MORI SEIKI
THE MACHINE TOOL COMPANY

ANNUAL REPORT 2008

FISCAL YEAR ENDED MARCH 31, 2008

Striving to become GLOBAL ONE

ANNUAL REPORT 2008

Striving to become **GLOBAL ONE**

We hope to be the No. 1 machine tool company for customers worldwide.

NMV8000 DCG

Since its founding in 1948, Mori Seiki has served as a driving force in the machine tool industry by utilizing its high level of technical skills to integrate creative, cutting-edge ideas into its products.

Our corporate creed, "Provide customer-oriented, high-quality products and services," also contributed to Mori Seiki's development into the world's leading machine tool company.

In order to meet the expectations of all stakeholders, including customers and shareholders, Mori Seiki will continue to strive toward a new revolution as a leading company in the machine tool industry.

Contents

■ 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.

Consolidated Financial Highlights I

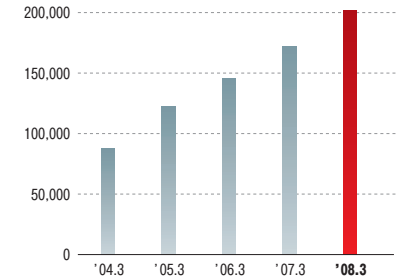
■ Fiscal Year Ended 31st March, 2008

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
For the year:			
Net sales	¥202,260	¥172,262	$ 2,018,764
Net income	15,975	16,194	159,447
Per share (Yen and U.S. dollars)			
Net income:			
Basic	¥ 165.91	¥ 174.78	$ 1.66
Diluted	161.99	166.12	1.62
Net assets	1,388.52	1,358.82	13.86
Cash dividends	50.00	44.00	0.50
At the year end:			
Total assets	¥174,270	¥169,034	$ 1,739,395
Net assets	131,761	131,036	1,315,111

The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥100.19 = U.S.$1.00, the exchange rate prevailing on 31st March, 2008.

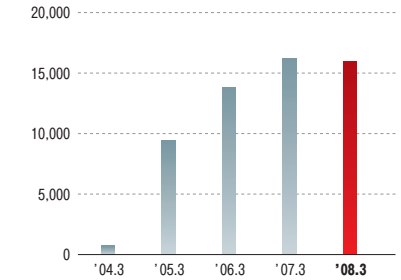
> Net sales

(Millions of yen)



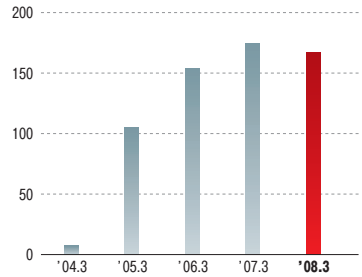
> Net income

(Millions of yen)



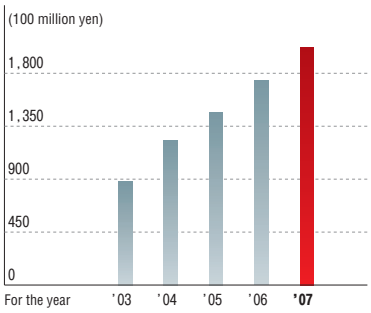
> Net income per share

(Yen)



Results Summary

Net sales



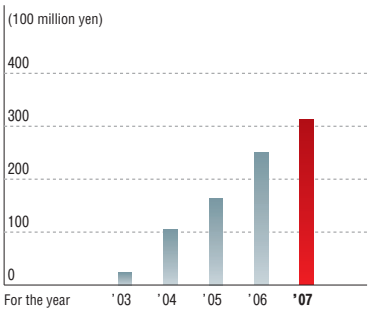
Compared with previous year

+17.4 %

202.3

billion yen

Operating income



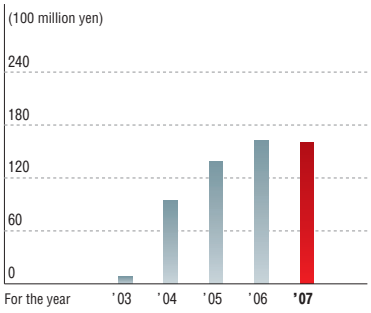
Compared with previous year

+25.0 %

31.3

billion yen

Net income



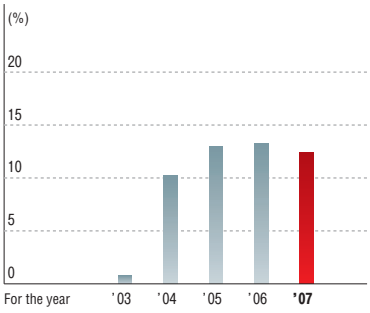
Compared with previous year

-1.4 %

16

billion yen

Return on equity

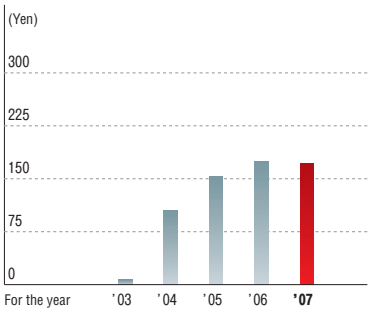


Compared with previous year

-0.9 %

12.3 %

Net income per share



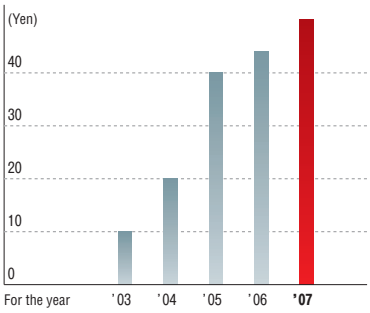
Compared with previous year

-5.1 %

165.91

yen

Cash dividends per share

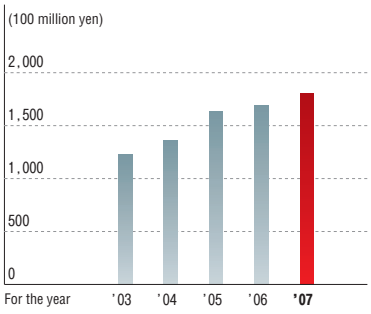


Compared with previous year

+6 yen

50 yen

Total assets



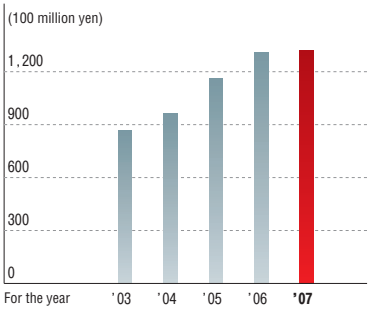
Compared with previous year

+3.1 %

174.3

billion yen

Net assets



Compared with previous year

+0.6 %

131.8

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 60th Annual Report (from 1st April, 2007 to 31st March, 2008) 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 help our customers improve production efficiency and enhance quality and accuracy through the use of Mori Seiki machine tools.

The Mori Seiki Group promoted the medium-term management plan Mori-568PLAN, for the three-year period from FY 2005 to FY 2007. For every target set in the Mori-568PLAN, the required level of achievement was exceeded, producing excellent results.

For our first target, Mori-5 (attain a 5% share of the world market), we established the Strategic/Large Account Department and expanded the number of sales bases. As a result, we greatly exceeded our target by achieving consolidated sales of 202.3 billion yen, and a market share of 5.7%, assuming that the machine tool market is 3.5 trillion yen worldwide.

For our second target, Mori-6 (achieve a consolidated cost of sales ratio of 60%), we enforced strict cost control at the design stage, and shifted to the in-house manufacture of parts, as well as using more shared parts to reduce material costs. By establishing new/additional plants for in-house manufacture, and raising machine operating rates while reducing working hours, we have greatly exceeded our target, with a consolidated cost to sales ratio of 57.4%.

For our third target, Mori-8 (establish a system that produces a minimum of 800 machines per month), we promoted innovation in production, including a 27 billion yen investment in plant and equipment over the three years, cell production and the auto campsite system. As a result, we achieved monthly production of over 800 units for the first time in March 2007, and exceeded 830 units in March 2008.

Our new medium-term management plan, the PQR555, starts this year and is a three-year plan. Based on our vision of "First-class employees providing first-class products and services for first-class customers, with the aim of becoming Global One," we will strive to achieve three business targets: "Sustain growth," "Strengthen profit structure," and "Establish global management quality."

In order to sustain growth, we will seek to increase our consolidated sales so that they account for 15% of the industry's total order value released from the Japan Machine Tool Builders' Association. While maintaining stable growth in mature markets in Japan, the Americas, and Europe, we will strive to attain an annual growth rate of 25% in rapidly growing emerging markets. To achieve this, we will establish new technical centers, increase production capacity, and introduce new large machines.

To further strengthen the profit structure, we will also reduce both manufacturing costs and selling, general and administrative expenses, aiming to achieve a consolidated cost to sales ratio of 55%, and a selling, general and administrative expenses ratio not to exceed 25%.

Aiming to establish global management quality, we will be committed to hiring excellent people and training employees so that they can work globally. For quality, we will set a specific accuracy target for all models in order to pursue high-accuracy and high-efficiency machining, and to increase our customers' satisfaction. As for risk management, we will strictly comply with regulations, promote health and safety practices, strengthen our security trade management system, and thoroughly implement internal control for the management system and financial reporting.

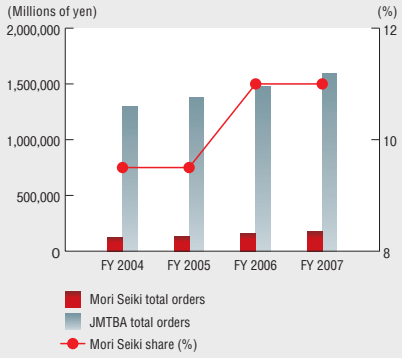
Our principle for profit appropriation will be that we will continue to invest in the development of pivotal new products and technologies as well as consolidating our production equipment. This will reinforce our competitive strength in the market, based on an overall judgment concerning our future business plan, business results, financial conditions, and other factors. For FY 2007, we issued an interim dividend of 25 yen and a full-year dividend of 50 yen, considering our business results and the economic situation. This full-year dividend of 50 yen will continue in FY 2008.

Mori Seiki will continue to strive for growth in the future, and we look forward to earning your continued confidence and support.

Masahiko Mori
President Dr. Eng.

Interview with the President

■ Trends in JMTBA share



JMTBA: The Japan Machine Tool Builders' Association

Assembly operators report their work progress using the BHT (Barcode Handy Terminal). The data also serve as their daily report.

Mori-568PLAN

Time of Leap (Quantitative expansion)

Market share-oriented
New market exploration
Strengthening production capacity

PQR555

Time of Constitutional Improvement (Quality enhancement)

Human resource development/Enhancement
Quality improvement
Risk management

Q. 1 — First, let us analyze the general market trends and the current environment surrounding the machine tool industry.

A. 1 — The industry continues to grow steadily, but negative factors are also increasing.

In recent years the Japanese machine tool industry has been showing steady growth. According to the data from the Japan Machine Tool Builders' Association, the total order value for FY 2007 was close to the record high of 1.6 trillion yen, and this trend is expected to continue in FY 2008. However, our business environment is becoming increasingly harsh due to the subprime shock originating in the United States, sudden fluctuations in the exchange rate, and increases in the cost of raw materials. In particular, the rise in raw material costs is affecting our profit ratio, so we are now required to further improve efficiency and raise selling prices.

Q. 2 — How do you evaluate the previous medium-term management plan, the Mori-568PLAN?

A. 2 — Mori Seiki employees worked together to achieve our goals. We were able to produce satisfactory results, with our targets revised upwards.

Under the 3-year Mori-568PLAN, we came close to achieving our final target for the three-year period in only two years, and in the final year of the plan, we revised our targets upwards. Thanks in part to the favorable order environment and the advantage of the weak yen, our sales increased by an average of 18% during the 3 years and the manufacturing costs ratio declined from 66% to 57%.

Our workflow consists of the following: consider every request from customers all over the world; offer proposals that can satisfy the customers; receive orders as a result of these efforts; procure and machine materials, bearing in mind the reduction of the manufacturing cost ratio; and check accuracy after assembling the machines. After that, we pack and deliver the machines, and conduct acceptance inspections. Then sales are finally recorded, but this is also the starting point for a long-term relationship with the customers since our machines can be used for about 20 years. The Mori-568PLAN targets were successfully achieved because this workflow ran smoothly and effectively. In other words, this achievement resulted from the cooperative efforts of all Mori Seiki employees.

There was one more significant result obtained under the Mori-568PLAN. We incorporated the daily/weekly/monthly numerical data management into our internal systems. The systems enabled our employees to strictly manage the numerical data used in their own work, in addition to controlling information flowing inside the company. As a result, our management system has successfully evolved into a system in which we can immediately access necessary information.

Q. 3 — A new medium-term management plan, the PQR555 has started. Could you explain the features of this plan?

A. 3 — We will pursue not only quantity but also quality.

The previous plan, the Mori-568PLAN, paid attention to quantity, including sales and production volume. The new plan, PQR555, focuses on quality in addition to quantity.

Under PQR555, which paves the way for future progress, we will improve the quality of every single task in order to sustain growth and achieve higher goals. While seeking to increase sales and profit, we will ensure quality improvement to achieve steady business expansion.

Q. 4 — Could you tell us specifically what the quality improvement is?

A. 4 — It indicates improvement of management quality in addition to product quality.

Because Mori Seiki is a manufacturer, the keyword of "Quality" may first remind you of words related to products such as accuracy and durability. For quality of products, we, as a leading company in the machine tool industry, would like to maintain the quality at the highest level in the world, and consequently increase the quality level in the whole machine tool industry. At the same time, we also place importance on the quality of work and customer/maintenance services. For example, the Accounting/Finance Department improves its quality through quick and accurate cost calculations and predictions required for management. It also pays very close attention to security trade management. Since high-precision machine tools may be used for the manufacture of weapons of mass destruction, extreme care is required when delivering products. Although we receive orders and deliver machines with the utmost caution under the control of the Export Control Committee, I think we need to review and improve the system to take all possible measures.

A Service Center, which operates 24 hours a day, 365 days a year (Iga Campus)

A Parts Center which achieved a parts shipment within 24 hours ratio of over 95% (Iga Campus)

Q. 5 — Please let us know your long-term growth strategy.

A. 5 — I expect the demand for our products will increase as long as we manufacture high-precision, high-efficiency machine tools.

The Machine tool is a device which can transform natural resources into things useful for human beings. In the future, the world population is expected to reach 9 billion, 1.5 times the current figure. Since natural resources on the earth are limited, efficiency is an important element in production. Environmental problems are also another concern: to manufacture fuel efficient engines, high-precision components are required, and to produce such components, high-precision machine tools, that is, Japanese-made machine tools, are required.
I expect the market scale of the machine tool industry will be flat for a while, but the demand for our machine tools, which feature high precision and high efficiency, will definitely increase.

The cutting-edge High-Precision, 5-Axis Control Horizontal Machining Center
NMH10000 DCG

The "38th Machine Design Award (Nippon Brand Prize)", sponsored by the Nikkan Kogyo Shimbun

Q. 6 — Finally, could you tell us your capital policy?

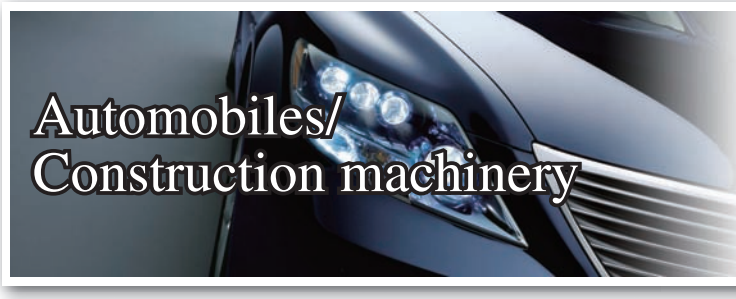
A. 6 — We will strive to increase shareholders' equity ratio, hoping to continue to support our customers for a long time.

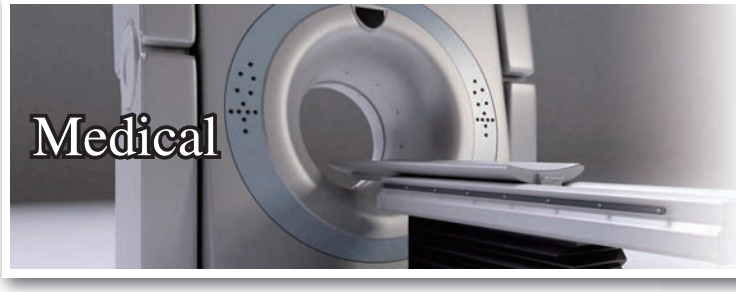
Generally, our machines are used by our customers for about 20 years. In other words, we will be responsible for the maintenance of a machine delivered today 20 years from today. To fulfill our responsibility, we must establish a strong financial system to continue to exist for a long time. We aim to achieve a shareholders' equity ratio to exceed 70%, and maintain this level at all times.
We hope that you will understand this situation, and would like to ask for your continued guidance and encouragement.

Machine tools
which enrich your life

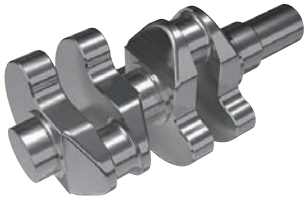
Most of the parts or dies and molds which make up many industrial products such as the automobiles, trains, and mobile phones that we take for granted in our daily lives are manufactured with machine tools. And the industrial machines themselves, which assemble parts into various products, are also produced by machine tools.

Machine tools are referred to as “mother machines,” or sources of all machines because of their role: “machines which make machines.” It is no exaggeration to say that machine tools make our lives convenient.





Photos provided by: ① Daikou Co., Ltd.
② Chida Seimitsu
③ Tepis
④ Tepis
⑤ Tepis
⑥ Hita Machine Co., Ltd.
⑦ EBI Medical, Inc.
⑧ J.Morita Tokyo Mfg. Corp.



Crank shaft

Knuckle

Starter housing

Cam shaft

The components of all forms of transportation are produced by machine tools, from familiar ones such as cars and motorbikes to the bulldozers and power shovels that build our cities. Of all industries, it is the automobile sector where machine tools are most heavily involved.

Impeller

Aircraft frame

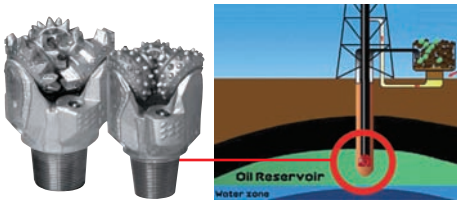
High-pressure compressor housing

Blisk (aircraft engine part)

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

① Nozzle chamber for gas turbine combustor

Bit

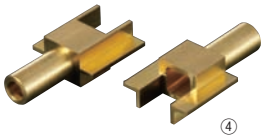


Rock bits

Machine tools are integral to the energy sector, which provides the world with power. The machine tools machine parts for oil drilling equipment, which is used for drilling in harsh environments such as deserts or ocean floors.

② Equipment part

③ Optical communication part
Lens holder



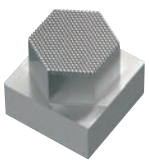
④ Connector terminal

⑤ Spring part
Connector part for optical communication

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 helping to shorten the cycle of product development through parts machining for this equipment.

⑥ Part for semiconductor manufacturing equipment

Mobile phone mold



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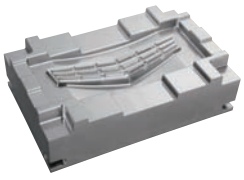
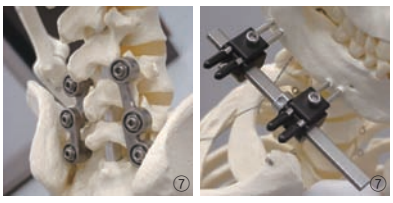


Front grille mold

Machine tools are indispensable for industries which demand high-level machining, from dies and molds that 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 the creation of even better products.



⑦ Bone orthotic devices

⑧ Exterior case for high-speed spindle for dentistry

Hip prosthesis

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.

Outline of Business

Management Policy

1. Mori Seiki's basic 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 a "Global One" status in the fields of CNC lathes, machining centers, multi-axis machines and grinding machines.

2. Target performance indicators

The Group purposes to become "Global One" company in the machine tool industry by building a solid corporate structure and responding quickly to the rapid changes in business environment and market trends. We believe that improving our profit margin is essential in achieving our pursuit. The Group's target is to achieve more than 10% of consolidated operating margin ratio constantly, and we strive to improve both corporate value and shareholder return. The group achieved 15.5% of consolidated operating margin ratio for the current year.

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 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, plans, prospects and policies, strategies, targets, plans, recognition and evaluation of facts which are related to the Group, are based on forecast, expectation, assumption, plans, recognition and evaluation made by the Group as of March 2008. Therefore, above forecasts could be different from the actual results.

2. Analysis of management performance for current year

The Group recorded consolidated net sales of 202,260 million yen (an increase of 17.4% from FY 2006) and consolidated operating income of 31,303 million yen (an increase of 25.0% from FY 2006), and consolidated net income of 15,975 million yen (a decrease of 1.4% from FY 2006).

In the Japanese machine tool industry for the current year, although the machine operating ratio remained constant of the business office with 50 employees or less, new capital investment was not actively made. On the other hand in medium and large size businesses, capital investment continued steadily and the demand from automotive manufacturers showed gradual recovery.

In the Americas, the economy has been slowing down due to the subprime loan issue; however, the machine operating ratio has remained high as in Japan, and demand has grown higher in Mexico and Brazil. There was strong demand in energy-related industries which are experiencing a global demand for crude oil, iron ore, and other natural resources, and also in the airplane body and jet engine industries, the agricultural machine industry, the construction equipment industry, and in precision device industries such as biotech and medical. On the other hand, the automotive industry appeared to be stagnant, although certain companies have started to take part in arrangements to promote capital investment to deal with the environmental issues that must be confronted in the future.

