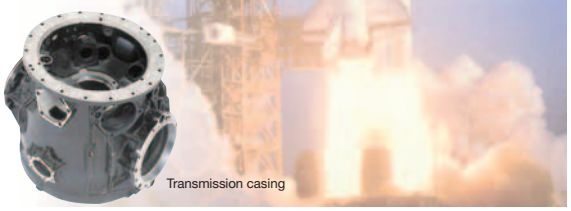
Impeller



Blisk (aircraft engine part)



Aircraft part



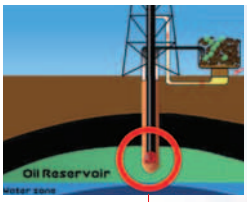
Transmission casing

Photos provided by: ① Ishikawa Seiki ② Kubotera Seisakusho

Energy/ Natural resources

Machine tools are closely involved in the various industries in the energy sector, which provides the world with power, through parts machining for oil drilling equipment. All equipment used for drilling for oil in harsh environments, such as deserts or at the bottom of the sea, derives enormous benefits from machine tools.

③ Nozzle (part for ships)

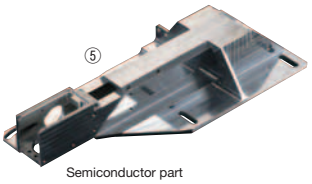


Rock bits

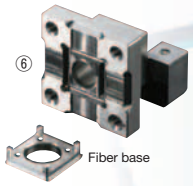
④ Spool (hydraulic part)

Electrical/Communication/ Semiconductors

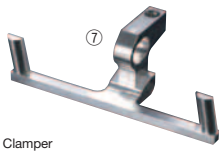
Thanks to the rapid development of increasingly sophisticated mobile phones and digital home electronics, such as digital cameras and LCD TVs, the demand for manufacturing equipment for semiconductors and LCDs is growing. Machine tools are contributing to shortening the cycle of product development through parts machining for this equipment.



⑤ Semiconductor part

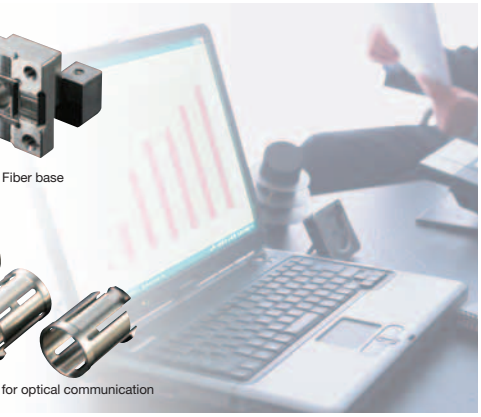


⑥ Fiber base



⑦ Clamper (part for semiconductor manufacturing equipment)

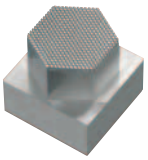
⑧ Connector parts for optical communication



Precision parts/ Dies and molds

Machine tools are indispensable for industries which demand high-level machining, from dies and molds, which determine the quality of all products, to precision parts, which are becoming ever smaller and more accurate. Thanks to the evolution of machine tools, the quality of dies and molds and precision parts is improving, allowing for the creation of even better products.

⑤ Precision part (robots)



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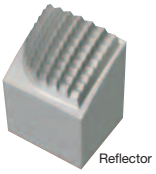
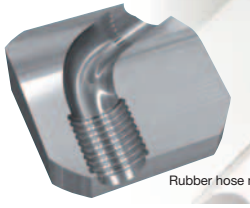


Reflector



Rubber hose mold

Medical

Machine tools also play an important part in the rapidly evolving medical industry, from parts for the latest medical equipment for CT scans, MRI, etc, to devices inserted directly into the body, such as artificial joints and bones. Machine tools offer the high-quality, ultra-high-precision machining which is required.

⑨ Bone orthotic devices

⑨

Injector

Hip prosthesis

Photos provided by: ③ Ekusuto Engineer ④ Asahi Inc. ⑤ Oiso Seiko ⑥ Autec Mechanical Co., Ltd. ⑦ Higashiyama Machining Corporation ⑧ Tepis ⑨ EBI Medical, Inc.

<Left>
Mori-8 promotion leader
Hiroshi Mizuguchi
Vice President
Iga Campus Chief
Development/Manufacturing HQ
Executive Officer（Manufacturing）

<Center>
Mori-5 promotion leader
Kazuyuki Hiramoto
Senior Executive Managing Director
Dr. Eng.
Sales & Marketing HQ Executive Director

<Right>
Mori-6 promotion leader
Shigeaki Ushio
Director
Purchasing SCM HQ
Executive Officer

Striving to become GLOBAL ONE

Medium-term management plan, Mori-568PLAN

For customers, we believe that the greatest value in a machine tool manufacturer is “continuity.” Continuing to build machines which raise their productivity, continuing to provide lasting support. In order to provide customers with the latest and best technology and service with this kind of continuity, our goal is to become Global One among machine tool companies. For this reason, in FY 2005 we developed our three-year medium-term management plan, the Mori-568PLAN, to free ourselves from dependence on the current business environment, to achieve a stable development model for our corporate management, and to become a business partner in whom our customers can have complete confidence. We are always devoting all our efforts towards continuing to support improvements to our customers’ productivity and efficiency worldwide.

Under the Mori-568PLAN, we are making excellent progress towards our goal of achieving Global One.

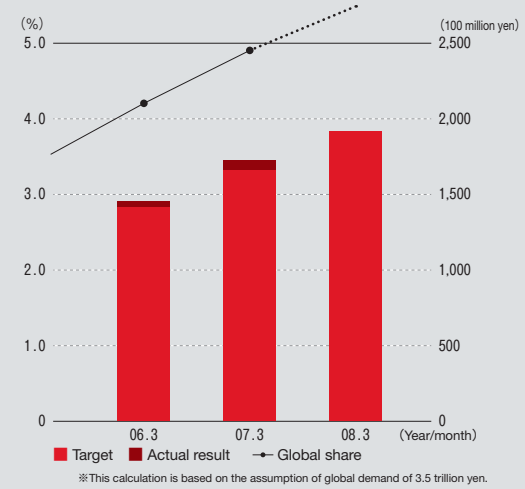
Medium-term management plan, Mori-568PLAN

This is the logo for our medium-term management plan, the Mori-568PLAN, which we started in FY 2005. It shows our three management targets: "5"— a 5% share of the world market, "6"— a consolidated cost of sales ratio of 60% and "8"— a system that produces a minimum of 800 machines per month.

■ Mori-5: Attain a 5% share of the world market

We are aiming to increase our order share of the global market from the FY 2003 figure of 3.5% to 5%. We exceeded the targets which were decided in FY 2005 for the second year, FY 2006, of 4.7% (165.8 billion yen), achieving 4.9% (172.3 billion yen). As a result, we have revised our targets for FY 2007 upwards, to a 5.4% share and sales of 188 billion yen.

■ Global share and sales

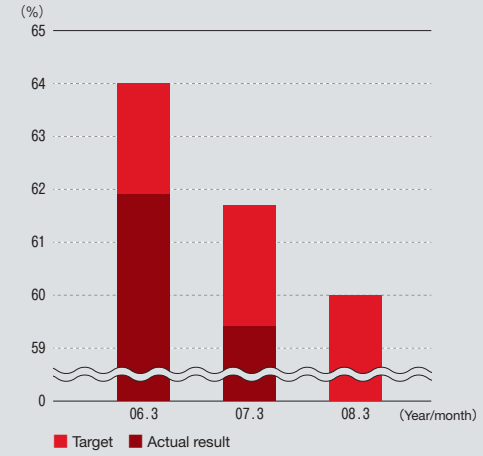


※This calculation is based on the assumption of global demand of 3.5 trillion yen.

■ Mori-6: Achieve a consolidated cost of sales ratio of 60%

We are aiming to reduce our consolidated cost of sales ratio from the FY 2003 figure of 66% to 60%. Our target for the second year was 61.7%, but by promoting in-house production for the whole process from raw material to the finished units and working to reduce costs in all areas, we achieved 59.4%, meeting our medium-term target 1 year ahead of schedule. This result was achieved not only by striving for comprehensive cost reductions across every department, but also by strengthening our relationship with our suppliers.

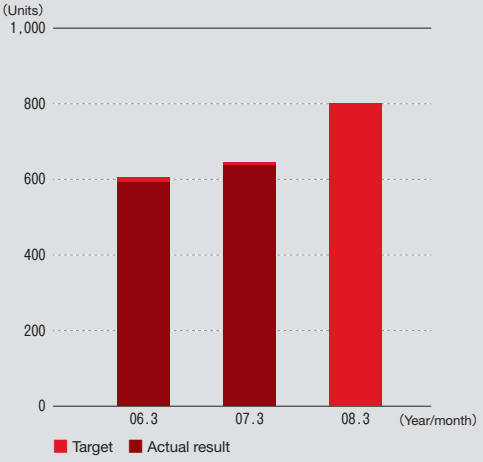
■ Consolidated cost of sales ratio



■ Mori-8: Establish a system that produces a minimum of 800 machines per month

In order to establish a system that produces a minimum of 800 units per month so that we can deliver our machines to customers more quickly, we have been promoting various innovative production systems such as cell production, and have carried out major investment in plant and equipment at the Iga and Chiba Campuses. Our target for the second year was 644 machines per month, but our average for the year was slightly lower, at 632 units. However, in March 2007 we produced 831 units, so we are confident that we are developing a system which can meet our final target of 800 machines.

■ Monthly production



Mori-5 promotion leader
Kazuyuki Hiramoto
Senior Executive Managing Director
Dr. Eng.
Sales & Marketing HQ Executive Director

Mori-5

Medium-term management plan, Mori-568PLAN
Attain a 5% share of the world market

Review of activities for FY 2006

Japan is enjoying the longest period of economic prosperity in its postwar history and Europe has made a dramatic recovery from a long slump. Asia is experiencing explosive growth, and in the United States the oil and aircraft sectors remain strong. Supported by this wonderful environment, Mori Seiki achieved excellent sales results during the last fiscal year. We expect these favorable conditions to continue in FY 2007, and are working to increase our production capacity to respond to strong demand from our customers. We will continue to optimize delivery times for some products and will increase the number of inventory machines with limited specifications for immediate delivery, in order to provide our customers with the machines they need immediately. What's more, by making the motto "If by chance our machine does break down, we will ship parts for repair on the same day 98% of the time" one of our major goals, we will continue to expand our installation and service personnel to respond to the rapidly increasing number of machine shipments. At the same time, we will also increase the number of service parts in stock. Regions such as China, India, Eastern Europe, Russia, Turkey, Mexico and Brazil have progressed from just being sites for factories for multi-national companies, and are now experiencing a sudden increase in the power of local industries. In reaction to this, Mori Seiki has been reinforcing our sales and service systems, as well as our local staff. We are also strengthening our sales relationship with local distributors and establishing many new sales bases. Since 2002, all of our new models have been equipped with our latest technologies. With the release last year of the NMV5000 DCG and the NZ Series, this process is almost complete. This year, we are planning to expand the range of sizes of our new models, including the NT Series. We are confident that this will give us a substantial product line-up which other companies can't match, even in the multi-axis and 5-axis machine fields. In addition to the Akishino Mold Laboratory, which opened in May 2007, and the Parts Machining Laboratory, which has been accumulating knowledge for a long time, this year we are planning to establish a facility where we can study machining for the aircraft parts industry. By doing this, we will be able to offer a place where we can share our customers' problems with parts machining and find solutions together, whether they are for automobiles, dies and molds or aircraft. We are aiming to design machine tools which will give even greater satisfaction to our customers.

Major strategies to achieve Mori-5

- Strengthening sales power in Europe and Asia by increasing the number of employees
- Further expanding the sales and service network
- Forming sales teams by industry and customer

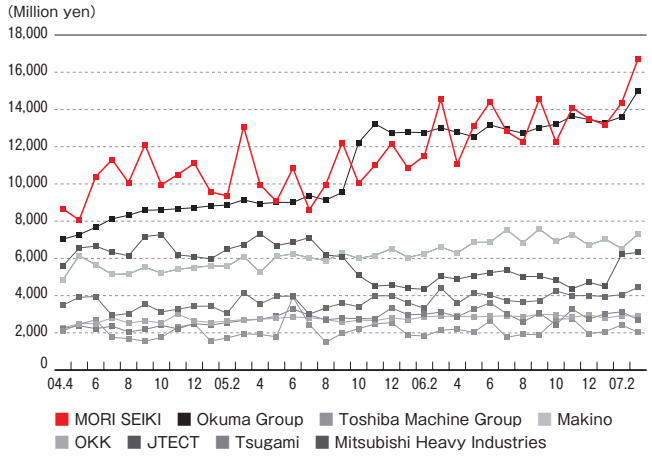
Global sales strategies We are aiming to attain a 5% share of the world market, and our results are steadily improving.

Reinforcement of our sales force

We are determined to continue expanding our overseas sales system. In addition to Mori Seiki Moscow, which was established in conjunction with Mitsui & Co., Ltd., we have set up local subsidiaries in India, Turkey and other countries. In the United States, we jointly invested in Ellison Technologies with Mitsui & Co., acquiring a powerful sales organization which covers 60% of the American market. In China and India we are achieving a rapid increase in sales by cooperating closely with local distributors and accelerating the reinforcement of our personnel. We completed the adjustment and expansion of our sales organizations in Japan and Europe several years ago, and as a result they are now reaping the benefits of the favorable market situation.

Order situation for 8 major machine tool manufacturers

(Source: Nikkan Kogyo Shimbun)



Expansion of our service bases

The fact that more than 75% of our sales are of new products which were developed in the last 4 years is a powerful weapon for Mori Seiki's salespeople. On the other hand, it is a huge job to make sure that we always have maintenance parts in stock for so many new machines, as well as for machines which have been around for 20 years. In order to speed up the process of increasing our parts inventory, we expanded parts storage in Japan, Europe and the Americas and took the drastic measure of tripling the number of parts in stock. Currently, our 24-hour shipping ratio for maintenance parts is over 90%, but our goal is to make it 98% this year. Soon, in addition to our existing Parts Centers in Shanghai and Singapore, we are planning to start building a large parts warehouse in Thailand as well.

Parts storage bases (Parts Centers)

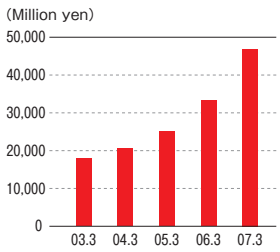
Mori-5

Mori Seiki's global network

Europe

Europe/Trends in sales amount

In Europe, our sales have been 46.954 billion yen, or 27.2% of the global total of 172.262 billion yen (an increase of 41% from last year).



Our total orders in FY 2006 were 326,150,000 Euros (1,583 units), a new record for Europe. Our European distributors and the 38 direct-sales companies carried out their sales activities with our target firmly in mind, and as a result we came close to achieving our final target for the three-year period in only two years. In 2007 the European market expanded still further, with Romania and Bulgaria joining the EU (European Union) to create an enormous economic zone comprising 27 countries. Because we transferred control of Turkey to Asia, our goals for the final year of our first medium-term management plan are orders/sales of 320,695,000 Euros (1,556 units) and an operating profit of 13,000,000 Euros for Europe as a whole. In FY 2007 we will meet these targets and strengthen the organizational structure of Mori Seiki Europe so that we can provide support which will satisfy our customers and distributors. In order to do this, we will hire about 40 excellent new people for sales, service and applications, increasing our organizational strength to a system with 360 employees for the next medium-term management plan. To achieve our targets for Europe this fiscal year, we must improve market coverage, conduct market analysis for each country and market share analysis, and establish a sales network in Central and Eastern Europe, as well as using our organizational strength to make sure that EMO, this year's biggest trade fair, which will take place in September, is a success. We will also improve our business efficiency by strengthening our customer support system, which is crucial to our operation, improving our service organization, training specialists in our strategic models for Europe, the NT, NMV, etc, and providing education to raise the skill levels of every employee. We will also bolster our inventory of parts for repairs, which is fundamental for customer support, and achieve a prompt delivery system which delivers 98% of parts within 24 hours. From the point of view of a sound operation for Mori Seiki Europe, we will make sure that we improve our accuracy, with the collection of accounts receivable and the proper application and enforcement of export control rules as major targets which we absolutely must achieve. FY 2007 is the final year of our first medium-term management plan, the Mori-568PLAN, and will provide the foundation for our next medium-term plan. For this reason everyone at Mori Seiki Europe will do our utmost to achieve our goals.

Takeshi Saito
Vice President
Mori Seiki Europe President (COO)

Enlargement and refurbishment of the Stuttgart Technical Center

We have enlarged the Stuttgart Technical Center, whose staff has increased because of the strong European economy. By strengthening the functions of this Technical Center, which is an important base for sales and service in Europe, we plan to increase our market share even further.

Machining examples

Our delivery results are increasing in the parts machining industry for automobiles and for large transport equipment such as airplanes, ships and trains.

Gear box casings

Our bases and distributors in Europe

Germany

Yasunori Hamabe
Director
MORI SEIKI GmbH President
Dusseldorf T.C.
Regional Manager

Peter H. Schmidbaur
MORI SEIKI DEUTSCHLAND
Sales & Service
Stuttgart T.C.
Regional Manager

Wolfgang Schaekel
MORI SEIKI DEUTSCHLAND
Sales & Service
Hamburg T.C.
Regional Manager

Michael Behrens
MORI SEIKI DEUTSCHLAND
Sales & Service
Munich T.C.
Regional Manager

France

Sylvain Badin
MS SYFRAMO S.A.S.
Sales Director
Regional Manager

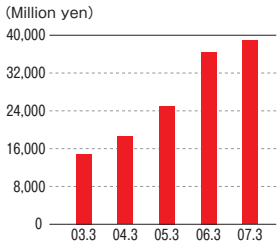
Italy

Viliam Bighi
MORI SEIKI ITALIANA S.R.L.
Regional Manager &
Vice President for Sales

Americas

Americas/Trends in sales amount

In the Americas, our sales have been 38.886 billion yen, or 22.6% of the global total of 172.262 billion yen (an increase of 6.8% from last year).



Thomas R. Dillon
Director
MORI SEIKI U.S.A., INC.
President (COO)

FY 2006 was an excellent year for us here in the Americas. Although we fell slightly short of our unit and dollar targets, we accomplished one very important aspect for our business going forward: we integrated Ellison Technologies into our sales efforts in the largest part of our area of responsibility, the Midwest area of the United States. Incorporating new distributor personnel into a company like ours is not without its challenges. I am proud to state these challenges have been met successfully and much has been learned through this one-year experience to date. The newly formed company of Mitsui (71%), Ellison Technologies (20%) and our own company (9%) is a dynamic combination of three successful companies in three distinct business disciplines with the common goal of doubling market-share throughout the Americas. And, as this new company now represents approximately 60% of the sales opportunities available to us here, we have an established distribution leader which all other distributors can emulate and follow going forward. This new company has accepted this challenge, turning it into the opportunity we all expected from the outset. No other competitor of ours in this region of the world is presently committed to this dynamic direction. We see the potential for gain in this structure and will do everything necessary to ensure long-term success by working together as "one for the good of the whole". Our unit targets have gone up from an attainment level of 1,583 units in FY 2006 to 1,824 units in FY 2007, with dollars going from 310.0M to 350.0M. This is a upward unit change of approximately 15.0% with dollars being increased in the 10.0% range. There are many exciting initiatives in place that have us confident of attaining these lofty targets, even in a rather developed market-place as we have here. I will only bring two to your attention because we view these two initiatives as potential "game-changers". Game-changers afford companies like ours the opportunity to realize exponential, upward results in contrast to the common, incremental results of most other companies. The first "game-changer" is the new Dura product line that is now available to us. We have been rather challenged in this area of our business for some time now. With this new product line, we are confident of competing for more of the business available in this market. We will do so with a product that has proven to be of great value to all potential end-users. Additionally, this is a product line that we believe is as reliable and dependable a machine tool offering as there is in the world today. We term such machines as being "bullet-proof". In laymen's terms, once these machines are installed properly, with the proper amount of training supplied to all operators, there will be few if any challenges from a service-related perspective. Our second "game-changer" is Mori Seiki University (MSU). We have pledged a minimum of 1% of our overall sales to this initiative, or over $3.0M this year. As we looked closely at the one aspect of our end-users' business that was causing them the most challenge, it was having qualified personnel to man and optimize manufacturing results with their machines. Hence, we planned and opened MSU earlier this spring to ultimately address issues/opportunities inside our own company and at the distributor level that will definitively reach the customer level in the very near future. There has been no potentially bigger "game-changer" than MSU that I have had the opportunity to be a part of in my 26 year machine tool career to date. To say we are excited about MSU is an understatement to say the least. We are extremely excited about our direction here in the Americas. Count on us to do whatever is necessary in attain our challenging targets in FY 2007 accordingly.

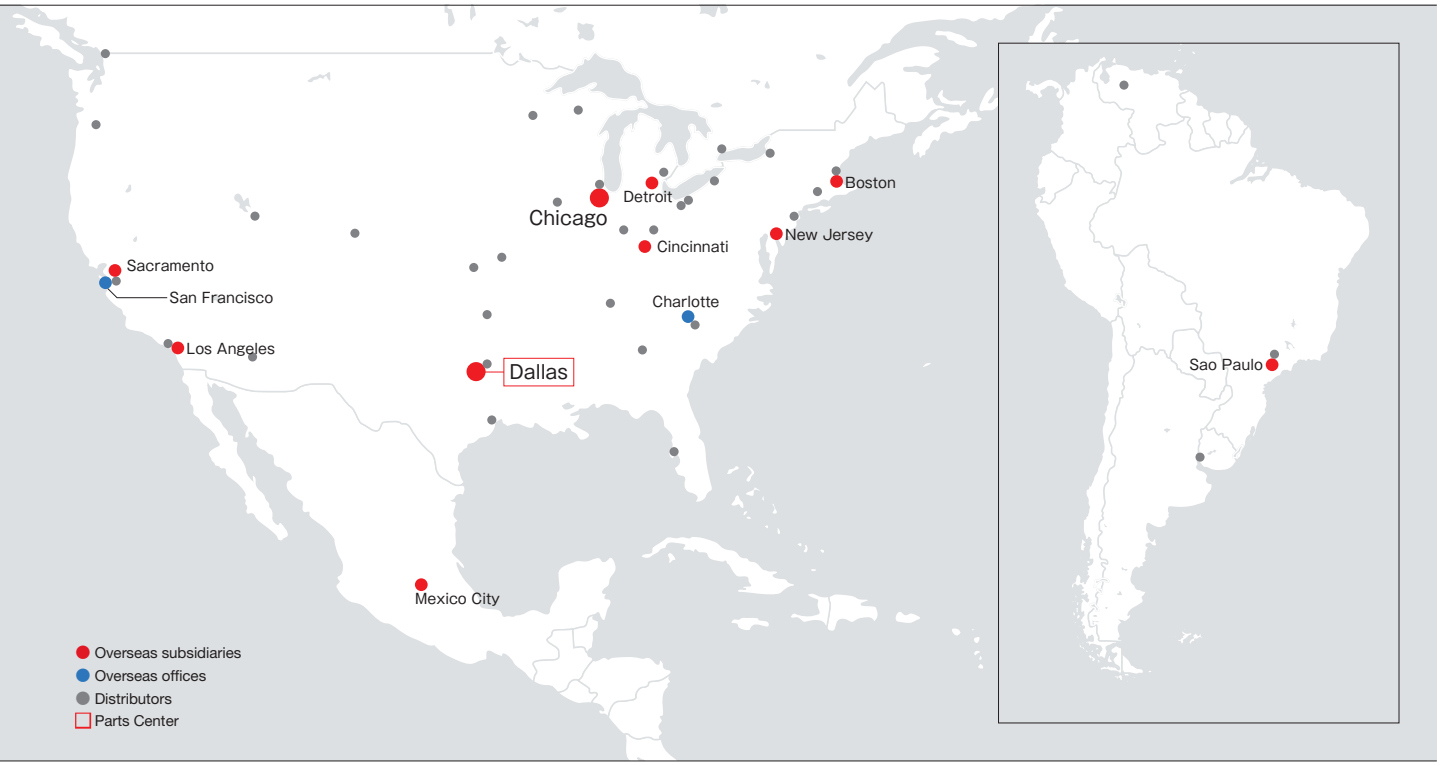
MORI SEIKI U.S.A., INC. Chicago Head Office

Our Head Office moved from Dallas, Texas to Chicago, Illinois. It also functions as a Technical Center and a Call Center.

Dallas Technical Center/Parts Center

The Parts Center holds 18,000 parts and responds quickly to customers' requests as the largest service/parts base in North America.

Our bases and distributors in the Americas



Machining examples

Mori Seiki machines are used in a wide range of industries, especially parts machining for automobiles and large transport equipment such as aircraft.

Speed boat dash cluster

Air intake for Harley Davidson

Distribution block

Splice plates for 737 winglets

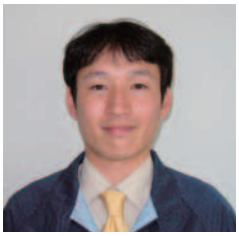
Ratchet (aircraft part)

Photos provided by: ① Crossridge Precision ② Paramount Machine ③ Ramco Machine ④ QPM Aerospace ⑤ Hartwell Corporation

North America

Mark H. Mohr
MORI SEIKI U.S.A., INC.
America Engineering Department
Vice President

Mexico



Takero Kan
MORI SEIKI MEXICO, S.A. DE C.V.
Regional Manager

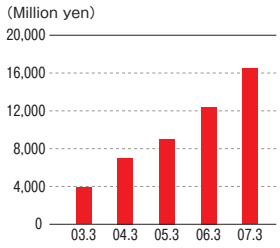
Brazil

Tetsuji Wada
MORI SEIKI BRASIL LTDA.
Regional Manager

Asia Pacific and Strategic Growth area

Asia Pacific and Strategic Growth area/ Trends in sales amount

In the area covered by the Asia Pacific and Strategic Growth Department, our sales have been 16.483 billion yen, or 9.6% of the global total of 172.262 billion yen (an increase of 33.0% from last year).



Kimitaka Miyazaki
Director
Asia Pacific and Strategic Growth Department
General Manager

The Asia Pacific and Strategic Growth Department's top priority for FY 2006 was to strengthen our service and engineering support system for customers. We established new Technical Centers in Moscow and in Wuhan and Suzhou in China, giving us a total of 21 Technical Centers in our area, and increased our staff by 50 to 212. As a result, our target achievement ratio for orders was 114%, but in FY 2007 we are aiming for orders of 24.1 billion yen, a 44% increase from last year's actual results. In order to meet this target, as well as continuing to reinforce our support system, establishing more offices in India and China and increasing our staff to about 300, we will do our best to improve the skills of our engineers in all regions. The Asian and Indian markets have been becoming more and more vigorous due to the globalization of the products and parts manufactured there, and our customers' businesses there are also developing. In addition, investment in plant and equipment in Russia and the Middle East has also been expanding. In Oceania, Japan's customs clearance share is extremely high. From this fiscal year, Turkey has been added to the strategic growth area, and we will develop a system which will allow our sales to approach or even overtake those of Europe and the Americas. We will all do our best to provide high-quality support which will satisfy our customers.

China Sales HQ (Shanghai)

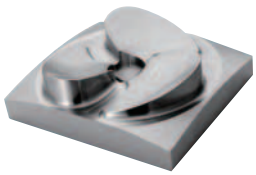
We have established the China Sales HQ in Shanghai, as the head office for the eleven sales bases in China. We also established a Parts Center there to reinforce our service.

Moscow Technical Center

In May 2007 we established the new Moscow Technical Center. Our aim is to provide even better service in Russia and the Middle East, where the trend is for expanding investment in plant and equipment.

New Delhi Technical Center

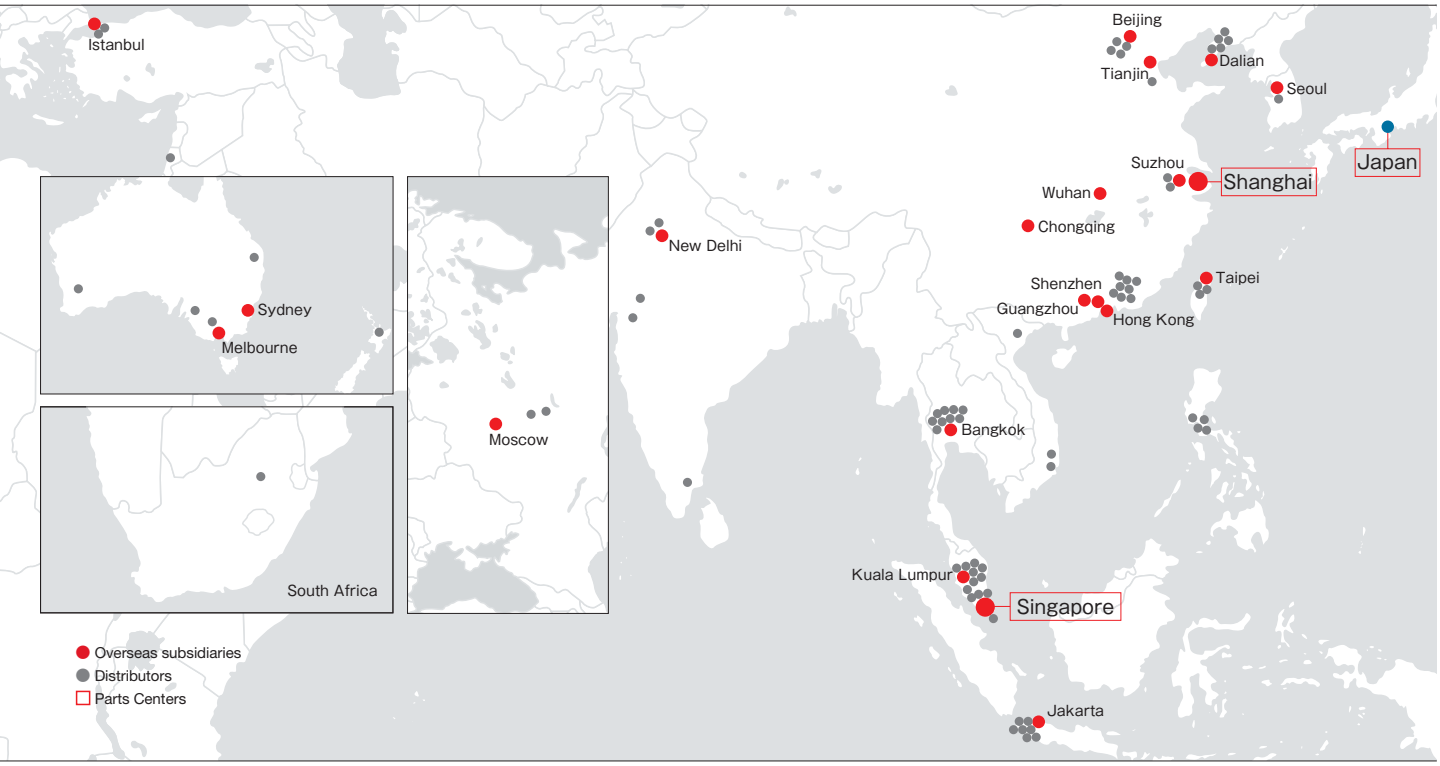
We established this TC in June 2007 in order to strengthen our service system in India and Asia, which are leading the global expansion in parts and products.



Ventilation fan mold

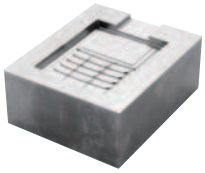
Housing

Our bases and distributors in the Asia Pacific and Strategic Growth area

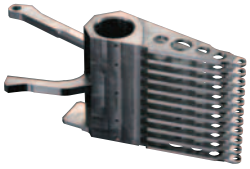


Machining examples

We have been receiving high praise not only from customers involved in parts machining in the automobile industry, but also from companies doing parts machining in the consumer electronics industry, such as mobile phones, audios, TVs, and in the die and mold industry.


Mobile phone mold


Housing


Actuator block


Mold for a part

Thailand

Teeratorn Kampee
MORI SEIKI THAILAND CO., LTD.
Regional Manager

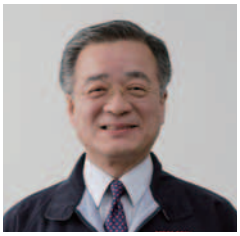
India

Masayuki Nomura
Mori Seiki India Private Limited;
Regional Manager

Russia

Yoshimi Ota
MORI SEIKI Moscow L.C.C
Regional Manager

Turkey



Yoshikazu Matsuo
MORI SEIKI Istanbul
Makina San. ve Tic. Ltd. Sti.
Regional Manager

Singapore

Nakamura Yoshihiro
MORI SEIKI SINGAPORE PTE LTD
Regional Manager

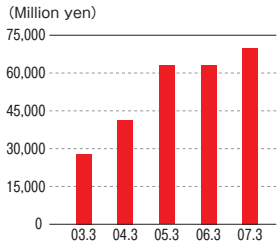
China

Toshihiro Mori
MORI SEIKI (SHANGHAI) CO., LTD.
Regional Manager

Japan

Japan/Trends in sales amount

In Japan, our sales have been 69.938 billion yen, or 40.6% of the global total of 172.262 billion yen (an increase of 10.6% from last year).



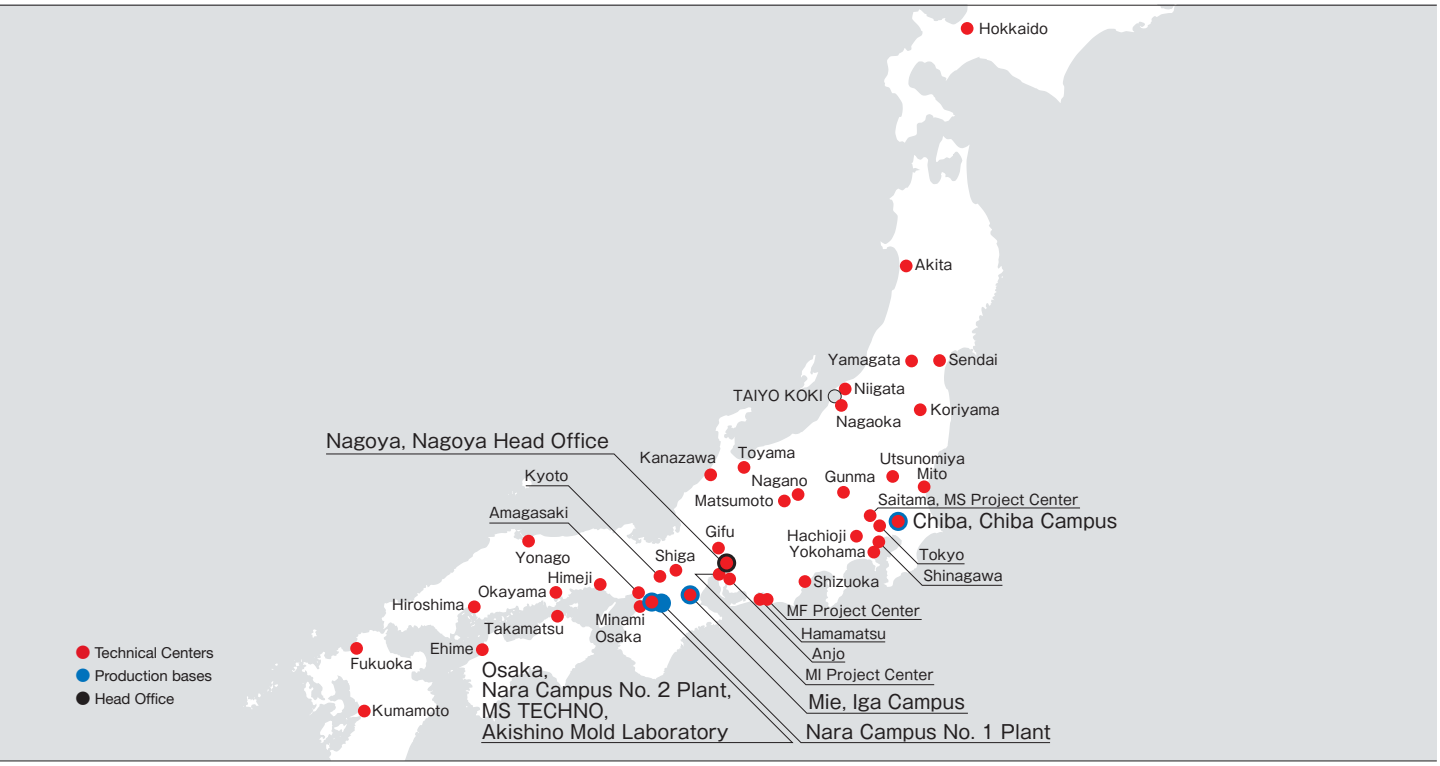
FY 2007 is the final year of our medium-term management plan, the Mori-568PLAN. Our target for this fiscal year is 10% higher than our actual results for FY 2006. With the favorable conditions which we have enjoyed for the last few years, we have received orders from many customers, and we have been able to increase our market share in Japan to 10%. A major reason for this growth is that we have moved even closer to our customers by upgrading or relocating our 42 Technical Centers, so that we can offer swift, meticulous service. Another reason for our increased market share is that we have been attracting new customers rapidly, thanks to our development of new products, improved quality and excellent service. Even though the first stage of equipment reinforcement to meet production increases in the manufacturing sector has come to an end, we expect the current satisfactory state of affairs to continue. There is also a trend of strengthened investment in plant and equipment for production systems offering high added value. In order to satisfy all our customers' requirements, Mori Seiki will do our best to offer proposals to increase their productivity, comprehensive service and swift, accurate parts delivery, and to make our high-quality support system even stronger.

Toyofumi Nishio
Director
Sales HQ Vice Executive Officer
In charge of Japan

Overhaul of sales/service bases

In September 2006, we relocated 26 Technical Centers, in order to provide faster, more comprehensive sales and service. By removing the showrooms from our Technical Centers, we were able to use their administrative and maintenance costs to improve our service and applications business. For example, we introduced the TV meeting system, which the Design and Manufacturing Departments at Mori Seiki Campuses use for meetings, etc. Thanks to this relocation, we are offering even better service for our customers.

Our bases in Japan



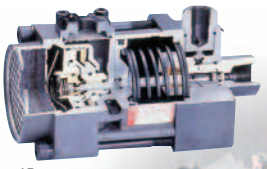
Machining examples

We have many examples of parts machining in the automobile and communications equipment industries.

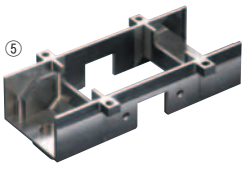

① Compressor part (crank motor shaft)


② Integrated roller gear cam


③ Outer cylinder (connector part for optical communication)

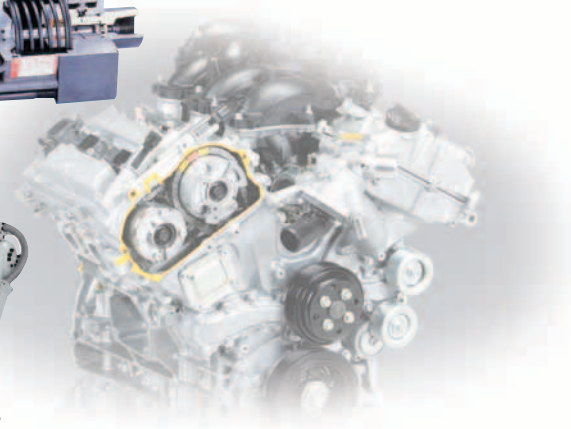

AB pump


④ Robot joint


⑤ Case


⑥ Outer pusher


Robot



Photos provided by: ① Amadera Kuatsu ② Okubo Gear Co., Ltd. ③ Tepis ④ Takahashi Technia ⑤ Kinoshita Manufactory Co., Ltd. ⑥ Kosei Plant

Mori-6 promotion leader
Shigeaki Ushio
Director
Purchasing SCM HQ
Executive Officer

Mori-6

Medium-term management plan, Mori-568PLAN
Achieve a consolidated cost of sales ratio of 60%

Review of activities for FY 2006

【We met our targets 1 year ahead of schedule】

In FY 2006 our consolidated cost of sales ratio was 59.4%, which means that we were able to meet the final Mori-6 target of 60% one year ahead of schedule. One reason we were able to do this was the effect of the exchange rate in FY 2006. Overseas sales swelled because of the weak yen, pushing down our consolidated cost of sales ratio. The three activities below, which we implemented in FY 2005, have also played an important part in helping us to achieve this target.

① We involved suppliers right from the development and design stages to achieve the target design price.
② We reduced the costs for selected models.
③ We reduced shipping and packing costs by reviewing the types of packing and methods for exporting.

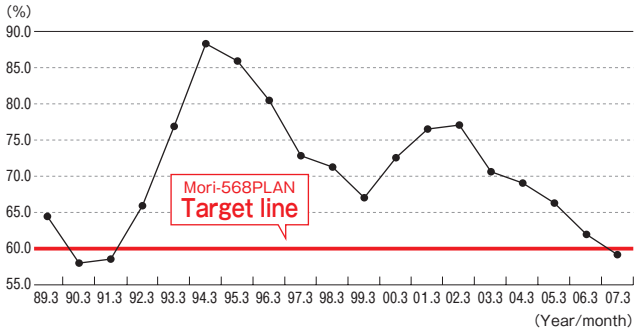
The following three factors also contributed to our success.

④ N Series machines, which have a good material cost ratio, account for an increasingly large proportion of our sales.
⑤ We increased in-house production by investing in plant and equipment in FY 2006.
⑥ We achieved even more efficient manufacturing through improved quality.

Major strategies to achieve Mori-6

- Reducing costs and freight charges
- Expanding in-house production
- Rationalizing by introducing new models (N Series, Dura Series)
- Improving quality

Trends in consolidated cost of sales ratio



You could say that we have achieved our Mori-6 target thanks to consistent cost reduction activities throughout the supply chain, from the suppliers through the Purchasing, Development, Manufacturing, Quality, Sales and Production/Shipment Planning Departments to the transport companies.

Cost reduction activities from the development and design stages

At Mori Seiki, we set the target prices for new models at the development/design stage, and get our suppliers involved at this early stage in order to achieve them. By listening to our suppliers' opinions, our Development Departments can design parts which are easier for the suppliers to make. As a result, the suppliers have been able to make the manufacturing process shorter and simpler, which in turn contributes to lower costs for Mori Seiki. Holding down the costs for new models lets us achieve prices which are easy for customers to accept. This means an increase in production and an increase in the number of orders we give to suppliers. We are managing to reduce costs while building a win-win relationship between customers, suppliers and Mori Seiki. Also, in October 2006 we introduced the electronic order system, which allows us to place orders with suppliers instantaneously, shortening the supply chain, optimizing inventory due to prompt issuing of orders and acceptance of delivered goods, and reducing costs.

Cost reduction activities for selected models

At the same time, we examine the material cost ratio for every single machine which is manufactured and shipped. For machines which don't meet their targets, we take steady steps to investigate the particular reasons why. We do our best to find the causes, and to improve our design, procurement and manufacturing processes.

Reduction in transportation costs

We are trying to reduce shipping costs by reviewing the machines at the design and development stages, taking the packing size at the time of shipment into consideration. We are always looking for ways to reduce our packing costs by changing the type or method of packing.

Increase in the N Series ratio

As a model which is suitable for cell production from the development/design stage, and which allows efficient manufacturing through reducing the number of parts and using units, the N Series (including the Dura Series) occupies an increasingly high proportion of our overall sales, accounting for 80% in FY 2006. In particular, for the Dura Series, which was released in June 2006, we were able to conduct efficient manufacturing by incorporating all our knowledge from the existing N Series, so the increased sales contributed greatly to reducing the cost ratios.

Efforts toward in-house production

Between FY 2005 and August 2006 we completed the construction of the Heat Treatment Plant, the Casting Plant and the Sheet Metal Plant, creating a system for in-house production. At the same time we remodeled the Spindle Plant and Ball Screw Plant, allowing even more efficient, high-productivity manufacturing. We expect that these steps will also help reduce costs in the future. In-house production isn't just a cost-saving measure, however - it also contributes to improved quality, shorter delivery times and increased production capacity.

Even more efficient manufacturing through improved quality

Mori Seiki is seeking both to improve the quality of the raw material which we receive from our suppliers and to improve the quality of products which we deliver to customers. Improving the quality of materials allows both Mori Seiki and our suppliers to achieve efficient production by eliminating unnecessary machining and labor. And improving the quality of our finished products not only gives customers a favorable impression of Mori Seiki through smooth product delivery, but also contributes to our own efficiency.

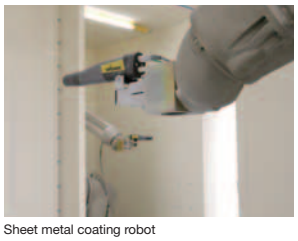
In this way, Mori Seiki is doing our best to reduce costs at every step of the supply chain, from working with suppliers to delivering machines to customers. In FY 2006 we achieved our target of a consolidated cost of sales ratio of 60%, thanks in part to the effect of favorable exchange rates, but in FY 2007 we want to continue our activities throughout the whole company so that we can reach our target without being dependent on exchange rates.


Design/Development Department

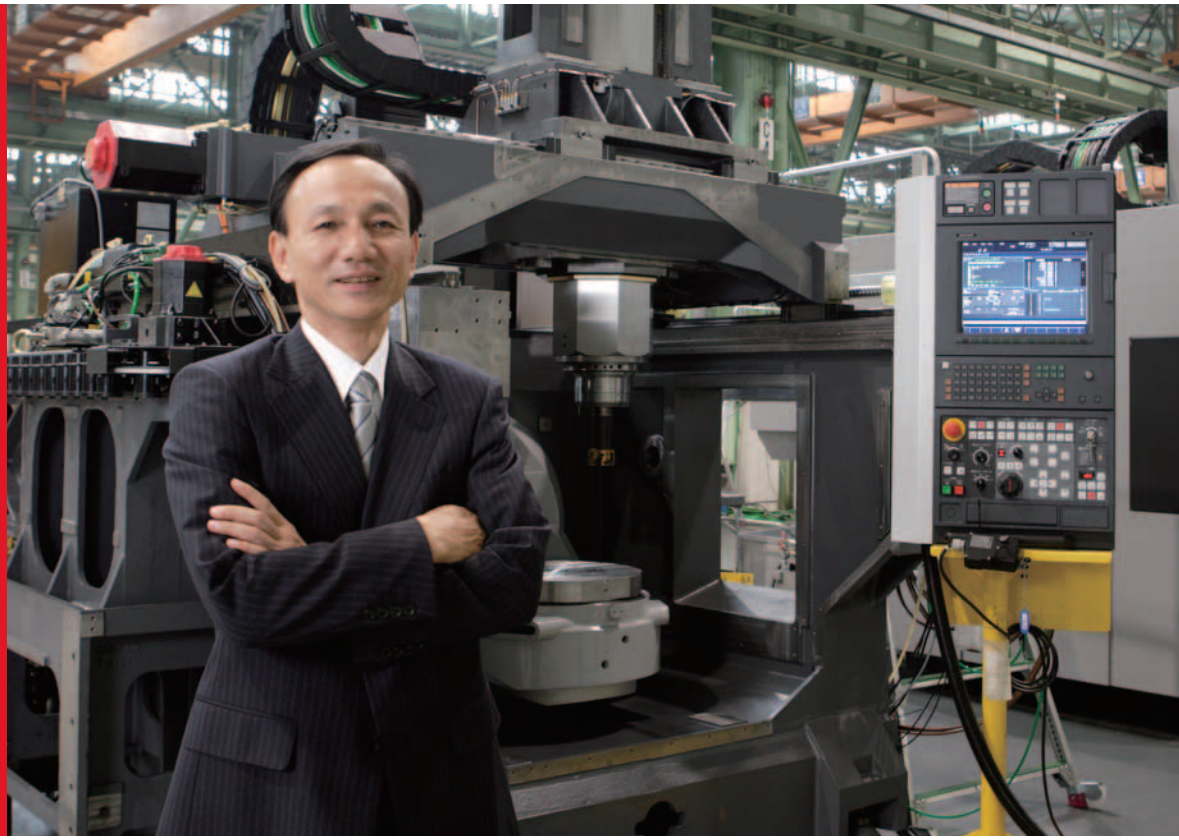

The Iga Campus assembly line, which produces over 420 machines every month


Parts preparation area


Heat treatment of a coupling


Sheet metal coating robot


Ball thread-grinding line



Mori-8 promotion leader
Hiroshi Mizuguchi
Vice President
Iga Campus Campus Chief
Development/Manufacturing HQ
Executive Officer (Manufacturing)

Mori-8

Medium-term management plan, Mori-568PLAN

Establish a system that produces a minimum of 800 machines per month

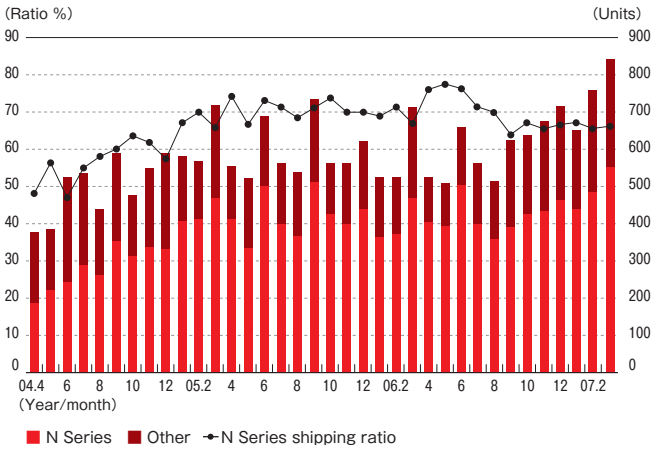
Review of activities for FY 2006

During FY 2006, we maintained full operation at our three campuses, mainly in production of the N Series machines. At the Nara Campus No. 1 Plant, in addition to production of our earlier models, we started making the Dura Series machines, and we have been manufacturing 130 units per month. We also strengthened production at the Iga Campus, centered on N Series machines. At the Chiba Campus, there was a delay with the NT Series of integrated mill turn centers immediately after we started mass production, but we were able to get production back on track at 45 units per month. Also, by taking advantage of in-house production of the main units used in these machines, such as spindles, ball screws, turrets, etc, we have developed a system which supplies parts to the assembly line as and when they are needed. Through these measures, production is progressing satisfactorily at every campus, and in March 2007 we exceeded 800 units for the first time. We are getting very close to achieving our Mori-8 target, establishing a system that produces a minimum of 800 machines per month.