In Europe, the market maintained stable growth overall. A high level of orders continued to be received from the airplane industry, energy-related industries, and general machine industries. The demand also increased in Turkey and Russia as these areas experienced growing industrial activity.

In Asia, surging demand for the replacement of high-precision, high-quality machine tools helped keep demand strong in China, and the number of orders our company received increased by 150% relative to the previous year. The demand is also rapidly rising in India along with Singapore, Malaysia, Thailand, and Indonesia in Southeast Asia. Our sales in India are getting underway.

Turning to products, our "NMV Series" of 5-axis control machines has received high acclaim from customers in the automotive, airplane, and many other industries, and orders for the "NT Series" of Integrated Mill Turn Centers remained strong. We investigated the possibility of building a factory in Thailand to serve as the manufacturing base for the

"DURA Series", which is experiencing a growth of orders beyond our expectations; however, because the position accuracy of this series is far higher than the accuracy of freight that is subject to control under the Foreign Exchange and Foreign Trade Control Law, and due to security concerns, such as the fact that there is no precedent in Japan for transferring this type of high-accuracy machine tool manufacturing technology to a non-white country [see note], we were forced to abandon the plan. As an alternative, we contracted production of the "DURA Series" out to an excellent machine tool manufacturer in Japan and were able to launch production smoothly. In response to the increased demand for machine tools in the rapidly growing BRICs and central European markets, we added support for new languages to our "MAPPS Ⅲ" high-performance operating system.

[Note]
With regard to countries that have signed treaties for weapons of mass destruction, that participate in export control regimes, and that have adopted a catch-all system, it is clear that there is no risk that weapons of mass destruction will be spread from these countries and they are informally called "white countries". Officially these countries are referred to as "district listed in Appended Table 3 of the Export Trade Control Order". There are a total of 26 such countries, and these countries are: Argentina, Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, South Korea, Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Great Britain, and the U.S.A..
(as of 31st March, 2008; From Q & A / Glossary for Secure Trade Control, the Ministry of Economy, Trade and Industry)

Sales by region

	Japan	The Americas	Europe	Asia and Oceania	Overseas	Total
Ⅰ Consolidated sales (million of yen)	76,716	42,068	58,104	25,372	125,544	202,260
Ⅱ Ratio of overseas sales to consolidated sales (%)	37.9	20.8	28.7	12.6	62.1	100.0

3. Analysis of financial condition

① Assets, liabilities and net assets

• Assets

Current assets increased by 4.4% from the end of the previous year, to 101,976 million yen. This increase was mainly due to increase of notes and accounts receivable by 5,512 million yen, increase of inventories by 8,841 million yen and increase of deferred income tax assets by 1,399 million yen.

Fixed assets increased by 1.3% from the previous year, to 72,294 million yen.

As a result, total assets increased by 3.1% from the previous year, to 174,270 million yen.

• Liabilities

Current liabilities increased by 19.4% from the end of the previous year, to 37,152 million yen. This change was caused by increase of accrued income taxes by 6,559 million yen, increase of allowance for product warranties by 744 million yen and decrease of short-term bank loans by 804 million yen.

Long-term liabilities decreased by 22.3% from the end of the previous year, to 5,357 million yen. The decrease was mainly due to a decrease of bonds with stock acquisition rights by 1,337 million yen.

As a result, total liabilities increased by 11.9% from the end of the previous year, to 42,509 million yen.

• Net sales

Total net assets increased by 0.6% from the end of the previous year, to 131,761 million yen. Major reasons for the increase were recording net income of 15,975 million yen and increase in capital and capital surplus by 1,350 million yen from exercise of stock acquisition rights of the bonds in spite of purchase of treasury stock of 10,292 million yen.

② Cash flow for the current year

Cash and cash equivalents at the end of the current year were 17,916 million yen, with a decrease of 12,043 million yen from the end of the previous year.

The status and causes of the cash flows for the year ended 31st March, 2008 are shown below.

• Cash flow from operating activities

Net cash provided by operating activities was 14,156 million yen (previous year: 23,495 million yen of net cash provided by operating activities) due to recording of 27,708 million yen of income before income taxes and minority interests, increase of notes and accounts receivable by 6,719 million yen, increase of inventories by 9,982 million yen, increase of payment of income taxes of 6,464 million yen and etc..

• Cash flow from investing activities

Net cash used in investing activities was 13,454 million yen (previous year: 8,083 million yen of net cash used in investing activities) due to purchase of tangible fixed assets of 9,105 million yen, purchase of other assets of 2,091 million yen, purchase of investments in subsidiaries and affiliates of 1,444 million yen, purchase of investment securities of 918 million yen and 866 million yen of consideration of sales of tangible fixed assets.

• Cash flow from financing activities

Net cash used in financing activities was 13,131 million yen (previous year: 16,989 million yen of net cash used in financing activities) due to repayment of short-term debt of 804 million yen, cash dividend payment of 4,722 million yen and purchase of treasury stock of 10,292 million yen.

Outline of Business

Mid and Long Term Business Strategy

The Group has been promoting our second mid-term management plan, the "PQR555" for the three-year period from FY 2008 to FY 2010. The basic policy of this plan is, "to maintain stable growth in mature markets, maintain a growth path by expanding its share in emerging markets and to establish a global management system by pursuing high standards in human resources, quality and risk management. Through these efforts, we are aiming to become "Global One". Regarding "PQR555", "P" stands for "People", "Q" for "Quality", "R" for "Risk Management", and "555" are out target numbers. In "PQR555", by providing "first-class customers" with "first-class products" and "first-class services" by having "first-class employees", we have established the following three goals to become "Global One":

① Maintaining Growth

For consolidated net sales, we are aiming 15% of share in the total amounts of machine tool orders as reported by the Japan Machine Tolls Builder's Association.

While pursuing stable growth in the mature markets of Japan, Europe, and the Americas, our goal for annual growth in rapidly growing emerging markets such as BRICs is 25%. And also we are pursuing to expand our share in strategic industries such as the automotive industry, airplane industry, energy industry, and precision machinery industry.

For this purpose, we are developing new models mainly for large machines and aggressively bring these models to the market. We are building new buildings including the machining plant and the assembly plant for large machines in the Iga business office, and are strengthening our production capacity. Moreover, we are building new application centers and technical centers in emerging markets and strengthen our marketing activities.

② Strengthening Profitability

To further increase profitability, we are pursuing to reduce cost of sales and selling, general and administrative expense and aiming for consolidated cost of sales ratio of 55% and consolidated selling, general and administrative expenses ratio of 25%.

To achieve these goals, we have been striving to reduce cost at the design stage and to increase production efficiency and logistical efficiency. For each expense we try to achieve the target indicated as above by setting target and controlling budget and actual cost.

③ Establishing a Global Management Quality

We are in the process of building a system which can achieve the goals set forth in "PQR555" by hiring talented employees, focusing on human resource development and building world-class skills.

With respect to quality, we are setting a specific and precise goal for all models in order to pursue high-precision and high-efficiency machining; furthermore we are aiming for increasing customer satisfaction by improving quality strictly.

With respect to risk management, we emphasize strict observance of compliance rules, the strengthening of health and safety standards the strengthening of trade controls for security and we are working to thoroughly implement strong internal control over financial reporting and management. Through these efforts, we are establishing a business global quality.

Annual forecast

Forecasts for Fiscal Year 2008 are as follows

	First half (for six-month period ending 30th September, 2008) <Consolidated>	Full year <Consolidated>
Net sales	90,000	200,000
Operating income	12,600	28,000
Ordinary income	12,000	26,800
Net income	7,000	15,600

(millions of yen)

Those forecasts are based on an assumption that the first year of the second mid-term management plan, "PQR555," which lasts during the three-year period from fiscal year 2008 to fiscal year 2010, will proceed smoothly.

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, effective corporate management, Mori Seiki has identified the reinforcement of its corporate governance and the strengthening of its management oversight functions as its top priority.
We will continue to improve our corporate values 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 18, 2008, the Board of Directors consists of 17 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. In addition, Management Councils are held every month, with the President as chairperson, to discuss risk management and compliance, and Management Meetings, consisting of Directors and General Managers, are also held once a month to report and discuss important matters. This enables us to speed up the decision-making process and to 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, Mori Seiki Group has set up an Export Control Committee, with the President as chairperson. This committee formulates the internal regulations (Compliance Program), reviews and changes the contents of the 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 Councils, 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 implements the following "Basic Policy on Internal Controls" decided by the Board of Directors.

- A system to ensure that the business conduct of Directors and employees conforms to 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 consisting of Mori Seiki and its affiliated companies conducts business in an appropriate manner.
- Matters concerning employees who were appointed by auditors to assist them with their duties and the independence of these employees from Directors.
- 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 Basic concept for eliminating the intervention of anti-social forces.
Under the basic concept: "As an entity, we adopt a resolute attitude against organized violence by anti-social organizations," Mori Seiki Group formulated a basic policy of eliminating the intervention of anti-social forces. Necessary actions are specified in its Compliance Guidelines, such as "Fight against intimidation by anti-social forces by cooperating closely with the police and other relevant organizations," and "Implement initiatives to eliminate the intervention of anti-social forces together with industrial organizations and local businesses," to ensure that all employees fully understand its policy.

④ 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 6 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. In order to deal with the Financial Instruments and Exchange Law (the "J-SOX" Act, Japan's equivalent of the Sarbanes-Oxley Act), 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, to construct and monitor our internal control systems, and completed preparations for starting the operation from April, 2008.
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 Councils, 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 on matters concerning corporate governance, compliance, risk management, and overall business management.
The independent auditors and the Internal Auditing Department cooperate closely with each other, and the Internal Auditing Department provides the independent auditors with regular reports about the status of internal controls.
The independent auditors, Internal Auditing Department, and accounting auditors are making efforts to conduct proper and strict accounting audits, by holding meetings every quarter and whenever necessary to actively exchange their opinions and information.

⑤ 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 carries out risk management relating to the environment, occupational health and safety, and quality through the management system; risk management relating to the reliability of financial reports; risk management relating to export control through the compliance program; and risk management relating to daily business through the company's internal electronic decision-making system.

CSR (Contributing to Society)

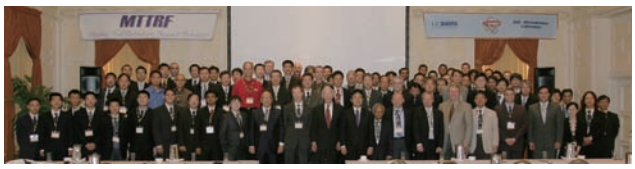
As a global company, Mori Seiki strives to make a positive contribution to the region and to society.

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

MTTRF (the Machine Tool Technologies Research Foundation) is a nonprofit organization recognized by the U.S. Government. It operates through contributions from companies, with Mori Seiki as its main sponsor. At Mori Seiki, we carry out a range of activities through MTTRF, such as lending machine tools to universities and research institutions inside and outside Japan, and holding lectures at the annual general meetings. In May 2008, we established the Kyoto Research Institute, and have been developing high-precision machine tools in cooperation with Kyoto University. Mori Seiki will continue to actively expand our research support activities through the MTTRF, to promote the technological development of industrial society.



Machine tools lent through MTTRF

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

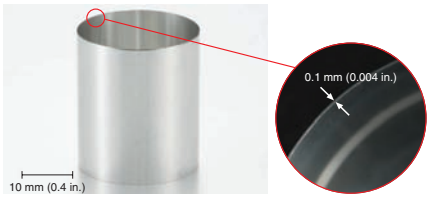
"Youngsters' Science Festival"

The "Youngsters' Science Festival" is a nationwide science education event organized by the Japan Science Foundation. At the festivals in Nara, Mori Seiki demonstrates machining to teach as many young people as possible the fascination of manufacturing. 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.

■ Contribution to the development of cutting technology and techniques

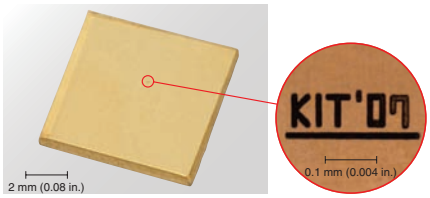
Mori Seiki holds the "Cutting Dream Contest" for companies, technical colleges, universities and research institutions, with the aim of improving and exchanging technology and techniques throughout the machining industry. In 2007, the fourth year of the contest, we received 108 entries from throughout Japan. We displayed the entries and held the awards ceremony at the Winter Productivity Show 2007. The Cutting Dream Contest is not limited to Japan; it started in the U.S.A. in FY 2006 and in Europe in FY 2007, and was well received in both regions. We are putting all our efforts into promoting this contest, hoping that it will contribute to the further development of machining technology and improvement of techniques all over the world.

■ Cutting Dream Contest 2007 Gold Prize Winners



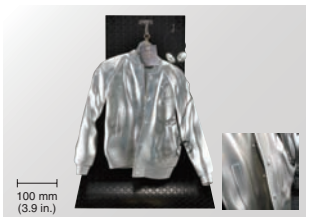
The excellent super-thin machining that achieved both thinness of 0.1 mm (0.004 in.) and high-quality surface texture

Parts machining
Ifuku Seimitsu (Kobe City, Hyogo)
"Usupika"

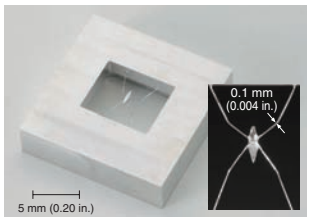


Machining combining an ultra-small diameter (8 μm) carbide end mill with ultrasonic waves

Academic research
Kyoto Institute of Technology, Department of Mechanical and System Engineering (Kyoto City, Kyoto)
"Microscopic letter engraving"



Die and mold machining, Mold machining
Kawanami Ironworks Inc.
<A company in Kyoto Shisaku Net>
(Kyoto City, Kyoto)
"JACKET"



Micro machining
Akoya Hitech Co., Ltd.
(Hamamatsu City, Shizuoka)
"Water strider"

■ Supporting the International Skills Festival for All

Mori Seiki was chosen to be an Official Supplier to the International Skills Festival for All, Japan 2007 (SKILLS 2007), which was held in Shizuoka for 8 days from November 14 to 21, 2007. This event takes place every two years, and is designed to raise the technical level of the participating countries. This year, just over 800 people from 50 countries and regions throughout the world took part in 48 different occupations. Mori Seiki's DuraVertical 5060 vertical machining center and the DuraTurn 2050 CNC lathe were used for three events at the contest: the Manufacturing Team Challenge, CNC Turning and CNC Milling. Mori Seiki will continue to support these young technicians through machine tools.

SKILLS 2007

CSR (Protecting the Environment)

In order to fulfill its Social Corporate Responsibility as a manufacturer of industrial goods, Mori Seiki promotes environmental activities which comply with ISO14001 regulations throughout the company, mainly at the Iga and Chiba Campuses and the Nara 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.


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

ISO14001 Certificate

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 ISO14001, 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

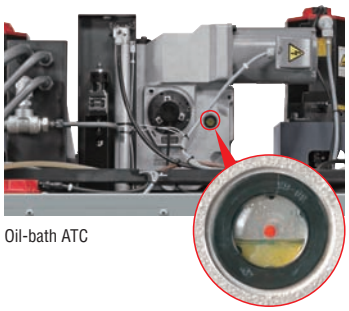
● Saving resources/recycling
Designing products which aim to recycle used products and reduce of industrial wastes/waste oil. Reducing the amount of paper used and promoting recycling activities.

● 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

Environmentally-friendly machine transfer

Mori Seiki is an industry pioneer in introducing a traveling lifter to carry large machine tools. Until now, machines were carried on a large crane truck, which was disassembled, transported to the customer's factory on several trailer trucks, and re-assembled there. By contrast, the traveling lifter can be transported by a single 15-ton truck, leading to a significant reduction in CO_2 emissions. The lifter can reduce CO_2 emissions more than 80% compared with a 150-ton crane truck.

Installation has been completed

During transport

Four-wheel-drive

Special Feature

PQR555

"Medium-term management plan, PQR555"

First-class products for customers all over the world.

We believe that the mission of a machine tool manufacturer is to continuously provide its customers with high-quality products and services. To this end, we have to establish a strong management structure so that we will be able to maintain sustainable growth even during an economic downturn.

For this reason, we will further promote corporate reform by implementing our 3-year medium-term management plan, PQR555, beginning FY 2008, aiming to become a Global One company for our customers.

We will continuously strive to offer better products and services in order to increase the productivity and efficiency of our customers all over the world.

Under PQR555, we are making excellent progress towards our goal of achieving Global One status.

Contents

Special Feature

PQR555

Sustain Growth

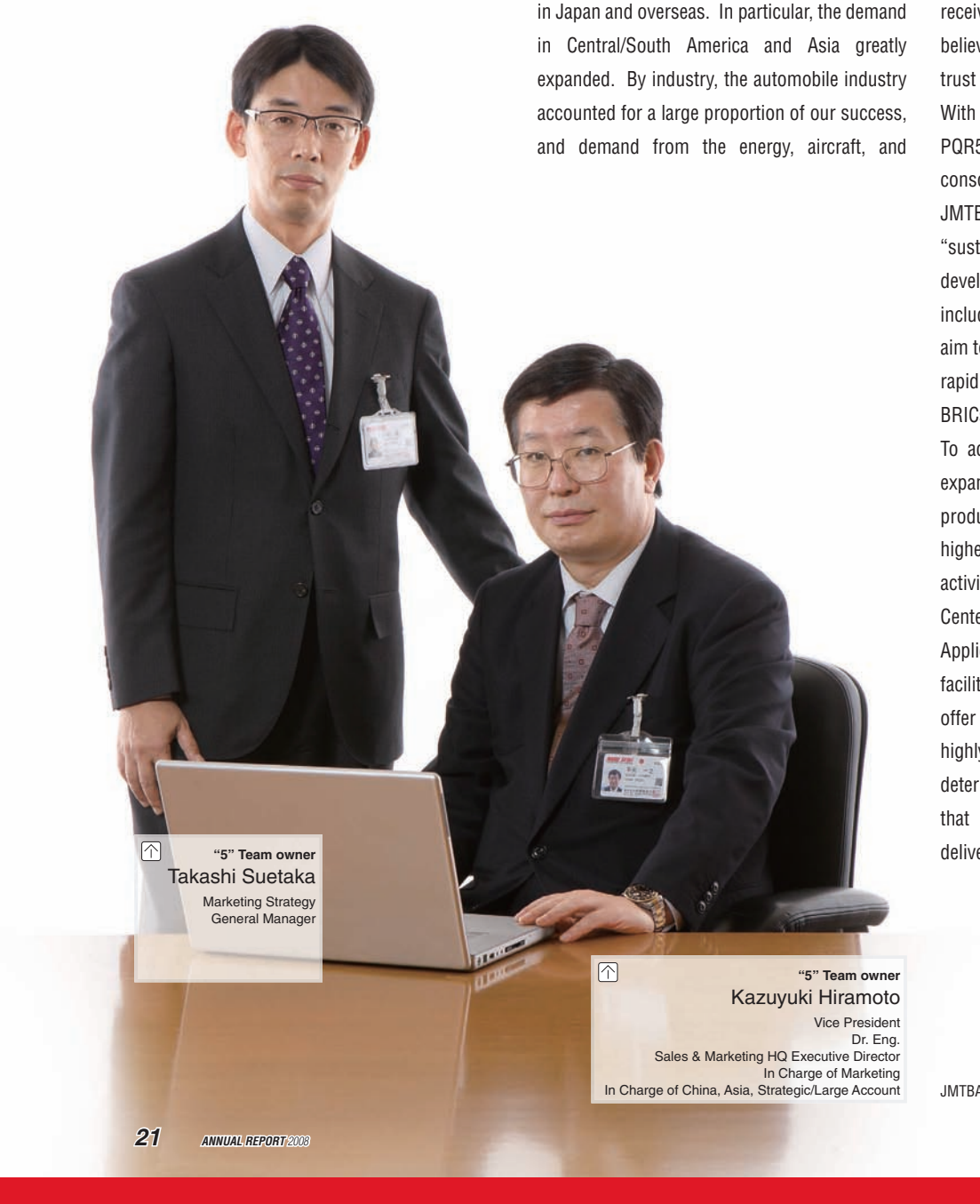
> Target

- Net sales 250 billion yen
- JMTBA share: 15%
- Annual growth rate in BRICs (Brazil, Russia, India, China): 25%

Supported by the favorable market conditions from FY 2005 to FY 2007, we successfully achieved our previous medium-term management plan, the Mori-568PLAN. Looking at the results by region, there were high levels of demand both in Japan and overseas. In particular, the demand in Central/South America and Asia greatly expanded. By industry, the automobile industry accounted for a large proportion of our success, and demand from the energy, aircraft, and construction machinery industries increased remarkably. By machine, orders for multi-axis and 5-axis control machines increased due to the trend towards increasingly complex workpieces. The NT Series and NMV Series in particular have received many orders since their release. We believe that these results show the customers' trust in our technologies.

With our medium-term management plan PQR555, beginning FY 2008, we aim to achieve consolidated sales of 250 billion yen and a JMTBA share of 15% under our major target of "sustain growth". By region, while steadily developing our business in mature markets including Japan, Europe and the Americas, we aim to attain an annual growth rate of 25% in the rapidly growing emerging markets such as BRICs.

To achieve this, we will develop new models, expand our existing Series, and launch new products to meet customers' needs. One of our highest priorities is to strengthen our sales activities, so we will establish new Technical Centers/Showrooms as our sales bases and Application Centers equipped with training facilities worldwide. We will set up a system to offer solutions to customers' problems with highly enhanced technical support. We are determined to be a machine tool manufacturer that can satisfy customers with its quality, delivery times and services.



"5" Team owner
Takashi Suetaka
Marketing Strategy
General Manager

"5" Team owner
Kazuyuki Hiramoto
Vice President
Dr. Eng.
Sales & Marketing HQ Executive Director
In Charge of Marketing
In Charge of China, Asia, Strategic/Large Account

JMTBA: The Japan Machine Tool Builders' Association

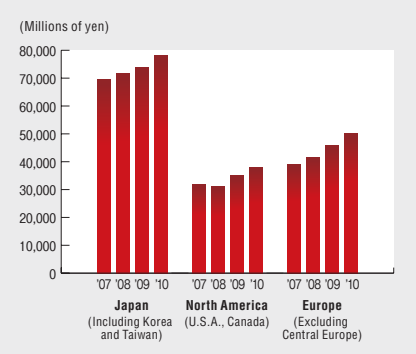
Stable growth in mature markets and swift development of new models

We may face difficulties gaining a large number of new customers in advanced countries including Japan, Europe and the Americas, where the markets have already matured, and orders/sales records are expected to be flat. However, we have been working with many customers in these markets for a long time, and we know that these customers regularly replace their equipment. Therefore, we expect to grow steadily by maintaining good relationships with our loyal customers.

Mori Seiki will listen carefully to the customers' needs in order to offer the best products at just the right time.

Furthermore, we will launch new models smoothly by optimizing our development and manufacturing capabilities in order to respond quickly to the needs of the markets.

■ Sales results and forecasts in mature markets (by region)

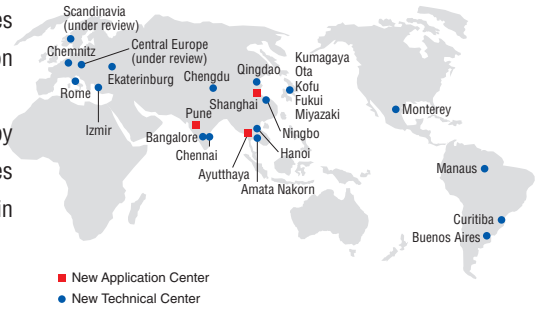


Establishment of new plants

Currently, the markets in emerging countries, including BRICs countries, Turkey, and Mexico, are thriving in the global economy. In these markets, customers show great interest in purchasing machine tools, along with plant construction and expansions in scale. Mori Seiki has increased orders in emerging markets significantly, experiencing high demand for machine tools. Looking at this trend as an opportunity to expand our customer base, we will aggressively advance into these markets. We will strengthen our sales and service support organization by establishing new Technical Centers and deploying sales personnel, Service engineers and Application engineers.

We will increase our production capacity by reinforcing our personnel, investing in facilities and equipment, and building new plants in response to demand from customers.

■ Planned New Technical Centers/ Application Centers



Expand into strategic industries, and increase OEM

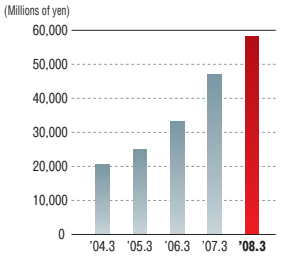
The automobile, aircraft, energy, and precision machinery industries, which always need machine tools for manufacturing products, show signs of further growing demand. We regard these industries as strategic industries, and will aggressively market our products not only to potential customers but also to new customers in order to increase orders.

We have also adopted the OEM production system for the Dura Series in order to increase our production capacity. We secure high-quality products by controlling quality and delivery times at OEM companies with our strong management system. We will increase our supply capacity by expanding OEM consignment production.

Europe

Europe/Trends in sales amount

In Europe, our sales have been 58.104 billion yen, or 28.7% of the global total of 202.260 billion yen (an increase of 25.9% from last year).



Takeshi Saito
Vice President
Mori Seiki Europe President (COO)

In FY 2007, we achieved excellent results. Our total sales were 1,627 units, amounting to 58,104 million yen, a 25% increase over the previous year. For the three years of our previous medium-term management plan, the Mori-568PLAN, Mori Seiki personnel and distributors worked together to expand our market in Europe, which led us to establish a firm position in the market.

In FY 2008, our target under the medium-term management plan, PQR555, is to achieve sales of 1,680 units with an approximately 12% increase over the FY 2007 sales results. We also plan to recruit about 50 people in the service and applications field this year, and increase the total number of employees in Europe to 400 by March 2009 in order to enhance customer service.

In order to build a better organization, we must educate employees to share common knowledge and awareness. Therefore, Mori Seiki Europe will spend 1% of sales and 5% of working hours on education. Mori Seiki Europe aims to become not only an organization 400 employees strong, but also a customer-oriented organization of employees with first-class business manners. We will further strengthen our organization, which has than doubled in size in the last 3 years, by developing individual capabilities.

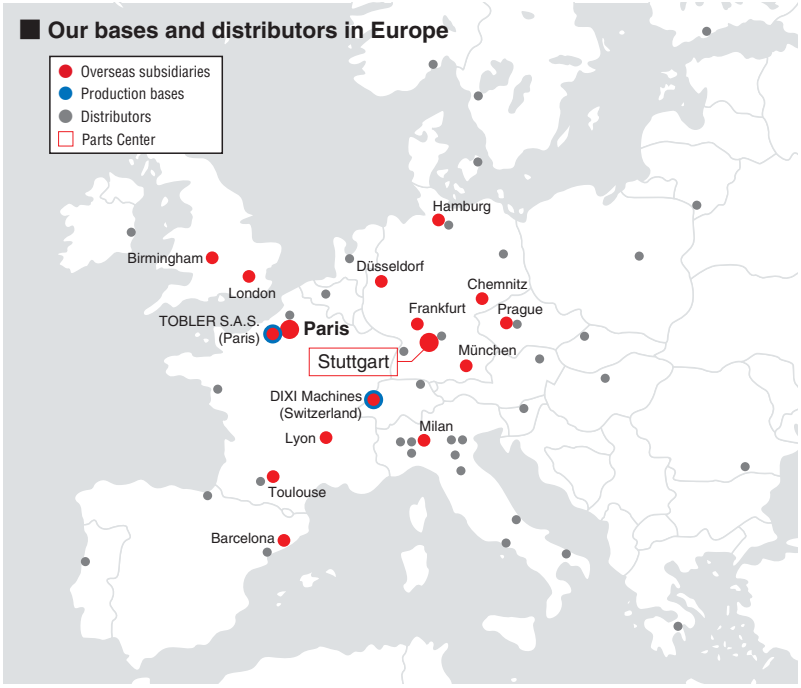
The Euro has greater influence over the European market as more countries join the single European currency system. The Eastern European countries of Slovenia and Greece, along with the southern European country of Malta, have joined the Eurozone and Slovakia will do so by 2009. In the future, we expect that business opportunities will expand both in the Eurozone and non-Eurozone countries in Eastern Europe. Mori Seiki will further reinforce our organization to respond to the needs of this market, and increase the market share by gaining new customers and enhancing the satisfaction level of existing customers. Because shortening service lead times improves customers' productivity, we will increase the number of specialists in multi-axis machines such as the NT Series and NMV Series, so that customers can comfortably use machine tools equipped with highly-advanced technologies.

Currently, our ratio of parts shipped within 24 hours is consistently over 95% in Europe. We aim to exceed 98% in the future by strengthening our organizational structure.

Established Chemnitz Technical Center

We will open Germany's sixth Technical Center in Chemnitz, Free State of Saxony, during FY 2008. We will reinforce our customer support system and increase sales by enhancing sales activities and the service network in Eastern Germany, where many automobile companies have been building plants.

Our bases and distributors in Europe



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.

① Bearing flange

② Part of gearbox of airplane propeller engine

③ Impeller

Photos provided by: ① Büchi Labortechnik
② Pratt & Whitney
③ Eaton Aerospace

Germany

Takahiro Kobi
Director
MORI SEIKI GmbH President

Peter H. Schmidbaur
MORI SEIKI Deutschland
Sales & Service
Stuttgart T.C.
Managing Director

Michael Wieschmann
MORI SEIKI Deutschland
Sales & Service
Düsseldorf T.C.
Regional Manager

Wolfgang Schaekel
MORI SEIKI Deutschland
Sales & Service
Hamburg T.C.
Managing Director

Michael Behrens
MORI SEIKI Deutschland
Sales & Service
München T.C.
Managing Director

France

Sylvain Badin
MORI SEIKI FRANCE Sud-Est S.A.S.
Sales Director
Regional Manager

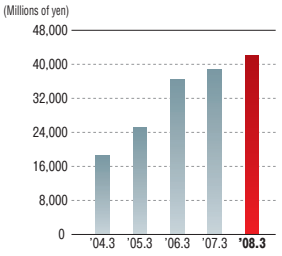
Italy

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

Americas

Americas/Trends in sales amount

In the Americas, our sales have been 42.068 billion yen, or 20.8% of the global total of 202.260 billion yen (an increase of 11.1% from last year).



In FY 2007, we enjoyed brisk business in the aircraft, oil and medical equipment industries, as well as the automobile industry in Mexico and Brazil. As a result, our total sales in the Americas were 42,068 million yen. We frequently receive enquires about training for engineers due to the decline in the number of skilled workers who can fully utilize highly-advanced machine tools at customers' factories. In order to respond to the customers' needs, Mori Seiki Americas has established an educational support institution, the Mori Seiki University, providing training for customers and distributors, as well as for our employees. The activities and value of MSU have been highly praised by our customers.

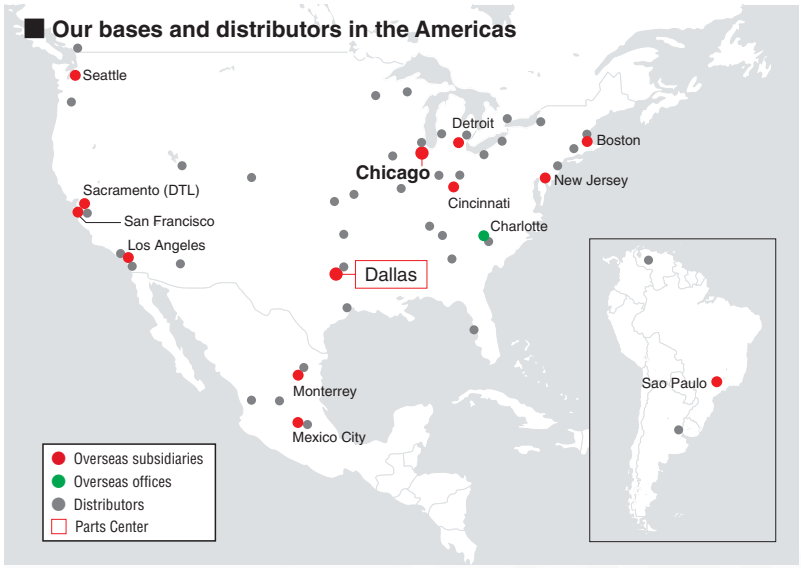
In addition to our 2-year free warranty service, we have doubled the service parts inventory to offer comprehensive service after delivery. In particular, we have supplied essential parts free of charge if we cannot ship them within 24 hours after receiving orders, and this system will be continued for 10 years as officially announced. We can do this because we have confidence in our machines. So far, we have had received an even more favorable response than we had expected.

Although a slowdown in consumer spending makes the coming financial year uncertain, we aim to offer meticulous and comprehensive service by enhancing warranty and parts delivery services. We will also establish a supporting team for global companies and a specialist team handling everything from installation to training for multi-axis machines. We will also open new Technical Centers in Argentina and Canada, one new sales/service base in Mexico and two new sales/service bases in Brazil. This way, we will be able to work even more closely with our customers to provide technical support and customer service, building much better relationships with them.

Mori Seiki Americas' target for FY 2008 is to sell 1,956 units, a 10% increase over the previous year. This year, we will develop new models aiming both for the existing markets and emerging markets in the Americas. We will strive to achieve our target by providing customers with useful products and high-quality service.

Koji Okura
Senior Executive Managing Director
President Mori Seiki U.S.A.

Our bases and distributors in the Americas

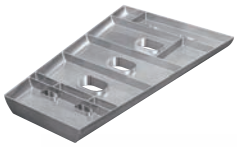


Dallas Parts Center

Swift service and part supply are essential after delivery. In the Dallas Parts Center, there are about 30,000 types of in-stock parts. We are striving to further enhance and optimize its service. For FY 2008, we have set a target of achieving a 98% 24-hour parts shipping ratio, after the significant increase to 95%. We can do this because we have built a repair plant for spindles, which are essential parts of machine tools. Our supply of excellent quality parts with short delivery times satisfies our customers.

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.



Aircraft frame

Crank shaft

Housing for front axle

Aircraft block

Photos provided by: ① HONDA F1

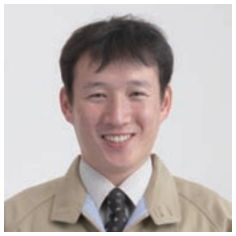
MORI SEIKI U.S.A., INC.

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

Mark H. Mohr
MORI SEIKI U.S.A., INC.
Service & Parts Center Department
Vice President

Randall Harland
MORI SEIKI U.S.A., INC.
Sales Department
Vice President

Mexico



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

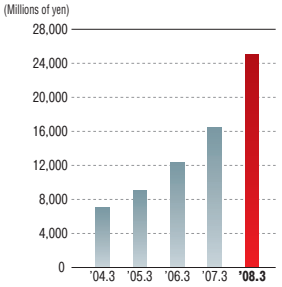
Brazil

Eduardo Kenji Watanabe
MORI SEIKI BRASIL LTDA.
Regional Manager

China

China, Asia, Oceania and Strategic Growth area: Trends in sales

In the area covered by the China, Asia, Oceania and Strategic Growth Department, our sales have been 25.371 billion yen, or 12.6% of the global total of 202.260 billion yen (an increase of 61.4% from last year).



In FY 2007, we strengthened our sales system by establishing new Technical Centers and increasing the number of sales personnel and service engineers in response to the rapidly growing Chinese economy. We increased the number of employees in the newly-established Qingdao Technical Center by 39 from 94 to 133. We also presented our machines at 8 exhibitions, including the China International Machine Tool Show (CIMT2007 in Beijing), which was held in April 2007. Thanks to these opportunities, we successfully promoted our machines to our customers.

As a result of steadily growing our business, the FY 2007 sales reached 9,630 million yen (486 units). This greatly exceeded the initial sales target of 8,720 million yen (420 units) which represented a 140% increase over the order results in FY 2006. In FY 2008, we aim to increase our sales 35% over the previous fiscal year by establishing new Technical Centers and increasing the number of personnel.

Recently, we have enjoyed increasing demand for multi-axis machines from the medical equipment and automobile parts industries for process integration, as well as from the die and mold industry for greater efficiency. The construction machinery, agricultural machinery, and rolling stock industries have increased demand for large horizontal machining centers. Meanwhile, we frequently receive requests to establish an Application Center to offer machining technologies and conduct test machining, and requests to dispatch highly skilled and knowledgeable engineers. In order to respond to the needs of the market, Mori Seiki China will make every effort to establish training facilities for Service Application engineers and distributors' engineers, and a Mori Seiki University to offer an NC school for our customers.

Our company is working together as a whole to provide high productivity and swift service, so that customers can use Mori Seiki machines with confidence.

Toyofumi Nishio
Director
President Mori Seiki China

Our bases and distributors in China

Opening of China's 11th Technical Center in Qingdao

In February 2008, we opened China's 11th Technical Center in Qingdao, the major city of Shandong province, where we have enjoyed increasing orders from the die and mold, agricultural machinery, and oil industries.

With this sales/service base, we can now respond to customers' needs quickly.

China

Toshihiro Mori

MORI SEIKI (SHANGHAI) CO., LTD.
SHANGHAI, CHONGQING, DALIAN, SUZHOU Technical Centers
Regional Manager

Eiji Ichikawa

MORI SEIKI (SHANGHAI) CO., LTD.
TIANJIN, WUHAN, BEIJING, QINGDAO Technical Centers
Regional Manager

Mitsuya Harada

MORI SEIKI (SHANGHAI) CO., LTD.
GUANGZHOU Technical Center
Regional Manager

Toshiaki Sakai

MORI SEIKI (SHANGHAI) CO., LTD.
SHENZHEN Technical Center
Regional Manager

Seiichi Uchiyama

MORI SEIKI HONG KONG LIMITED
Regional Manager

Asia, Oceania and Strategic Growth area

The biggest event in the Asia and Oceania Region (including India but excluding China) is that we have opened a new Technical Center, with a Showroom and Parts Center, in the city of Ayutthayah in northern Thailand. We hope that customers and distributors in Thailand and throughout Southeast Asia will utilize this center as an Application Center for machining technologies and use Mori Seiki University Asia for internal/external training. In India, which now has market growth second only to China's and is attracting the world's attention, we will strengthen the sales force by increasing our staff to 10. We are also establishing Technical Centers in Bangalore and Chennai, and an Application Center in Pune.

In Russia, which has enjoyed a rapidly growing economy, we established Mori Seiki Moscow in March 2007. Our major customers in the energy and construction machinery industries have praised our multi-axis machines. In the future, we plan to reinforce our Technical Centers in turn to provide comprehensive services throughout Russia.

Turkey's automobile industry has been growing, increasing the demand for machine tools. Last year, we promoted the Istanbul Technical Center to an overseas subsidiary to meet the needs of a country which is shifting from light to heavy industry. This year, we opened a new office in Turkey, which is equipped with a Showroom and facilities to conduct test machining and offer technical guidance to customers.

In South Africa, we have many customers in the automobile and mining industries, and in Israel, high-tech industry for the US and European markets is thriving. We have responded to customers' needs in these regions by deploying longstanding distributors with a high level of technical skill.

In FY 2008, we seek to achieve sales of 16,000 million yen (840 units) in the Asia and Oceania regions and 4,400 million yen (180 units) in Strategic Growth regions, with the aim of attaining an annual growth rate of 25% in BRICs.

The company works as a whole to offer satisfaction to our customers. We strive to provide the best machines with the shortest delivery times and offer high-speed, high-quality service, unmatched by other companies.

Shigenori Higashi
Asia/Oceania
General Manager

Kenichi Kubota
Strategic/Large Account
General Manager

■ Our bases and distributors in the Asia, Oceania and Strategic Growth area

Thailand Technical Center Grand Opening

The Thailand Technical Center opened in June 2008 in Thailand's industrial area, Ayutthaya. In addition to offering customer service and support as a Technical Center, this is a complex facility housing the Showroom, Mori Seiki University, Call Center and Parts Center. Concurrently, a branch office was established on the Amata Nakorn Industrial Estate.

With these new facilities, we will be able to offer much better customer service and support to our customers in Southeast Asia.

Thailand

Hideharu Yoshihara

MORI SEIKI MANUFACTURING (THAILAND) CO., LTD.
Regional Manager

India

Masayuki Nomura

Mori Seiki India Private Limited;
Regional Manager

Russia

Yoshimi Ota

MORI SEIKI Moscow LLC
Regional Manager

Turkey

Yoshikazu Matsuo

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

Singapore

Masaki Momiki

MORI SEIKI SINGAPORE PTE LTD
Regional Manager

Australia

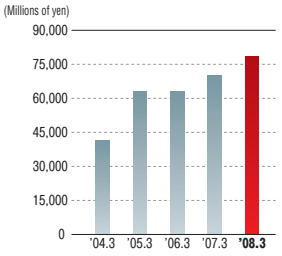
Yoshihiro Nakamura

MORI SEIKI AUSTRALIA PTY LTD.
Regional Manager

Japan

Japan/Trends in sales amount

In Japan, our sales have been 76.716 billion yen, or 37.9% of the global total of 202.260 billion yen (an increase of 5.8% from last year).



FY 2007, the final year of our medium-term management plan, the Mori-568PLAN, was very successful. Our actual consolidated sales were 202.3 billion yen, which greatly exceeded the initial target of 175 billion yen. FY 2007 sales in Japan were 76,716 million yen, a 5.8% increase over the previous year, which greatly contributed to achieving the goals of the Mori-568PLAN.

The main factors behind our business growth in FY 2007 are as follows.

① The Strategic/Large Account Department, which was established to cultivate major new customers, strongly enhanced our business activities, and generated many new orders.

② New Technical Centers in Toyama, Niigata, Shiga, Tokyo, and Shinagawa, which were established with a view to expanding our sales bases, have commenced operations and play an important role in increasing orders.

③ The NMV Series of 5-axis control machines for machining complex-shaped workpieces has been highly praised by customers, including the automobile and aircraft industries. The NT Series of multi-axis machines has also remained strong.

Kimitaka Miyazaki
Domestic sales
General Manager

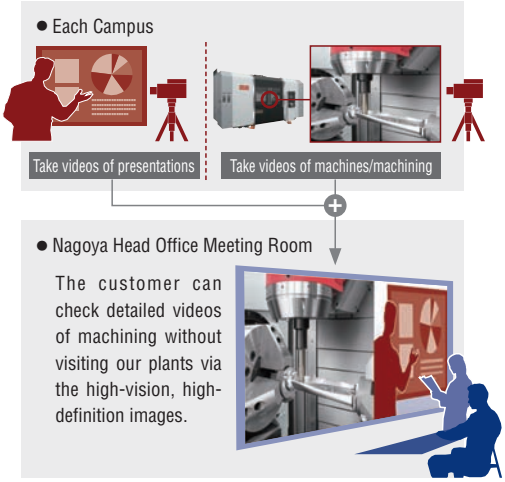
In FY 2008, we began our medium-term management plan PQR555. Although there is a trend of weak investment in plant and equipment in Japan, we expect that a stable business environment will continue in the future as medium-sized and large companies continuously show their willingness to invest. Also, there is a trend of strengthened investment in plant and equipment for production systems offering high added value.

In order to meet our customers' needs, Mori Seiki seeks to offer proposals to increase productivity, provide comprehensive service and fast, accurate parts delivery, and make our high-quality support system even stronger.