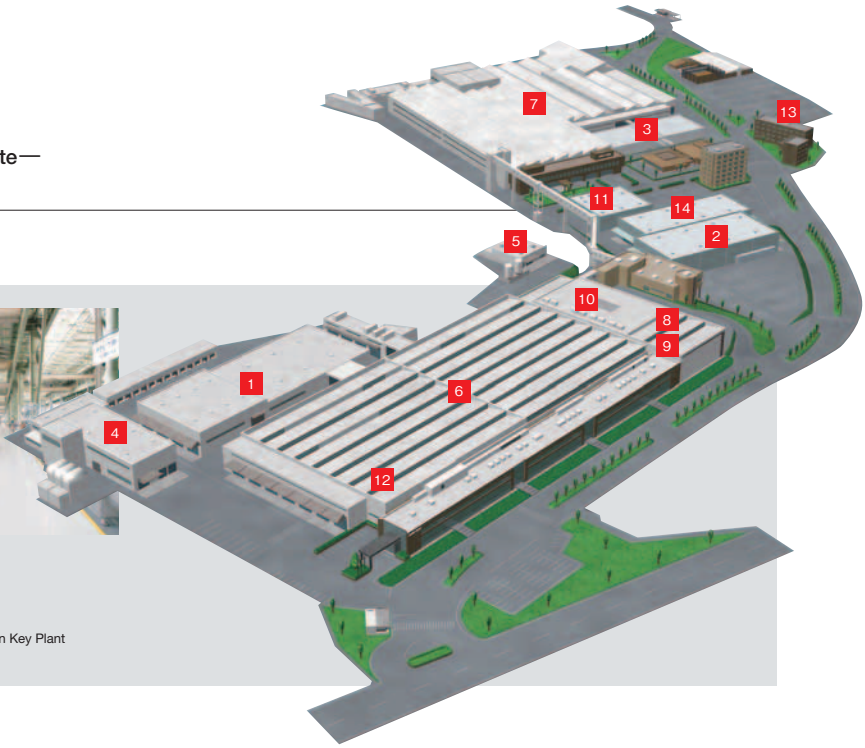
Major strategies to achieve Mori-8

- Increasing production by reinforcing the Chiba Campus
- Improving machining ability by reinforcing equipment
- Increasing cell production ratio (N Series ratio)
- SCM strategies involving suppliers

Trends in number of machines shipped



Iga Campus —Mori Seiki's biggest production site—



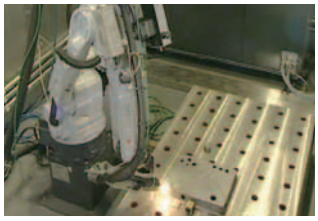
1 Spindle Plant
2 Sheet Metal Plant
3 Ball Screw Plant
4 Casting Plant
5 Heat Treatment Plant
6 Assembly Plant
7 Machining Plant
8 Service Center
9 Parts Center
10 Development Center
11 Mori Seiki University
12 Showroom
13 Guest House
14 Large Machines and Turn Key Plant

In FY 2006, we established the Spindle, Casting, Sheet Metal and Ball Screw Plants, with the aims of stabilizing quality and reducing production lead times. In the past, machining spindle parts and assembling the units were done in separate buildings, but now we have developed an integrated production system which completes machining, assembly and inspection in a 24-hour, temperature-controlled plant, and supplies spindles to the assembly lines. Also, the level of production at the Casting Plant has increased so that we can manufacture medium-sized (4 tons/piece) castings of high quality. By the end of this fiscal year, we plan to achieve casting production of 100 tons per month. In our new 5,233 m² Sheet Metal Plant, as well as a new turret punch press, bending machine and coating line, we have introduced 2 YAG welding robots to improve production efficiency for the welding process, which used to be a bottleneck for sheet metal production. And we have installed 4 male thread-grinding machines in the Ball Screw Plant, to meet the increased demand for ball screws due to the higher number of machines being produced and the higher production ratio of DCG® machines. In this way, our investment in plant and equipment to create a system which produces 800 machines per month is proceeding according to schedule.

■ New equipment and manufacturing policy for FY 2007

We are also planning to introduce new machines and equipment, such as 5-face machines, in FY 2007. In particular, we are promoting equipment for automation, such as robots, to increase the machines' operating rate. We will increase assembly productivity by expanding our cell production system, which is becoming firmly established, for assembling our new products such as the NMV5000 DCG and the NZ Series. And in order to ensure that our new equipment operates effectively, we are doing our best to strengthen our production technology. This production technology covers a wide range: planning and implementing the introduction of equipment, programming for test products, preparing tools and fixtures, actual machining, developing Mori Seiki machines for use in our own factories, managing maintenance and accuracy for production equipment, and developing methods for our elemental technologies. It is no exaggeration to say that the strength or weakness of production technology capability determines the stability of the quality of mass production and production efficiency. We are pushing ahead with strengthening our production technology capacity. We are in the process of developing a 63,000 m² site for a new plant at the Iga Campus, and we will complete this during FY 2007, to increase our future production volume and shorten delivery times even more. On this site, we are planning to construct a state-of-the-art machining plant which looks towards production 10 years from now. FY 2007 is the final year of the Mori-568PLAN, and is also when we prepare our next medium-term management plan. As well as making sure all our current production targets are met, we are starting to work with our next medium-term management plan in mind.

Spindle Plant: the Clean Room, where temperature, humidity and cleanliness are strictly controlled.



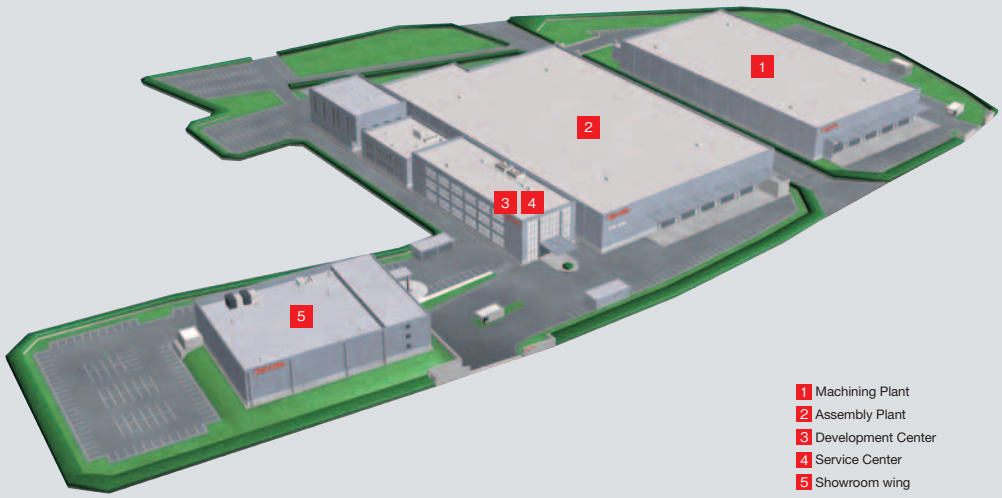
Sheet Metal Plant: automatic sheet metal manufacturing system (left) and YAG welding robot (right)

Casting Plant: pouring

Ball Screw Plant: male thread-grinding line

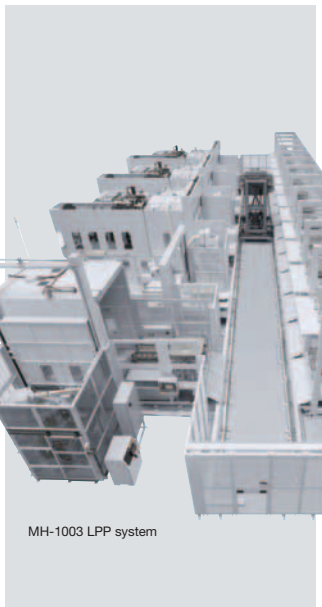
DCG®: Driven at the Center of Gravity

Chiba Campus —Production base for our integrated mill turn centers—



1 Machining Plant
2 Assembly Plant
3 Development Center
4 Service Center
5 Showroom wing

The Machining Plant, which was completed in 2006 at a cost of 4 billion yen, started smoothly and made a great contribution to our production in the second half of FY 2006. At the Chiba Campus we have established a system which produces 50 units per month of the biggest model in the NT Series, which we released in 2006. Its productivity has been increasing, and we are planning a monthly production capacity of 100 units by the end of FY 2008. At this Campus, in FY 2007 we will build an automated system for multi-item production, in which integrated mill turn centers, robots and measuring instruments are integrated. As well as improving the two crucial areas of quality of parts and speed of delivery, this will also help to expand sales by functioning as a practical example of an integrated mill turn center system. In the Assembly Plant we have built a variable-temperature room with an area of 90 m² and temperature variation of 40 ℃. We will continue to evaluate the performance of our machines by developing larger models, and to develop products which are resistant to the effects of the environment at customers' factories. We will enlarge our hospitality area for customers, meeting rooms, development center and staff welfare facilities, and we are doing our best to expand production and sales, develop innovative products and improve performance and quality.



MH-1003 LPP system

2-level pallet shelf with 24 stations

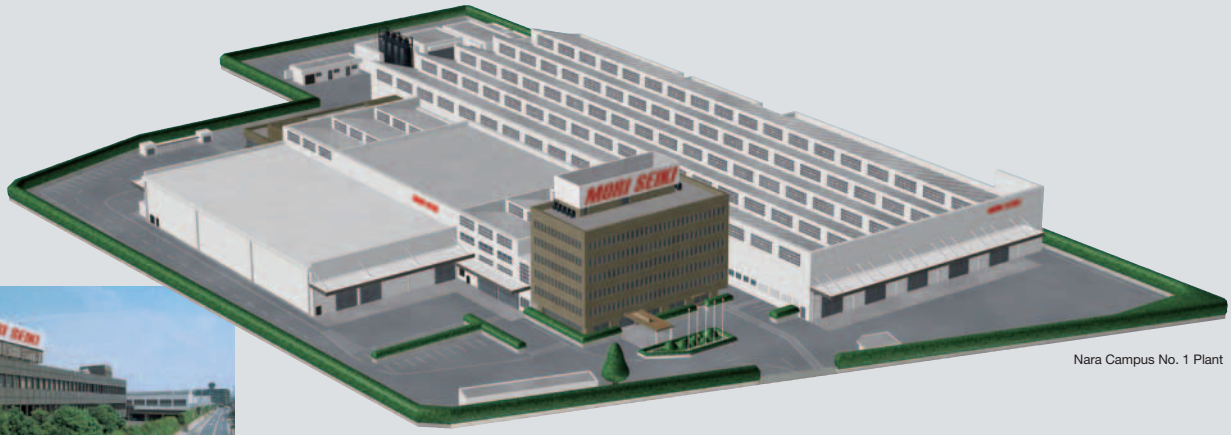
Washing station and deburring robot

Norihide Maeda
Director
Chiba Campus Campus Chief
Development & Manufacturing HQ
Deputy Executive Officer

NT Series assembly

Showroom

Nara Campus No. 1 Plant, Nara Campus No. 2 Plant —Production base for our Dura Series—



Nara Campus No. 1 Plant


Nara Campus No. 2 Plant exterior

At the Nara Campus No. 1 Plant, we handle development and manufacturing of high-production systems, such as our global strategic model, the Dura Series, and loaders. We have about 70 machines, mainly large 5-face machines and bed-grinding machines, and we supply machined parts for beds, columns and saddles to the Assembly Area. We also function as a development center for control technology, such as operating systems. And in May 2007, we established the Akishino Mold Laboratory in the Nara Campus No. 2 Plant as a mold factory to attract die and mold manufacturers. As well as supporting the expansion of machine sales to die and mold manufacturers through the knowledge acquired during mold production, this will also propose improvements in machine performance, such as effective functions for die and mold parts machining and operability. The Dura Series has been a big hit, far exceeding our initial expectations, and the new NMV Series has also made a great start. By introducing two bridge-type machining centers and one VS-80, we have continued to increase our production capacity. Also, by integrating our peripheral equipment departments, such as loaders, LPPs etc, we have increased our productivity dramatically. At the same time, we have set up a new clubhouse, where customers and employees can establish friendly relationships. In the future, we will continue our efforts to be a safe, efficient and profitable production base.

Hiraku Nakata
Managing Director
Nara Campus No. 1 Plant
Plant Manager
Nara Machine Department
General Manager
Mori Seiki Techno General Manager


Linear Pallet Pool system (SH-630)


AWC specification 5-face machine


Dura Series production line

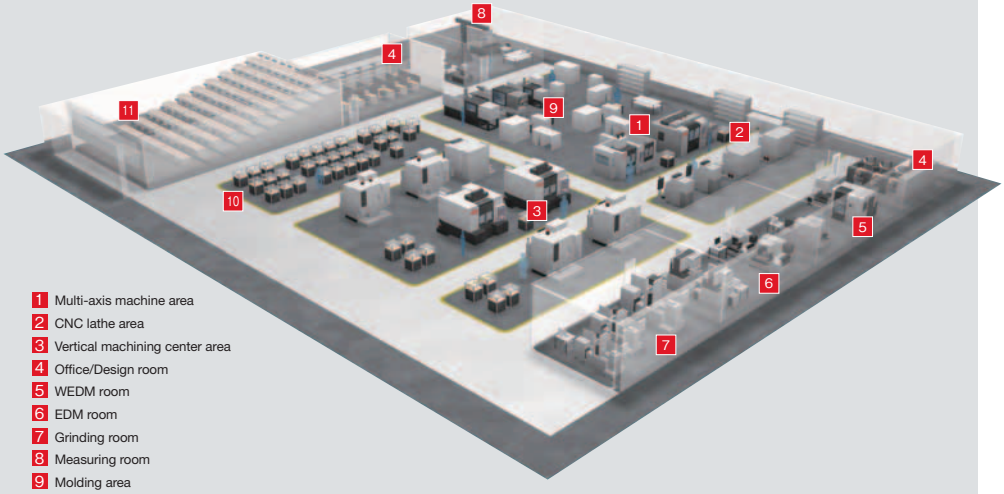

Parts preparation area: Inputting delivery using BHT


New clubhouse in the Nara Campus No. 2 Plant

BHT: Bar Code Handy Terminal

Mori-8

Akishino Mold Laboratory —Practical research and manufacturing for high-quality dies and molds—



1 Multi-axis machine area
2 CNC lathe area
3 Vertical machining center area
4 Office/Design room
5 WEDM room
6 EDM room
7 Grinding room
8 Measuring room
9 Molding area
10 Showroom
11 Seminar room

We established Akishino Mold Laboratory so that we can identify issues facing die and mold manufacturers such as short delivery times, high quality and low costs, in the same environment and from the same point of view as our customers, and can support them from every angle. This is a practical laboratory, the like of which has never been seen before. We will try to solve a wide range of issues concerning die and mold machining while doing contract mold manufacturing for customers, and will use the knowledge acquired from this to provide feedback for Mori Seiki's machine tool development. Its main activities will be as a support center for everything from consultation about machining technology or design techniques to actual machining, as a showroom equipped with the latest tools and equipment, and as a laboratory where we will do our best to solve customers' problems through extensive research into dies and molds. Akishino Mold Laboratory's goal is to provide satisfaction to many customers in the key die and mold industry.

Shingo Goda
Akishino Mold Laboratory
General Manager


Multi-axis machine area


Vertical machining center area


EDM room


Grinding room


Office/Design room


Measuring room

DIXI machines

—The Mori Seiki Group's first overseas production base—

Items manufactured

JIG 1200

NMV5000 DCG

Interior of the Assembly Plant

Scraping by skilled technicians

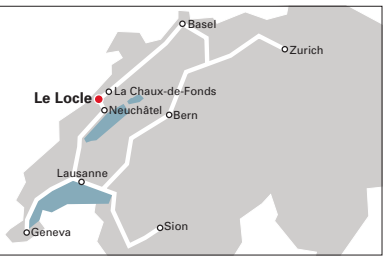
In December 2006, DIXI Machines, a Division of Mori Seiki International SA, joined the Mori Seiki Group as our first overseas production base. DIXI Machines is located in Le Locle, Neuchatel in the northwest part of Switzerland, near the border with France. This region is known as the "Watch Valley," and is famous for producing quality timepieces. DIXI Machines was established in Le Locle in 1904 as a company manufacturing machines for making watch parts. In 1948 they developed the world's first horizontal jig borer, and this became the basis of their subsequent growth. But the reason they became a machine tool manufacturer famous throughout the world is their incredible accuracy, which other companies can't match. This uncompromising attitude in pursuit of high precision has continued to the present day. DIXI brand products are designed so that they can achieve precision of better than 15 μm (4-axis machines) or 25 μm (5-axis machines) anywhere in the machining area. The machines have a high-rigidity structure, with static and dynamic rigidity 3 times better than the standard values in the industry. They are also designed to prevent sources of heat or vibration from having any effect on the machines' accuracy. These machines are built in an air-conditioned factory whose temperature is kept at a constant 20 ℃ (±0.2 ℃) all year round. As part of the production process, DIXI's skilled engineers conduct 500 hours of scraping on every machine. Their quality control is also extremely strict. Not only do they measure every point of every part they use and inspect the finished products, but they even calibrate their own measuring instruments. This is done in their Metrology Center, which is accredited by METAS, the Swiss Federal Office of Metrology. In this way, DIXI brand products pursue the highest levels of accuracy through the whole process from design to production, as well as undergoing rigorous quality control. This year we plan to significantly increase our production capacity by completely renovating the Swiss plant and improving its machines and equipment. After strengthening production capacity, we will start manufacturing Mori Seiki brand machines as well as DIXI Machines. Through these measures, this factory in Switzerland will contribute to increasing our market share and expanding our business, especially in Europe, as our first overseas production base.

Akihiko Takeda
Director
DIXI Machines President (COO)

**DIXI Machines,
A Division of Mori Seiki
International SA**

Av. du Technicum 33
CH-2400 Le Locle, Switzerland

Phone: +41(0)32-933-52-22
Fax: +41(0)32-931-11-64



Metrology Center

Calibration service approved by METAS (Swiss Federal Office for Metrology) on the basis of ISO 17025 standards.

METAS Certificate

Contributing to Society

As a global company, Mori Seiki strives to make a positive contribution to the region and to society

■ Basic principles

At Mori Seiki we strive to contribute to society both in Japan and overseas, based on our management philosophy of "contributing to the region and to society as a responsible corporate citizen." Our aim is to contribute to society in the regions where we are operating through machine tools and manufacturing, promotion of scientific techniques and machining technology, cooperation between industry and universities, etc. We regard these social contributions as extremely important, and we are actively pursuing them.

■ Supporting research activities through MTTRF

In July 2007, the MTTRF (Machine Tool Technologies Research Foundation) annual general meeting was held at Tateshina Seminar House, and there were lectures from experts from all over the world, including our own Dr. Mori. MTTRF is a non-profit organization recognized by the U.S. government. It operates through contributions from companies, with Mori Seiki as its main sponsor. The headquarters are based in San Francisco, U.S.A., and its goal is to support research and development of innovative technology for machine tools by experts from universities and public research organizations worldwide. At Mori Seiki, we carry out a range of activities through MTTRF, such as lending machine tools to universities in the Americas and elsewhere, and holding lectures by researchers from countries all over the world at the annual general meeting. In the future, Mori Seiki will continue to actively expand our research support activities through this Foundation and to promote the technological development of industrial society.

■ Machine tools lent through MTTRF

Recipient (University)	Region
University of California, Davis	U.S.A.
University of California, Berkeley	
University of Michigan	
University of British Columbia	Canada
National University of Singapore	Singapore
University of Sao Paulo	Brazil
Katholieke Universiteit Leuven	Belgium
Kanazawa University	Japan
Keio University	
Kyoto University	
Kobe University	
Osaka University	

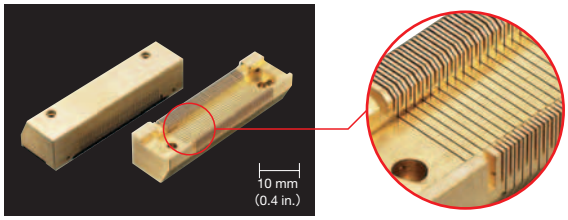
■ "Youngsters' Science Festival"

At Mori Seiki, we hold the "Youngsters' Science Festival" in Nara, to teach as many young people as possible the fascination of manufacturing. This festival is a nationwide science education event organized by the Japan Science Foundation. Its purpose is to encourage young people's interest in science, and to teach them scientific ways of seeing and thinking through hands-on scientific experience. 2006 was the sixth time Mori Seiki took part in the event, and we displayed the machining of a spinning top on an NZ-S1500 2-turret shaft lathe in the Mori Seiki caravan. The tops were given away as presents to all the children there. Through events like this, we hope to inspire young people to dream.

■ The Cutting Dream Contest is expanding worldwide

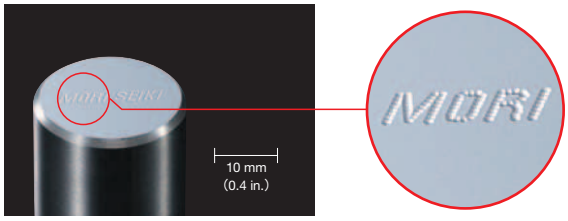
Mori Seiki holds the "Cutting Dream Contest" every year, with the aim of exchanging and improving technology and techniques throughout the machining industry. In 2006, the third year of the contest, we received many entries from companies, technical colleges, universities and research institutions involved in machining. We displayed the entries at the JIMTOF2006 exhibition, and held the awards ceremony in the Mori Seiki booth. Until last year the contest had only been held in Japan, but in FY 2006 we held it in America as well, where it was greeted with enthusiasm. And in FY 2007 we are planning to hold it in Europe. Mori Seiki is putting our efforts into promoting this contest, where the exchange of cutting-edge technology and the finest techniques provides the impetus to develop manufacturing worldwide.

■ Cutting Dream Contest 2006 Gold Prize Winners



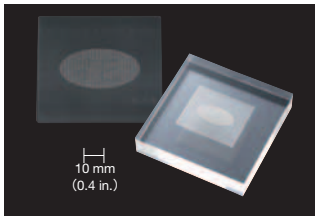
■ Parts Machining Gold Prize Winner
D & M Holdings Inc. (Shirakawa City, Fukushima)
"Piece holder"

Slitting with a width of 0.1 mm (0.004 in.) and a depth of 5 mm (0.20 in.)

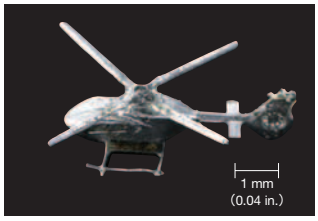


■ Academic Research Gold Prize Winner
Kobe University (Kobe City, Hyogo)
"Microarray lens made of super-hard metal"

Development of tools for super-hard metal, and high-precision machining of difficult-to-cut material



■ Die And Mold Machining/Mold Machining Gold Prize Winner
Seko Seimitsu Kinzoku (Minami Saitama, Saitama)
"Snow and flower + haiku"
("Happiness is found right there on the spring mountain," by Kenjiro)



■ Micro Machining Gold Prize Winner
Senbokuya Co., Ltd. (Yokohama City, Kanagawa)
"Minicopter"

■ Supporting the International Skills Festival for All

Mori Seiki has been chosen to be an Official Supplier to the International Skills Festival for All, Japan 2007, which will be held in Shizuoka from November 14-21, 2007. At this year's Festival, the 39th, the World Skills Competition and the International Abilympics will be held concurrently for the first time. The event takes place every two years, and is designed to raise the technical level of the participating countries. This year over 800 people from 50 countries and regions throughout the world, the winners of rigorous preliminary competitions, will take part in 48 different occupations. Mori Seiki's DuraVertical 5060 vertical machining center and the DuraTurn 2050 CNC lathe will be used for three events at the contest: the Manufacturing Team Challenge, CNC Turning and CNC Milling. As well as supporting these young technicians, Mori Seiki will continue to build highly reliable machine tools on which contestants will be able to hone their extraordinary abilities in the future.

SKILLS 2007

The DuraVertical 5060 (left) and DuraTurn 2050 (right) which will be used at the Festival.

Protecting the Environment

As a socially responsible manufacturer of industrial goods, Mori Seiki promotes environmental activities which comply with ISO 14001 regulations throughout the company, including the Iga and Chiba Campuses and the Nara Campus No. 1 Plant.

Mori Seiki developed the "Mori Seiki Eco-Policy" based on our management concept, "Protecting natural resources and preserving the environmental well-being of the earth." We consider that taking the initiative in protecting the environment is an essential role for a leading company in the machine tool industry, which supports all other industries. We work together to achieve this goal and have established the Environmental Management Committee.

Mori Seiki Eco-Policy

① **Treat resources and energy with respect**
The use of resources such as electrical power and paper, and the use of fossil fuel energy such as heavy oil, will be reduced. The recycling and reduction of waste will be promoted.

② **Manufacture products that are environmentally friendly**
Promote the development of goods that increase the recycle rate of parts while reducing noise, increasing durability, and reducing the use of natural resources.

③ **Increase employees' awareness of environment preservation**
All employees will be educated and trained to increase awareness and to practice environment preservation activities. All related companies are requested to do the same.

④ **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.

⑤ **Cooperate with environmental policies as a member of society**
Laws on the environment and other related matters will be observed. Our own management standards will set and pursue satisfactory environment preservation activities.

⑥ **The utmost will be done to make available any information on environment preservation**
We are working together as a whole company to preserve the environment.


DNV
DET NORSKE VERITAS
MANAGEMENT SYSTEM CERTIFICATE
MORI SEIKI CO., LTD.
DESIGN, DEVELOPMENT AND MANUFACTURE OF MACHINE TOOLS

Mori Seiki,
Environmental Management Committee.

The three bases of our activities to preserve the environment

Environmental awareness educational activities
Educate employees to be aware of the importance of preserving the environment, and give them the necessary training to do so.

Environmental management system
Establish a system which complies with the environmental management system ISO 14001, and make continuous improvements to it.

Development of environmentally-friendly technology
Develop technologies to reduce the environmental burden caused by our factories and products.

Energy savings

Improving the energy efficiency of our products through collaborative research projects with organizations involved in development of new energy sources, industrial and technological structures. Reducing consumption of power and heavy-fuel oil at factories and campuses.

Prevention of pollution

Properly controlling industrial wastes and prohibition/reduction of hazardous substances.

Saving resources, recycling, longer product life

● Saving resources/recycling
Designing products which aim to recycle used products and reduce of industrial wastes/waste oil. Reducing the amount of paper used and promoting recycling activities.

● Longer product life
Extending life of products by reviewing structures and structural components.

Environmentally-friendly machines

We have added functions to solve environmental problems, which helps customers save energy and reduce costs.

・Reduced consumption of lubricating oil

For example, with the NV4000 DCG, we succeeded in reducing the hourly consumption of lubricating oil by approximately 1/6.

・Reduced consumption of power

We have reduced power consumption by reviewing equipment with a high environmental load and adding functions which enable high-efficiency operation.

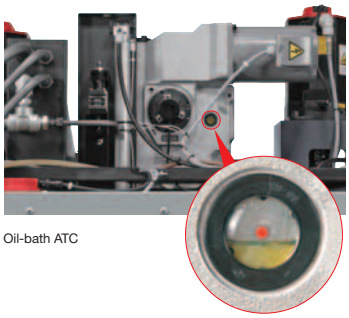
・Adopting a power-saving hydraulic unit

・Using an inverter-type oil cooler

・Automatic machine light OFF function

・Automatic sleep function

・Standby power reduction function—In collaboration with NEDO (New Energy and Industrial Technology Development Organization), since 1999 we have been conducting research on reduction of power consumption when machines are on standby. We consistently pursue energy savings during non-cutting time, reflecting them in our product development.



Oil-bath ATC

Energy-saving settings screen

Occupation Health and Safety Policy

1. We research past industrial accidents from a scientific perspective and implement appropriate countermeasures so that we can reduce the number of accidents at work.
2. We make efforts to continuously improve the occupational health and safety management system and health and safety activities.
3. We create an “occupational health and safety” culture among the staff.
4. We set and periodically review our objectives for occupational health and safety.
5. We abide by the laws, regulations and other requirements of a member of society.
6. We publicize information about occupational health and safety.

Our work

Contents

Quality Measures

At the Quality HQ, we are pursuing perfect quality in development, manufacturing, sales and service to satisfy our customers.

Takahiro Kobi
Director
Quality HQ Executive Officer

Review of activities for FY 2006

As part of our medium-term management plan, the Mori-568PLAN, the Quality HQ is aiming to build "Quality is Mori Seiki" as our brand image. Throughout the Mori-568PLAN, we have been thinking of ways of providing products and services which exceed our customers' expectations, and working to meet our target of increasing our customers' satisfaction (improving design quality, manufacturing quality, service quality and sales quality). Specifically, this means conducting design reviews and inspections of test machines for every product at the development and design modification stages, where it all begins, and not allowing mass production until we achieve the projected quality and performance. At our weekly Quality Improvement Meetings (composed of representatives from all development and manufacturing departments) we pinpoint the causes of problems which occur in the factories, paying particular attention to who the operators were and to the background of the events, and implement measures to prevent recurrence. We then make these standard and apply them throughout the company. At Mori Seiki, we gather feedback to make sure that the steps we have taken are completely effective. Our sales and service personnel do this automatically. At the Quality HQ, we conduct objective telephone surveys immediately after the acceptance inspection and one year after delivery. We find out our customers' satisfaction levels, and take immediate action to correct anything they are not happy with. We have abolished the phrase "a trivial problem." Problems concerning quality are taken up at Management Meetings, and solutions are spread throughout the whole company.

Future challenges and targets

In FY 2006, our efforts to create durable spindles, which we have been working on as a major target, bore fruit, and we can now supply spindles with uniformly high quality. We have also been conducting design reviews and inspections for 100% of our products before putting them into mass production. This has enabled us to greatly reduce initial and frequent problems for models released in FY 2006. As a result, beginning in April this year, we were able to extend our cost-free repair warranty from 1 year to 2 years (with the exception of some parts), so that customers could use our machines with even greater peace of mind. However, since we were carrying out rigorous inspections, in some cases the time from trial manufacture to mass production took longer than scheduled. So in FY 2007 our goals are to send feedback on problems which have occurred with machines released in the previous fiscal year, to conduct even stricter design reviews and inspections, and to cut the time between trial manufacture and mass production in half. In the final year of the Mori-568PLAN, we will establish that "Quality is Mori Seiki."

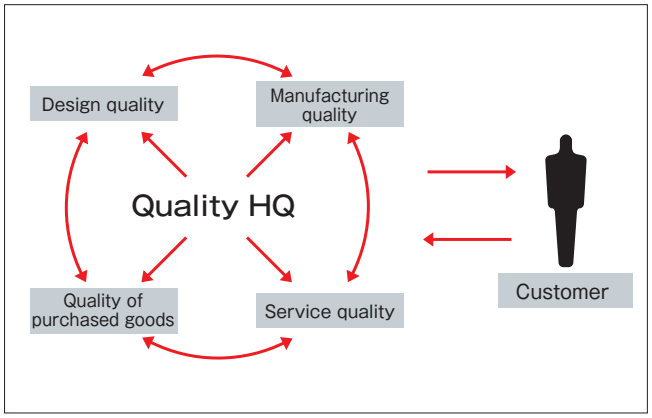
Evaluation tests at the Development Testing Center

Assembly operations in the Spindle Plant

■ Pursuit of customer satisfaction

At Mori Seiki, we believe that "Customers' requests are all demands for quality," and we are doing our utmost to improve the quality of our service as well. As part of our efforts, in FY 2005 we started calling our customers to obtain feedback. We will continue to do this in FY 2007, in order to hear the customers' opinions, to fix problems and to increase the level of customer satisfaction.

■ A lateral organizational structure, with the Quality HQ in the center



We reflect our customers' opinions in our products and services, in order to improve quality.

① Contacting customers one year after delivery

One year after machine delivery, we check to see if the customer has any complaints or requests. We have established a system in which complaints or requests from customers are swiftly passed to the appropriate departments, which take the necessary action. We make sure that we check in with dissatisfied customers again one month later, to see if the situation has improved. As a result of these efforts, we receive requests from about 10% of our customers, and we respond immediately.

② Contacting customers after the acceptance inspection

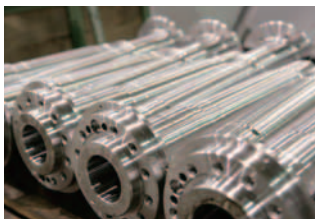
Sales are recorded on an acceptance basis, and in February 2006 we started investigating whether our customers were completely satisfied with the acceptance inspections they received. As a result, about 8% of customers had requests after the acceptance inspections. Therefore, we established a system in which the appropriate departments take action for these requests immediately, through the Quality Improvement Committee.

Contacting customers one year after their machines are delivered

■ Quality in design

Development is one of the upstream processes, so we are making constant, intensive efforts to improve quality. We are constantly holding training in quality engineering and applying it to practical designs. We always design with consistency in mind. And in FY 2006 we were able to see the results of the durable spindle which we worked on in FY 2005, which gave our designers great confidence. In order to implement perfect quality assurance during the development process, we carry out correction, prevention and standardization for problems which have occurred in the field, and conduct checks on every newly developed model and on the first products after design changes. In FY 2007, as well as making the design inspection (MDR) process stricter when deciding whether to move new models to mass production, we will do our best to halve the inspection time so that we can deliver new products to customers as soon as possible. We have also set ourselves the challenge of expanding our durable spindle technology to our high-speed spindles, and extending the product life of all our spindles to more than 20,000 hours.

Design using 3D CAD



Spindles made through integrated production

■ Quality in production

We thoroughly analyze all the problems occurring in the field which are caused by manufacturing, and process errors discovered during the product inspection. We check who the operators were, understand the background of the problem, and plug away until we have thought of ways of preventing every single problem from happening again. The most important point is making sure that our operators understand that the purpose is not to punish them. Also, by making our slogan "Let's talk with figures, not with vague expressions," we are constantly teaching them to measure everything. For that reason, they have got into the habit of thinking, "How can we get the values to come out?" What's more, we prepare Quality Plan Sheets (QC Process Sheet, Operation Standards Form, Check Sheet), which determine the quality of the manufacturing process, for all new models before mass production, and have developed a system which ensures the quality of every process. As a result, we have been able to reduce the number of items pointed out during the final product inspections to an average of 1.59 per machine (1.77 items/machine for FY 2005). In FY 2007, our goal is to emphasize education and passing on our technical traditions to nurture our personnel and improve our standard forms. Our satisfaction comes from contributing to our customers' profits and receiving their trust, by converting the skills of our master tradesmen into values which we can incorporate into our standard forms, so that we can deliver machines of reliable quality.

Inspection before shipment using laser measurement

Inspection of positioning accuracy and repeatability

Service & Parts

We are always seeking to improve the quality of our service and to supply maintenance parts swiftly, so that our customers can use Mori Seiki machines with confidence for a very long time.

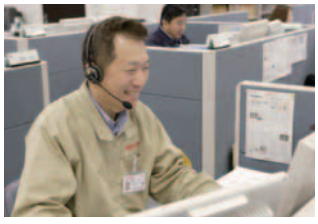
Yoshihiro Matsuoka
S&P Department General Manager

Review of activities for FY 2006

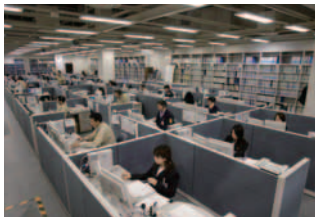
We are always thinking of ways of improving the operating rate of our customers' Mori Seiki machines, and we have developed a high-quality service and parts system to make machine recovery 1 minute, even 1 second, faster. The spindle is the most important part of the whole machine, so we have expanded our spindle rebuilding centers from the Iga Campus to the USA and Germany to allow speedy spindle repairs. With our Service and Parts Centers at our Iga and Chiba Campuses at the core, our top priority is to provide consistent support to customers from 42 bases in Japan and 46 overseas.

Future challenges and targets

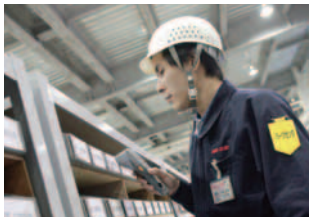
Our goal is to deliver maintenance parts requested by customers within 24 hours. In order to increase this parts shipment rate to 98%, we are doubling the size of our current parts inventory, not only for existing models but also for those which we no longer produce. At the same time, we have increased the warranty period to 2 years for parts and service for new models delivered in Japan, and for parts for models delivered overseas, so that customers can use Mori Seiki machines with confidence. We have also established a Service Parts Machining Department, especially dedicated to machining parts for service, so that we can respond to urgent requests for parts even more quickly than before. We have expanded our Service Call Center and send young employees there regularly so that they can receive technical wisdom and OJT from our highly experienced senior engineers and provide swifter service.



Iga Service Center

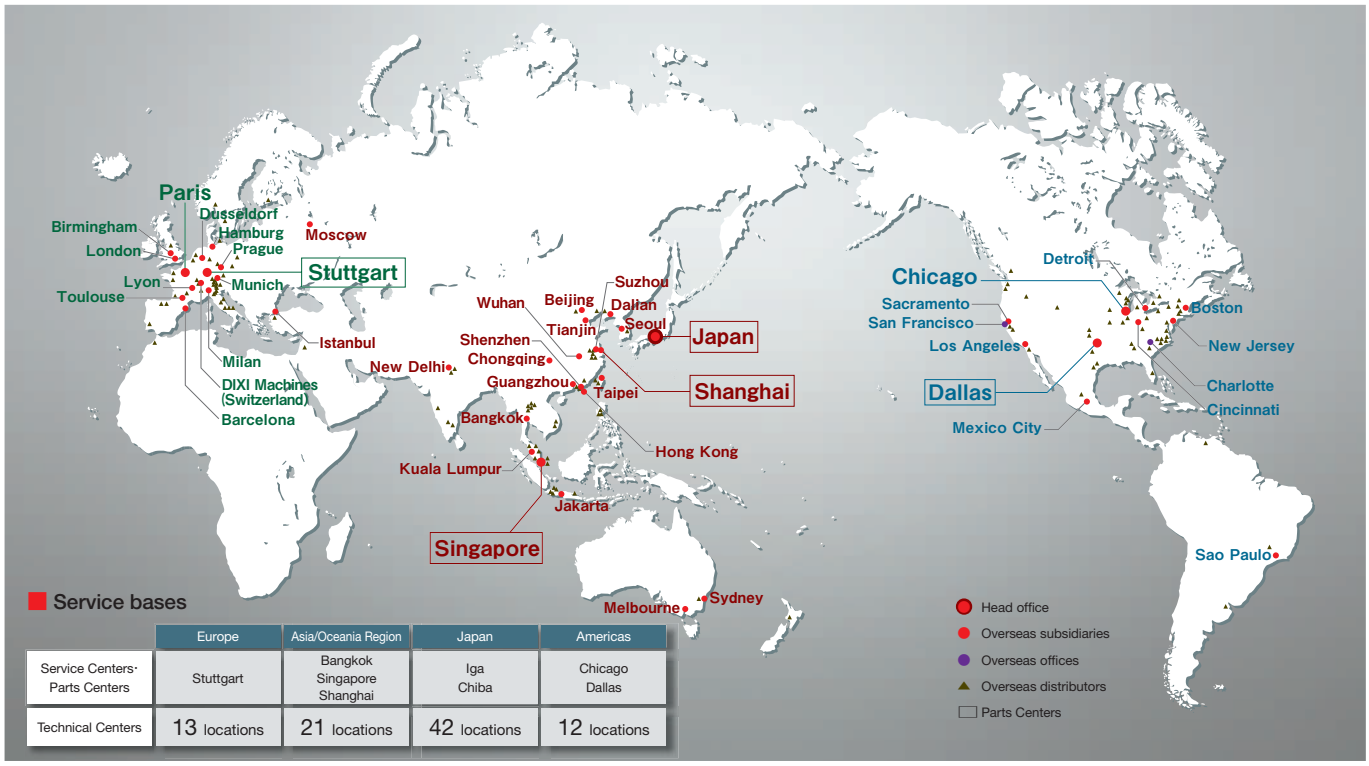


Iga Parts Center



Our stock room, which uses QR codes

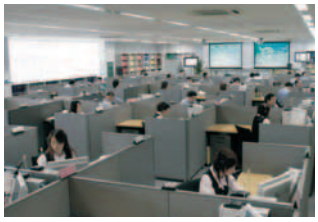
Mori Seiki's global service network



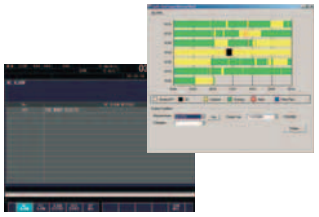
	Europe	Asia/Oceania Region	Japan	Americas
Service Centers· Parts Centers	Stuttgart	Bangkok Singapore Shanghai	Iga Chiba	Chicago Dallas
Technical Centers	13 locations	21 locations	42 locations	12 locations

Service Centers

At our Service Centers in Iga and Chiba, which are the bases for all the service calls in Japan, we have experienced technicians who are specialists in each model to answer customers' questions 24 hours a day, 365 days a year. We store information about the customer, their machines, their repair history, etc in our database, so that we can take the shortest route to solve the customer's problem. We also started using remote support systems on the Internet, such as "MORI-NET Global Edition," and our Service Centers' telephone support problem-solving ratio currently exceeds 70%.



A Service Center, which can be accessed toll-free 24 hours a day, 365 days a year



Our remote support system using the Internet, "MORI-NET Global Edition"

Parts Centers

Our people in charge arrange the shipment of replacement parts as soon as we receive the request from the customer. We have achieved a parts shipment ratio within 24 hours of over 90%, using the CSS-Net online parts search/order system. In February 2007 we completed the expansion of the Stuttgart Parts Center. This makes it possible for us to provide replacement parts more quickly than ever.

Stuttgart Parts Center

Technical Centers

The service personnel working at our Technical Centers visit the customer's factory as soon as they receive instructions from our Service Centers. They extract the customer's technical information and service history, using an information terminal, and report their operating status back to the Service Center. By merging the instruction systems and the information sources, we have achieved a swift and flexible field service.

A service van equipped with an information terminal

Product Strategies

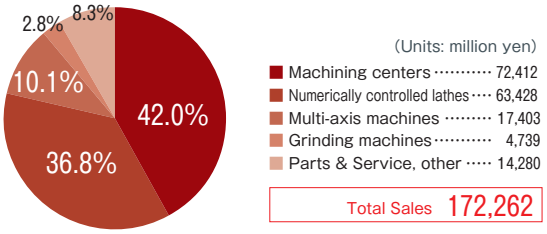
Mori Seiki's development environment is one of the best in the industry, where we always consider the investment effects for our customers, and actively develop new products equipped with our original technology.

Naoshi Takayama
Director
Development & Manufacturing HQ
Executive Officer
(Development)

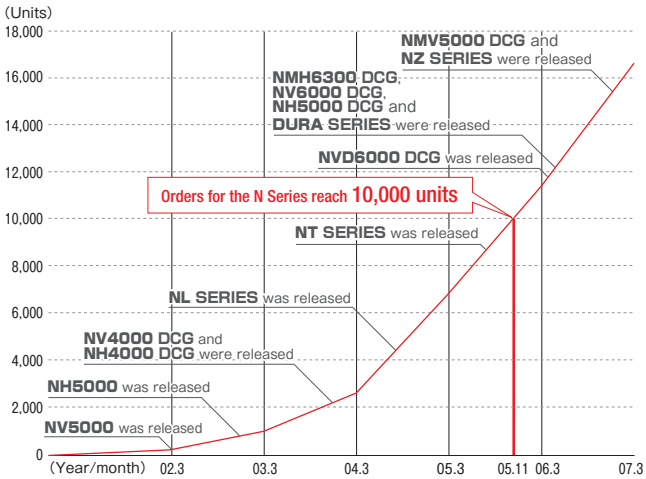
Review of activities for FY 2006

In FY 2006 we released a stream of new products incorporating our elemental technologies such as our original DCG® (Driven at the Center of Gravity), DDM™ (Direct Drive Motor), ORC™ (Octagonal Ram Construction) and BMT™ (Built-in Motor Turret). These included the NMV5000 DCG and NMH6300 DCG 5-axis control machining centers, the NV6000 DCG vertical machining center, the NH5000 DCG horizontal machining center and the new Dura Series. The NMV5000 DCG is a 5-axis control machining center which offers unparalleled high speed and high precision, and has also been developed to be easy for the operator to use. As a result, orders have outstripped production since it was introduced. The Dura Series, which was developed with the concept of "the best reliability and cost performance," has passed 1,000 units ordered in the year since its release. It also received one of the "2006 (49th) Best 10 New Products Awards" for general industrial products in Japan, and was highly praised. As a result of the development of these products, new models in the N Series and the Dura Series account for 80% of the machines we produce.

Sales by product



Trends in orders for our flagship product, the N Series



■ Future challenges and targets

Mori Seiki has 470 engineers involved in the development of CNC lathes, machining centers, multi-axis machines and peripheral equipment, and invests 4.6 billion yen in the development of elemental technologies and new models, which is one of the highest amounts in the industry. However, since the average age of our engineers is comparatively young, one important goal for us is to improve the skills of this new generation. We offer training courses from senior engineers in all kinds of designs, classes in quality engineering techniques, and practical experience at customers' plants overseas (after English conversation lessons) to raise the skill level of these young engineers. By using standardized units and computer simulation techniques for structural analysis and thermal analysis, we are planning to shorten development time and gradually reduce costs for the development of new models. At the same time, the Quality Assurance, Manufacturing, Service, Purchasing and Sales Departments get together and conduct design inspections at every key point in the development stage, so that the whole company is focused on the goal of developing machines of high quality with a high level of completeness. Also, the three development bases at Iga, Chiba and Nara share information by holding monthly Development Meetings through the TV meeting system. And every week there are Quality Improvement Meetings, which examine the causes of problems which have occurred on site and discuss ways to prevent them from recurring. We are doing our best to share information and to minimize variations in design quality at each base, thus improving overall quality.

■ Future product development

In the future we will continue to develop new products from the customers' point of view. Every year there are increasing demands for machines which not only have high productivity, but which also take safety and the environment into consideration and which are easy to maintain so that customers can use them overseas with confidence. It is becoming increasingly important to develop elemental technologies which meet these demands. By promoting this kind of research and development, we are building a system which can always supply customers with cutting-edge machine tools. This fiscal year we are planning to develop new models such as the NT6600 DCG integrated mill turn center for large workpieces, and to expand our line-up in the NZ Series of multi-axis machines for mass production and the NMV and NMH Series of 5-axis control machining centers. Please watch for them.

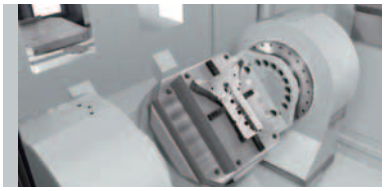
NMV5000 DCG

■ Review of products for FY 2006

1st Quarter (April-June)

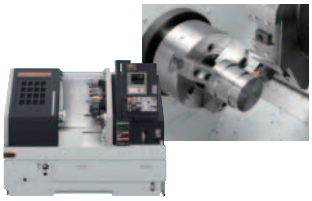
NV6000 DCG
NVD6000 DCG were released

NH5000 DCG was released



NMH6300 DCG was released

DuraVertical was released



DuraTurn was released

3rd Quarter (October-December)

・Orders for the NL Series reached 5,000 units

NMV5000 DCG was released

NZ SERIES was released

4th Quarter (January-March)

・The Dura Series received one of the "2006 (49th) Best 10 New Products Awards"

Product Strategies

Original Technology

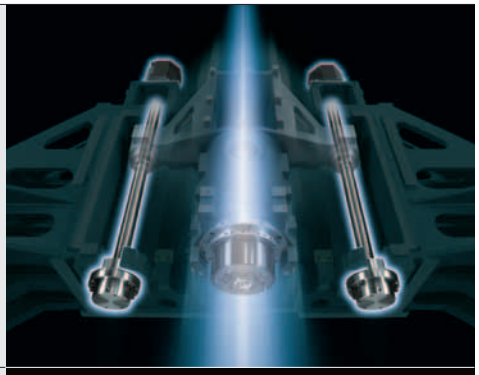
I want to do high-precision machining. I want to shorten machining times. I want more efficient production. For customers involved in cutting, these are never-ending problems. The demands for high precision, high speed and high efficiency are also increasing without limits. In response to our customers' concerns, which are evolving every day, we want to continue our tireless technological investigations. In order to meet these demands, Mori Seiki has introduced 4 original technologies which offer outstanding machine performance, taking machine tools to a level which conventional models can't reach.

DCG®
Driven at the Center of Gravity

Driven at the Center of Gravity
【Technology to minimize vibration】

The 24th Technology Development Award from the Japan Society for Precision Engineering

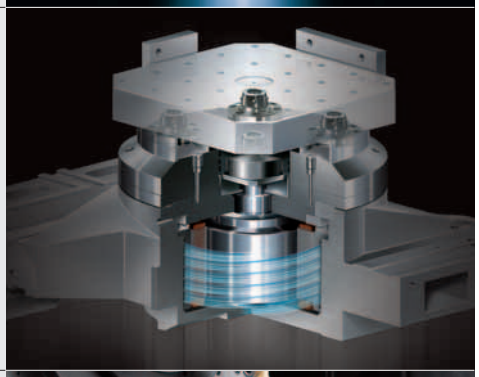
Vibration, which is caused by the movement of the machine's components, is a major cause of deterioration in surface quality and machining accuracy. DCG® minimizes the residual tool tip vibration, optimizing not only accuracy but also machining time and tool life.