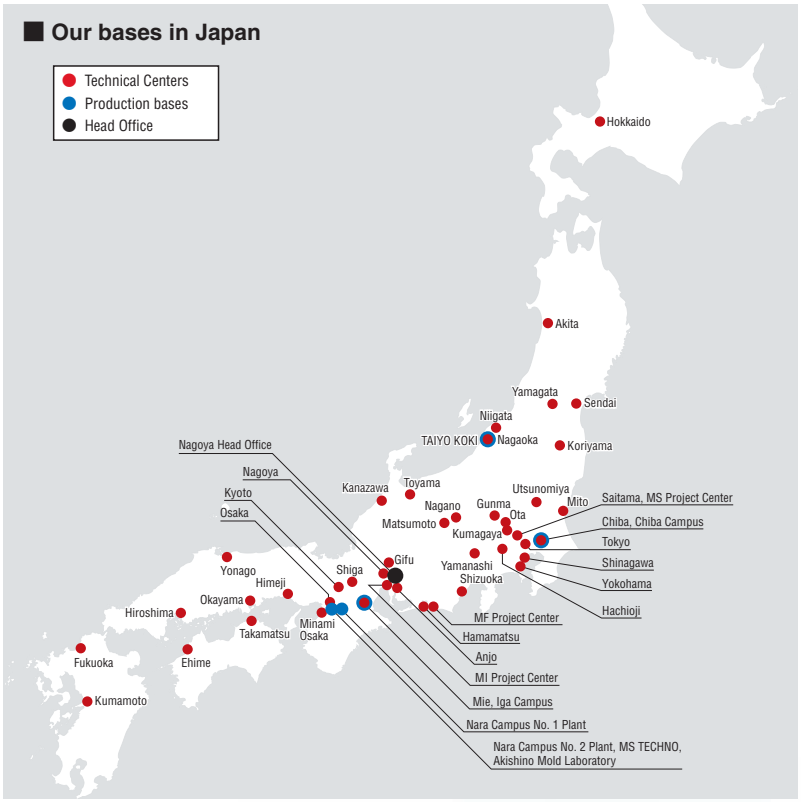
Introduction of the High-Definition Meeting System

We have introduced a system which allows several bases to share high-definition machining images using a specialized high-vision camera and projector. Customers can obtain necessary information about machining, services and specifications at their nearest Mori Seiki Campus with high-definition machining images.

Meeting using the high-definition meeting system



Our bases in Japan



Machining examples

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

Connector terminal

Body of flow meter

Gear housing

Control sleeve

Blade

Inner panel

Cutter for edge preparation (TA cutting tool)

Clamp

Photos provided by: ① Tepis ② D&M Holdings Inc. ③ Naba Seiko Co., Ltd. ④ Higashiyama Machining Corporation

Mori Seiki's service system

Yoshihiro Matsuoka
S&P Department
General Manager

We are always thinking of ways to improve the operating rate of our customers' Mori Seiki machines, and we have developed a high-quality service and parts system to make machine recovery as fast as possible. We aim to deliver maintenance parts requested by customers within 24 hours. Additionally, we have started to provide a 2-year Warranty for parts and service for customers in Japan, including the high-speed spindle for models delivered overseas. Since last year, we have doubled the size of our parts inventory, not only for existing models but also for those which we no longer produce. As a result, we were able to increase the ratio of 24-hour shipping from 91% to 95%. We are doubling the maintenance parts inventory at Parts Centers, not only in Japan but also in the U.S.A. and Germany, further strengthening our worldwide parts supply system.

We have trained our young employees as field service engineers and have sent them to our customers' factories. We have also established a team of Senior Engineers to mentor and teach service techniques to the newer employees. We will enhance newer employees' service knowledge and techniques through OJT.

In FY 2008, we will manage twice the volume of maintenance parts, and organize the inventory holdings, varieties, and storage, so that we can respond to requests for urgent parts even more quickly. We have also established a Parts Center in order to strengthen the parts supply system in Asia, where the market is continuously growing.

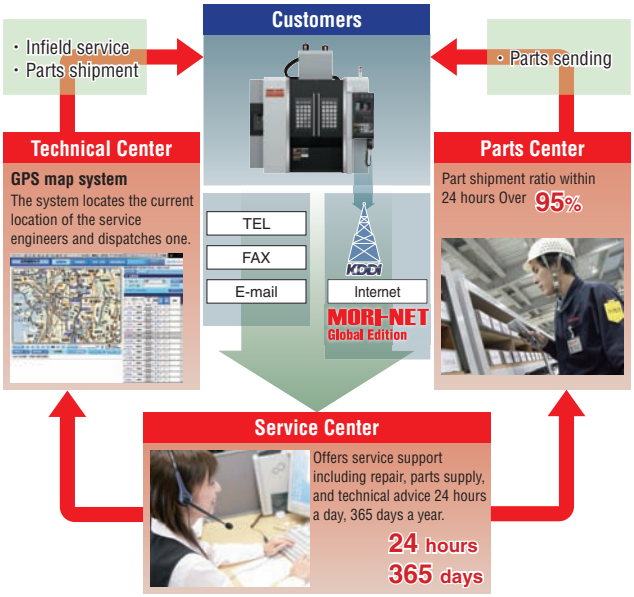
We will strengthen our staff and send our young employees to customers' factories as field service engineers. We will commit experienced Senior Engineers at Service Centers to answer customers' questions quickly. These actions will improve our customer service as a whole by enhancing on-site repairs and phone support.

Mori Seiki's global service network

At our Midwestern and Eastern Service Centers, which are the bases for all service calls in Japan, experienced engineers, who are specialists in each model, answer customers' questions 24 hours a day, 365 days a year. At our Service Centers, we store information about the customers, their machines, their repair history, etc., in our database, so that we can efficiently solve the customer's problem. As a result, our Service Centers' telephone support problem-solving ratio currently exceeds 70%. Our service engineers are deployed at 44 Technical Centers in Japan to provide on-site repairs as quickly as possible. Also, the MORI-NET Global Edition, in which alarm notifications are sent to the Mori Seiki Service Center using a communication module, helps share accurate information to solve customers' problems faster. This system has been installed on over 10,000 machines.

We have assigned our service engineers to 50 overseas Technical Centers. In Germany, the U.S.A. and China, service experts provide telephone support to customers to solve problems quickly.

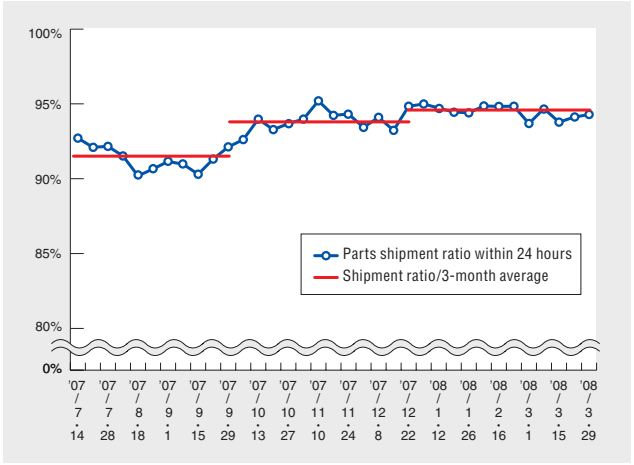
■ Our service flow

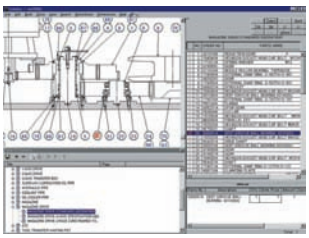


Parts inventory

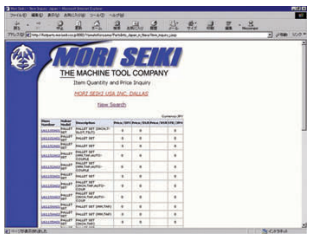
In order to shorten the delivery times of maintenance parts, we have doubled the inventory in Japan, the Americas, and Europe. As a result, we were able to increase the 24-hour shipping ratio from 91% to 95% last year. Parts Centers located in Japan, Dallas (the U.S.A.), Stuttgart (Germany), Shanghai, Singapore, and Thailand deliver maintenance parts quickly to customers in their regions by identifying the requested parts using CSS-Net (online parts search/order system). We can also deliver requested parts from any Parts Center by using the Hot-Parts system, which allows us to check our global inventory status.

■ FY 2007 Trends in parts shipment ratio within 24 hours (Japan)





The CSS-Net online parts search/ order system



The Hot-Parts inventory check system

Special Feature

PQR555

Strengthen Profit Structure

> Target

- Consolidated cost of sales ratio 55% (including R and D expenses ratio of 2.5%)
- Selling, general and administrative expenses ratio 25% (including R and D expenses ratio of 2.5%)

The target for our previous medium-term management plan, the Mori-568PLAN, was to achieve a consolidated cost to sales ratio of 60%. We conducted strict cost control at the design stage, and promoted 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 built the Heat Treatment Plant (in September 2005), Casting Plant (in March 2006), and Sheet Metal Plant (in August 2006) at the Iga Campus and the Machining Plant (in January 2006) at the Chiba Campus. In August 2006, we also remodeled the Spindle Plant and Ball Screw Plant at Iga Campus. In-house production was not just a cost-saving measure, however, it also contributed to improved quality, shorter delivery times and increased production capacity. By raising the machine operating rate, shortening working hours, and increasing production capacity per person, we were able to exceed our target, with a consolidated cost to sales ratio of 57.4%.

For our medium-term management plan, PQR555, beginning FY 2008, we will achieve a consolidated cost to sales ratio of 55%, and a selling, general and administrative expenses ratio of 25%, with the aim of further strengthening our profit structure. We will handle accurate information, detect abnormal numbers, and take prompt action by managing budgets and results quickly and accurately on a consolidated basis, and by assessing business performance by department or by region. We will be able to achieve our target by identifying fluctuation risks as early as possible, and taking measures to prevent them.

Although our goal is to reduce selling, general and administrative expenses and manufacturing costs, we will not forget to invest in management resources, while assessing potential risks for future growth. We will pursue a balance of short-term profitability and long-term development. We will also conduct strict cost control by establishing a global cost controlling system for manufacturing bases both in Europe and Japan, raising employees' awareness of costs, and fully understanding the cost system. Specifically, we will work toward cost reduction at the design stage, development of new models, improvement of production and distribution efficiency, and unit standardization.

"55" Team owner
Naoshi Takayama
Managing Director
Development & Manufacturing HQ
Executive Officer (Development)

"55" Team owner
Yasushi Onishi
Purchasing
General Manager

"55" Team owner
Morikuni Uchigasaki
Managing Director
Accounting/Finance HQ
Executive Officer

Cost reduction activities from the development and design stages

While reducing the cost ratio, it is important to maintain or improve the value of products. In order to do this, we have introduced the VE (Value Engineering) method to maximize the value per manufacturing cost.

In the VE method, the balance of functionality to offer satisfaction and cost efficiency is expressed by the formula: V (Value) = F (Function) / C (Cost).

How to enhance value

① Maintain functionality while reducing cost
② Enhance functionality while reducing cost
③ Enhance functionality while maintaining cost
④ Enhance functionality significantly with a modest increase in cost

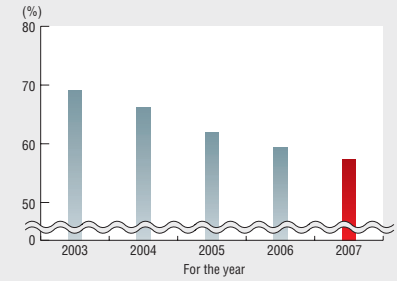
Mori Seiki has already implemented the methods indicated above.

Working on cost reduction from the development and design stages

Develop new models

Mori Seiki introduces new models at regular intervals. When we change a model, it is an appropriate time to implement cost reduction because the range of reduction will be narrowed once the model is finalized. We set the target prices for new models by function, after discussing what functions are needed at the planning stage. In order to achieve those target functions and prices, we get our suppliers involved at an early stage. By listening to our suppliers' opinions, our Development Department designs parts which are easier for the suppliers to make. As a result, we can make the manufacturing process shorter and simpler, and achieve the target functions and prices.

■ Trends in consolidated cost of sales ratio



Improve distribution efficiency

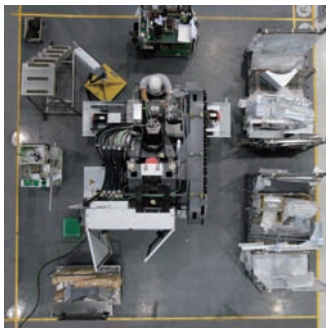
Even at the design and development stages, we think ahead to the final packing size so that we can ship the machine efficiently. Packing material costs are rising due to the increase in raw material costs, so we look for ways to reduce our costs by changing the type or method of packing.

For the Dura Series, which has been produced by OEM production, we have introduced the VMI (Vendor Managed Inventory) system for improving parts inventory management and distribution efficiency. In this system, our vendor controls orders, delivery times and inventory, and transfers components to outsourcees in charge of assembly (outsourcing of orders and inventory management). In this way, we can transfer parts as and when they are needed to outsourcees for assembling (JIT transfer). We can also reduce the distribution costs as we send appropriate machines only as needed.

Although we are facing unfavorable conditions such as soaring raw material costs and an appreciating yen, we believe that these efforts allow us to be competitive and to differentiate ourselves from other companies.

Improve production efficiency

We will continue to enhance production efficiency and shorten lead time by making further advances on a system for producing 800 machines per month, as per the Mori-568PLAN. Specifically, we will establish the Assembly Plant for large machines, promote equipment for automation, and achieve long-term operation with fewer people. We will also further shorten assembly lead time by combining the auto campsite system and cell production and optimize output by introducing a new production system and using a scheduler function.



NV5000 α1 assembly using the auto campsite method

Unit standardization

Unit standardization allows us to push ahead with cost reduction while enhancing the quality and performance of machines. By using standardized units with a high degree of completion, we will be able to reduce the number of problems and types of service parts.

■ Examples of shared unit parts

Spindle

NMV8000 DCG
NH6300 DCG Ⅱ
NH8000 DCG Ⅱ

Magazine

NH6300 DCG Ⅱ
NH5000 DCG
NT5400 DCG

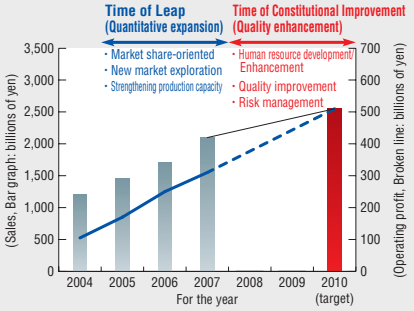
Special Feature

PQR555

Establish Global Management Quality

> Target

- ***People*** ···· Human resource development/ Enhancement
- ***Quality*** ····· Quality improvement
- ***Risk Management*** ····· Compliance management



In April 2008, we began our medium-term management plan, PQR555. The unprecedented economic boom of the past 5 years is beginning to slow, and our business environment has now come to a turning point. We are changing from the quantitative expansion period (a period of rapid growth), in which we placed importance on market share, cultivation of new customers, and increase in our production capacity, to the qualitative expansion period (a period for strengthening our corporate structure), in which we will build a strong global management system. Over the next 3 years, we must be committed to the development and enhancement of human resources, quality improvement, and establishment of a risk management system, to further improve our global management quality. We believe that the success of these efforts will result in the achievement of the other two main goals: "Sustain growth" and "Strengthen profit structure."

In Japan, there is a saying that "A company's success depends on its employees." During the implementation of the previous medium-term management plan, the Mori-568PLAN, the number of our employees increased from 3,300 to 5,000 worldwide. We are now faced with an urgent need to educate these promising people. We must also develop the managerial talent of the next generation through two main forms of education: technical education to improve individual skills and English education as a global company.

Recently, many companies have suffered serious damage to their businesses because they betrayed their customers' expectations due to the poor quality of their products. At Mori Seiki, we regard these as good examples of what not to do, and set uncompromising quality and inspection standards in quest of high performance, aiming to continuously provide customers with high-quality products and greater satisfaction.

We place emphasis on compliance to control risk. At Mori Seiki Quarterly Policy Explanation Meetings, top management discusses the importance of compliance, then shares the information with all employees. In addition, we emphasize education and provide various opportunities for our employees to deepen their understanding of compliance, including training for new employees, education by level, and lecture seminars on legal issues. We will also continue to address security trade management as our top-priority issue.

"PQR" Team owner
Hisao Sato
Director
Administrative HQ Vice Executive Officer
Internal Auditing General Manager
Personnel General Manager

"PQR" Team owner
Hiroaki Tamai
Senior Executive Managing Director
Administrative HQ Executive Officer

"PQR" Team owner
Yasunori Hamabe
Director
Quality HQ Executive Officer

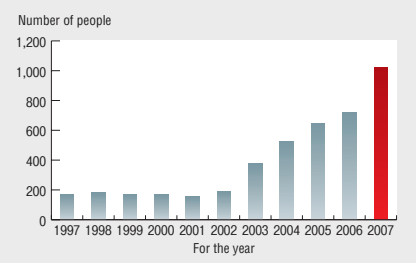
Hiring and training "global people"

Today, overseas sales account for 62.1% of our total sales, and the emerging markets, mainly in BRICs, are expected to expand further. Because of this, it is very important for us to hire and train people who can work globally. The number of employees recruited overseas now exceeds 1,000, making up 30% of our total workforce. In order to promote the recruitment of local people, we will hire people with excellent management skills.

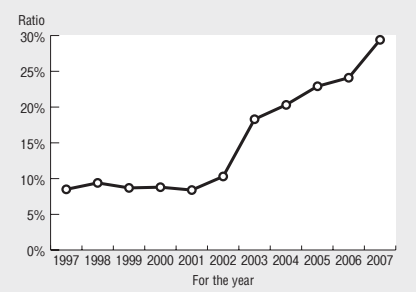
One of the key elements to operating on a consolidated basis is to increase the number of Japanese employees capable of working globally. Our current overseas strategy, in which a small number of employees with good English skills take a major role, has already reached its limits. All employees, therefore, must improve their skills so that everyone can work at our overseas offices. In the future, not just sales people but also service people and applications engineers will be required to work overseas. Opportunities for production employees to work overseas are also increasing at DIXI Machines and TOBLER.

In our new medium-term management plan, PQR555, improvement of employees' English skills is one of the highest priority issues. We will increase the number of people who can play an active role worldwide.

■ Trends in the number of people recruited overseas



■ The ratio of number of employees recruited overseas to consolidated permanent employees



Substantial training programs

Mori Seiki is dedicated to the investment in development of human resources as well as in research and development. We actively invest approximately 1% of sales (i.e. 2 billion yen out of 200 billion yen sales) in education. We have established Mori Seiki Universities (MSU) in Japan, the U.S.A., Europe and Asia, to further promote our educational goals.

Until now, employees in Asia have usually received training in Japan. We are setting up MSU in Thailand to further enhance our training systems. In our training systems, all employees receive training at least once a year in fields such as technical skills, management, languages, manners, and efficiency. In FY 2008, we will focus on the improvement of employees' English skills, development of human resources for overseas operation, and strengthening of our overseas management systems.

Language training to work globally

Creating a better working environment

We conduct the Employee Satisfaction Survey twice a year. Mori Seiki, which has no labor union, looks on this as an opportunity to get to know its employees' ideas and requests, and gives positive consideration to them. Each department at the Head Office considers more than 1,000 candid opinions from employees, takes any necessary steps, and gives feedback to the employees. Under PQR555, we will strive to achieve the following objectives to provide an even better working environment.

- **Efforts toward reduction of overtime:** reduce average overtime hours, which currently exceeds 40 hours, to 20 hours over the 3 years.
- **Overtime hours:** reduce the maximum monthly overtime hours from 100 hours to 60 hours.
- **The number of annual paid holidays which should be taken by all employees:** increase from 12 days to 20 days.

In addition to these, we also conduct various activities to meet social responsibilities. Mori Seiki has child-care and nursing-care leave systems, and has obtained the Next Generation Certification Mark, known as Kurumin, from the Ministry of Health, Labour and Welfare.

The Next Generation Certification Mark, Kurumin

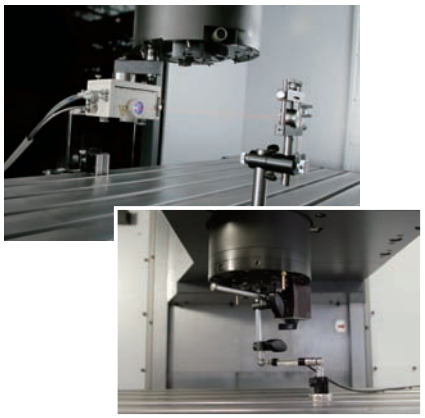
Quality

Quality improvement

Contacting customers one year after their machines are delivered

Efforts towards increasing the level of customer satisfaction

At Mori Seiki, we believe that "Customers' requests (for design, products, service and sales) 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 contacting our customers to obtain feedback. We are continuing to conduct telephone surveys immediately after the acceptance inspection of a machine and one year after delivery to see if the customer has any complaints, comments, or requests. If we receive complaints or requests, they are quickly communicated to the appropriate departments, which take the necessary action. We will continue to do this under PQR555: to hear the customers' opinions, to fix problems, and to increase the level of customer satisfaction. Our goal is to receive zero complaints.

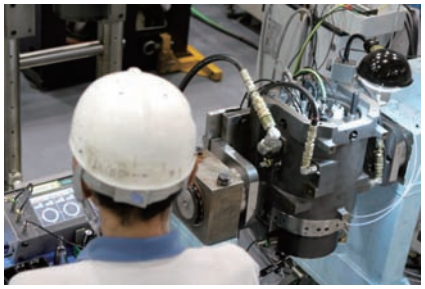


Laser measurement (upper), and DBB measurement for roundness

Efforts towards Quality

Under PQR555, we seek to provide customers with high-precision machine tools so that we can deserve to be called the Global One Company. In order to achieve this goal, we are striving to improve accuracy by forming project teams for each main inspection item, cooperating closely with all departments including the Development and Manufacturing Departments.