DDM™
Direct Drive Motor

Direct Drive Motor
【The world's fastest rotary axis drive system】

Until now, worm gears have been used to transmit power to the rotary axes, but they had a bad effect on drive speed and accuracy. By transmitting power directly, without using gears, the DDM™ achieves more efficient drive than ever before.

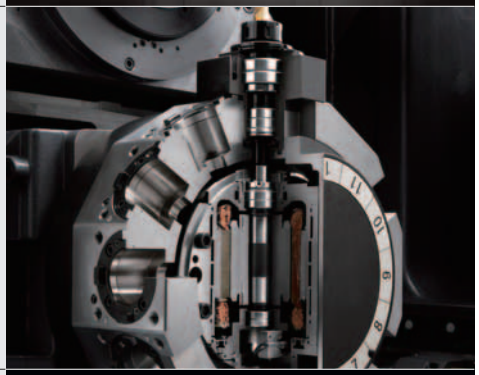


BMT™
Built-in Motor Turret

Built-in Motor Turret
【A revolution in turret milling】

The 2004 JSME Medal for New Technology

The milling power of conventional lathes is low, and since there were many parts, such as gears and belts, transmitting the drive power from the motor, heat and vibration spread over a wide area. By placing the motor inside the turret, the BMT™ reduces temperature increases in the turret to less than 1/10. As well as minimizing heat and vibration, this increases the transmission efficiency, offering milling power and machining accuracy approaching those of a machining center.



ORC™
Octagonal Ram Construction

Octagonal Ram Construction
【Octagonal shape for a revolutionary feed】

ORC™ is a revolutionary feed mechanism, making the ram a perfect octagonal shape. This preserves the advantage of conventional square guides, which is their damping characteristics, while overcoming the problem of thermal displacement caused by temperature increases in the slideways. The slideways, which are placed diagonally opposite each other, distort symmetrically in response to heat, offsetting each other's thermal deformation. This means that the center of the moving part always stays the same, allowing high-precision machining with high-speed travel.

■ NT Department Integrated mill turn centers

The NT Department is based at the Chiba Campus, and is in charge of the development and manufacture of our integrated mill turn centers. Since it was released two years ago, we have received orders for more than 500 units of the NT Series, which is the main production model at the Chiba Campus. This is the result of listening closely to customers' requests about what they want in a multi-axis machine, completely re-examining the required performance, and not hesitating to pour all our original technologies, such as DCG® (Driven at the Center of Gravity), BMT™ (Built-in Motor Turret), DDM™ (Direct Drive Motor) and ORC™ (Octagonal Ram Construction), into the NT Series. In FY 2007, we are planning to expand the Series by adding models with larger distances between centers. In the NT Assembly Section we will do our utmost to achieve even shorter production lead time and improved quality through our original cell production system. In the future the NT Department will continue to develop and manufacture integrated mill turn centers which will contribute to greater profits for our customers.

High-Precision, High-Efficiency Integrated Mill Turn Center NT Series
・"The 2005 Nikkei Superior Products and Services Awards/Nihon Keizai Shimbun Awards for Excellence" sponsored by Nihon Keizai Shimbun

NT4200 DCG

NZ2000 T3Y3

■ NL Department Medium and large CNC lathes

The NL Department develops and manufactures CNC lathes. Since the NL Series was introduced three years ago, it has been a spectacular success, with more than 6,000 units sold. Thanks to the support and approval of our customers, we are still maintaining production of 200 units per month. For the NL Series, the first model to use the BMT™ (Built-in Motor Turret), we receive requests for the Y-axis function for about half of the machines we produce. This was developed to ensure high productivity, even in the multi-axis machining field, and the judgment of the market shows that we have succeeded. Our new NZ Series is a multi-axis machine which can do machining of small parts from bar material at the highest speed. With up to 3 BMT™ (Built-in Motor Turrets), all of which can be equipped with the Y-axis, it allows simultaneous milling, resulting in improved productivity. In the NL Assembly Section, we will reduce production lead time and improve manufacturing quality for the N Series by using cell production. We will continue to manufacture products which satisfy our customers and help them increase their profitability.

Development of BMT™ (Built-in Motor Turret) for CNC lathes
・The "2004 JSME (Japan Society of Mechanical Engineers) Medal for New Technology"

The high-rigidity, high-precision CNC lathe, NL Series
・The "34th Machine Design Award (Japan Machine Tool Builders' Association Award)" sponsored by the Nikkan Kogyo Shimbun

Product Strategies

NV Department Vertical machining centers

At the NV Department, we develop and manufacture vertical machining centers. The NV6000 DCG, which was developed last year, boasts high speed, high precision and high productivity in the die and mold and parts machining industries, and has received high praise and steady orders from our customers. The NV5000α1, the first model developed in the N Series, has also been a big hit, with more than 5,000 units sold. Together with the NVD1500 DCG and the NV4000 DCG, it is proving to be a strong cornerstone of our order activities. And the VS Series, whose development and manufacture were transferred from the Chiba Campus last year, is doing well in the semiconductor and large parts machining industries, with satisfactory orders and monthly production of 8 units. In response to market demand, this fiscal year we have started working on the development of a large model in the N Series, with Y-axis travel of more than 650 mm, and a bridge-type machining center. In order to improve efficiency for these large machines, we are developing and incorporating innovative technologies. For assembly, we have concentrated on cell production of the NV Series to improve manufacturing quality and to reduce production lead time, establishing a system which can meet the demand for shorter delivery times. The NV Department will continue to seek to be No. 1 in quality, cost and delivery time, to manufacture machines which will increase our customers' profitability, and to become Global One.

NV6000 DCG

NVD1500 DCG
- The "35th Machine Design Award (Distinctive Merit Award)" sponsored by Nikkan Kogyo Shimbun
- Good Design Award 2005

NV4000 DCG
- The "46th Best 10 New Products Award" sponsored by Nikkan Kogyo Shimbun

Development of a high-precision machining center with DCG®
(Driven at the Center of Gravity)
- The "24th Technology Development Award from the Japan Society for Precision Engineering"

NH Department 5-axis control horizontal machining centers／Horizontal machining centers

NMH6300 DCG

NH4000 DCG
- The "46th Best 10 New Products Award" sponsored by Nikkan Kogyo Shimbun

Development of a high-precision machining center with DCG®
(Driven at the Center of Gravity)
- The "24th Technology Development Award from the Japan Society for Precision Engineering"

The NH Department develops and manufactures horizontal machining centers. We have released many horizontal machining centers with DCG® technology, from the NH4000 DCG to the NH8000 DCG and the NMH6300 DCG, which offer high-speed, high-precision machining with superior surface quality to meet the needs of the era, and which have received high praise and support from our customers. In addition to the outstanding performance of these machines, they have a high degree of completion in all aspects, with a wide variety of peripheral equipment and systems, high compatibility of applications systems and efficient fixture support. In response to many requests from customers, we will continue development of the NH Series, and make it the standard model for the 21st century. Our whole staff is firmly convinced that we can achieve Global One with this Series.

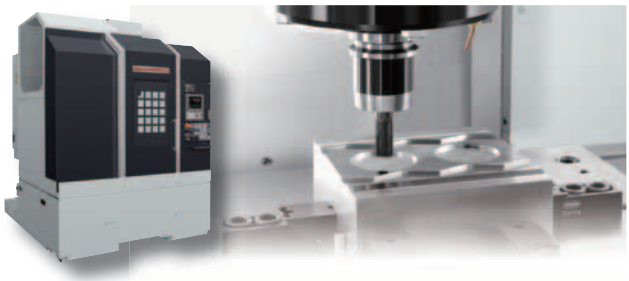
NX Department 5-axis control vertical machining centers／Compact CNC lathes／Compact machining centers

NMV5000 DCG

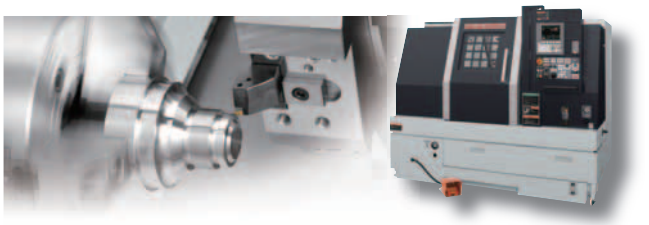
NMV5000 DCG
- The "37th Machine Design Award (Minister of Economy, Trade and Industry Prize)" sponsored by Nikkan Kogyo Shimbun

At the NX Department, our main responsibility is the development and manufacture of comparatively small CNC lathes and machining centers for mass production parts machining. The NMV5000 DCG, a high-precision, 5-axis control vertical machining center which combines all of Mori Seiki's elemental technologies, made its debut at JIMTOF2006 and was added to our production line-up. It has been highly praised, and we have received many requests to expand the Series. In response to these requests, in the spring of 2008 we are planning to start by releasing the NMV3000 DCG and the NMV8000 DCG, equipped with tables one size smaller and larger at φ300 mm and φ800 mm respectively. We have also added the NXH3000 DCG and the NXV3000 DCG to the NX Series, which was developed to revolutionize mass production lines for small parts machining. And we are planning to release the

largest model in the Series, the NXH4000 DCG, in the fall of 2008. By the end of this fiscal year, we will also reinforce the NZ-S Series of compact 2-turret shaft lathes by introducing the NZ-S2500 for 10-inch workpieces, to increase the range of workpieces which can be machined. Please look forward to these new models which the NX Department will release in the future.



DuraVertical 5060



DuraTurn 2050

■ Dura Department Vertical machining centers／CNC lathes

"Dura" stands for new value in machine tools: Durable, Universal, Reliable, Affordable and Accurate. The Dura Department develops and manufactures the DuraVertical Series of vertical machining centers and the DuraTurn Series of 2-axis lathes. These machines have strong basic performance, and offer stable, high-precision machining with few breakdowns at a reasonable price. They have been a big hit since they were released in July 2006, with over 1,000 units sold. The Dura Series has been created by paying attention to every detail from the development stage, right down to single bolts, in order to build a production system which integrates all of Mori Seiki's innovative production methods since 2001, such as the cell production system and the auto campsite system. And we are always making improvements to raise quality and to reduce the cost of sales ratio. The Dura Department will continue to do our best to manufacture machines which will satisfy our customers. Please watch out for the future evolution of the Dura Series.

Vertical machining centers／CNC lathes DURA Series
・Received one of the "2006（49th）Best 10 New Products Awards" sponsored by the Nikkan Kogyo Shimbun

■ Electrical Circuit Department NC units／Application systems

The Electrical Circuit Department designs electrical cabinets, operation panels and harnesses for all models, and develops the sequence software which controls the machines. Since last fiscal year, we have been stationed at the Iga, Chiba and Nara Campuses, and work on the machines produced at each of the 3 bases. Some of the electrical cabinets are assembled in-house, and our Design and Assembly Sections cooperate to manufacture and deliver high-quality electrical cabinets to the machine assembly areas. We also share our know-how with our electrical cabinet suppliers. We are developing sequence software to make every machine operate as well and as fast as possible and to make them easier to use, in order to contribute to improving our customers' productivity. The Electrical Circuit Department is also responsible for tuning major machines such as multi-axis and 5-axis machines, which have been attracting a lot of attention recently. We are developing state-of-the-art controls to achieve high speed, high precision and high surface quality. Yet another important factor is the design safety of our machine tools. We ship machines which our customers can use safely all over the world, while complying with the safety standards of each country. We will continue our efforts, aiming for controls which can extract the full performance from constantly evolving machine tools. Please watch out for them.

Engineering System

The Engineering HQ responds quickly and precisely to all our customers' problems to do with machining, from solving technical issues, turnkey systems to increase productivity and the accuracy of machined workpieces, peripheral equipment, tools and fixtures to providing operating instructions.

Koji Okura
Senior Executive Managing Director
Engineering HQ Executive Officer

Review of activities for FY 2006

The Engineering HQ is a technical support contact for all sales processes for machine tools, from technical proposals based on customers' requests, inspections of machining time, quotations and test machining before the contract to run-off machining, training at the time of delivery and acceptance inspection afterwards. In line with our basic business motto, "Speed and Accuracy," we have established Engineering Departments at our sales bases in Europe and the Americas, and have been making efforts to activate them. We concentrated on the showrooms in these regions, installing the NMV and NT Series of multi-axis machines, which made a sensational debut when they were released in response to the current needs of the market, so that we could put all our efforts into proposals and machining which demonstrate the maximum performance of our machines. We have seen the results of our technical support in the narrowing down of specifications for systems based around horizontal machining centers and turnkey projects, orders and early acceptance inspections. As a new experiment, we have established the Resident Engineering Section, staffed by engineers who are skilled in machining and process design. They are sent to customers' factories to increase the productivity of the machines after the acceptance inspection and to take part in discussions about the next equipment. This has contributed to machine orders both for us and for the customers. At the same time, we have strengthened our ongoing technical support overseas, in India, Russia, China, Central Europe, etc. Through this close relationship, we are certain that we have contributed greatly to displaying the functions of our customers' machines, and as a result, to increasing their confidence in Mori Seiki machines.

Future challenges and targets

Customers are looking for mass production of parts while maintaining accuracy, as well as reduced running costs and short delivery times for multiple-item, small-lot production and high-precision parts, and their needs have been growing more diverse every year. The Engineering HQ must continue to offer proposals which improve the performance of customers' machines by reducing costs through selecting the ideal specifications and using various methods to increase the outcomes. Machine tools are becoming more complicated at an ever faster rate, and Mori Seiki is receiving more inquiries about 5-axis machining of parts and dies and molds using the NT and the NM. We are also working hard to do test machining more promptly before we receive an order, so that we can show the machines' true abilities, and to establish an educational system to teach customers how to start operating and programming our machines quickly and safely after delivery. MTL (Machining Technology Laboratory), which we set up during the last fiscal year in the U.S.A. and Japan, embodies the development of innovative technologies through new machining methods. They will cooperate closely with tool and peripheral equipment manufacturers, large customers and universities, and will continue this "seize" strategy to develop advanced methods. Also, programming and knowledge of CAM are essential for extracting the full potential from multi-axis machines by making the most of all 5 axes, so we have created a specialist CAM team to provide stronger support. We also started operations at the Akishino Mold Laboratory, which will actually manufacture molds. As a department which can suggest the ideal machines and machining from the customers' point of view, we are confident that this will be able to contribute to machine orders. And due to the shortage of skilled technicians, requests for our resident engineers are increasing, which will strengthen our relationship with our customers by improving productivity after the machines' acceptance inspections and gaining information in advance of inquiries. We think that local customers in every part of the world and multi-national customers who have expanded globally have the same goals, which are to reduce completion time for their products and to increase their business chances. We will continue to act as an engineering knowledge center, to work even more closely with our customers and to provide them with the best proposals quickly and accurately.

Global engineering system

We have Engineering Departments with high levels of specialist knowledge in three places: Chicago, Stuttgart and Nagoya. We have also established Technical Sales Teams and Machining Technology Teams at campuses in Japan, to act as contacts for technical support for the entire sales process, from technical proposals to submission of estimates, contracts, run-off machining, delivery and acceptance inspections.

Europe Engineering Department

Ralf Riedemann
Engineering HQ
General Manager

America Engineering Department/MTL

Mark H. Mohr
MORI SEIKI U.S.A., INC.
Vice President
America Engineering Department

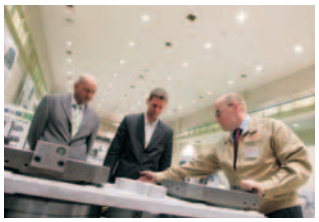
Gregory Hyatt
MORI SEIKI U.S.A., INC.
Vice President
MTL Department

Engineering Department

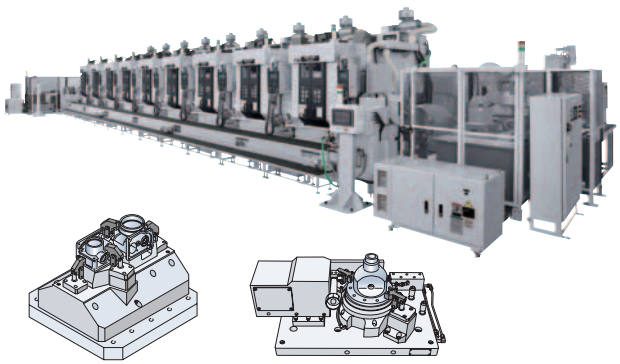
Hidefumi Shirotori
Engineering HQ
General Manager
Vice Executive Officer

Support system

With issues such as the aging of outdated equipment, revision of production techniques, increased production systems and new approaches, our staff listen directly to customers' wishes, handling both documentation and samples.



Through continued testing, we decide the optimal system requirements.



1. **Initial talks with customer**
2. **Referrals & inquiries**
   - Fixture and tool concepts
   - Time studies (to determine machining technique and time)
   - Quotations • Delivery time • System planning
   - Test cutting • Drawing up specifications

   Manufacturing & Assembly
   Development Departments
3. **Proposal to customer**
4. **Final specifications**
   - Meetings with Development and Manufacturing
   - Schedule planning

   The best systems for the customer will be determined through extensive consultations between the Technical Center in charge and the Development and Manufacturing Departments.
5. **Design**
   - Development and modification of machines • Design of peripheral equipment and units
   - Tooling design • Control system construction
6. **Manufacture and assembly**
7. **Review & evaluation**
   - Finished product inspection • Programming report • Machining/Continuous tests
   - Machining data submitted in advance
8. **Try out & test cutting**
   - Machining • Workpiece inspection
   - Fault identification • Shipping/delivery schedule
9. **Installation, run-off, & inspection**
   - Run-off inspection

Administrative Systems

At Mori Seiki, we have been concentrating on the establishment of internal control systems and the development of human resources, with the Administrative HQ as a core department. Mori Seiki will continue to cultivate an open corporate culture and to grow with the aim of becoming Global One.

Hiroaki Tamai
Managing Director
Administrative HQ Executive Officer

Review of activities for FY 2006

We have completed the establishment of our internal control systems for financial reporting, which are the most important measure for fulfilling Mori Seiki's corporate governance, and started implementing them from April 2007, one year before the Financial Instruments and Exchange Law comes into effect (April 2008). We also created Compliance Guidelines for employees about the internal control systems, so that they are all following the same rules. And we have written a handbook for our overseas distributors and visited them to provide training in security trade management. What's more, we installed the Relocated Machine Security Function in all of our machines shipped from October 2006, to prevent the possibility of customers using our machines for military purposes. As for human resources, there is a saying that "A company's most valuable asset is its staff," and Mori Seiki's future depends on how many talented employees we can cultivate. In October 2006 we established the Mori Seiki University in Japan and the U.S.A. and started a systematic educational program to help our employees and our distributors' employees who are involved in sales, customer support and service to improve their sales and technical skills.

Future challenges and targets

In FY 2007, the Administrative HQ will aim to achieve the following 5 targets as our most important obligations.

① Strengthen our security trade management system

② Maintain the internal control systems as part of our risk management system

③ Develop Mori Seiki University

④ Promote the second medium-term management plan

⑤ Invest in the information systems to achieve our management plans

Stronger security trade management

For security trade management, our Export Control Section oversees the export control for all our bases throughout the world, in order to strictly enforce our internal regulations (compliance program) and to comply with export control laws. In particular, we dispatch our own employees to customers' factories to install our machines and to check their intended use. Also, as well as installing the Relocated Machine Security Function in our machines to prevent misappropriation and transfer without permission, we will continue to provide training for not only our own employees but also for our overseas distributors.
In December 2006, we established our first overseas manufacturing company, Mori Seiki International SA in Switzerland. Our Export Control Section will be responsible for this company's export management, and will manage their exports not only in conformity with Switzerland's export control laws but with Japan's as well.

Maintenance of internal control systems as part of our risk management system

We will strengthen our monitoring functions to enhance the operation of our internal control systems, and will take the following steps to improve their effectiveness:

- For financial reports, in addition to monitoring by the Internal Auditing Department, we will establish a self-checking system by each department to ensure that the risk control for our 24 business processes is working effectively. Also, we will set up a similar system for our overseas subsidiaries in the United States and Germany.
- We will spread our Compliance Guidelines through monitoring of our compliance with important laws concerning export management, subcontracts, labor standards, etc, by the Administrative HQ and the Internal Auditing Department.
- In order to improve the company's control environment, it is necessary for us to implement Mori Seiki's rules globally. To achieve this, beginning this fiscal year we will take steps to raise our overseas employees' awareness of complying with the rules, for example by introducing a monthly self-audit system, in addition to the annual audit of all overseas subsidiaries by the Internal Auditing Department.

Promotion of the second medium-term management plan

The greatest value which a machine tool manufacturer can provide for customers is "continuity." We are committed to becoming Global One by continuing to develop and build machines which raise our customers' productivity, and by continuing to provide lasting support. Backed by the favorable exchange rate and order environment, in the second year of the Mori-568PLAN we came close to achieving the targets for the whole 3-year period: sales of 175 billion yen (estimated global share 5%), a consolidated cost of sales ratio of 60% and a system that produces a minimum of 800 units per month. In FY 2007, we are aiming to achieve the targets in the Mori-568PLAN, even without the help of these supports. For Mori Seiki, "continuity" means improving our ability to respond to external factors, such as trends in orders and exchange rates, and to various other risks. We will consider ways of raising the level of our responsiveness to these diverse risks when preparing our next medium-term management plan.

Investment in the information systems to achieve our management plans

In order to achieve our medium-term management plan, we are taking the following steps:

- Expanding the "Customer Information Management System" globally to support order activities
- Expanding the "Sales Management System," which was based on a package made by German company SAP, throughout the world, with the aim of further improving the efficiency of placing/receiving orders.
- Expanding the "New Production Management System," which supports increases in production in response to strong demand, throughout the world.

We are also taking the following steps for risk management.

- Introducing the information security management system to prevent leaks of our customers' important information and our own valuable development/design information.
- Implementing the IT controls to avoid IT process risks in relation to the creation of financial reports, as part of the establishment of our internal control system.

Developing the Mori Seiki University

MSU MORI SEIKI UNIVERSITY

Iga Campus

MSU Chicago

We believe that cultivating excellent human resources is indispensable for becoming Global One. In order to improve each employee's management ability and the specialist skills which are required for his or her job, the Mori Seiki University, which was established this year in Japan and the U.S.A., will work to promote employee education such as technical training for engineers and management training for people in supervisory positions. In addition to branches in Japan and the U.S.A., in the next fiscal year we will also set up the Mori Seiki University in Europe, to create a first-rate three-pronged human resource development system and improve the quality of our sales, support and service. We also completed the refurbishment of the Mori Seiki University in Chicago, U.S.A., in May. In Japan, the Human Resources Development Center at the Iga Campus was transferred to the Mori Seiki University, and together with the other two bases in Tateshina (Nagano) and Nemunosato (Mie), we established a 3-base system in Japan to provide even better education.

Administrative Systems

Certified Skilled Workers

Certificates are awarded to technicians who can make the most of their superior skills to do things which machines cannot, and who can produce high-precision, high-quality products.

General Machine Instrument Manufacturing (Machining)

Kazuo Nishioka/Yoshiki Otawa/Tatsuyoshi Ogura/
Hisao Harada/Tatsuaki Yamashita/Yasuhiro Higashi/Takashige Omura

Total: 7 people

Automobile Manufacturing (Machining)

Kazuo Kuromatsu

Total: 1 person

General/Precision/Electrical Machine Instrument Maintenance (Machine Tool Maintenance)

Fujio Kumagai/Takayuki Miyazawa/Kanji Tanaka

Total: 3 people

General Machine Instrument Manufacturing (Finishing)

Iwao Kawamori/Syoji Ueda

Total: 2 people

General/Precision/Electrical Machine Instrument Maintenance (Machine Tool Maintenance)
Kanji Tanaka

Number of people who have passed Trade Skills (Advanced)

Qualification	Number of people
Trade Skills - Machining (Advanced)	13
Trade Skills - Machine Inspection (Advanced)	8
Trade Skills - Finishing (Advanced)	1
Trade skills - Machine Maintenance (Advanced)	1
Total	23

Number of people with scores of 800 or above in TOEIC

Score	Number of people
950～	13
900～	18
850～	20
800～	23
Total	74

Number of people with Technical Qualifications

Qualification (Technical)	Number of people
Professional Engineering	3
CMfgE	35
CMfgT	114
Machine Design Technology (Level 1)	6
Machine Design Technology (Level 2)	5
Machine Design Technology (Level 3)	4
Total	167

Number of people who have passed Trade Skills (Level 1)

Qualification	Number of people
Trade Skills - Machining (MC operation) (Level 1)	225
Trade Skills - Machining (Milling machine operation) (Level 1)	3
Trade Skills - Machining (NC lathe operation) (Level 1)	57
Trade Skills - Machining (Boring machine operation) (Level 1)	1
Trade Skills - Machining (Surface grinding machine operation) (Level 1)	1
Trade Skills - Machine Inspection (Level 1)	155
Trade Skills - Machine Diagrams (Level 1)	4
Trade Skills - Machine Maintenance (Level 1)	187
Trade Skills - Machine Maintenance (Equipment diagnosis) (Level 1)	3
Trade Skills - Machine Maintenance (Electrical maintenance) (Level 1)	8
Trade Skills - Metal Heat Treatment (General heat treatment) (Level 1)	109
Trade Skills - Metal Heat Treatment (High-frequency/flame heat treatment) (Level 1)	4
Trade Skills - Pneumatic Equipment Assembly (Level 1)	5
Trade Skills - Finishing (Machine assembly finishing) (Level 1)	11
Trade Skills - Hydraulic Equipment Adjustment (Level 1)	16
Total	789

Number of people with Doctorates, Master's Degrees

Degree	Number of people
Doctorate	21
Master's Degree	134
Total	155

Activities of the Information Technology HQ

The Information Technology HQ has been working to develop core competence technology both in system design and product design, in order to increase added value for our products.

Makoto Fujishima
Managing Director
Dr. Eng.
Information Technology HQ Executive Officer

Review of activities for FY 2006

The Information Technology HQ is a research and development department which consists of DTL (Digital Technology Laboratory Corporation) in California, U.S.A., and the Control Design Department in Japan. The DDM™ (Direct Drive Motor), which was developed in the Control Design Department and is manufactured in-house, has dramatically improved the speed and precision of the rotary drive. Mori Seiki has already shipped more than 1,500 machines equipped with DDM™, including horizontal machining centers, multi-axis machines and 5-axis machining centers, which have helped to improve our customers' productivity. Our original integrated operation panel has been used for all of our machines ever since the first version was released 7 years ago. In FY 2006, we released the MAPPS Ⅲ 3rd generation integrated operating system with much greater CPU power. It is equipped with the 3D interference checking function which prevents collisions for complicated machines such as multi-axis machines. We also sold more than 400 copies of the MORI-AP Series automatic programming software during FY 2006. This gives your PC a similar operating environment to MAPPS, so you can do programming efficiently either at the machine or from your office. Approximately 8,000 machines in Japan are connected to the MORI-NET system, which conducts remote monitoring and remote maintenance of machine tools through the Internet. This helps to increase the operating rate of our customers' machines by providing swift recovery after breakdowns and remote operation analysis. We started expanding the MORI-NET system globally in FY 2006, making it possible for all Mori Seiki machine tools throughout the world to be connected to the Internet. What's more, we also released the MCC-LPS Ⅱ control system for Linear Pallet Pools and the MCC-TMS tool management system, which are playing valuable roles as automatic support systems for machine tools. At DTL's Mechanical Engineering Section, we developed the NX3000 DCG machining center for automobile parts machining lines, and started preparation for its mass production in FY 2007.

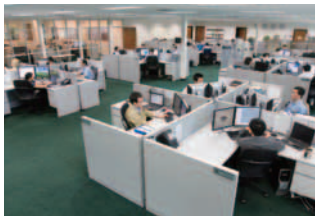
Future challenges and targets

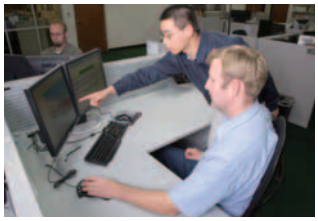
At the Information Technology HQ, we develop advanced functions and mechanisms and use them for our machine tools. Other than the functions I introduced in the Review of activities for FY 2006, we develop postprocessors for the major CAM systems used by our customers and install machine simulation functions in our machines. We are also trying to reduce the time and cost for getting the machines up and running after delivery by making the number of man-hours required for creating postprocessors and machine models as small as possible. And we are promoting even more advanced technical development for DDM™, MAPPS and the MORI-NET system, Mori Seiki's core competence technologies, to increase the added-value for our machine tools. In the future, the Information Technology HQ will continue the global development of products which will delight our customers.

DTL（Digital Technology Laboratory Corporation）

At DTL（Digital Technology Laboratory Corporation）, based in Sacramento, California, U.S.A., we develop software, analytical techniques and new machines and mechanisms which will be the elemental technologies of the machine tools of the future. We develop simulation software, postprocessors, CL engines, cell control software, etc, and make them available for use on our MAPPS Ⅲ integrated operating system to provide more efficient, easy-to-use systems for our customers. For analysis, we use powerful computers such as cluster servers to do dynamic and static analysis of our machines' performance, using 3D machine tool data in a virtual environment, contributing to a significant reduction in the number of design processes. We are also developing systems to compensate for thermal displacement, to improve our machines' accuracy. And we are developing cutting-edge technologies which will be able to be used in machine tools for years to come, providing the core of Mori Seiki's future technological development.

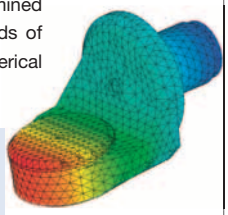
DTL (Sacramento, California, U.S.A.)





Dynamic analysis

The behavior of structures is expressed as differential equations and temporal shape changes are examined through thousands and even tens of thousands of repeated calculations, in order to perform numerical simulations of structural vibration.

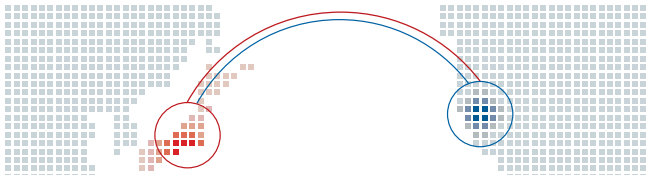


Analysis by DTL

- Analysis of thermal change
- Characteristic frequency analysis
- Fluid analysis
- Acceleration and deceleration tests
- Vibration tests

24-hour development system utilizing the time difference between Japan and the United States

At Mori Seiki's design and development departments, we are operating a bipolar system between America and Japan, using a powerful network to connect DTL and the design teams in Japan. The 3D design models developed in Japan are immediately sent to the analysis departments at DTL, and are evaluated using static and dynamic analytical techniques on computers. This allows us to check whether or not we have achieved our initial target design values before we build the test machines, significantly reducing the time taken between designing and testing.



Design, Development

Design development teams at Iga and Chiba Campuses, Nara Campus No. 1 Plant

Analysis

DTL（Digital Technology Laboratory Corporation）
<Sacramento, California>

Control Design Department

The department develops unique operating systems which act as an interface between humans and machines. We develop a wide variety of control technologies to revolutionize customers' production sites, such as the MAPPS Ⅲ 3rd generation operation panel, the network technologies and remote maintenance services which spread from it, cell control systems, tool management systems, DDM™, etc.

MAPPS Ⅲ

DDM™:Direct Drive Motor

Activities of the Accounting/Finance HQ

We will send information more quickly and accurately by introducing a unified global accounting system and by reinforcing our personnel and organization.

Morikuni Uchigasaki
Director
Accounting / Finance HQ Executive Officer

Review of activities for FY 2006

The Accounting/Finance HQ was established in April 2006 for the purpose of understanding and managing the Head Office and Group companies in Japan and overseas subsidiaries more quickly and accurately, and making swift and competent management decisions. At the same time, we made the Nagoya Head Office the nucleus of all Mori Seiki Group companies throughout the world, and started operating a global accounting system at our Head Office and at Group companies in Japan and in Europe. We extended this to our subsidiaries in Asia and Oceania in the fall of 2006 and to the United States in January 2007, achieving a unified worldwide system. Since we were made an independent headquarters, we have been able to strengthen our human resources and organization and to establish a system which distributes information more quickly and accurately. This has enabled us to procure and invest funds more globally, dynamically and efficiently, to support sales activities and to strengthen risk management. It has also helped us with appropriate handling of international tax management, stricter internal controls and legal compliance, and promotion of information disclosure.

Mori Seiki's global accounting network

This map shows the distribution throughout the world of our offices which use the global accounting system. They will contribute to even faster and more efficient management.

Future challenges and targets

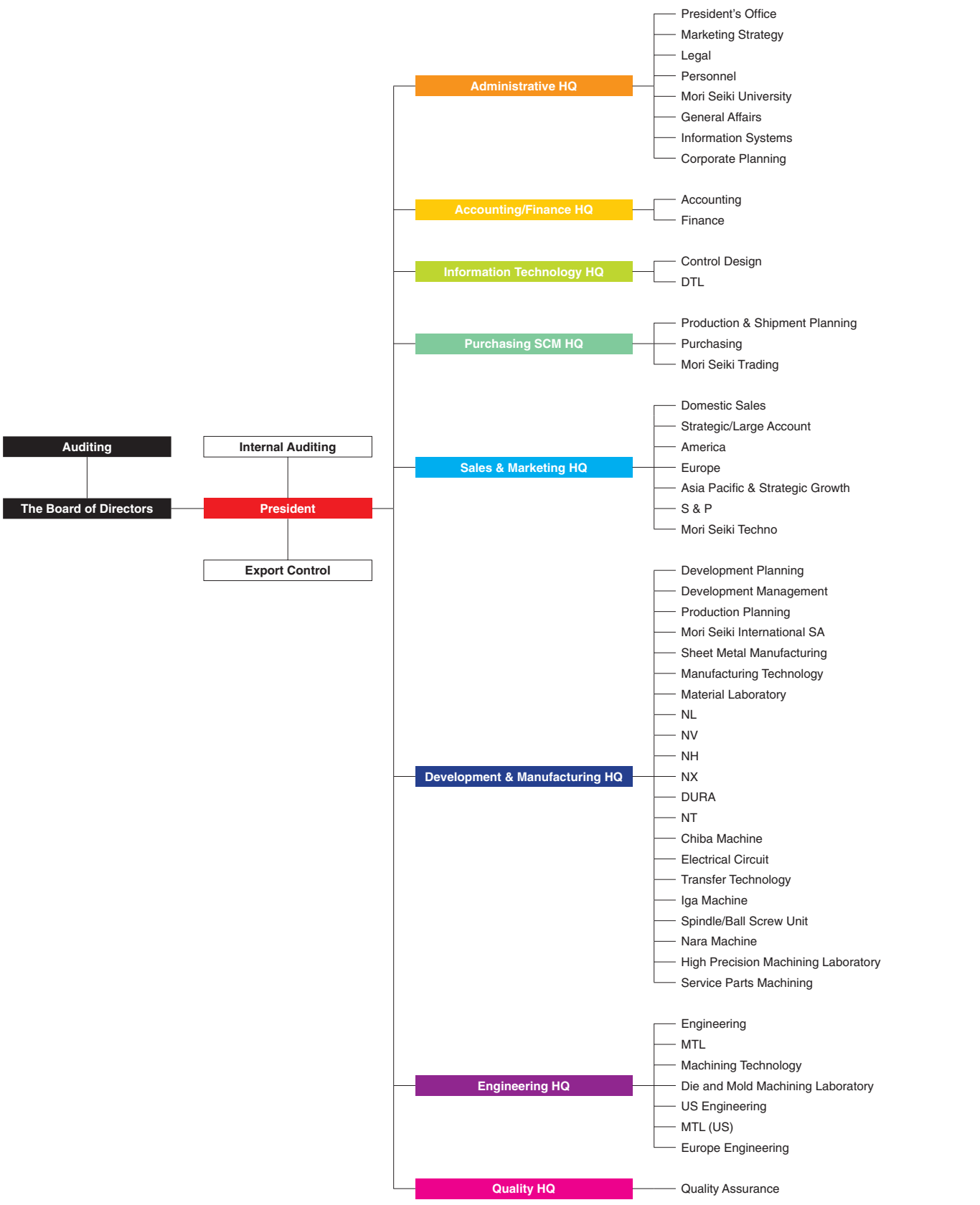
The Mori Seiki Group, which conducts business activities globally, has many sales bases all over the world, and is determined to work on sales activities day and night in order to respond speedily to customers' demands. The global accounting system has greatly contributed to faster, more efficient management by allowing us to obtain and manage reliable accounting information quickly and to understand and analyze the results. We have been developing systems which oversee not only our bases in Japan, but all our Group companies, including our overseas subsidiaries. This fiscal year, we will introduce a consolidated financial accounting system and a consolidated accounting system for management and budgeting for the whole Mori Seiki Group in order to realize our management strategies and to promote even more transparent management by utilizing information more effectively. We are confident that this will help us establish corporate management systems which are directly related to our management strategies. Our medium- to long-term targets are to invest in plant and equipment continuously for growth, to improve profitability and capital efficiency, and to maintain a strong financial base. Also, we will make it possible to conduct research and development and invest in plant and equipment more aggressively for further growth, and we will pay close attention to our cash flow management to allow us to steadily increase our corporate value. What's more, our Design, Production Technology and Purchasing Departments will cooperate closely to reduce costs, in order to increase the Group's profitability, to strengthen our corporate culture and to improve efficiency. The Accounting/Finance HQ will continue to do our utmost to strengthen our internal controls, including risk management, to improve corporate governance and management transparency, and to increase the corporate value of the Mori Seiki Group by promoting greater management efficiency through the introduction of the global accounting system.

Measures in response to the Financial Instruments and Exchange Law

(Japan's equivalent of the Sarbanes-Oxley Act)

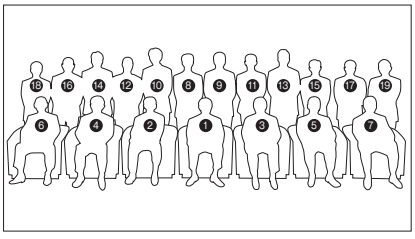
In June 2006 the Financial Instruments and Exchange Law (Japan's equivalent of the Sarbanes-Oxley Act) was passed by the Diet, and from FY 2008 listed companies will be required to evaluate their internal control systems for financial reporting. Reflecting the importance which we place on the reliability of financial reporting, we established a specialist team in the Internal Auditing Department in October 2005, before the bill was approved, and have been constructing our internal control systems and steadily completing preparations such as the documentation of our workflow processes. In order to achieve highly transparent management, it is vital that the cycle of jobs being done properly and problems being discovered and corrected immediately functions continuously and effectively. In the future, the Mori Seiki Group will continue to reinforce our internal control systems and risk management systems.

Organizational Structure



Board of Directors

Masahiko Mori	President Dr. Eng.	①	**Toyofumi Nishio**	Director	⑪
Hiroshi Mizuguchi	Vice President	②	**Morikuni Uchigasaki**	Director	⑫
Takeshi Saito	Vice President	③	**Norihide Maeda**	Director	⑬
Kazuyuki Hiramoto	Senior Executive Managing Director Dr. Eng.	④	**Naoshi Takayama**	Director	⑭
Koji Okura	Senior Executive Managing Director	⑤	**Tadashi Saito**	Director	⑮
Hiraku Nakata	Managing Director	⑥	**Kyoji Umeoka**	Statutory Auditor	⑯
Makoto Fujishima	Managing Director Dr. Eng.	⑦	**Koji Kageyama**	Statutory Auditor	⑰
Hiroaki Tamai	Managing Director	⑧	**Katsuhiko Maehori**	External Auditor	⑱
Takahiro Kobi	Director	⑨	**Yasuo Noishiki**	External Auditor	⑲
Yasunori Hamabe	Director	⑩	**Takashi Nakanishi**	External Auditor	



Financial Section

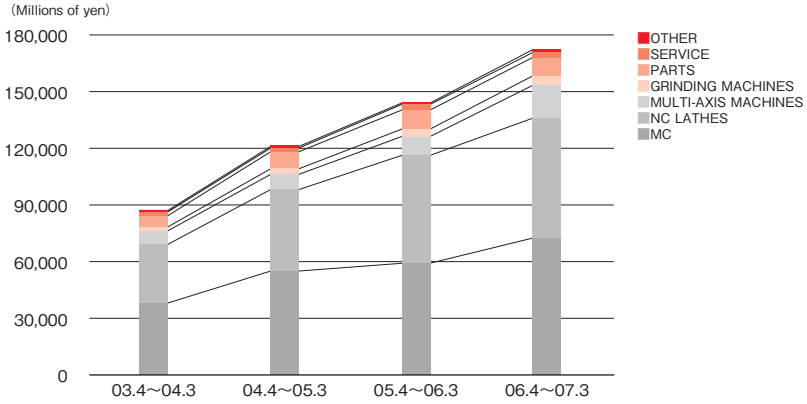
Contents

CONSOLIDATED FINANCIAL HIGHLIGHTS Ⅱ

> Sales by Products

Fiscal Year	MC	NC LATHES	MULTI-AXIS MACHINES	GRINDING MACHINES	PARTS	SERVICE	OTHER	TOTAL
2003.4.1～	¥ 38,010	¥ 30,658	¥ 7,772	¥ 2,210	¥ 5,835	¥ 1,879	¥ 1,193	**¥ 87,557**
2004.3.31	43.4%	35.1%	8.9%	2.5%	6.6%	2.1%	1.4%	**100.0%**
2004.4.1～	¥ 55,412	¥ 42,929	¥ 7,945	¥ 2,846	¥ 9,245	¥ 2,403	¥ 1,386	**¥ 122,166**
2005.3.31	45.4%	35.1%	6.5%	2.3%	7.5%	2.0%	1.2%	**100.0%**
2005.4.1～	¥ 59,474	¥ 57,411	¥ 9,749	¥ 4,276	¥ 10,282	¥ 2,792	¥ 1,356	**¥ 145,340**
2006.3.31	40.9%	39.5%	6.7%	3.0%	7.1%	1.9%	0.9%	**100.0%**
2006.4.1～	¥ 72,412	¥ 63,428	¥ 17,403	¥ 4,739	¥ 9,811	¥ 2,785	¥ 1,684	**¥ 172,262**
2007.3.31	42.0%	36.8%	10.1%	2.8%	5.7%	1.6%	1.0%	**100.0%**

(Millions of yen)

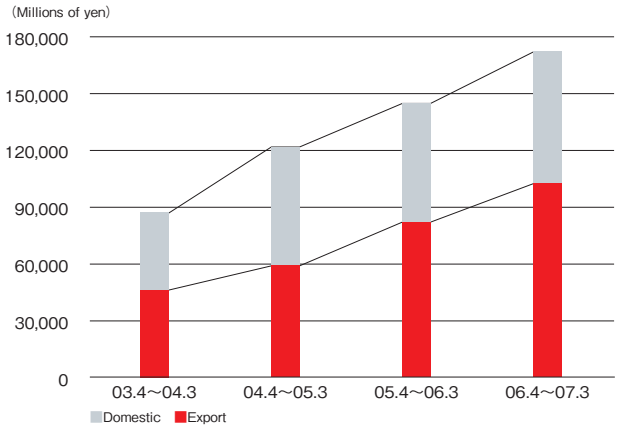


> Overseas Sales

Fiscal Year	TOTAL
2003.4.1～2004.3.31	**¥ 46,236**
	52.8%
2004.4.1～2005.3.31	**¥ 59,146**
	48.4%
2005.4.1～2006.3.31	**¥ 82,123**
	56.5%
2006.4.1～2007.3.31	**¥ 102,324**
	59.4%

(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 year.



> Depreciation, Net Income (Loss) and Investments in Plant and Equipment

Fiscal Year	Depreciation	Net income (loss)	Investments
2002.4~2003.3	¥ 5,114	¥ (5,555)	¥ 4,862
2003.4~2004.3	4,999	712	6,644
2004.4~2005.3	5,100	9,381	8,328
2005.4~2006.3	5,289	13,802	7,239
2006.4~2007.3	5,686	16,194	10,379

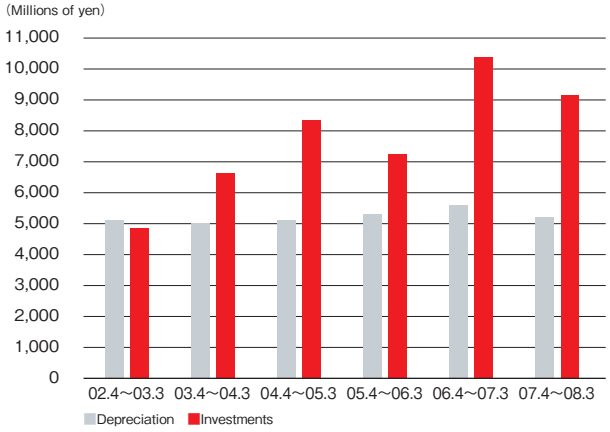
(Millions of yen)

> Estimate

2007.4~2008.3	¥ 5,200	¥ 16,800	¥ 9,160

· Mori Seiki Co., Ltd.'s investments in fixed assets over the past five years totaled approximately ¥37,452 million.

(Millions of yen)



CONSOLIDATED FINANCIAL HIGHLIGHTS Ⅱ

> Five-year Summary

	Millions of yen					Thousands of U.S. dollars
Fiscal Year	**2006.4～2007.3**	**2005.4～2006.3**	**2004.4～2005.3**	**2003.4～2004.3**	**2002.4～2003.3**	**2006.4～2007.3**
Net sales	**¥ 172,262**	¥ 145,340	¥ 122,166	¥ 87,557	¥ 63,864	$1,458,735
Net income (loss)	**16,194**	13,802	9,381	712	(5,555)	137,133
Net income (loss) as a percentage of sales	**9.4%**	9.5%	7.7%	0.8%	(8.7%)	9.4%
Selling, general and administrative expenses	**44,907**	39,060	30,865	24,732	22,755	380,278
Cash dividends	**4,158**	3,677	1,761	883	445	35,210
Total assets	**169,034**	162,779	135,631	122,166	115,123	1,431,400
Net assets	**131,036**	116,347	96,443	86,912	86,875	1,109,629
Property, plant and equipment, net	**49,409**	55,747	59,910	56,561	56,977	418,401
Working capital	**66,590**	63,333	40,957	41,239	23,970	563,892

Per share data:	Yen					U.S. dollars
Net income (loss)	**¥ 174.78**	¥ 153.62	¥ 104.94	¥ 7.23	¥ (61.96)	$ 1.48
Cash dividends	**44.00**	40.00	20.00	10.00	5.00	0.37

1. Net income (loss) 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 ¥118.09 = U.S.$1.00, the exchange rate prevailing on 31st March, 2007.