Mori Seiki uses various measuring instruments, such as laser measuring devices to ensure repeatability and positioning accuracy, and DBB (Double Ball Bar) to measure roundness. We set high targets for repeatability, positioning accuracy, roundness, and cutting accuracy and we are confident that we will provide products which exceed our customers' expectations.



Strict quality inspections for spindle units

Efforts towards quality inspection

We believe that the quality of products can be assured by ensuring the quality of each process from part machining to unit assembly to product assembly. As part of these efforts, we measure geometric dimensions at every point of all the spindle parts. For machining of spindle parts, we manage the machining dimensions using software called Net Inspect. As a result, we can now offer spindles with uniformly high quality. Since we consider that quality inspections of machine installation are also important to guarantee our product quality, we conduct in-house quality inspections at the same level as when actually installing machines in customers' factories.

We continue to carry out thorough quality inspections using high-quality measuring instruments, so that we can deliver machines of reliable quality.

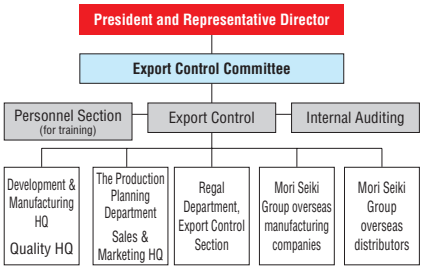
Stronger security trade management

For security trade management, our Export Control Section oversees export control for all our bases worldwide to strictly enforce our internal regulations (compliance program) and comply with the Foreign Exchange and Foreign Trade Control Law. In April 2008, we began installing the Relocated Machine Security Function in machines exported to all regions to strengthen the prevention of misappropriation and illegal transfer. We also dispatch our employees to customers' factories to verify the appropriateness of their intended use of the machine and confirm the machine's location. We will also continue to provide training, not only for our own employees, but also for our overseas distributors. By encouraging our overseas distributors to set up their own export control systems, we, including overseas distributors, will build a stricter compliance system.

■ International framework for Security Trade Control

		Global Treaty	International Regimes
Weapons of Mass Destruction	Nuclear	**NPT** Nuclear Non-Proliferation Treaty	**NSG** Nuclear Suppliers Group
	Biological/ Chemical	**BWC** Biological Weapons Convention	**AG** Australia Group
		CWC Chemical Weapons Convention	
	Missile Rocket Systems, etc.		**MTCR** Missile Technology Control Regime
Conventional Weapons	Conventional arms and dual-use goods and technologies	**WA** The Wassenaar Arrangement	

■ Organizational structure for export control



※ Our Export Control Section in Japan oversees the export control for all our bases throughout the world.

※ Every business with Non-White Countries is examined by the Export Control Section.

Maintain the internal control systems

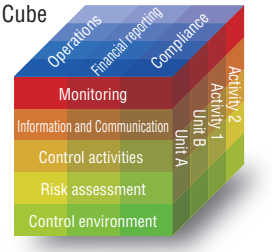
• Financial reports

The Financial Instruments and Exchange Law (Japan's equivalent of the Sarbanes-Oxley Act) began in FY 2008. Mori Seiki has established internal control systems and completed preparations for starting these systems. In the future, we are committed to maintaining and strengthening our internal control systems by carrying out self-auditing by each department, as well as monitoring by the Internal Auditing Department.

• Compliance

We keep our employees informed about our Compliance Guidelines, and the Administrative HQ and Internal Auditing Department monitor our compliance. In FY 2007, we conducted stricter monitoring to thoroughly comply with labor-related regulations, and strived to reduce overtime hours and eliminate overtime without pay. We also conducted surveys on labor-related regulations in the Asian countries where our group companies are located, and have created handbooks, complying with each country's regulations, for employees at the Technical Centers there. The Mori Seiki Group will continue to take all measures necessary for compliance with the laws and regulations in the countries in which we operate.

■ COSO Cube



Basic framework for internal control
(purposes and components of internal control)

Strengthen our risk management system

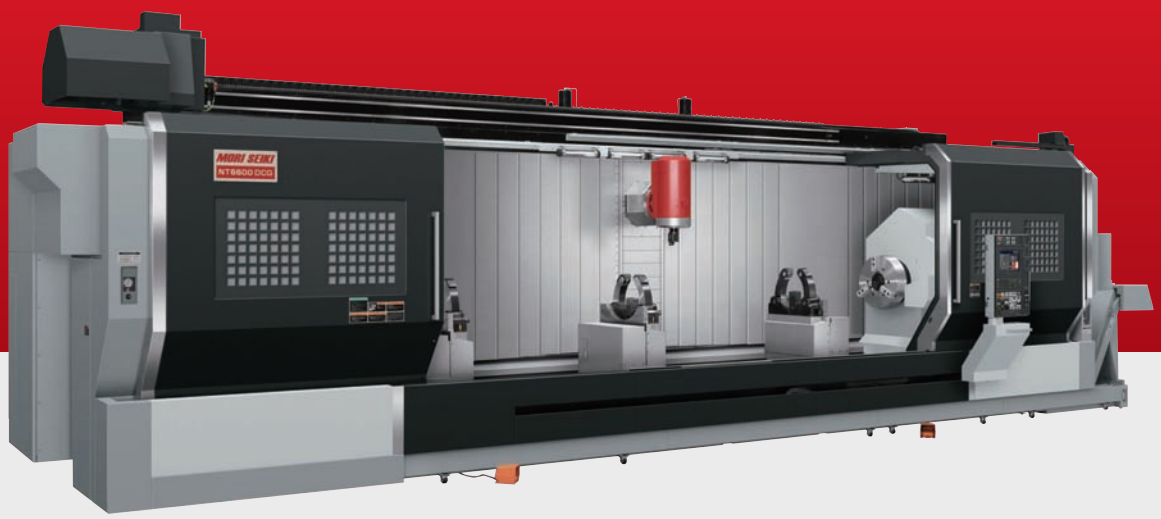
Mori Seiki takes measures to prevent and minimize risks by investigating and identifying them in relation to our business operations. For example, we have introduced disaster prevention equipment in our facilities, and we promote the use of safety confirmation systems for all employees and their families. We also provide preventive education and training for disaster risk, devise plans for the prevention of secondary disasters and for early resumption of operations after disasters, and conduct simulated auditing to ensure the effectiveness of these measures.

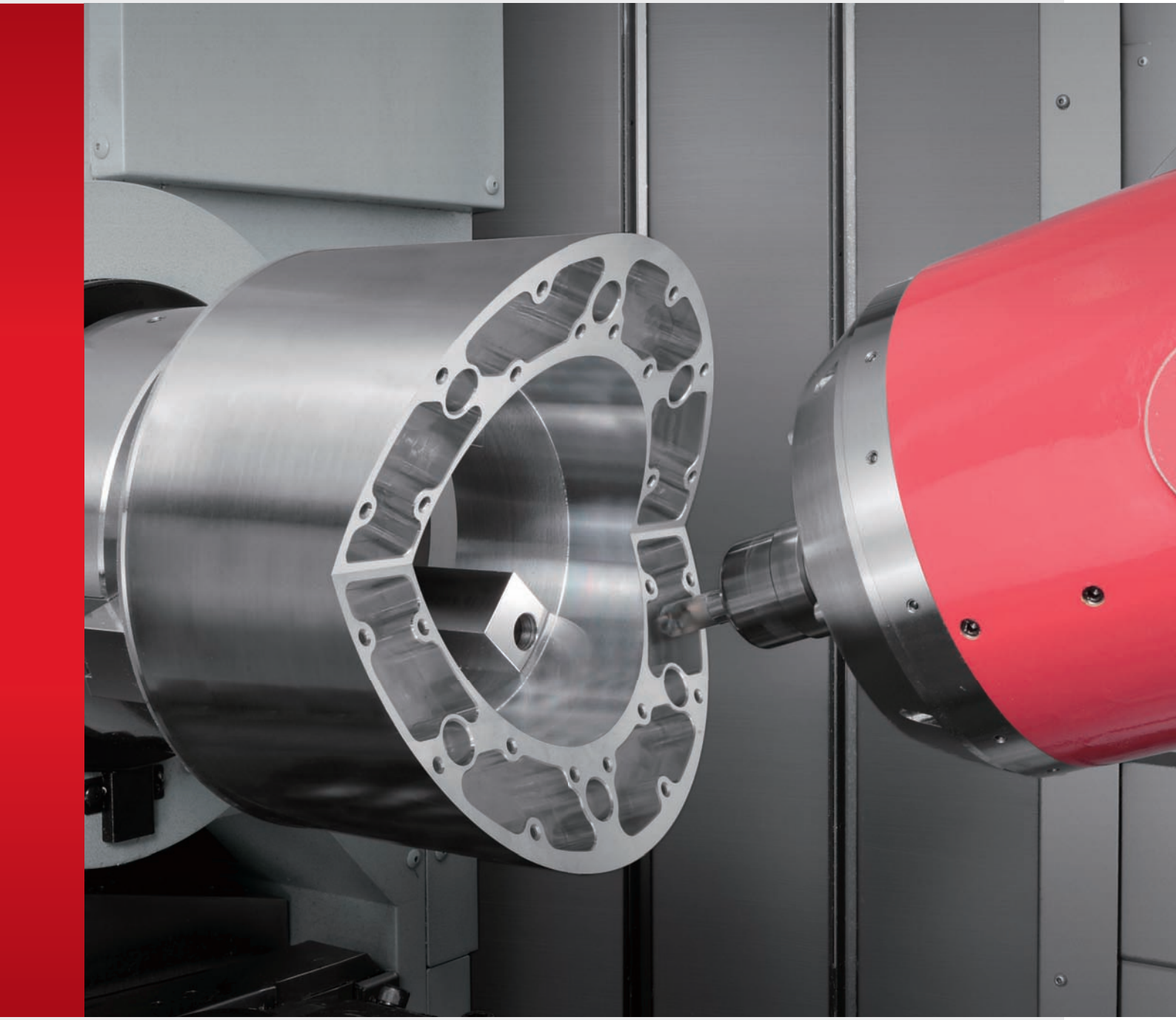
Implementing this PDCA (Plan-Do-Check-Act) cycle at the company-wide level, we will strengthen our risk management system.

■ Conceptual diagram for strengthening our risk management system

Our Works

Contents





Our mission is to supply first-class machines to customers all over the world when they need them.

Hiroshi Mizuguchi
Vice President and
Representative Director
Development & Manufacturing HQ
Executive Officer
Iga Campus Chief

Driven by the high demand for plant investment, we achieved the objectives of the previous medium-term management plan, the Mori-568PLAN, which started in FY 2005. Our goal of Mori-8, "achievement of a production capacity of 800 units per month", was exceeded as we reached figures of 831 units in March 2007 and 802 units in March 2008, on an unconsolidated basis.

As for plant and machinery, we introduced approximately 30 machines in 2007, on a consolidated basis, which contributed greatly to the production capacity of 800 units per month, as well as shortening our production lead times.

In the assembly field, the knockdown production of the NMV5000 DCG at DIXI Machines is now on track. We have created a system capable of manufacturing the total volume of NMV5000 DCG units destined for customers in Europe at DIXI Machines. We have also achieved Mori Seiki's first true OEM production: the Dura Series. By thoroughly standardizing operations, we are realizing exactly the same accuracy and quality as if the machines had been made by Mori Seiki. As a result of this OEM production, we have managed to secure production space for medium-sized, large, and multi-axis machines within our campuses, and this has enabled us to expand the production of these models.

The Dura Series, which is currently produced by OEM production

The new medium-term management plan, PQR555, began FY 2008. An important theme in achieving the goals of this plan will be further expansion of our production capacity and developing the capability to produce the new large machine models. To do this, we will use of the new factory site at Iga, which has been completed, to secure sufficient production capacity. By also continuously introducing new equipment and expanding the Spindle Plant, constructing a new Sheet Metal Plant, and shifting to in-house production of large bearings, we will increase our capability to supply major units and parts.

Through activities like these, we are redoubling our efforts to attain the targets of the PQR555 medium-term management plan.

FY 2007 Production Results By Campus

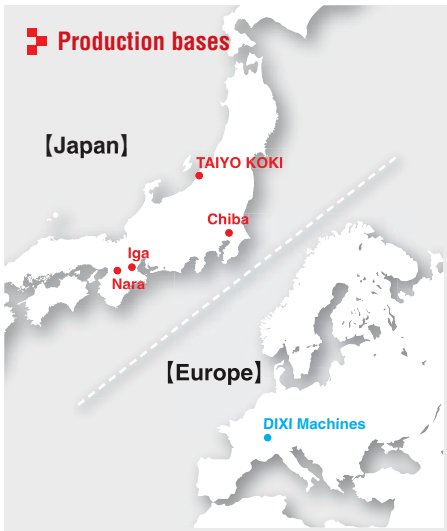
(Units)

	Nara	Iga	Chiba	TAIYO KOKI	DIXI Machines	Total
FY 2006 actual result	2,710	4,539	337	176	0	**7,762**
FY 2007 actual result	3,147	4,551	394	177	22	**8,291**
Compared with previous year	+437	+12	+57	+1	+22	**+529**

Equipment introduced in FY 2007

Plant	Machine	Units
Iga Campus Machining Plant	5-face machines	2
	Robot for coupling grinding machine	1
Spindle Plant	Bearing in-house production system	5
Ball Screw Plant	Gun drilling machine	2
Chiba Campus Machining Plant	Multi-axis turning centers + Robot system	4
High-Precision Machining Laboratory	Horizontal machining centers (No. 5 line)	10
DIXI Machines	Horizontal machining centers	1
	5-face machines	1
	CNC internal grinding machines, Multi-process grinding machine	2
Total		**28**

Production bases



Iga Campus

Mori Seiki's largest general production base in terms of size and facilities.

Items manufactured
- Multi-axis turning centers
- CNC lathes
- Vertical machining centers
- Horizontal machining centers

Production capacity 450 units/month

Nara Campus

A production base specializing in compact machines and peripherals.

Items manufactured
- 5-Axis control vertical machining centers
- CNC lathes
- Compact CNC lathes
- Compact machining centers
- Loaders/Peripheral equipment

Production capacity 290 units/month

Chiba Campus

The multi-axis machines plant with the latest equipment.

Items manufactured
- Integrated mill turn centers
- Super integrated machining cell
- 2-axis vertical CNC lathes

Production capacity 50 units/month

TAIYO KOKI (Nagaoka)

TAIYO KOKI
THE GRINDING MACHINE COMPANY

Our new-generation grinding machine plant, completed in 2006.

Items manufactured
- CNC vertical grinding machines
- CNC internal grinding machines
- CNC cylindrical grinding machines

Production capacity 20 units/month

DIXI Machines (Switzerland)

DIXI machines

Our overseas production base for manufacturing DIXI brand machines, which achieve nanoprecision.

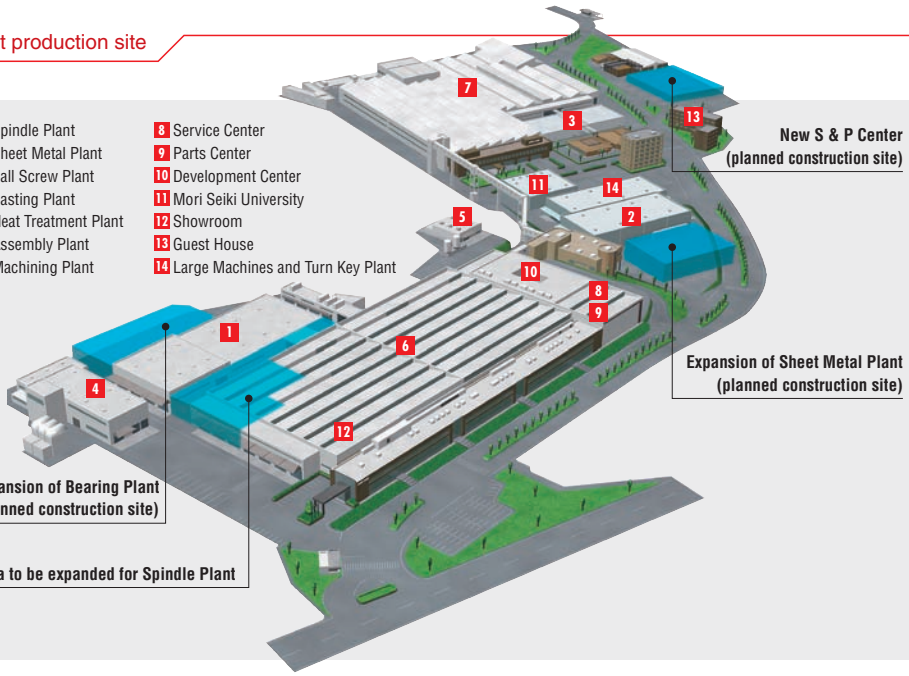
Items manufactured
- High-precision horizontal machining centers
- 5-axis vertical machining centers

Production capacity 20 units/month

Development & Manufacturing HQ

Iga Campus Mori Seiki's biggest production site

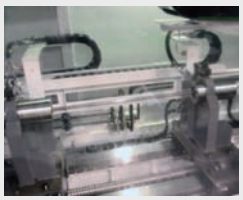
1 Spindle Plant
2 Sheet Metal Plant
3 Ball Screw Plant
4 Casting Plant
5 Heat Treatment Plant
6 Assembly Plant
7 Machining Plant
8 Service Center
9 Parts Center
10 Development Center
11 Mori Seiki University
12 Showroom
13 Guest House
14 Large Machines and Turn Key Plant



In FY 2007, Mori Seiki's core campus in Iga again maintained full operation in product assembly and unit assembly. In product assembly, there was a smooth flow of production of large models like the SL-403, SL-603, NH6300 DCG and NH8000 DCG, which have seen significant increases in demand. In unit assembly, Iga Campus smoothly supplied high-quality spindle units and ball screw units to the other two campuses, and to DIXI Machines and OEM sources. Twenty new machines were introduced in the Machining Plant to enhance production capability. In particular, the introduction of a gun drilling machine to bore a through hole through the center of ball screws has substantially shortened lead time in ball screw manufacture. On the quality front, a new Inspection Room has been created to handle the delivery inspections of outsourced machined parts, and, with the introduction of a coordinate measuring machine and roundness measuring equipment, the facilities for inspection at acceptance have been strengthened.

In FY 2008, we will make effective use of the new site completed at the Iga Campus. A new Service and Parts Center is being constructed which will improve the percentage of service parts that are delivered within 24 hours, and the inventory area is being expanded to four times the current size. By constructing a new Sheet Metal Plant next to the current one, we will enable the in-house production of large sheet metal parts. The Spindle Plant is being expanded, too, and will increase the production capacity for spindle units, as well as enable the in-house production of the large bearings used in spindles and tables, thereby substantially shortening the delivery times for large models. In the Heat Treatment Plant, a line of new vacuum carburizing and quenching units will be installed, doubling the spindle heat treatment capacity.

FY 2008 has also seen all kinds of initiatives adopted at the Iga Campus, aimed at further improving the production capacity.



Gun drilling machines

In FY 2007, we introduced two gun drilling machines to bore a deep hole in the ball screw. This made it possible to dramatically reduce the lead time of ball screw production.

Spindle Plant: the clean room, where temperature, humidity and cleanliness are strictly controlled

Sheet Metal Plant: automatic sheet metal manufacturing system

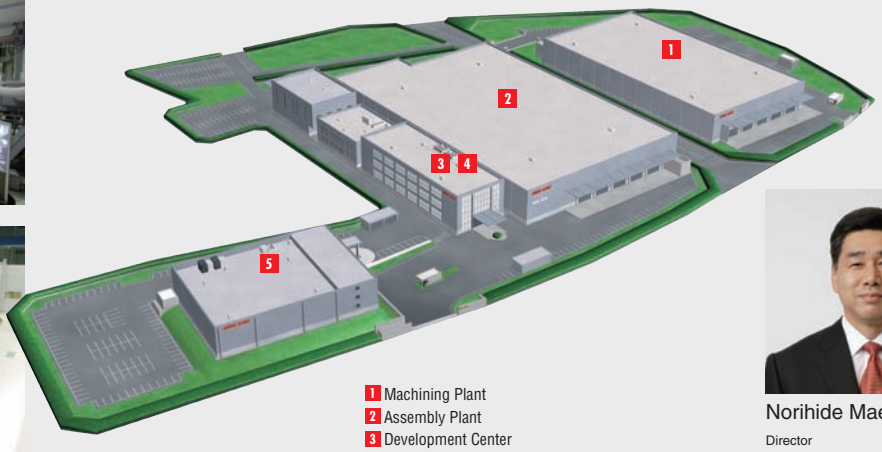
Sheet Metal Plant: YAG welding robot

Casting Plant: pouring

Ball Screw Plant:
male thread-grinding line

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

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

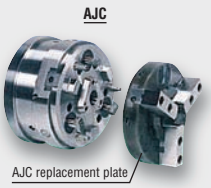
We are continuing to receive many orders for large machines with a Z-axis travel of 6,000 mm (236.2 in.), which we began selling this past spring. The increased demand for large machines for the aircraft, shipbuilding, energy and infrastructure fields, coupled with our production of machines that meet the customers' requirements, has benefitted our business. Orders for medium-sized machines are also expected to increase. In FY 2008, we will improve the machines' capabilities to respond quickly and flexibly to the customers' workpiece specifications.

This fiscal year we are also working toward enhancing our accuracy. By improving structural parts to increase positioning accuracy, while also making use of the large variable temperature room, and by implementing compensation for temperature changes, we are producing machines that are both resistant to the influence of the temperature environment and highly accurate.