CONSOLIDATED BALANCE SHEETS

> ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31st March,		31st March,
	2007	**2006**	**2007**
Current assets:			
Cash and cash equivalents (Note 4)	**¥ 29,959**	¥ 31,583	$ 253,696
Notes and accounts receivable:			
Trade	**32,916**	29,962	278,737
Allowance for doubtful receivables	**(281)**	(273)	(2,380)
Notes and accounts receivable, net	**32,635**	29,689	276,357
Inventories (Note 5)	**29,904**	25,063	253,231
Deferred income taxes (Note 10)	**1,882**	142	15,937
Other current assets	**3,314**	2,889	28,063
Total current assets	**97,694**	89,366	827,284
Property, plant and equipment (Note 7):			
Land (Note 12)	**15,533**	21,016	131,535
Buildings and structures	**59,010**	64,649	499,704
Machinery, equipment and vehicles	**43,377**	39,913	367,322
Construction in progress	**82**	717	694
	118,002	126,295	999,255
Accumulated depreciation	**(68,593)**	(70,548)	(580,854)
Property, plant and equipment, net	**49,409**	55,747	418,401
Investments and other assets:			
Investments in securities (Note 6):			
Unconsolidated subsidiaries and affiliates	**3,154**	1,211	26,709
Other	**12,692**	12,776	107,478
Total investments in securities	**15,846**	13,987	134,187
Deferred income taxes (Note 10)	**165**	26	1,397
Other assets:			
Goodwill (Note 7)	**1,773**	1,326	15,014
Other	**4,147**	2,327	35,117
Other assets, net	**5,920**	3,653	50,131
Total investments and other assets	**21,931**	17,666	185,715
Total assets	**¥ 169,034**	¥ 162,779	$ 1,431,400

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

> LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31st March,		31st March,
	2007	**2006**	**2007**
Current liabilities:			
Short-term bank loans (Note 9)	**¥ 1,500**	¥ 1,320	$ 12,702
Current portion of long-term debt (Note 9)	**–**	5,084	–
Accounts payable	**11,612**	9,698	98,332
Accrued income taxes (Note 10)	**4,848**	1,248	41,053
Accrued expenses	**476**	417	4,031
Deferred income taxes (Note 10)	**164**	203	1,389
Advances received	**1,399**	2,085	11,847
Allowance for product warranties (Note 3(1))	**811**	–	6,868
Allowance for bonuses to directors and corporate auditors (Note 3(3))	**159**	–	1,346
Other current liabilities	**10,135**	5,978	85,824
Total current liabilities	**31,104**	26,033	263,392
Long-term liabilities:			
Long-term debt (Note 9)	**3,920**	14,457	33,195
Deferred income taxes (Note 10)	**844**	3,359	7,147
Deferred income taxes on land revaluation reserve (Notes 10 and 12)	**1,699**	1,824	14,387
Other long-term liabilities	**431**	333	3,650
Total long-term liabilities	**6,894**	19,973	58,379
Minority interests	**–**	426	–
Contingent liabilities (Note 14)			
Net assets (Note 3(2))			
Shareholders' equity (Note 11):			
Common stock:			
Authorized – 157,550,000 shares – 31st March, 2007 and 2006			
Issued – 100,366,274 shares – 31st March, 2007			
– 96,364,872 shares – 31st March, 2006	**32,022**	29,286	271,166
Capital surplus	**45,329**	42,529	383,851
Retained earnings (Note 19)	**53,986**	49,645	457,160
Treasury stock, at cost: 4,333,935 shares – 31st March, 2007			
4,454,518 shares – 31st March, 2006	**(5,369)**	(3,867)	(45,465)
Total shareholders' equity	**125,968**	117,593	1,066,712
Valuation and translation adjustments:			
Land revaluation reserve (Note 12)	**1,545**	(4,637)	13,083
Net unrealized holding gain on securities (Note 6)	**4,559**	4,577	38,606
Net unrealized loss on derivative instruments	**(1,342)**	–	(11,364)
Translation adjustments	**(240)**	(1,186)	(2,032)
Total valuation and translation adjustments	**4,522**	(1,246)	38,293
Minority interests	**546**	–	4,624
Total net assets	**131,036**	116,347	1,109,629
Total liabilities and net assets	**¥ 169,034**	¥ 162,779	$ 1,431,400

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Year ended 31st March,		Year ended 31st March,
	2007	**2006**	**2007**
Net sales	**¥172,262**	¥145,340	$ 1,458,735
Cost of sales (Note 8)	**102,312**	89,985	866,390
Gross profit	**69,950**	55,355	592,345
Selling, general and administrative expenses (Notes 8 and 13)	**44,907**	39,060	380,278
Operating income	**25,043**	16,295	212,067
Other income (expenses):			
Interest and dividend income	**241**	124	2,041
Interest expense	**(48)**	(110)	(406)
Gain on sales of investments in securities (Note 6)	**–**	917	–
Loss on revaluation of investments in securities (Note 6)	**(202)**	–	(1,711)
Foreign exchange loss	**(340)**	(292)	(2,879)
Loss on sales and disposal of property, plant and equipment, net	**(283)**	(980)	(2,396)
Loss on impairment of fixed assets (Note 7)	**(4,209)**	(609)	(35,642)
Provision of prior year allowance for product warranties (Note 3(1))	**(657)**	–	(5,564)
Other, net	**(142)**	(191)	(1,203)
Income before income taxes and minority interests	**19,403**	15,154	164,307
Income taxes (Note 10):			
Current	**5,308**	1,146	44,949
Deferred	**(2,202)**	126	(18,647)
	3,106	1,272	26,302
Income before minority interests	**16,297**	13,882	138,005
Minority interests in net income of consolidated subsidiaries	**(103)**	(80)	(872)
Net income	**¥ 16,194**	¥ 13,802	$ 137,133

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Number of shares of common stock	Millions of yen									
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Land revaluation reserve	Net unrealized holding gain on securities	Net unrealized loss on derivative instruments	Translation adjustments	Minority interests	Total net assets
Balance at 31st March, 2005	94,775,427	¥ 28,191	¥ 40,932	¥ 46,255	¥ (5,850)	¥ (13,172)	¥ 2,323	¥ –	¥ (2,236)	¥ –	¥ 96,443
Net income	–	–	–	13,802	–	–	–	–	–	–	13,802
Cash dividends	–	–	–	(1,761)	–	–	–	–	–	–	(1,761)
Bonuses to directors and corporate auditors	–	–	–	(116)	–	–	–	–	–	–	(116)
Issuance of new shares upon exercise of stock acquisition rights	1,589,445	1,095	1,094	–	–	–	–	–	–	–	2,189
Purchases of treasury stock	–	–	–	–	(38)	–	–	–	–	–	(38)
Sales of treasury stock	–	–	503	–	2,021	–	–	–	–	–	2,524
Net change in land revaluation reserve	–	–	–	(8,535)	–	8,535	–	–	–	–	–
Net change in net unrealized holding gain on securities	–	–	–	–	–	–	2,254	–	–	–	2,254
Net change in translation adjustments	–	–	–	–	–	–	–	–	1,050	–	1,050
Balance at 31st March, 2006	96,364,872	29,286	42,529	49,645	(3,867)	(4,637)	4,577	–	(1,186)	–	116,347
Reclassified balance at 31st March, 2006	–	–	–	–	–	–	–	(18)	–	426	408
Net income	–	–	–	16,194	–	–	–	–	–	–	16,194
Cash dividends	–	–	–	(5,529)	–	–	–	–	–	–	(5,529)
Bonuses to directors and corporate auditors	–	–	–	(142)	–	–	–	–	–	–	(142)
Issuance of new shares upon exercise of stock acquisition rights	4,001,402	2,736	2,730	–	–	–	–	–	–	–	5,466
Purchases of treasury stock	–	–	–	–	(2,564)	–	–	–	–	–	(2,564)
Sales of treasury stock	–	–	70	–	1,062	–	–	–	–	–	1,132
Net change in land revaluation reserve	–	–	–	(6,182)	–	6,182	–	–	–	–	–
Net changes of items other than shareholders' equity	–	–	–	–	–	–	(18)	(1,324)	946	120	(276)
Balance at 31st March, 2007	100,366,274	¥ 32,022	¥ 45,329	¥ 53,986	¥ (5,369)	¥ 1,545	¥ 4,559	¥ (1,342)	¥ (240)	¥ 546	¥ 131,036

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Land revaluation reserve	Net unrealized holding gain on securities	Net unrealized loss on derivative instruments	Translation adjustments	Minority interests	Total net assets
Balance at 31st March, 2006	$ 247,997	$ 360,141	$ 420,408	$ (32,746)	$ (39,267)	$ 38,758	$ –	$ (10,043)	$ –	$ 737,251
Reclassified balance at 31st March, 2006	–	–	–	–	–	–	(152)	–	3,607	3,455
Net income	–	–	137,133	–	–	–	–	–	–	137,133
Cash dividends	–	–	(46,820)	–	–	–	–	–	–	(46,820)
Bonuses to directors and corporate auditors	–	–	(1,211)	–	–	–	–	–	–	(1,211)
Issuance of new stock upon exercise of stock acquisition rights	23,169	23,118	–	–	–	–	–	–	–	23,118
Purchases of treasury stock	–	–	–	(21,712)	–	–	–	–	–	(21,712)
Sales of treasury stock	–	592	–	8,993	–	–	–	–	–	9,585
Net change in land revaluation reserve	–	–	(52,350)	–	52,350	–	–	–	–	–
Net changes of items other than shareholders' equity	–	–	–	–	–	(152)	(11,212)	8,011	1,017	(2,336)
Balance at 31st March, 2007	$ 271,166	$ 383,851	$ 457,160	$ (45,465)	$ 13,083	$ 38,606	$ (11,364)	$ (2,032)	$ 4,624	$1,109,629

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,
	2007	**2006**	**2007**
Operating activities:			
Income before income taxes and minority interests	**¥19,403**	¥15,154	$164,307
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**5,686**	5,289	48,150
Loss on impairment of fixed assets	**4,209**	609	35,642
Loss on sales and disposal of property, plant and equipment, net	**283**	980	2,396
Loss on valuation of investments in securities	**202**	–	1,711
Increase in allowance for bonuses to directors and corporate auditors	**159**	–	1,346
Decrease in allowance for doubtful receivables	**(8)**	(235)	(68)
Increase in allowance for product warranties	**811**	–	6,868
Interest and dividend income	**(241)**	(124)	(2,041)
Interest expense	**48**	110	406
Unrealized exchange gain	**(846)**	(460)	(7,164)
Changes in operating assets and liabilities:			
Notes and accounts receivable	**(1,789)**	(1,176)	(15,149)
Inventories	**(5,682)**	(2,672)	(48,116)
Notes and accounts payable	**1,812**	1,347	15,344
Bonuses to directors and corporate auditors	**(142)**	(116)	(1,202)
Other, net	**1,143**	1,058	9,679
Subtotal	**25,048**	17,648	212,109
Interest and dividend income received	**238**	127	2,015
Interest paid	**(50)**	(111)	(423)
Income taxes paid	**(1,741)**	(536)	(14,743)
Net cash provided by operating activities	**23,495**	17,128	198,958
Investing activities:			
Purchases of property, plant and equipment	**(5,937)**	(3,780)	(50,275)
Proceeds from sales of property, plant and equipment	**4,856**	2,542	41,121
Increase in investments in securities	**(1,536)**	(1,627)	(13,007)
Proceeds from sales of investments in securities	**–**	1,134	–
Increase in investments in subsidiaries and affiliates	**(1,846)**	(64)	(15,632)
Purchases of other assets	**(2,449)**	(1,081)	(20,738)
Increase in long-term loans	**(970)**	–	(8,214)
Other, net	**(201)**	(125)	(1,703)
Net cash used in investing activities	**(8,083)**	(3,001)	(68,448)
Financing activities:			
Increase (decrease) in short-term bank loans	**180**	(50)	1,525
Decrease in long-term bank loans	**(10,208)**	(7,887)	(86,443)
Proceeds from issuance of bonds with stock acquisition rights	**–**	11,542	–
Purchases of treasury stock	**(2,564)**	(37)	(21,712)
Proceeds from sales of treasury stock	**1,132**	2,526	9,585
Cash dividends	**(5,529)**	(1,761)	(46,820)
Other, net	**–**	192	–
Net cash (used in) provided by financing activities	**(16,989)**	4,525	(143,865)
Effect of exchange rate changes on cash and cash equivalents	**(47)**	159	(398)
(Decrease) increase in cash and cash equivalents	**(1,624)**	18,811	(13,753)
Cash and cash equivalents at beginning of the year	**31,583**	12,772	267,449
Cash and cash equivalents at end of the year (Note 4)	**¥29,959**	¥31,583	$253,696

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31st March, 2007

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 generally accepted in Japan. Its overseas consolidated subsidiaries maintain their accounts and records in conformity with the requirements of their respective countries of domicile.
The accompanying consolidated financial statements are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the 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 format which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.
Certain reclassifications of previously reported amounts have been made to the consolidated financial statements for the year ended 31st March, 2006 to conform them to the 2007 presentation. Such reclassifications had no effect on consolidated net income or net assets.
The accompanying consolidated financial statements have been translated from yen amounts into U.S. dollar amounts, solely for convenience, as a matter of arithmetic computation only, at ¥118.09 = U.S.$1.00, the exchange rate prevailing on 31st March, 2007. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(1) Principles of consolidation
The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.
For consolidation purposes, the financial statements of four consolidated subsidiaries whose fiscal year end is 31st December have been included in consolidation on the basis of a full fiscal year, for the year ended 31st March.
All assets and liabilities of the subsidiaries are revalued 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 at the fiscal year-end rates. Gain or loss resulting from such translation adjustments is credited or charged to income as incurred. The balance sheet accounts of the overseas consolidated subsidiaries have been translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets, which have been translated at their historical rates. The differences resulting from translation are presented as components of net assets in the accompanying consolidated balance sheets. Revenues, expenses and cash flows are translated at the average rates for the year.

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

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

(5) Inventories
Merchandise, finished goods and work-in-process at the Company and its domestic consolidated subsidiaries are stated principally at cost determined by the average method, and those at the overseas 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.

(6) 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 overseas 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, equipment and vehicles	2 to 17 years

(7) Leases
Non-cancelable leases 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 overseas subsidiaries are accounted for as finance leases.

(8) Marketable securities and investments in securities
The accounting standard applicable to financial instruments requires that securities be classified into three categories: trading securities,

held-to-maturity debt securities or other securities. Trading securities are carried at fair value, and gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method.

(9) Goodwill
Goodwill is amortized by the straight-line method over periods ranging from 5 to 10 years.

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

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

(12) Allowance for bonuses to directors and corporate auditors
Allowance for bonuses to directors and corporate auditors is calculated based on the estimated amount of bonuses to be paid to directors and corporate auditors.

(13) Derivatives
Derivatives are stated at fair value.

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

(15) 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, generally 5 years. Expenditures relating to software developed for sale in the market are capitalized as assets and amortized by the straight-line method over the prospective sales period, generally 3 years.

(16) Bonds issuance expenses
Bonds issuance expenses are charged to income as incurred.

3. Changes in Method of Accounting

(1) Allowance for product warranties
Up to the year ended 31st March, 2006, the Company and its consolidated subsidiaries recorded product repair costs incurred during the charge-free warranty period as they were incurred. Effective the year ended 31st March, 2007, the Company and its consolidated subsidiaries have provided an allowance for product warranties calculated based on the ratio of these repair costs against past sales. The Company and its consolidated subsidiaries made this change to calculate period earnings more appropriately matching product repair costs incurred during the charge-free warranty period with revenue of the relevant product sales. They also made this change because the importance of managing product repair costs during the charge-free warranty period has been increasing.
As a result of this change, income before income taxes and minority interests decreased by ¥154 million ($1,304 thousand) for the year ended 31st March, 2007 from the corresponding amount which would have been recorded under the previous method.

(2) Accounting standard for presentation of net assets in the balance sheet
Effective the year ended 31st March, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended 31st March, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. Under this accounting standard, certain items which were previously presented as assets and liabilities are now presented as components of net assets. Such items include minority interests and net unrealized loss on derivative instruments.
Total shareholders' equity prior to the adoption of this accounting standard amounted to ¥131,832 million ($1,116,369 thousand).

(3) Accounting standard for directors' bonuses
Effective the year ended 31st March, 2007, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for bonuses to directors and corporate auditors.
As a result of the adoption of this accounting standard, income before income taxes and minority interests decreased by ¥159 million ($1,346 thousand) for the year ended 31st March, 2007 from the corresponding amount which would have been recorded under the method applied in the previous year.

4. Cash and Cash Equivalents

Significant non-cash transactions for the years ended 31st March, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2006**	**2007**
Increase in common stock resulting from exercise of stock acquisition rights	**¥2,736**	¥1,095	$23,169
Increase in capital surplus resulting from exercise of stock acquisition rights	**2,730**	1,093	23,118
Decrease in bonds with stock acquisition rights resulting from exercise of stock acquisition rights	(**5,413**)	(2,167)	(45,838)
Loss on redemption of bonds	**53**	21	449

5. Inventories

Inventories at 31st March, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2006**	**2007**
Merchandise	**¥ 286**	¥ 63	$ 2,422
Finished goods	**14,350**	12,260	121,518
Work in process	**6,443**	5,424	54,560
Raw materials and supplies	**8,825**	7,316	74,731
Total	**¥ 29,904**	¥ 25,063	$ 253,231

6. Securities

Marketable securities classified as other securities at 31st March, 2007 and 2006 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
(1) Securities whose carrying value exceeds their acquisition cost:									
Equity securities	**¥5,715**	**¥11,974**	**¥6,259**	¥4,831	¥12,526	¥7,695	$48,395	$101,397	$53,002
Subtotal	**5,715**	**11,974**	**6,259**	4,831	12,526	7,695	48,395	101,397	53,002
(2) Securities whose carrying value does not exceed their acquisition cost:									
Equity securities	**402**	**367**	**(35)**	300	250	(50)	3,404	3,108	(296)
Subtotal	**402**	**367**	**(35)**	300	250	(50)	3,404	3,108	(296)
Total	**¥6,117**	**¥12,341**	**¥6,224**	¥5,131	¥12,776	¥7,645	$51,799	$104,505	$52,706

The Company recorded an impairment loss of ¥202 million ($1,711 thousand) on marketable equity securities classified as other securities for the year ended 31st March, 2007.
An impairment loss is recorded when the market value of a security falls by 30% or more from its carrying value.
Sales of other securities for the years ended 31st March, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Sales proceeds	**¥ –**	¥1,134	$ –
Aggregate gain	–	917	–

The carrying value of principal investments in non-marketable securities at 31st March, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Investments in unconsolidated subsidiaries	**¥ 2,146**	¥300	$18,173
Investments in affiliates	**871**	838	7,376
Other	**351**	–	2,973

7. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets recorded for the year ended 31st March, 2006 related to the following assets and asset groups:

Use	Classification	Location	Millions of yen
			2006
Idle property	Land	Ikoma City, Nara Prefecture	¥ 302
Idle property	Land	Eniwa City, Hokkaido	48
Idle property	Machinery and equipment	Taiyo Koki Co., Ltd.	41
Idle property	Other	Taiyo Koki Co., Ltd.	5
Other	Goodwill	Mori Seiki Mid-American Sales, Inc.	213
		Total	¥ 609

The Company originally acquired the land in the above table for construction of a research facility and a sales office. However, following a change in the Company's capital expenditure plan, the land became idle property. In addition, machinery, equipment and certain other assets of Taiyo Koki Co., Ltd. were also idle property. Since there was no plan to utilize these assets and their market value deteriorated, the Company recognized an impairment loss.

Mid-American Sales Inc. recognized a loss on impairment of goodwill because Ellison Technologies, Inc., which had entered into a business alliance with the Mori Seiki Group as a distributor, started up its own business operations in 8 states in the United States: Illinois, Wisconsin, Iowa, Ohio, Indiana, Kentucky, Missouri and Michigan.

The Company and its consolidated subsidiaries basically group their assets by operating department. The assets are grouped by sales office in the Sales Department and by plant in the manufacturing department. Idle properties which are not expected to be used in the future are grouped individually.

Recoverable amounts are measured at reasonable estimates of their projected net selling prices. Recoverable amounts on land are based on their valuation for property tax purposes as adjusted reasonably.

Loss on impairment of fixed assets recorded for the year ended 31st March, 2007 related to the following assets and asset groups:

Use	Classification	Location	Millions of yen	Thousands of U.S. dollars
			2007	2007
Technical Centers, etc. (30 places)	Land	Kohoku-ku, Yokohama City	**¥1,284**	$ 10,873
	Buildings	Onoshiro City, Fukuoka and other	**2,019**	17,097
Dormitories (4 places)	Land	Hanamikawa, Chiba City, Nara City, Nara	**153**	1,296
	Buildings	Yamatokoriyama City, Nara Sagamihara City, Kanagawa	**233**	1,973
Idle property (2 places)	Land	Ikoma City, Nara Eniwa City, Hokkaido	**520**	4,403
		Total	**¥4,209**	$ 35,642

The Company had utilized land and buildings in the above table as sales offices, and etc. However, the Company determined to sell these assets during the year ended 31st March, 2007. Thus, the Company recognized a loss on impairment of these assets.

On 27th September, 2006, all assets referred to above were sold after an impairment loss was recognized.

8. Retirement Benefits

The Company has established an employees' defined contribution pension plan.

The retirement benefit expenses for the years ended 31st March, 2007 and 2006 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Contributions to the pension plan	**¥769**	¥642	$6,512

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

The weighted-average interest rates on short-term bank loans were 1.83% and 1.38% at 31st March, 2007 and 2006, respectively.
For effective financing purposes, the Company concluded line-of-credit agreements with three banks and the status of these at 31st March, 2007 and 2006 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	**2006**	**2007**
Lines of credit	**¥ 30,000**	¥ 11,000	$ 254,044
Short-term loans utilized	–	–	–
Available credit	**¥ 30,000**	¥ 11,000	$ 254,044

Long-term debt at 31st March, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	**2006**	**2007**
Zero coupon yen convertible bonds with stock acquisition rights due 2013	**¥ 3,920**	¥ 9,333	$ 33,195
Unsecured bank loans due through 2009	–	10,208	–
	3,920	19,541	33,195
Less current portion	–	5,084	–
	¥ 3,920	¥ 14,457	$ 33,195

The weighted-average interest rate on long-term bank loans was 0.47% at 31st March, 2006.
The aggregate annual maturities of long-term debt subsequent to 31st March, 2007 are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2008	**¥ –**	$ –
2009	–	–
2010	–	–
2011	–	–
2012	–	–
2013 and thereafter	**3,920**	33,195
	¥ 3,920	$ 33,195

On 13th June, 2005, the Company issued ¥11,615 million ($98,357 thousand) of zero coupon yen convertible bonds with stock acquisition rights. An outline of these bonds is as follows:

Type of shares to which stock acquisition rights apply	Common stock of the Company
Issue price of stock acquisition rights	Nil
Exercise price of stock acquisition rights	¥1,366.3 ($11.57)
Principal amount of bonds in the aggregate	¥11,615 million ($98,357 thousand)
Shares issued upon exercise of stock acquisition rights	¥7,655 million ($64,823 thousand)
Exercisable period	27th June, 2005 to 29th May, 2012

Exercise of stock acquisition rights shall be deemed as payment by the bondholder of the full amount required to be paid upon exercise of the stock acquisition rights, rather than as a redemption of the bond at its face value.

10. 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 40.49% for the years ended 31st March, 2007 and 2006. The overseas subsidiaries are subject to the income tax regulations of the respective countries in which they operate.
A reconciliation of the differences between the statutory tax rate and effective tax rates for the years ended 31st March, 2007 and 2006 as a percentage of income before income taxes and minority interests is as follows:

	2007	2006
Statutory tax rate	**40.49%**	40.49%
Increase (decrease) in income taxes resulting from:		
Reversal of valuation allowance	**(22.87)**	(35.26)
Permanent non-deductible expenses	**0.85**	0.25
Elimination of unrealized gain and loss on inventories	**(2.97)**	1.54
Permanently non-taxable income	**(0.27)**	(0.09)
Per capita portion of inhabitants' taxes	**0.30**	0.29
Temporary differences relating to investments in subsidiaries	**1.72**	1.45
Other	**(1.24)**	(0.28)
Effective tax rates	**16.01%**	8.39%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at 31st March, 2007 and 2006 are summarized as follows:

		Millions of yen		Thousands of U.S. dollars
		2007	**2006**	**2007**
Current				
	Deferred tax assets (reflected in current assets):			
	Inventories	**¥ 286**	¥ 493	$ 2,422
	Elimination of unrealized gain and loss on inventories	**599**	–	5,072
	One-time write-off applied to assets	**227**	139	1,922
	Accrued enterprise tax	**315**	124	2,667
	Other	**461**	106	3,905
		1,888	862	15,988
	Less: valuation allowance	**(6)**	(651)	(51)
		1,882	211	15,937
	Offset of deferred tax liabilities	**–**	(69)	–
	Deferred tax assets, net	**¥ 1,882**	¥ 142	$ 15,937
	Deferred tax liabilities (reflected in current liabilities):			
	Other	**¥ (164)**	¥ (272)	$ (1,389)
	Offset of deferred tax assets	**–**	69	–
	Deferred tax liabilities, net	**¥ (164)**	¥ (203)	$ (1,389)
Noncurrent				
	Deferred tax assets (reflected in investments and other assets):			
	Inventories	**¥ 326**	¥ –	$ 2,761
	Loss on devaluation of listed equity securities	**1,029**	929	8,714
	Loss on impairment of fixed assets	**–**	160	–
	Depreciation	**677**	537	5,733
	Unrealized loss on derivative instruments	**913**	–	7,731
	Tax loss carryforwards	**–**	60	–
	Other	**137**	152	1,160
		3,082	1,838	26,099
	Less: valuation allowance	**(1,481)**	(1,680)	(12,542)
		1,601	158	13,557
	Offset of deferred tax liabilities	**(1,436)**	(132)	(12,160)
	Deferred tax assets, net	**¥ 165**	¥ 26	$ 1,397
	Deferred tax liabilities (reflected in long-term liabilities):			
	Deferred capital gain on property	**¥ (15)**	¥ (42)	$ (127)
	Reserve for depreciation for tax purposes	**(116)**	(121)	(982)
	Unrealized holding gain on securities	**(1,693)**	(3,096)	(14,337)
	Other	**(456)**	(232)	(3,861)
		(2,280)	(3,491)	(19,307)
	Offset of deferred tax assets	**1,436**	132	12,160
	Deferred tax liabilities, net	**¥ (844)**	¥ (3,359)	$ (7,147)
	Deferred tax liabilities on land revaluation reserve (reflected in long-term liabilities):			
	Deferred tax liabilities on land revaluation reserve	**¥ (1,699)**	¥ (1,824)	$ (14,387)

11. Shareholders' Equity

The new Corporation Law of Japan (the "Law") , which superseded most of the provisions of the Commercial Code of Japan, went into effect on 1st May, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of capital stock. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The legal reserve of the Company, which is included in retained earnings, amounted to ¥2,650 million ($22,441 thousand) at 31st March, 2007 and 2006.

Treasury stock

Movements in treasury stock for the year ended 31st March, 2007 are summarized as follows:

	Number of Shares			
	2007			
	31st March, 2006	Increase	Decrease	31st March, 2007
Treasury stock	4,454,518	1,005,408	1,125,991	4,333,935

Stock-option plans

The Company has stock option plans. The following stock option plans for certain directors and employees of the Company were approved at annual general meetings of the shareholders. The stock option plans are summarized as follows:

Date of approval	Number of options granted (Thousands of shares)	Exercise price at 31st March, 2007 (Yen)	Number of stock options outstanding at 31st March, 2007 (Thousands of shares)	Exercisable period
27th June, 2002	2,972	¥1,088	117.1	**2004.7.1～2007.6.30**
25th June, 2004	1,102	957	311.4	**2006.7.1～2009.6.30**
29th June, 2005	2,798	1,259	—	**2007.7.1～2010.6.30**

The excise prices above are subject to adjustment in the case of certain events including stock splits.