On the production front, a robot system is being introduced in the Machining Plant, and a line that is capable of 24-hour continuous machining in the small-lot production of a variety of medium-sized or small parts is being established. In assembly, we are aiming to shorten assembly lead time by 40% and assembly time by 20% by carrying out multiple processes in parallel. We will continue our attempts to improve space efficiency and staff efficiency, and run production activities with some leeway.

Robot cells

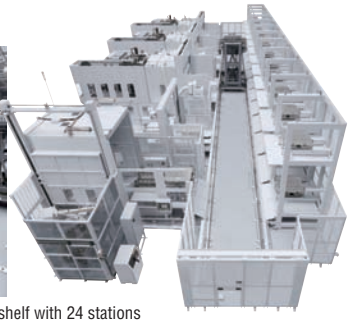
With the aim of increasing in-house production of parts and improving our operating rate, we have introduced a robot cell with two NT4250 DCGs, which machines over 30 types of part for the NT Series.
This system uses an AJC (Automatic Jaw Changer), a 3-jaw simultaneous replacement method, which allows continuous, unmanned operation for 48 hours.




NT Series assembly

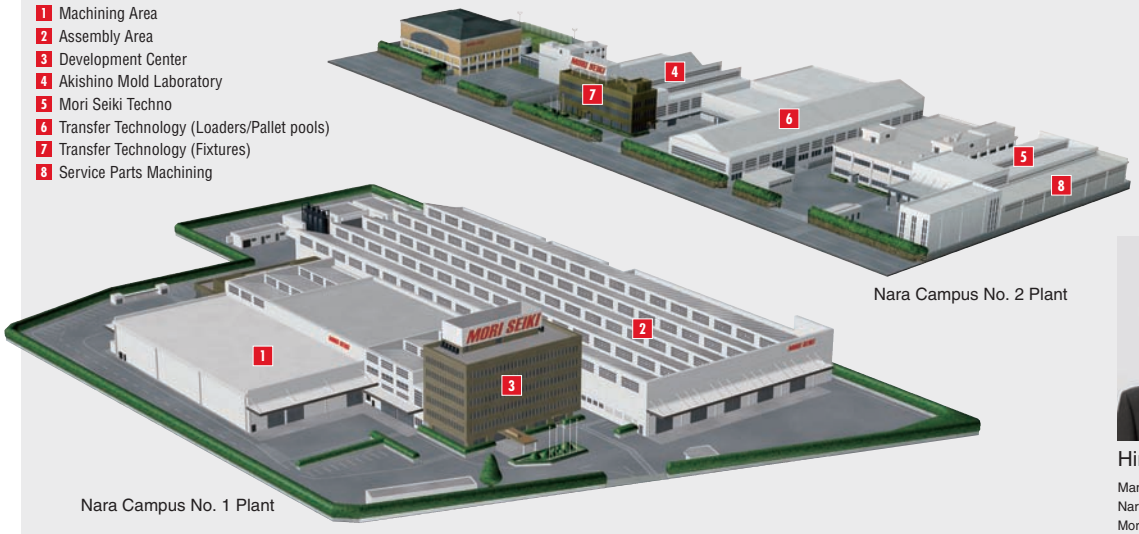

Showroom


Washing station and deburring robot


MH-1003 LPP system: 2-level pallet shelf with 24 stations

Development & Manufacturing HQ

Nara Campus No. 1 Plant, Nara Campus No. 2 Plant
Production bases for small machines



Hiraku Nakata
Managing Director
Nara Campus Chief
Mori Seiki Techno General Manager

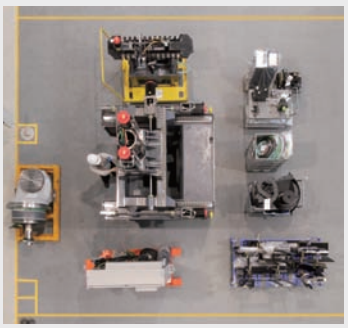
At the Nara No. 1 Plant, the strategic models of the NMV Series, have received more acclaim than anticipated. We have established a production line with a capacity of 20 units per month and the production is flowing smoothly. We are also planning to launch compact multi-axis machines on the market at the end of this year. Existing machines like the CL, NL and NX Series, in particular, are praised as machine tools with exceptional stability and are being delivered primarily to customers in the automobile field.

We have increased assembly efficiency by installing approximately 70 machines, focusing on large 5-face machining centers and flat-bed grinders. Some of this equipment has an operating rate in excess of 70% in 365-day, 24-hour operation.

At the Nara No. 2 Plant, the Akishino Mold Laboratory, Ltd. is now fully on track and welcomes many customers throughout the year. As a site dedicated to improving die and mold technology, we are confident that it will lead to increased sales to die and mold manufacturers. Delivery times for service parts have also been substantially improved by establishing a new service part machining department, and productivity in departments dealing with peripheral equipment like loaders and linear pallet pools is being considerably increased.

Standing, as it does, on the birthplace of Mori Seiki, this plant aims to be a highly efficient and highly profitable production base with a level of safety obtained by implementing the “2S” principles (Seiri, Seiton, or Neatness, Tidiness in English).

NMV5000 DCG assembly using the auto campsite method



The factory is divided into separate sites like automobile campsites, all the components are prepared in advance and assembly is carried out by one worker. Time loss is reduced, as there is no need to search for the components that are needed during operation.


Linear Pallet Pool system (SH-630)


Large 5-face machine with AWC

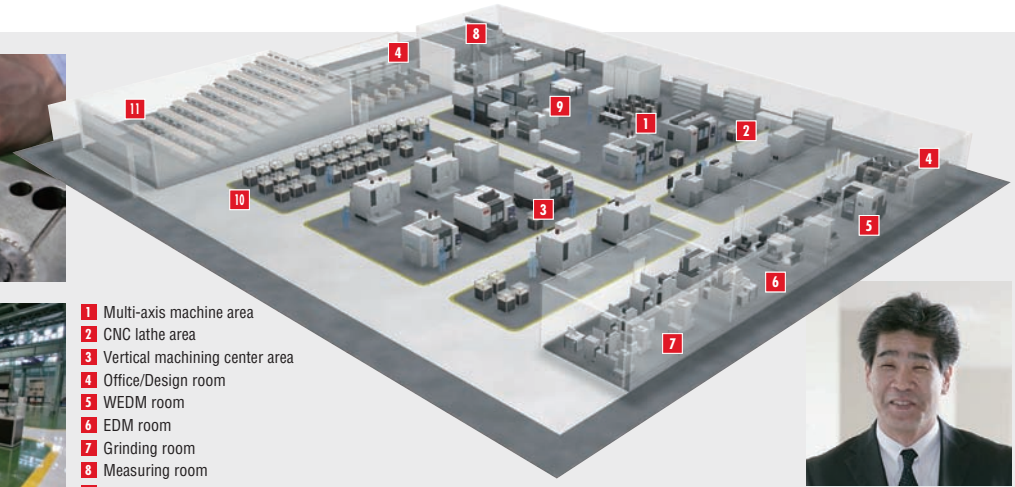

Special wagons at the ready for delivery to the assembly line


NMV5000 DCG assembly line


Scraping by skilled technicians

Akishino Mold Laboratory

Practical research and manufacturing for high-quality dies and molds



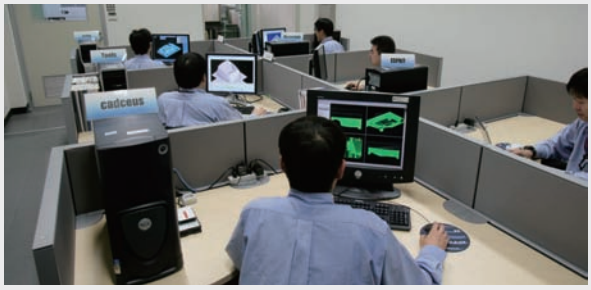
1 Multi-axis machine area
2 CNC lathe area
3 Vertical machining center area
4 Office/Design room
5 WEDM room
6 EDM room
7 Grinding room
8 Measuring room
9 Molding area
10 Showroom
11 Seminar room

Shingo Goda
Akishino Mold Laboratory
General Manager

The Akishino Mold Laboratory, Ltd., is the first laboratory in the machine tool industry dedicated to pursuing die and mold technology through consignment sales and test machining of dies and molds, and supporting machine tool sales to the die and mold industry. Since it opened on May 25, 2007, it has been toured by 1,544 customers from 800 companies (as of the end of May, 2008), which shows the level of interest in, and expectation of, the Akishino Mold Laboratory, Ltd..

We assist our die and mold customers by helping them to streamline production. For example, customers have achieved a 66% reduction in machining time for the cavities of vacuum forming molds and die and mold manufacture without polishing. We also supply on-the-job training to support the transition to in-house production of dies and molds, and die and mold seminars in Japan and overseas. To better serve our customers in the die and mold related field, we have increased our staff to 7 in the Die and Mold Machining Technology Section and 14 in the Mold Production Technology Section.

By applying die and mold manufacturing technology, die and mold machining technology, and machine tool technology, the Akishino Mold Laboratory, Ltd., is working on solving the problems experienced by the die and mold industry, including the demands for high quality, short delivery times, low costs and training of personnel, and the outflow of technology to foreign countries.



Design room

We will swiftly create optimum mold diagrams/NC data which take post-processes such as machining and molding into consideration. We also have 9 types of CAM software, so that we can handle any data provided by our customers.

NX UNIGRAPHICS CATIA V5 SURFCAM
tools V3 Space-E iebis
Mastercam ESPRIT The Right Choice hyperMILL

Our latest machines installed in a clean environment

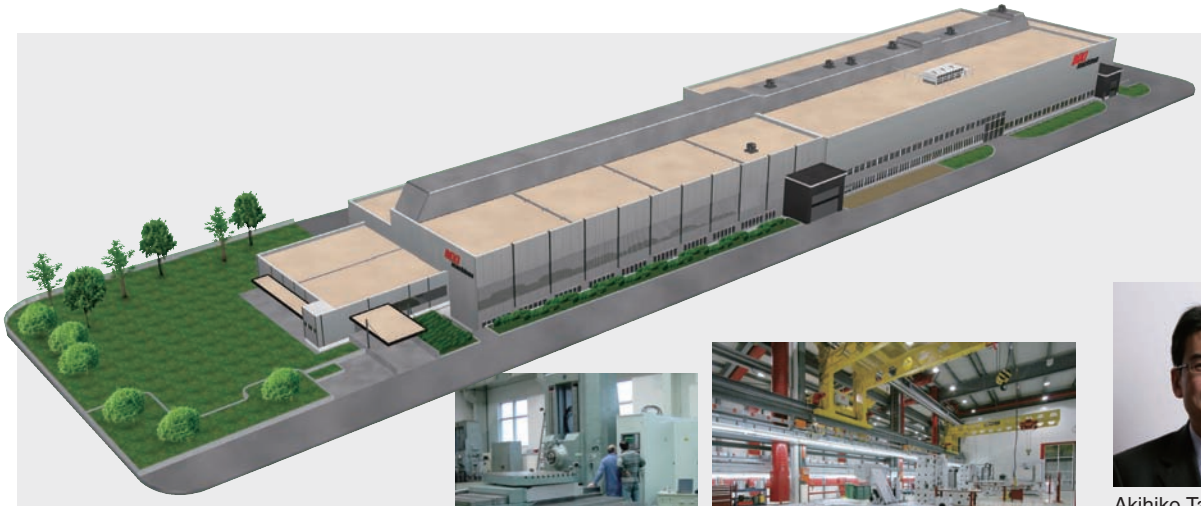
NMV5000 DCG

EDM room

Grinding room

Development & Manufacturing HQ

DIXI Machines The Mori Seiki Group's first overseas production base



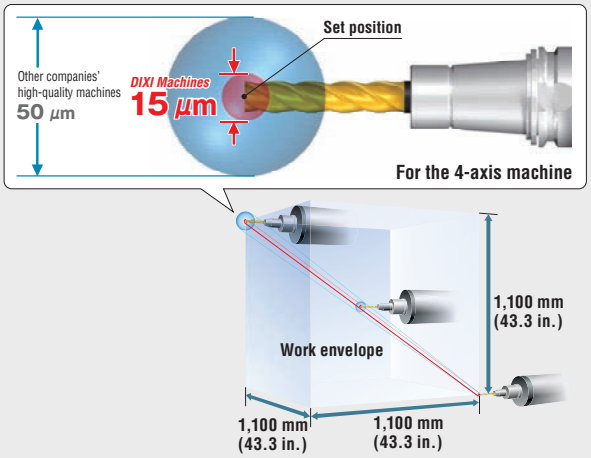
Akihiko Takeda
Director
DIXI Machines President (COO)

DIXI Machines is located in the town of Le Locle in the canton of Neuchatel in the north-west of Switzerland, on the border with France. This district is well known throughout the world as an area of production of high-class watches, but it also inherits a strong tradition of manufacturing precision machinery.

At DIXI Machines, the DHP Series and JIG Series – the world's highest class of high-accuracy horizontal machining centers – are manufactured in a plant whose temperature is controlled by air conditioning to 20 °C±0.2 °C throughout the year. This unrivalled level of high accuracy has only been achieved by combining the latest design and manufacturing technology with the skills of veteran engineers. DIXI's policy of pursuing high accuracy with no compromises from the design stage through to the inspection of the final product has lasted for 100 years, since the company's foundation, and continues today.

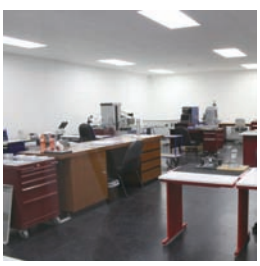
Now, DIXI Machines is also assembling the NMV5000 DCG and shipping it mainly to the European market. We will also begin developing new products based on a fusion of Mori Seiki technology and DIXI Machines' technology, manufacturing machine tools that simultaneously achieve high accuracy and high productivity.

Volumetric accuracy of DIXI Machines

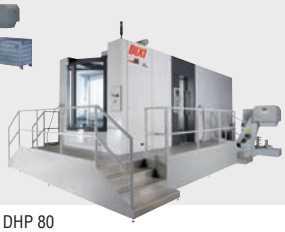


DIXI Machines keeps machining errors at the one-third level of other companies' high-quality machines throughout the whole work envelope. In order to achieve the industry's most stable volumetric accuracy, skilled technicians repeatedly conduct 500 hours of scraping per unit as well as strict inspection.


Scraping


Metrology Center


JIG 1200


DHP 80


NMV5000 DCG

TAIYO KOKI The Mori Seiki Group company specializing in grinding machines

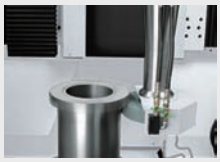
TAIYO KOKI is a manufacturer of grinding machines headquartered Nagaoka City, Niigata Prefecture. It was established in March 1986 and became a member of the Mori Seiki Group in May 2001. Grinding machines are important machine tools that are used for the final finishing processes of machine parts for which high accuracy is required, and they machine parts using a grinding wheel. Among these machines, the original "vertical grinding machines" developed by TAIYO KOKI enable the pursuit of both high accuracy and general versatility. They have been accepted and praised by a wide range of industries, notably the Japanese domestic machine tool and automotive industries, but also the construction machinery, shipbuilding, aircraft, energy-related and other industries.

The company became listed on the JASDAQ Securities Exchange in December 2007. This has not only consolidated the company's capital and organization, but has also made it possible to complete the production equipment that allows it to respond the customer needs, to actively make inroads into overseas markets, and to secure a wide range of personnel. TAIYO KOKI will continue major growth into the future as a wing of the Mori Seiki Group's grinding machine sector.

Planning meeting

Machine assembly plant

NVG-8T



SVG-1

Noboru Watanabe

TAIYO KOKI CO., LTD. President

TOBLER S.A.S. The Mori Seiki Group company specializing in special chucks and fixtures

TOBLER S.A.S. was founded in 1945. In FY 2007 it recorded sales of 8.1 million Euros (approximately 1.3 billion yen) and had a workforce of 83. In 1979, the company became a part of the Sandvik Group. Mori Seiki acquired all the company's shares in January 2008, and it became a member of the Mori Seiki Group in February. TOBLER is engaged in the manufacture and sales of special chucks and fixtures, mainly for the automobile industry, and will now be increasing its sales by making use of the Mori Seiki Group's sales system.

Now that TOBLER has joined our Group, Mori Seiki is able to provide total solutions to customers, including workholding for machine tools. This means that we can now expect to receive orders from major businesses in the automobile industry. We anticipate that the business of both companies will expand at a greater rate than previously due to synergy.

Alain Morele

TOBLER S.A.S. (COO)

Main products

Standard expanding mandrels

Face drivers

Special chucks

We will actively develop valuable machine tools that exceed the customers' expectations.

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

Against a backdrop of recent efforts to counter the global warming problem, soaring crude oil prices and the need for infrastructure development, particularly in the BRICs countries, there is a demand for large, high-productivity machine tools from the aircraft-related, oil and energy related, construction machinery, industrial machinery and other fields. In FY 2007, to answer these demands, we concentrated our efforts on developing large machines, and developed and released the NMV8000 DCG 5-axis control high-precision, vertical machining center, the NMH10000 DCG 5-axis control high-precision, horizontal machining center, and the NT6600 DCG high-precision, high-efficiency integrated mill turn center. In parallel with the development of these machines we also upgraded the CPP and LPP automatic pallet transfer systems and developed peripheral devices including the DDM (Direct Drive Motor) rotary work head, DDRT.

It is becoming an increasingly important duty, both internationally and as an individual company, to stop machine tools being used for inappropriate military or other subversive objectives. Mori Seiki has succeeded in developing its own original electronic Relocated Machine Security Function that can detect the relocation of a machine tool at the export destination. We have been installing it in our machines since January 2008. Before that, mechanical relocation detection units had been installed, but this shift to an electrical system has improved reliability.

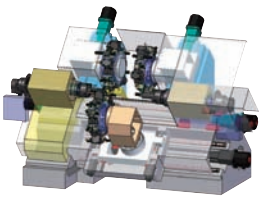
In FY 2008 we will successively develop a number of large machines: a 4-axis lathe capable of turning shafts of more than 500 mm (19.7 in.) in diameter, a vertical machining center with a Y-axis travel in excess of 750 mm (29.5 in.), a horizontal machining center that accommodates 1,000 mm (39.4 in.) square or larger pallets, and a vertical lathe that can handle workpieces with a diameter of 1,000 mm (39.4 in.) or greater. We are also planning to develop a 5-axis control machining center for small parts, and small and medium-sized lathes and machining centers for machining mass-production parts. Other planned developments include our next operating system, MAPPS Ⅳ, peripheral devices designed with consideration for energy saving, environmental friendliness and safety, and elemental technology.

Current status of our development system and relevant issues

We currently have 471 development engineers and a research and development budget of 5 billion yen. This enables us to be an industry leader in new model development, peripheral device development, and elemental technology development. The average age of our engineers is early thirties; they are a dynamic young group, but developing their skills is very important. We are currently establishing an organization dedicated to training and we are instituting educational courses on various design aspects, to be taught by senior staff. We are also providing English conversation training, skills training, quality engineering training, sheet metal design training, and other courses. We diversify the education of our young engineers by sending them for training overseas and short-term postings to the DTL, our laboratory in California.

It is important for a company to be able to respond quickly to changes in social conditions or customer needs by providing new products and technology. We have adopted an approach in which we conduct design reviews with the production engineers while looking at 3D models right from the design stage. In the development of a new model, we analyze static rigidity, vibration, thermal displacement, etc. through simulation, and we minimize backtracking at the prototype stage in order to shorten the development time. We are also making progress with the standardization of various units, including the spindles of machining centers and lathes, tool change units, chip disposal units, tool magazines, and electrical cabinets, with the aim of reducing the number of development man-hours and improving production efficiency.

The Iga Development Center, where 280 engineers work in a 4,400 m² (47,361.6 ft²) area



Digital designs by 3D CAD are used for design and development

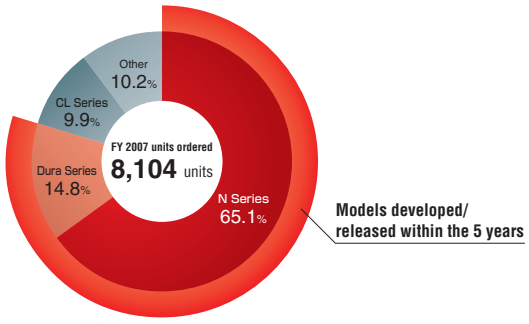
Future approach to product development

Eighty percent of the machines that Mori Seiki ships daily are products that were developed and released within the last five years, while the remaining twenty percent are products that were developed six or more years ago. In order to provide products that are equipped with the latest units, energy-saving technology, safety technology and NC units, one target of the PQR555 medium-term management plan is to increase the shipping of machines that have been developed within the past five years as close to 100% as possible.

The NMV5000 DCG, which was developed the year before last, was awarded the Machine Design Award (Minister of Economy, Trade and Industry Prize) and the Japan Society of Mechanical Engineers Excellent Product Award. The NZ Series also received one of the Nikkan Kogyo Shimbun "Best 10 New Products Awards", so these machines have received high acclaim from society. However, we will continue to develop products with the customers' profit as the first consideration, without resting on our laurels.

DTL: Digital Technology Laboratory Corporation

■ FY 2007 order breakdown by new model



Product Strategies

Original Technology

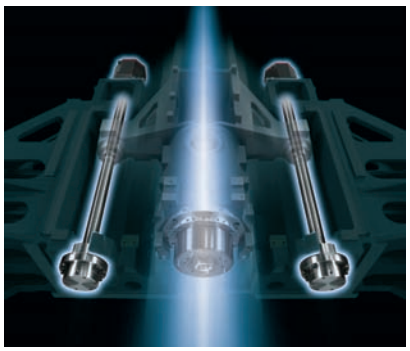
"I want to machine with high accuracy", "I want to shorten machining time", "I want to run efficient production". These are the eternal issues for customers involved in machining. And the levels of these demands become higher day by day.
In order to meet these customers' demands, Mori Seiki has built four original technologies into its machine tools. These technologies have lifted the performance of Mori Seiki products to high levels that conventional machine tools cannot 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

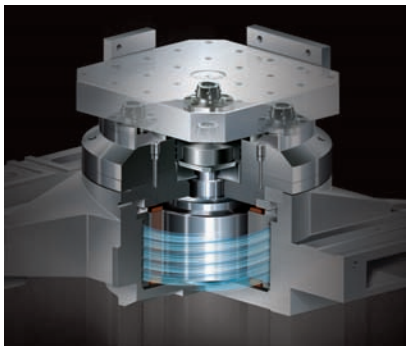
The vibration generated when the structural elements of machine tools move was the biggest cause of deterioration in surface quality and machining accuracy. DCG (Driven at the Center of Gravity) technology minimizes the residual vibration of the tool tip and optimizes accuracy, machining time, and tool life.



DDM®
Direct Drive Motor

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

Until now, drive force has been imparted to rotary axes through worm gears, resulting in adverse effects on drive speed and accuracy. By transferring the drive force directly, without going through a gear, DDM (Direct Drive Motor) technology has realized highly efficient drive.



BMT®
Built-in Motor Turret

Built-in Motor Turret
"A revolution in turret milling"

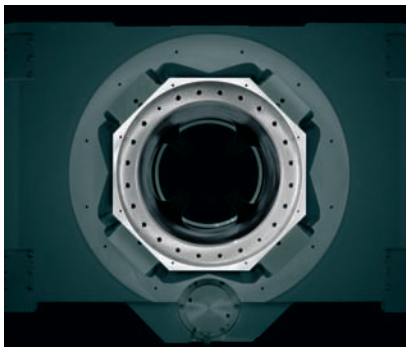
The 2004 JSME Medal for New Technology

In the milling mechanism of a conventional lathe, the force was transferred from the motor through a large number of parts including gears and belts, and, consequently, heat generation and vibration effected the results. BMT (Built-in Motor Turret) technology, where the motor is built into the turret itself, minimizes heat generation and vibration while also improving transmission efficiency. This yields milling performance and machining accuracy that rival those of a machining center.

ORC™
Octagonal Ram Construction

Octagonal Ram Construction
"Octagonal shape for a revolutionary feed"

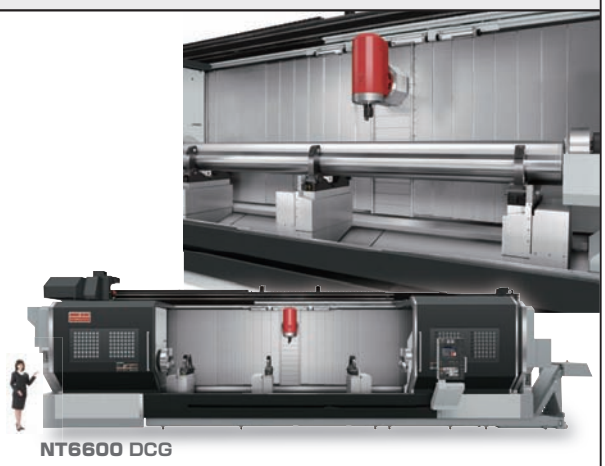
By using an innovative feed mechanism in which a regular octagonal shape has been used for the ram construction, the advantage that the conventional square guide had of damping vibration has been maintained, while the drawback of thermal displacement problems caused by the rise in the temperature of the slideway has been fundamentally improved. Because the diametrically opposed slideways are displaced symmetrically in response to heat generation, their respective amounts of displacement cancel each other out. This maintains the center of the movable element at a constant position and enables high-accuracy machining in high-speed travel.



NT Department

High-precision, high-efficiency integrated mill turn center

The NT Department is responsible for the development and manufacture of multi-axis machines at the Chiba Campus. The NT Series machines, which are leading models for Mori Seiki, have been praised by many customers as integrated mill turn centers that merge the functions of lathes and machining centers. We have received orders for more than 800 units globally, since sales started 3 years ago. The NT Department manufactures a total of seven models, and this year they started the production of the NT6600 DCG, a machine suited to large, long workpieces. This machine will answer the demand for multi-axis capabilities in the large part machining industry. While adopting the usual characteristics of the NT Series, with the original technologies of DCG, DDM, BMT and ORC, the NT6600 DCG also introduces new technology like an ATC unit and steady rests. Because Mori Seiki's original cell production system is used for manufacture of the NT Series, stable quality can be assured while responding flexibly to fluctuations in models in production.



NT6600 DCG

High-Precision, High-Efficiency Integrated Mill Turn Center NT Series

・"The 2005 Nikkei Superior Products and Services Awards/Nihon Keizai Shimbun Awards for Excellence"

NL Department

CNC lathes

The NL Department handles the development and manufacture of the NL Series of CNC lathes. The NL Series has been a major success: we have sold a total of more than 8,000 units since sales started in 2004, and as a result of the high acclaim and support of the customers we are maintaining a monthly production of 200 units. Machines with the Y-axis function have been received particularly well, and these machines account for about half of the units sold. The 2000 distance between centers type and 3000 distance between centers type have also proved popular additions to the line-up. This Y-axis function and expansion of the line-up mean that we can assure productivity even in the multi-axis machining field, in accordance with the design concept, and this has been proven by the appraisal we have had from the market. In FY 2008, based on the PQR555 medium-term management plan, the Design Section is developing the NVL Series of vertical lathes that will be new, large machine models, and the Assembly Section is shortening assembly lead times and realizing improvements in production quality of the NL Series by using the cell production system.

NL3000

Development of BMT (Built-in Motor Turret) for CNC lathes

・The "2004 JSME (Japan Society of Mechanical Engineers) Medal for New Technology"

NL SERIES

・The "34th Machine Design Award (Japan Machine Tool Builders' Association Award)"

SL/NZ Department

Large CNC lathes/4-axis CNC lathes

The SL/NZ Department is handling the development and production of large CNC lathes and 4-axis lathes. Due to the rising demand for large machines brought about by the favorable circumstances in the energy and aircraft industries, the orders for FY 2007 showed a healthy trend, up 30% from the previous year. This department is also currently developing large 4-axis lathes and will release the NZL6000 in FY 2008. An extensive line-up has been set for the NZL Series, with the two models of the NZL4000 and NZL6000, five types of spindle and a number of distance-between-center variations, giving broad coverage over the large workpiece turning range. This series offers upper turrets with a milling function and a Y-axis function, and incorporates the largest turrets that adopt BMT technology. The NZL Series helps improve customers' productivity and profits in the machining of large and long round workpieces through shortening of machining times and process integration.

NZ2000 T3Y3

NZ SERIES

・The "50th Best 10 New Products Award"

Product Strategies

NV Department — Vertical machining centers

The NV Department is engaged in the development and manufacture of vertical machining centers. Due to high demand in the construction machinery, aircraft, shipbuilding and energy related fields, production of vertical machining centers - particularly the large MV-653 and MV-1003 machines - is up from last year, and these machines, together with the N Series, have acted as a force to increase orders.

This fiscal year, due to continuing demand in these industries, the department started developing large machines and designed the MV-1003L large vertical machining center. This machining center has an X-axis travel of 3,500 mm (137.8 in.), a table size of 3,900 mm (153.5 in.)×1,020 mm (40.2 in.) and a maximum loading capacity of 4 tons; we started accepting orders for this model in June. The department has also started the development of a vertical machining center with a Y-axis travel of more than 700 mm (27.6 in.) and plans to complete the prototype within this year. As a result of intensively implementing cell production for the assembly of the NV Series, manufacturing quality was improved, production lead times were shortened, and the department established a system that is able to respond to demands for short delivery time.

NV6000 DCG

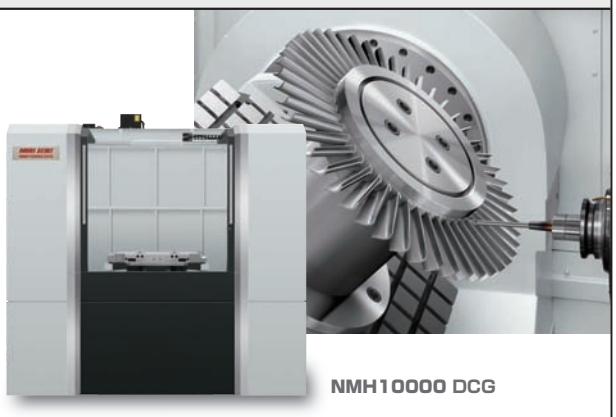
NVD1500 DCG
- The "35th Machine Design Award (Distinctive Merit Award)"
- Good Design Award 2005

NV4000 DCG
- The "46th Best 10 New Products Award"

NV5000 α1
- The "32nd Machine Design Award and Extraordinary Prize"
- The 2002 Nikkei Superior Products and Services Awards/Nikkei Business Daily Awards for Excellence

NH Department — 5-axis control, high-precision horizontal machining centers/Horizontal machining centers

The NH Department handles the development and manufacture of the NH Series of high-precision horizontal machining centers and the NMH Series of 5-axis control high-precision horizontal machining centers. The NH Series comprises horizontal machining centers designed for high accuracy and high productivity with a broad line-up of pallet sizes from 400 mm (15.7 in.) square to 1,000 mm (39.4 in.) square. The NH5000 was introduced in September 2002 as the first release of the series; since then, FY 2007 saw orders of 1,300 units, mainly from the automobile, construction machinery and aircraft industries, and in April 2008 we exceeded 5,000 units in cumulative total orders. This reflects the customers' confidence in the reliability of the NH Series. In FY 2008, the department is planning the market launch of new models that encapsulate all of the latest technology and expertise of the NH Series: the NH6300 DCG Ⅱ and the NH8000 DCG Ⅱ.



NMH10000 DCG

NH4000 DCG
- The "46th Best 10 New Products Award"

NMH10000 DCG
- The "38th Machine Design Award (Nippon Brand Prize)"

NX Department — 5-axis control, high-precision vertical machining centers/Compact CNC lathes/Compact machining centers

The NX Department is primarily responsible for the development and manufacture of the relatively small CNC lathes and machining centers targeted at the machining of mass production parts. This fiscal year, the NMV8000 DCG, equipped with the φ800 mm (φ31.5 in.), table has been added to the favorably received NMV Series of 5-axis control high-precision vertical machining centers. The department also plans to introduce the NMV3000 DCG equipped with the φ300 mm (φ11.8 in.) table to the market in the spring of 2009. And the NX Series, which was developed with an eye on the revolution in lines for machining small mass produced parts, has been supplemented with two new models: the NXH3000 DCG and the NXV3000 DCG. The NXH5000 DCG, which will be the biggest model in the series, is also scheduled to be launched on the market in the spring of 2009.

By continuing to add new CNC lathes that have flexibility with applications in mass production lines, the department will keep responding to a wide range of customer requirements.

NMV8000 DCG

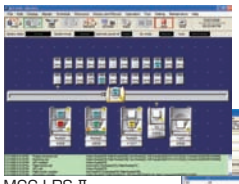
NMV5000 DCG
- The "37th Machine Design Award (Minister of Economy, Trade and Industry Prize)"
- The 2007 (the 3rd) JSME (Japan Society of Mechanical Engineers) Excellent Product Award

Control Design Department

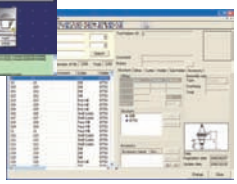
Man-machine interface/DDM (Direct Drive Motor)

The Control Design Department develops Mori Seiki's original operating systems that are the interface between people and our machines, and DDM that are manufactured in-house. They develop a wide range of control technology that increases the productivity of customers' plants, including the third generation standardized operation panel for machine tools, MAPPS Ⅲ; the automatic programming software MORI-AP; a system that enables remote maintenance by connecting machines with computers in offices through networks, MORI-NET; the linear pallet pool control system MCC-LPS Ⅱ; the tool management system MCC-TMS; and the DDM technology that makes high speed, high acceleration and high accuracy a reality. The department has also started a shift to in-house production of printed circuit boards, and is increasing reliability by standardizing PCBs among different machine models. Next fiscal year, the department will launch the fourth generation standardized operation panel and other innovative technologies, aimed at allowing us to provide customers with a higher level of operating performance with better ease of operation.

MAPPS Ⅲ
15-inch operation panel



MCC-LPS Ⅱ



MCC-TMS

【Examples of using our own DDM】

NMH SERIES
A-axis, B-axis

NT SERIES
High-Flexibility B-axis

NMV SERIES
B-axis, C-axis

Transfer Technology Department

Workpiece transfer/Pallet transfer

The Transfer Technology Department is responsible for fixtures, workpiece transfer, and pallet transfer on CNC lathes, machining centers, and multi-axis machines. From this fiscal year, the department has also started the production of the DDRT Series of rotary tables incorporating DDM and the engineering service for the products of TOBLER, which has an established reputation for workholding devices.

The LG Series of workpiece transfer loaders, with load capacities from 1 kg (2.2 lb.) to several hundred kg, perform work transfer mainly for lathes and multi-axis machines. There are already more than 500 sets of the LPP and CPP systems in operation worldwide, transferring pallets from 400 mm (15.7 in.) square to 1,000 mm (39.4 in.) square. Looking ahead, the department will continue to develop automatic fixtures and automated setup incorporating workpiece handling systems using robots. Robots are becoming increasingly advanced and will provide worry-free mass production equipment for our customers.

NH6300 DCG
LPP system

NZ-S1500
For automobile/drive shaft parts machining
Gantry-type loader system

Rotary tables
DDRT-260

【TOBLER's products】

Standard expanding mandrels　Special chucks

Electrical Circuit Department

NC units/Application systems

The Electrical Circuit Department designs the electrical cabinets, operation panels and harnesses used for all models, develops the sequence software that controls machines, and tunes machines. This department has personnel stationed at each Campus and they work on development in close cooperation with the machine designers.

They design circuits for electrical cabinets based on the latest safety standards and continue partial in-house assembly of the cabinets, manufacturing electrical cabinets of high quality from the perspectives of both design and assembly, and installing them in the machines. Sequence software development ensures that new mechanisms work optimally and at the fastest speed in order to contribute to customer productivity. They also improve final controlling elements to make them easier to use and incorporate these improvements into new models. Tuning, an important issue for multi-axis machines and 5-axis control machines, is upgraded in tandem with new development of the control functions.

The staff will continue to work to ensure that our machine tools evolve, with greater accuracy, higher speeds, better ease of use and greater safety.

The NMV5000 DCG's electrical cabinet, which conforms to the EN Standards (Europe) and UL Standards (U.S.A.)

MAPPS: Mori Advanced Programming Production System

DTL

We give machine tools high added value through application development and analytical technology.

Makoto Fujishima
Managing Director
Dr. Eng.
CEO of DTL and in charge of Academic Studies

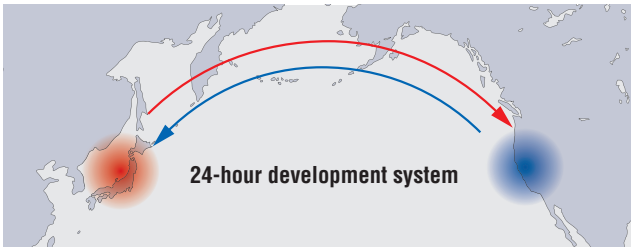
DTL works on the development of machine tools and elemental technology for machine tools. They currently have a staff of over 80 personnel, including 10 from Japan, working on static and dynamic analyses using a powerful cluster computer, thermal analyses, the development of simulation systems to be used in machine tools, peripheral devices such as high-performance rotary tables that use Direct Drive Motors, postprocessors that create a close connection between CAM systems and machine tools, and the system software used with the peripheral devices and the interface for peripheral devices. They are also developing software and mechanical structures with an eye on the future. The mechanisms and software developed at DTL are incorporated into products and contribute to the improvements of accuracy and operability in our machine tools. Some of the results of their development work for next-generation machines will be on display at this year's Chicago Show.

Another important role of DTL is its analytical work. Three-dimensional models designed in Japan are subjected to virtual tests in a computer to check the performance of their functions, then improved to enhance performance. We design machine tools with high added value, such as multi-axis and 5-axis machines, but it is not easy to manufacture these with the required tolerances of rigidity, accuracy and other specifications. However, by designing on a 3D CAD system and evaluating a 3D model on a computer (CAE), it has been possible to substantially shorten the flow of operations from planning to design to review to prototyping to verification to mass production.

DTL: Digital Technology Laboratory Corporation

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

To maximize efficiency, DTL in the United States analyzes design data created by the design team in Japan while Japan sleeps, and communicates the results back to Japan. This cuts development time in half, as if the design work were being done in a two-shift system.



● **Design, Development**

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

● **Analysis**

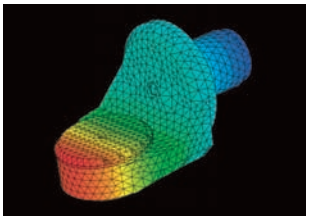
DTL (Digital Technology Laboratory Corporation)
<Sacramento, California>

Analysis using a supercomputer

In June 2007 we introduced an LS-P Supersystem supercomputer from Linux Networx. Previously, analyses were carried out on a standard desktop computer, but we introduced this system in response to the requirements for shortened development times and high-accuracy structural analyses. Processing that used to take 3,000 seconds is completed in 100 seconds, meaning that the processing speed has increased thirtyfold, and with high accuracy analyses we can better optimize structures.

We can now launch machine tools with the optimum structure on the market more quickly.

Supercomputer



Dynamic analysis

Adam Hansel
DTL COO

DTL logo

DTL exterior

We listen to our customers and provide agile and optimal engineering services.

Hidefumi Shirotori
Engineering HQ Executive Officer

As in the previous year, the machine tool market in FY 2007 was brisk. Mori Seiki introduced the NT6600 DCG, the largest model in the NT Series, which demonstrates its power in the process-integrated machining of large parts. We also launched the NMV5000 DCG and NMV8000 DCG, which are capable of turning, in addition to high-efficiency process-integrated machining. We are proud to advance the development of industries such as power generation, energy, shipbuilding, construction machinery, printing machines, aircraft, and automobiles.

We also applied the technology obtained by machining actual workpieces at the Akishino Mold Laboratory, Ltd., to die and mold cutting machines, and provided customers in Asia and elsewhere with quality machines for dies and molds.

CAM technology is crucial for multi-axis and die and mold machining. To support this, we have assigned more engineers in the CAM Section to take a central role in this area, increased the rate of generation of machining programs with a CAM system, and achieved safe, high-quality and high-efficiency machining.

Under the PQR555 medium-term management plan, we will continue activities with the goal of providing engineering that matches highly-developed machines.

Let's look at some of our efforts in each market.

Automobile parts:
The release of the NX4000 and NX5000, the top models in the NX Series of high-precision machines for production lines, is set for FY 2008. These are machines that will contribute to the mass production of automobile parts with individual processes assigned to different machines.

Aircraft: We believe that the NMV and NMH Series 5-axis control machines developed in FY 2007 will make a major contribution.

Energy: With soaring energy prices worldwide, further increase in demand can be expected. In FY 2008 we are planning the launch of large lathes and will realize the high-efficiency machining of large parts.

Construction machinery/Agricultural machinery:
With the improvement of infrastructure in the BRICs regions and the soaring cost of grain, we can expect growth in semi-mass production. With the NMV5000 DCG and NMV8000 DCG at the core, we will continue to perfect process-integrated machining in semi-mass production, using horizontal machining centers with an LPP.

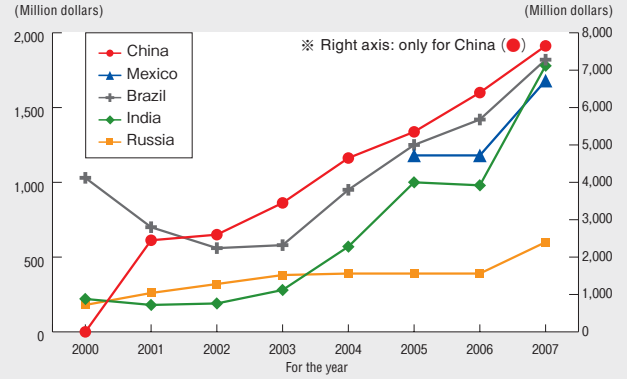
General machine parts:
By improving our levels of quality and accuracy, we will achieve high-level engineering that will help raise the quality of our customers' products.

Approach in emerging markets

The emerging markets, centering on the BRICs regions, are expected to expand rapidly. China, where the biggest development is expected; Russia, with plenty of financial capability; India, where infrastructure improvements are progressing; Brazil, known for cars and agriculture; and ASEAN, a region with a high-quality labor force: all of these are major consumer areas and markets with their own characteristics.

Our goal is to offer engineering suited to each of these markets, and we are designing a support system to deal with this issue. We will establish application centers of the same kind that we have in Japan, Europe, and the Americas. We can then provide education and training for customers and local engineers, and begin to deliver accurate applications for actual workpieces.

■ Trends in sales in the emerging markets



The support system

We are building a system that can provide agile and optimal engineering support anywhere in the world and we will continue to face challenges together with our customers.

We will reinforce technical sales operations in the Eastern region of Japan, as we did in FY 2007, and try to build a support system on the same scale as that in the Midwestern region. We are also strengthening the resident engineering staff and will continue to help to set up production processes quickly at many customers' sites.

In Germany and France, in the European region, we have implemented a system of support customers with the focus on Application Centers. For large projects and those with a high level of difficulty located in the U.K., Northern European region, Italy, or Spain, we are providing support through the Europe/Americas Technical Sales Section, working in conjunction with local engineers. In the United States, we are providing community-based support by relying on our main distributor, ELLISON. For Japanese companies with plants in the United States and for of Canada, Mexico, and Brazil, we provide support tailored to the scale of the project from Japan in conjunction with our central base for the Americas in Chicago.