12. Land Revaluation

Effective 31st March, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the applicable tax effect on revaluation gain, has been stated as a component of net assets, "Land revaluation reserve." The applicable tax effect has been included in "Deferred income taxes on land revaluation reserve," a component of long-term liabilities. The fair value of the revalued land was less than its carrying value by ¥3,089 million ($26,158 thousand) and ¥4,773 million on 31st March, 2007 and 2006, respectively.

13. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Research and Development Costs	**¥3,553**	¥4,660	$30,087

14. Contingent Liabilities

At 31st March, 2007, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Guarantees of lease payments by customers	**¥2,458**	$20,815

15. Derivative Financial Instruments

To avoid the risk of fluctuation in foreign currency exchange rates, the Company enters into forward foreign exchange contracts. The Company utilizes these derivatives as hedges to reduce the inherent risk 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 Company's internal guidelines.

As stipulated in the Company's internal policies on derivatives, the Finance Department 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 applies hedge accounting to its derivatives positions and hedges against the risk of fluctuation in foreign exchange rates within the scope of the needs arising from the underlying items hedged.

The fair value of the derivatives positions outstanding at 31st March, 2007 and 2006 is summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2007			2006			2007		
	Contract value (notional principal amount)	Estimated fair value	Unrealized loss	Contract value (notional principal amount)	Estimated fair value	Unrealized loss	Contract value (notional principal amount)	Estimated fair value	Unrealized loss
Forward foreign exchange contracts selling:									
U.S. dollars	**¥ 3,033**	**¥ 2,985**	**¥ (48)**	¥ 2,476	¥ 2,480	¥ (4)	$ 25,684	$ 25,277	$ (407)
Euro	**7,343**	**7,048**	**(295)**	7,885	8,179	(294)	62,181	59,683	(2,498)
Pound sterling	**454**	**437**	**(17)**	–	–	–	3,845	3,701	(144)
Total	**¥ 10,830**	**¥ 10,470**	**¥ (360)**	¥ 10,361	¥ 10,659	¥ (298)	$ 91,710	$ 88,661	$ (3,049)

16. Leases

(1) Finance leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the property leased to the Company and its consolidated subsidiaries at 31st March, 2007 and 2006, which would have been reflected in the accompanying 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		
	2007			2006			2007		
Category :	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	**¥9,142**	**¥2,844**	**¥6,298**	¥5,051	¥1,826	¥3,225	$77,415	$24,083	$53,332

Up to the year ended 31st March, 2006, acquisition costs of the leased assets included the interest portion thereon. Effective the year ended 31st March, 2007, the Company and its consolidated subsidiaries applied the principle method and the acquisition costs have been recorded at present value because the importance of the interest portion has been increasing.
If the previous method had been applied, the following amounts would have been recorded:

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
Category :	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	**¥9,779**	**¥3,026**	**¥6,753**	$82,810	$25,625	$57,185

Lease payments of the Company and its consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥1,288 million ($10,907 thousand) and ¥696 million for the years ended 31st March, 2007 and 2006, respectively.
Depreciation related to leased property of the Company and its consolidated subsidiaries is calculated by the straight-line method over the respective lease terms assuming a nil residual value and amounted to ¥1,218 million ($10,314 thousand) and ¥696 million for the years ended 31st March, 2007 and 2006, respectively.
Interest expense for finance leases amounted to ¥137 million ($1,160 thousand) for the year ended 31 March, 2007 under the principle method mentioned above.
Future minimum lease payments subsequent to 31st March, 2007 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:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Year ending 31st March,		
2008	**¥ 1,476**	$ 12,499
2009 and thereafter	**4,886**	41,375
Total	**¥ 6,362**	$ 53,874

(2) Operating leases:

Future minimum lease payments subsequent to 31st March, 2007 under operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2007	2007
Year ending 31st March,		
2008	**¥ 965**	$ 8,172
2009 and thereafter	**9,332**	79,024
Total	**¥ 10,297**	$ 87,196

17. Amounts per Share

Amounts per share at 31st March, 2007 and 2006 and for the years then ended were as follows:

	Yen		U.S. dollars
	2007	**2006**	**2007**
Amounts per share:			
Net assets	**¥1,358.82**	¥1,264.32	$11.51
Net income:			
Basic	**174.78**	153.62	1.48
Diluted	**166.12**	150.31	1.41
Cash dividends	**44.00**	40.00	0.37

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

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

18. Segment Information

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

As the Company and its consolidated subsidiaries manufacture and sell the same types and series of machine tools which use similar manufacturing methods and are sold in the same markets, the disclosure of business segment information for the years ended 31st March, 2007 and 2006 has been omitted.

The geographical segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2007 and 2006 is outlined as follows:

	Millions of yen						
	2007						
	Japan	The Americas	Europe	Asia and Oceania	Total	Eliminations	Consolidated
Sales to third parties	**¥ 88,644**	**¥ 34,329**	**¥ 44,745**	**¥ 4,544**	**¥ 172,262**	**¥ –**	**¥ 172,262**
Inter-group sales	**63,752**	**939**	**662**	**1,082**	**66,435**	**(66,435)**	**–**
Net sales	**152,396**	**35,268**	**45,407**	**5,626**	**238,697**	**(66,435)**	**172,262**
Operating expenses	**130,133**	**34,689**	**43,286**	**5,496**	**213,604**	**(66,385)**	**147,219**
Operating income	**¥ 22,263**	**¥ 579**	**¥ 2,121**	**¥ 130**	**¥ 25,093**	**¥ (50)**	**¥ 25,043**
Total assets	**¥ 128,639**	**¥ 13,567**	**¥ 23,071**	**¥ 4,002**	**¥ 169,279**	**¥ (245)**	**¥ 169,034**

	Millions of yen						
	2006						
	Japan	The Americas	Europe	Asia and Oceania	Total	Eliminations	Consolidated
Sales to third parties	¥ 79,067	¥ 31,774	¥ 31,531	¥ 2,968	¥ 145,340	¥ –	¥ 145,340
Inter-group sales	50,369	772	578	975	52,694	(52,694)	–
Net sales	129,436	32,546	32,109	3,943	198,034	(52,694)	145,340
Operating expenses	114,981	31,160	31,334	3,684	181,159	(52,114)	129,045
Operating income	¥ 14,455	¥ 1,386	¥ 775	¥ 259	¥ 16,875	¥ (580)	¥ 16,295
Total assets	¥ 123,216	¥ 13,727	¥ 20,117	¥ 2,920	¥ 159,980	¥ 2,799	¥ 162,779

	Thousands of U.S. dollars						
	2007						
	Japan	The Americas	Europe	Asia and Oceania	Total	Eliminations	Consolidated
Sales to third parties	$ 750,648	$ 290,702	$ 378,906	$ 38,479	$1,458,735	$ –	$1,458,735
Inter-group sales	539,859	7,952	5,606	9,163	562,580	(562,580)	–
Net sales	1,290,507	298,654	384,512	47,642	2,021,315	(562,580)	1,458,735
Operating expenses	1,101,982	293,751	366,551	46,540	1,808,824	(562,156)	1,246,668
Operating income	$ 188,525	$ 4,903	$ 17,961	$ 1,102	$ 212,491	$ (424)	$ 212,067
Total assets	$1,089,330	$ 114,887	$ 195,368	$ 33,889	$1,433,474	$ (2,074)	$1,431,400

Overseas sales, which include export sales of the Company and sales (other than exports to Japan) of the overseas consolidated subsidiaries, totaled ¥102,324 million ($866,492 thousand) and ¥82,123 million, or 59.4% and 56.5%, of consolidated net sales for the years ended 31st March, 2007 and 2006, respectively.

As described in Note 3 (1), effective the year ended 31st March, 2007, the Company and its consolidated subsidiaries have provided an allowance for product warranties. As a result of this change, operating income in the "Japan" segment decreased by ¥154 million ($1,304 million) from the corresponding amount which would have been recorded under the previous method. This change had no effect on segments other than Japan.

As described in Note 3 (3), effective the year ended 31st March, 2007, the Company and its domestic subsidiaries have adopted a new accounting standard for directors' bonuses. As a result of the adoption of this accounting standard, operating income in the "Japan" segment for the year ended 31st March, 2007 decreased by ¥159 million ($1,346 thousand) from the corresponding amount which had been recorded under the previous method.

19. Subsequent Event

Appropriation

The following appropriation of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2007, was approved at the annual general meeting of the shareholders of the Company held on 28th June, 2007:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥24.00 (U.S.$0.20) per share	**¥2,305**	$19,519

REPORT OF INDEPENDENT AUDITORS

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, 2007 and 2006, and the related consolidated statements of income, changes in net assets, 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 express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 3 (1), effective the year ended 31st March, 2007, the Company and consolidated subsidiaries changed their method of accounting for product repair costs during the charge-free warranty period from recording them as they are paid to providing an allowance for product warranties calculated based on the ratio of these repair costs against past sales.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2007 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.

Ernst & Young ShinNihon

Ernst & Young ShinNihon

Osaka, Japan
28th June, 2007

Corporate Profile

> MORI SEIKI CO., LTD.

· President

Masahiko Mori

· Capital

32,000 million yen (Individual) ／
32,000 million yen (Consolidated)

· Shareholders' Equity

121,000 million yen (Individual) ／
130,500 million yen (Consolidated)

· Total Assets

151,100 million yen (Individual) ／
169,000 million yen (Consolidated)

· Business Operations

Manufacture and Sale of Machine Tools

· Employees

2,113 (Individual) ／3,071 (Consolidated)

· Head Office

2-35-16 Meieki, Nakamura-ku, Nagoya City, Aichi 450-0002, Japan
Phone: +81- (0) 52-587-1811

· Homepage address

http://www.moriseiki.com

> Affiliated companies

· Domestic consolidated subsidiaries

TAIYO KOKI CO., LTD.
MORI SEIKI TECHNO, LTD.
MORI SEIKI TRADING, LTD.

· Domestic unconsolidated subsidiaries

MORI SEIKI KOSAN, LTD.
Akishino Mold Laboratory, Ltd.

· Domestic affiliated companies accounted for using the equity method

WATANABE SEIKOSYO CO., LTD.

· Overseas consolidated subsidiaries

MORI SEIKI U.S.A., INC.
MORI SEIKI GmbH
MORI SEIKI (UK) LTD.
MORI SEIKI FRANCE S.A.S.
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.
DIGITAL TECHNOLOGY LABORATORY CORPORATION
PT. MORI SEIKI INDONESIA
MORI SEIKI AUSTRALIA PTY LIMITED
MS SYFRAMO S.A.S.

· Overseas subsidiaries not included in consolidated accounting

MORI SEIKI INTERNATIONAL SA
MORI SEIKI TECHNO GmbH

· Overseas affiliated companies not accounted for using the equity method

MORI SEIKI MOSCOW LLC.

> Campus locations

· Nara Campus No. 1 Plant

362 Idono-cho, Yamato-Koriyama City, Nara 639-1183, Japan
Phone: +81- (0) 743-53-1121

· Nara Campus No. 2 Plant

106 Kita-Koriyama-cho, Yamato-Koriyama City, Nara 639-1160, Japan
Phone: +81- (0) 743-53-1125

· Iga Campus

201 Midai, Iga City, Mie 519-1414, Japan
Phone: +81- (0) 595-45-4151

· Chiba Campus

488-19 Suzumi-cho, Funabashi City, Chiba 274-0052, Japan
Phone: +81- (0) 47-410-8800

Technical Center Locations

> Overseas

MORI SEIKI U.S.A., INC.	Chicago Head Office	5655 Meadowbrook Drive, Rolling Meadows, Illinois 60008	Phone: (1)-847-593-5400
	Administrative Department	2100 Golf Road Suite 300, Rolling Meadows, Illinois 60008	Phone: (1)-847-290-8535
	Dallas	9001 Currency Street, Irving, Texas 75063	Phone: (1)-972-929-8321
	Los Angeles	5740 Warland Drive, Cypress, California 90630	Phone: (1)-562-430-3800
	Detroit	29050 Cabot Drive Novi, Michigan 48377	Phone: (1)-734-379-7000
	Cincinnati	9466 Meridian Way, West Chester, Ohio 45069	Phone: (1)-513-874-2736
	Boston	753 Forest Street, Suite 200, Marlborough, Massachusetts 01752	Phone: (1)-508-481-2500
	New Jersey	30 Abeel Road Monroe Township, New Jersey 08831	Phone: (1)-609-495-6246
DIGITAL TECHNOLOGY LABORATORY CORPORATION	Head Office	950 Riverside Parkway Suite 90 West Sacramento, CA 95605	Phone: (1)-916-374-9400
MORI SEIKI MEXICO, S.A. DE C.V.	Head Office	Montecito 38 Piso 12-38 Col. Napoles 03810 México D.F.	Phone: (52)-55-9000-3276
MORI SEIKI BRASIL LTDA.	Head Office	Rua República do Iraque, 1432 2 and, Campo Belo 04611-002 São Paulo - SP, Brasil	Phone: (55)-11-5543-1762
MORI SEIKI GmbH	Stuttgart	Antoniusstrasse 14, 73249 Wernau, Germany	Phone: (49)-7153-934-0
	Prague	6th floor of building No. 423, Evropska 178, 160 00 Prague 6, Czech Republic	Phone: (42)-224-362-777
MORI SEIKI Deutschland Sales & Service	Stuttgart	Antoniusstrasse 14, 73249 Wernau, Germany	Phone: (49)-7153-934-0
(Division of MORI SEIKI GmbH)	München	Frankfurter Ring 117, 80807 München, Germany	Phone: (49)-89-35744-0
	Hamburg	Merkurring 63-65, 22143 Hamburg, Germany	Phone: (49)-40-69458-0
	Düsseldorf	Siemensring 19, 47877 Willich, Germany	Phone: (49)-21-548859-0
DIXI Machines, A Division of MORI SEIKI INTERNATIONAL SA	Head Office	Av. du technicum 33 CH-2400 Le Locle, Switzerland	Phone: (41)-32-933-5222
MORI SEIKI MOSCOW LLC.	Head Office	Krasnopresnenskaya Naberezhnaya 18, Naberezhnaya Tower Block "B", Floor 16, Moscow, 123317, Russia	Phone: (7)-495-956-9677
MORI SEIKI (UK) LTD.	Head Office	202 Bedford Avenue, Slough SL1 4RY, England	Phone: (44)-870-240-9500
	Birmingham	4060 Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, B37 7YN, England	Phone: (44)-870-240-9500
MORI SEIKI FRANCE S.A.S.	Head Office	Parc du Moulin, 1 Rue du Noyer BP 19326 Roissy en France 95705 Roissy CDG Cedex, France	Phone: (33)-1-39-94-68-00
	Toulouse	6 Impasse Lèonce Couture 31200 Toulouse, France	Phone: (33)-5-34-25-29-95
MS SYFRAMO S.A.S. (Lyon)	Head Office	81, Avenue du Progrès69680 Chassieu, France	Phone: (33)-4-78-90-95-95
MORI SEIKI ITALIANA S.R.L.	Head Office	Via Riccardo Lombardi N.10 20153 Milano, Italy	Phone: (39)-02-4894921
MORI SEIKI ESPAÑA S.A.	Head Office	Calle de la Electrónica, Bloque B, Nave 9 Poligono Industrial "La Ferreria" 08110 Montcada I Reixac (Barcelona), Spain	Phone: (34)-935-75-36-46
MORI SEIKI Istanbul Makina San. ve Tic. Ltd. Sti.	Head Office	Abdi Ipekci Caddesi No:129 Kat: 5, 34040 Bayrampasa Istanbul, Turkey	Phone: (90)-212-613-4141
MORI SEIKI SINGAPORE PTE LTD	Head Office	3 Toh Guan Road East, Singapore 608835	Phone: (65)-6560-5011
	MALAYSIA BRANCH	Office Suite 2A, 2nd Floor, Bangunan Electroscon, Lot 8, Jalan Astaka U8/84, Seksyen U8, Bukit Jelutong, 40100 Shah Alam, Selangor Darul Ehsan, Malaysia	Phone: (60)-3-7843-9468
MORI SEIKI (THAILAND) CO., LTD.	Head Office	1/2 Bangnathani Building 1st Floor A1, Soi Bangna-Trad 34, Kwaeng Bangna, Khet Bangna, Bangkok 10260, Thailand	Phone: (66)-2-361-3700-5
MORI SEIKI (TAIWAN) CO., LTD.	Head Office	No. 8, Kong 8th Road, Linkou No. 2 Industrial District, Linkou Hsiang, Taipei Hsien, Taiwan, R.O.C.	Phone: (886)-2-2603-1701
MORI SEIKI HONG KONG LTD.	Head Office	Unit 08, 23/F., The Metropolis Office Tower, 10 Metropolis Drive, Hung Hom, Kowloon, Hong Kong	Phone: (852)-2757-8910
MORI SEIKI (SHANGHAI) CO., LTD.	Shanghai	Room 4301, 4307, Maxdo Center, No. 8 Xing Yi Road., Hong Qiao Development Zone, Shanghai 200336, China	Phone: (86)-21-5208-0270
	Shanghai Parts Center	1st Floor, Part B, Department Building, No. 51 Rijing Road Wai Gao Qiao Free Trade Zone, Shanghai 200131, China	Phone: (86)-21-5868-0310
	Beijing	Room 3002 Full Tower, No. 9 Dongsanhuan Zhonglu, Chaoyang District, Beijing 100020, China	Phone: (86)-10-8591-0989
	Tianjin	Room 17B, Ping An Mansion, No. 59 Ma Chang Road, Hexi District, Tianjin 300203, China	Phone: (86)-22-5819-8188
	Dalian	1108 Shengshi Building, 35 Luxun Road, Zhongshan District, Dalian, 116001 China	Phone: (86)-411-8271-8611
	Shenzhen	Room 1703 Office Tower, China Resources Building, No. 5001 Shennan East Road, Shenzhen 518001, China	Phone: (86)-755-8359-1997
	Chongqing	1508, Metropolitan Tower No. 68 Zourong Road, Central District, Chongqing 400010, China	Phone: (86)-23-6373-3655
	Guangzhou	Room No. 7405, Office Tower, CITIC Plaza, 233 Tianhe North Road, Guangzhou 510613, China	Phone: (86)-20-8752-0660
	Suzhou	Room No. 2203, Metropolitan Towers, No. 199 Shi Shan Road, Suzhou New District, Suzhou, Jiangsu, 215011, China	Phone: (86)-512-8188-0008
	Wuhan	Room 4109, New World International Trade Center, Tower I, No. 568 Hankou Jianshe Avenue, Wuhan City, Hubei 430022, China	Phone: (86)-27-5922-9858
MORI SEIKI KOREA CO., LTD.	Head Office	A-101, 2, SK Twin Tech Tower, 345-9 Kasan-dong, Kumcheon-ku, Seoul, Korea	Phone: (82)-2-862-0925
PT. MORI SEIKI INDONESIA	Head Office	Komplek Gading Bukit Indah Blok M/01, Jl. Bukit Gading Raya, Kelapa Gading, Jakarta Utara-14240, Indonesia	Phone: (62)-21-453-1199
Mori Seiki India Private Limited;	Head Office	4th Floor DLF Square Jarcanda Marg, M-Block, DLF City, Phase-II, Gurgaon 122002, India	Phone: (91)-124-4389400
MORI SEIKI AUSTRALIA PTY LIMITED	Melbourne	6/6 Garden Road Clayton VIC 3168, Australia	Phone: (61)-3-8545-0900
	Sydney	6/287 Victoria Road Rydalmere NSW 2116, Australia	Phone: (61)-2-8844-9700

Overseas Representative Offices: Charlotte, Ellison Manufacturing Technologies NCA office

Stock Information

(As of March 31, 2007)

> MORI SEIKI CO., LTD.

· Foundation
October 26, 1948

· Fiscal Year End
March 31

· Number of Shares Issued
100,366,274 shares

· Stock Exchange Listings
Tokyo and Osaka Stock Exchanges

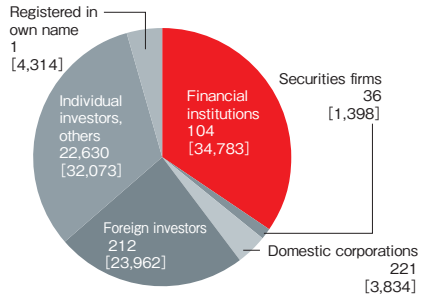
· Number of Shares Outstanding
157,550,000 shares

· Number of Shareholders
23,204

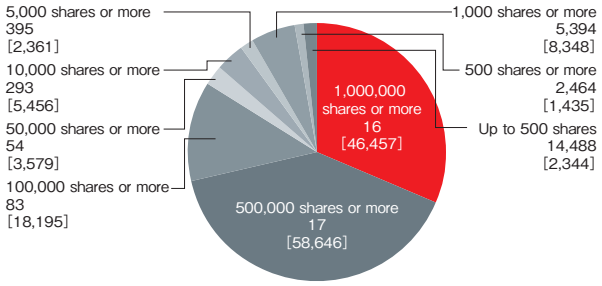
> Major Shareholders

Shareholder Name	Number of shares held (1,000 shares)	Voting Rights (%)
Japan Trustee Services Bank, Ltd. (Trust account)	7,619	7.94
The Master Trust Bank of Japan, Ltd. (Trust account)	6,252	6.51
Masahiko Mori	4,615	4.81
MORI SEIKI CO., LTD.	4,314	—
Yukio Mori	4,150	4.32
Japan Trustee Services Bank, Ltd. (Trust account 4)	3,529	3.67
The Nanto Bank, Ltd.	2,920	3.04
The Nomura Trust & Banking Co., Ltd. (Trust account)	2,193	2.28
Trust and Custody Services Bank, Ltd. (Trust account)	1,942	2.02
Masaru Mori	1,822	1.90

> Distribution by shareholders (Units: 1,000 shares)



> Distribution by number of shares (Units: 1,000 shares)



> Contact for investors

· MORI SEIKI CO., LTD.
(President's Office, IR Section)

2-35-16 Meieki, Nakamura-ku, Nagoya City, Aichi 450-0002, Japan
Phone: +81- (0) 52-587-1830

> Administration of register of shareholders

· Mitsubishi UFJ Trust and Banking Corporation
(Osaka Securities Agent Department)

3-6-3 Fushimi-cho, Chuo-ku, Osaka 541-8502, Japan
http://www.tr.mufg.jp/english/

> Establishment of the Sponsored American Depositary Receipts (ADR) Program

Mori Seiki established the American Depositary Receipts (ADR) Program on January 26, 2006 (U.S.A. Eastern Standard Time), to allow the distribution of Mori Seiki shares in the United States in the form of ADRs.

1. Purpose of establishing the ADR program

The purpose is to develop new investors and expand the base of investors, by enhancing investor service and broadening the choices in available investment instruments in the U.S. capital market. This sponsored program is the first of its kind in the machine tool industry.

2. Details of ADR program

(1) Type of ADR Program: Sponsored Level 1
(2) Trading Market: OTC (over-the-counter) in the United States
(3) Start Date: January 26, 2006 (U.S. Eastern Standard Time)
(4) Conversion Rate: 1 ADR = 1 ordinary share (1:1)
(5) U.S. CUSIP Number: 617578109
(6) Ticker Symbol: MRSKY
(7) Depositary Bank: The Bank of New York
(8) Local Custodian Bank: Sumitomo Mitsui Banking Corporation

※1. What is an ADR?

ADR is the acronym for American Depositary Receipts, which are U.S. dollar-denominated transferable registered securities that foreign companies can distribute in the U.S. instead of the underlying stock. They facilitate investment in foreign stock by U.S. investors. The underlying stock is held in custody (deposit) in the issuing company's home country, and ADRs are issued by the depositary bank in the U.S. based on the underlying stock.

※2. Types of ADR

ADRs are divided into Levels 1-3, depending on whether new stock is issued, whether the stock is listed on U.S. stock markets, and other conditions. Level 1 offers a convenient means for foreign companies to distribute securities in the U.S. market, although new stock is not issued and since the company is not listed, stock is traded on the over-the-counter market. By submitting an application for exemption from disclosure to the SEC, as outlined in the 1934 Securities Exchange Act, Rule 12g3-2 (b), the company can issue ADRs through disclosure in accordance with Japan's disclosure standards. It is also easy for non-Japanese investors to invest, because disclosure information is filed with the SEC in English.

※3. Sponsored ADRs

The company issuing the underlying stock (sponsor) concludes a depositary agreement with a specific depositary bank, and ADRs are issued by the depositary bank once the issuer, depositary bank and investor rights and obligations have been clarified. In contrast, unsponsored ADRs are issued by the depositary bank based on investor demand, without any involvement at all from the company issuing the underlying stock.

MORI SEIKI

THE MACHINE TOOL COMPANY

ANNUAL2007-EA02D
D.0710.NAP.3000
Created in Japan