■ Global engineering system

We have Engineering Departments with high levels of specialist knowledge in four places, Nagoya, Stuttgart, Paris and Chicago. These departments act as technical support contacts for the entire sales process, from technical proposals to submission of quotations, contracts, run-off machining, delivery and acceptance inspections.

■ Resident engineers service

Mori Seiki has recently established the Resident Engineering Service, in which our skilled machine tool professionals are seconded to customers' factories. These Resident Engineers, who know which machining processes they should use just by looking at the workpiece and who are experts in machine operation, will be able to make proposals and improvements to suit each and every customer's factory, such as machining methods and process designs which will raise production efficiency. We will work hard to solve problems for even more customers in future.

The "Mori Seiki University", corporate education institution, educating our own and customers' technicians worldwide

Mori Seiki University (U.S.A.)

In the United States, many companies are having trouble securing skilled technicians. We began Mori Seiki University in Chicago in 2006 to help our customers resolve this problem by training their employees, enabling them to become technicians with excellent skills and knowledge. When we established this facility, many customers requested courses and suggested training content. We are proud to say that our wide variety of courses incorporates our customers' suggestions and needs.

Many customers understand the importance of staff education but fear that production capacity would decrease due to staff being out of the workplace. To address these concerns, we have developed and implemented our original online education system EOD (Education On Demand). EOD allows people to learn how to operate each of Mori Seiki's machine models, educates them about operating safety, and teaches them the calculations required for programming, all via computer.

Roderick Jones
MORI SEIKI UNIVERSITY
Chief Learning Officer

Mori Seiki University (Europe)

The training center established in Stuttgart, Germany, offers service engineer and application engineer training for our personnel and customers throughout the European region. Our showrooms and training centers have many of the latest machine tools installed and, by allowing customers to see these machines, we can provide them with cutting edge knowledge. The training courses cover mechanical and electrical maintenance and NC programming. A basic course and a practical course are available in each category and the language of instruction can be either English or German. The content of the training is set according to the requirements of the customer, and can be done at the customer's plant.

Management education is done in the Paris Technical Center in France, where managers are trained in management methods, languages and other pertinent topics.

Thomas Puetz
MORI SEIKI UNIVERSITY
Supervisor

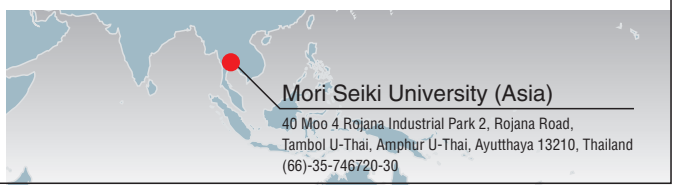
Global Personnel Education

Because Mori Seiki is rapidly expanding in scale and becoming global in its activity, the education of personnel who can operate globally is increasingly important.
In order to improve linguistic abilities and international sensibilities, we invite foreign instructors to each Campus for English training. Each of our young engineers take a long posting at an overseas Technical Center, working with foreign staff, to help develop an appreciation of other cultures.
We educate our top-level management on the latest overseas markets and societal conditions, and cultivate personnel who can take a broad perspective and grasp a panoramic view of issues.

Mori Seiki University (Asia)

In June 2008, we established the Mori Seiki University (Asia) in the new Technical Center at Ayutthaya in the northern suburbs of the Thai capital of Bangkok. We use the latest equipment and veteran instructors to provide our customers with knowledge about operating our state-of-the-art machine tools and machining technology.

Sakae Ishikawa
MORI SEIKI UNIVERSITY
Assistant Senior Counselor



Mori Seiki University (Japan)

Throughout the year, at the Iga and Chiba Campuses, we hold the "NC school" to cultivate and improve the skills of the service engineers and application engineers (operators, programmers) for our domestic customers. If requested, we also accept customers from the BRICs (Brazil, Russia, India, China) regions and other emerging regions.
We also implement training on "management principles and management policy", "manufacturing", "machine tools" and "the basics of health and safety" for new recruits and year-round recruits, and foster and train the application engineers and service engineers who provide various services to the customers.
Because we believe that "manufacturing is building people", we also educate the sales and supervisory staff so that they can do their work with an engineer's perspective.

Masaharu Teraguchi
MORI SEIKI UNIVERSITY
Manager

Accounting/Finance HQ

With personnel development and the introduction of a global accounting system, we are sending information quickly and accurately throughout the world.

Morikuni Uchigasaki
Managing Director
Accounting/Finance HQ
Executive Officer

In FY 2007, the headquarters, together with our domestic subsidiary companies and overseas affiliates, started operating a global accounting system using a centralized database. This has made it possible to quickly obtain the accounting information of the Mori Seiki Group. This system is operated and maintained by the Information Systems Department and the Accounting/Finance Headquarter working together. Because they ensure its accuracy and reliability, this global accounting system is an effective internal control.

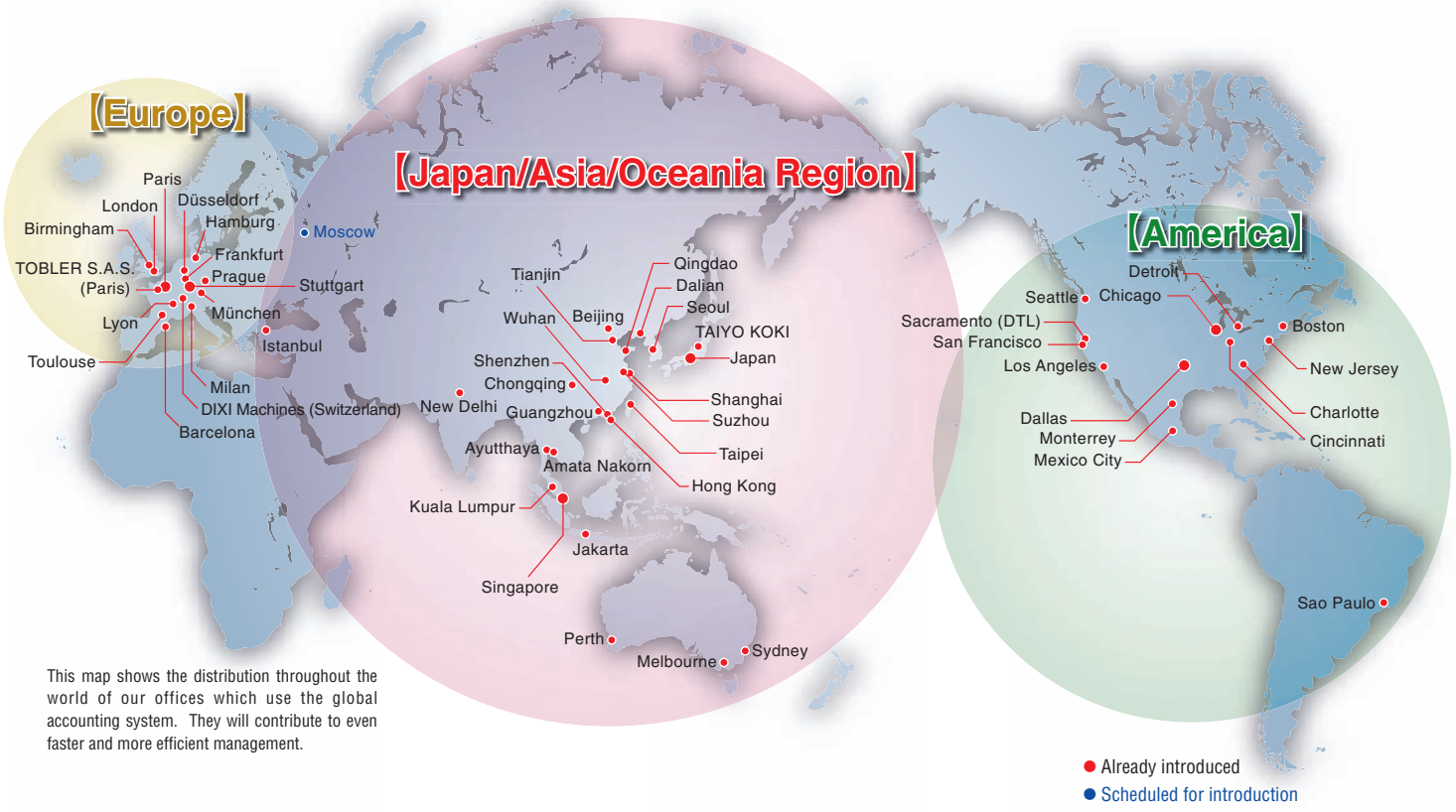
In FY 2007, the final year of execution of the previous medium-term management plan, Mori-568PLAN, we saw the biggest sales total of our history at 202.3 billion yen, and a consolidated operating profit of 31.3 billion yen. This marked the fifth straight year of increases in both sales and profits. Because of our ever-changing business climate, the Accounting/Finance Headquarter is implementing global education and recruitment and rotation of duties to ensure that our employees are equipped with broad experience and deep knowledge.

Under the PQR555 medium-term management plan, one of our main objectives is to establish global management quality. During 2008, the first year of this plan, we are focusing on the following themes:

1. **Financial accounting:**
   Implementation of the quarterly report system based on the Financial Instruments and Exchange Law and further advancing the announcement of settlement of accounts
2. **Management accounting:**
   Improvement of the Mori Seiki Group's profitability and capital efficiency
3. **Risk management:**
   Evaluation and management of business risk on a global basis and continuous strengthening of internal controls relating to financial reports

By fully utilizing the global accounting system, the Accounting/Finance Headquarter reports accurate and useful information faster, both internally and externally. Staff members are also given opportunities for on-the-job training, external training and other continuing education. The Headquarters continually strives to optimize the system and keeps devising effective measures to maintain and improve the solid financial base that supports the growth of the Mori Seiki Group. We are confident that these activities will lead to further growth of the corporate values.

■ Distribution maps of the global accounting system



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.

Globally developed accounting network

The Accounting/Finance Headquarter will continue to efficiently utilize the functions of the global accounting system to the fullest extent with a view towards establishing the global management quality that will support the Mori Seiki Group's further expansion of business areas.

The system consolidation function that has been in development since FY 2007 has been completed. This function is now in use, allowing us to process the consolidated settlement of accounts more efficiently and quickly. We are also fully utilizing this accounting system's management accounting functions so that Mori Seiki Group can effectively monitor the budgetary management system and get valuable information such as business results management by department.

We believe that these developments will further improve the profitability and capital efficiency of the Mori Seiki Group.

Response to the Japanese SOX Act

In June 2006, the Financial Instruments and Exchange Law (J-SOX) was put into effect. J-SOX mandated that companies listed on the stock exchange must have their internal controls relating to financial reporting evaluated, beginning FY 2008. In order to meet this requirement, Mori Seiki created a dedicated team within the Internal Auditing Department in October 2005. In FY 2007 (fiscal year ended March 2008), we completed the construction and documentation of the internal control system and the pre-implementation operational test, and created an organization that ensures the start of the actual operation of this system beginning in FY 2008.

We will continue to promote the use of this internal control system on a worldwide basis, and its further enhancement, to maintain confidence that duties are performed appropriately and problems are detected and corrected early.

Corporate Information

Contents

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.

History of Mori Seiki

MORI SEIKI CO., LTD.

1948: Started manufacture and sales of textile machinery in Yamatokoriyama City, Nara Prefecture

1958: Stopped producing textile machinery, and started manufacture and sales of machine tools (high-speed precision lathes)

1960: Started export of high-speed precision lathes
1968: Started manufacture and sales of numerically controlled lathes

1970: Constructed Iga Plant and started operation
1976: Achieved No. 1 share in the NC lathe market in Japan

1981: Started manufacture and sales of vertical machining centers
1982: Established Mori Seiki GmbH
1983: Started manufacture and sales of horizontal machining centers
Established Mori Seiki U.S.A., Inc.
Started full operations at Iga No. 1 Plant
1984: Introduced CAD
1986: Acquired Yoshida Machine Tool Co., Ltd., and transferred all Yoshida Steel Works employees to Mori Seiki Established Nara Plant at 362 Idono-cho, Yamatokoriyama City and started operations
1987: Completed Nara headquarters business offices Started full operations at the Nara Factory

1992: Started operations at the Iga No. 2 Plant
1996: Started operations at the Iga High-Precision Facility
1998: 50th anniversary of establishment
August Acquired ISO9002 certification
1999: Completed the Mori Seiki Nagoya building
June Acquired ISO9001 certification

2000: Expanded the multi-axis turning center MT Series line-up
May Started use of CAPS-NET
October Established Digital Technology Laboratory (DTL) in the United States

2001: January Acquired ISO14001 certification
May Made Taiyo Koki Co., Ltd. a subsidiary
November Received the SME LEAD Award in the US, the first Japanese company to do so

2002: March Started manufacture and sales of the NV5000 high-precision vertical machining center
Started manufacture and sales of the NH5000 high-precision horizontal machining center
August Started 24-hours a day, 365-days a year service support
October Renamed Mori Seiki Kosan as Mori Seiki Hitech Co., Ltd. and took over operations from Hitachi Seiki Started operations as part of the Mori Seiki Group
November Acquired OHSAS18001 certification

2003: July Initiated a sales agreement with Roku Roku Sangyo Ltd. to sell machines in Europe
August Established Mori Seiki Mid-American Sales Inc. (started direct sales in America)
September The NV4000 DCG high-precision vertical machining center with newly developed DCG (Driven at the Center of Gravity)
Started manufacture and sales of the NH4000 DCG high-precision horizontal machining center which uses DCG (Driven at the Center of Gravity) and DDM (Direct Drive Motor)
October Started operations at the Chiba Campus
Established Mori Seiki Deutschland Sales & Service

2004: January Started manufacture and sales of the NH6300 DCG high-precision horizontal machining center
February Established a Manufacturing Technology Application Center at Shanghai Jiao Tong University
April Established the Solution Center
June Started manufacture and sales of the NL Series of high-rigidity, high-precision CNC lathes equipped with BMT (Built-in Motor Turret)
September Established the Human Resources Development Center
October Relocated the Head Office to Nagoya
Started manufacture and sales of the NH8000 DCG high-precision horizontal machining center

2005: March Started manufacture and sales of the NVD1500 DCG high-precision vertical machining center for die and mold machining
May Established the France Technical Center, our new Sales/Service base in Europe
Started manufacture and sales of the NT Series of high-precision, high-efficiency integrated mill turn centers equipped with ORC (Octagonal Ram Construction)
November Started manufacture and sales of the VS8000 and VS10000 vertical machining centers
December Started manufacture and sales of the NZ-S1500 2-turret shaft lathe

2006: February Completed the Chiba Campus No. 2 Plant
April Started manufacture and sales of the MORI-AP Series automatic conversational programming system
May Started manufacture and sales of the NV6000 DCG high-precision vertical machining center and the NVD6000 DCG high-precision vertical machining center for dies and molds
June Started manufacture and sales of the NMH6300 DCG 5-axis control high-precision horizontal machining center and the NH5000 DCG high-precision horizontal machining center
Started manufacture and sales of the DuraVertical vertical machining center and the DuraTurn CNC lathe
November Started manufacture and sales of the NMV5000 DCG 5-axis control high-precision vertical machining center
Started manufacture and sales of the NZ Series of high-precision, high-efficiency multi-axis machines

2007: January Purchased DIXI Machines in Switzerland
April Established Mori Seiki University
May Established Akishino Mold Laboratory, Ltd.
October Started manufacture and sales of the NMH10000 DCG 5-axis control high-precision vertical machining center

2008: January Purchased Sandvik Tobler S.A.S. in France
March Started manufacture and sales of the NMV8000 DCG 5-axis control high-precision vertical machining center
April Started manufacture and sales of the NT6600 DCG of high-precision, high-efficiency integrated mill turn centers
June Started manufacture and sales of the NH6300 DCG II high-precision horizontal machining center

YOSHIDA MACHINE TOOL CO., LTD.

1919: September The previous president, Kaichi Yoshida, established Yoshida Machine Tool and started production and sales of drill presses in Chudohon-dori, Higashinari Ward, Osaka
1936: September Established Yoshida Machine Tool Ltd., with Kaichi Yoshida and Kazuo Yoshida as senior partner and managing partner
1949: July The company was reorganized as Yoshida Machine Tool Co., Ltd., in order to further expand the production of drill presses, and Kazuo Yoshida was appointed President

1957: Increased capital by ¥3,000,000 in July, ¥4,000,000 in September and ¥24,000,000 in October. Started preparations for the commercial production of vertical drill presses, with the completion of the vertical drill plant

1964: October Completed the first stage of construction of the casting plant at the Nara Plant

1970: April Listed stock on the 2nd Section of the Tokyo Stock Exchange
Introduced computers to systematize the internal management system
Increased capital by ¥200,000,000
1971: January Completed the second stage of construction at the Nara Plant Started production at the machine plant
1972: October Started manufacture and sales of the bed-type vertical milling machines
1973: December Introduced larger computers to strengthen the internal management system

1986: Mori Seiki offered capital participation, all employees were transferred to Mori Seiki Co., Ltd.

TAIYO KOKI CO., LTD.

1986: March Established as a limited liability company in Nagaoka city with capital of ¥1,500,000
1988: May Reorganized as a business corporation
October Completed the head office and plant, and fully started machine tool business

1991: August Developed the vertical CNC grinding machine IGV-7N
1994: March Increased the capital to ¥62,500,000
1997: February Completed the new Assembly Plant. Relocated the machine manufacturing plant to centralize the production bases
1998: May Opened the Nagoya office
December Acquired land for a new assembly plant in Kumoide industrial estate <Approx. 18,000 m^2 (193,752 ft^2)>

2000: October Opened the Osaka office

2001: May Started capital participation with Mori Seiki Co., Ltd. and became a Group company of Mori Seiki Co., Ltd.

2002: July Increased the capital to ¥100,000,000

2003: July Opened the Tokyo office
September Increased the capital to ¥200,000,000

2005: June Relocated the new head office to Nagaoka
Relocated the Tokyo office
October Started manufacture and sales of the NVG Series of CNC vertical grinding machines

2006: January Opened the Kyushu office

2007: March Started manufacture and sales of the SVG-1 CNC vertical grinding machines
December Listed on the JASDAQ Securities Exchange

HITACHI SEIKI CO., LTD.

1936: Establishment
1937: Completed the first turret lathe in Japan
1942: Established the Abiko Plant

1950: Introduced the 3A turret lathe
1953: Introduced the world's first hydraulic profile car wheel lathe
1954: Introduced the 2ML, 3ML and 4MK milling machines
1955: Introduced the first lens spherical surface grinding machine
1956: Introduced the largest transfer machine produced in Japan
1957: Introduced the super-large planer miller
1958: Introduced the first NC milling machine in Japan

1964: Introduced the fully-automatic car wheel lathe
1966: Introduced the largest 7LN NC lathe in Japan

1979: Introduced the GA large-scale NC surface grinding machine

1981: Introduced NC pipe thread cutter for oil well pipes
Introduced the auto-programming system
1985: Introduced the multi-conversational system for NC lathes
Introduced CAD/CAM System HICAM
1987: Introduced the multi-conversational system for machining centers, SEIKI MULTI-M
Introduced the remote diagnosis system using telephone lines

1995: Introduced Hitachi Seiki Open CNC. SEICOS Λ/Σ-MULTI
Acquired ISO9001 certification
1997: Acquired ISO14001 certification
1998: Introduced the UUP (Universal User Port)
1999: Introduced the NC chuck

2002: October Became business alliance partners with Mori Seiki Kosan and changed the company name to Mori Seiki Hitech

Corporate Profile (As of 31st March, 2008)

> MORI SEIKI CO., LTD.

・President

Masahiko Mori

・Total Assets

155,600 million yen (Individual)/
174,300 million yen (Consolidated)

・Head Office

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

・Capital

32,700 million yen (Individual)/
32,700 million yen (Consolidated)

・Business Operations

Manufacture and Sale of Machine Tools

・Shareholders' Equity

121,000 million yen (Individual)/
130,200 million yen (Consolidated)

・Employees

2,592 (Individual)/3,864 (Consolidated)

・Homepage address

http://www.moriseiki.com

> Affiliated companies

・Domestic consolidated subsidiaries

TAIYO KOKI CO., LTD.
MORI SEIKI TECHNO, LTD.
MORI SEIKI TRADING, LTD.
MORI SEIKI HIGH PRECISION MACHINING LABORATORY, LTD.

・Domestic unconsolidated subsidiaries

AKISHINO MOLD LABORATORY, LTD.
MORI SEIKI KOSAN, LTD.
3 other companies

・Domestic affiliated companies accounted for using the equity method

WATANABE SEIKOSYO CO., LTD.

・Domestic affiliated companies not accounted for using the equity method

ITOCHU PLAMAC CORPORATION
3 other companies

・Overseas consolidated subsidiaries

MORI SEIKI U.S.A., INC.
MORI SEIKI G.m.b.H.
MORI SEIKI (UK) LTD.
MORI SEIKI FRANCE S.A.S.
MORI SEIKI ITALIANA S.R.L.
MORI SEIKI ESPANA 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 LTD.
MORI SEIKI INDIA PRIVATE LTD.
MORI SEIKI ISTANBUL MAKINA SAN. VE TIC. LTD. STI.
MS SYFRAMO S.A.S.
MORI SEIKI INTERNATIONAL SA (DIXI)

・Overseas subsidiaries not included in consolidated accounting

MORI SEIKI TECHNO G.m.b.H.
MORI SEIKI MANUFACTURING (THAILAND) CO., LTD.
TOBLER S.A.S.

・Overseas affiliated companies 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

・Iga Campus

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

・Nara Campus No. 2 Plant

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

・Chiba Campus

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

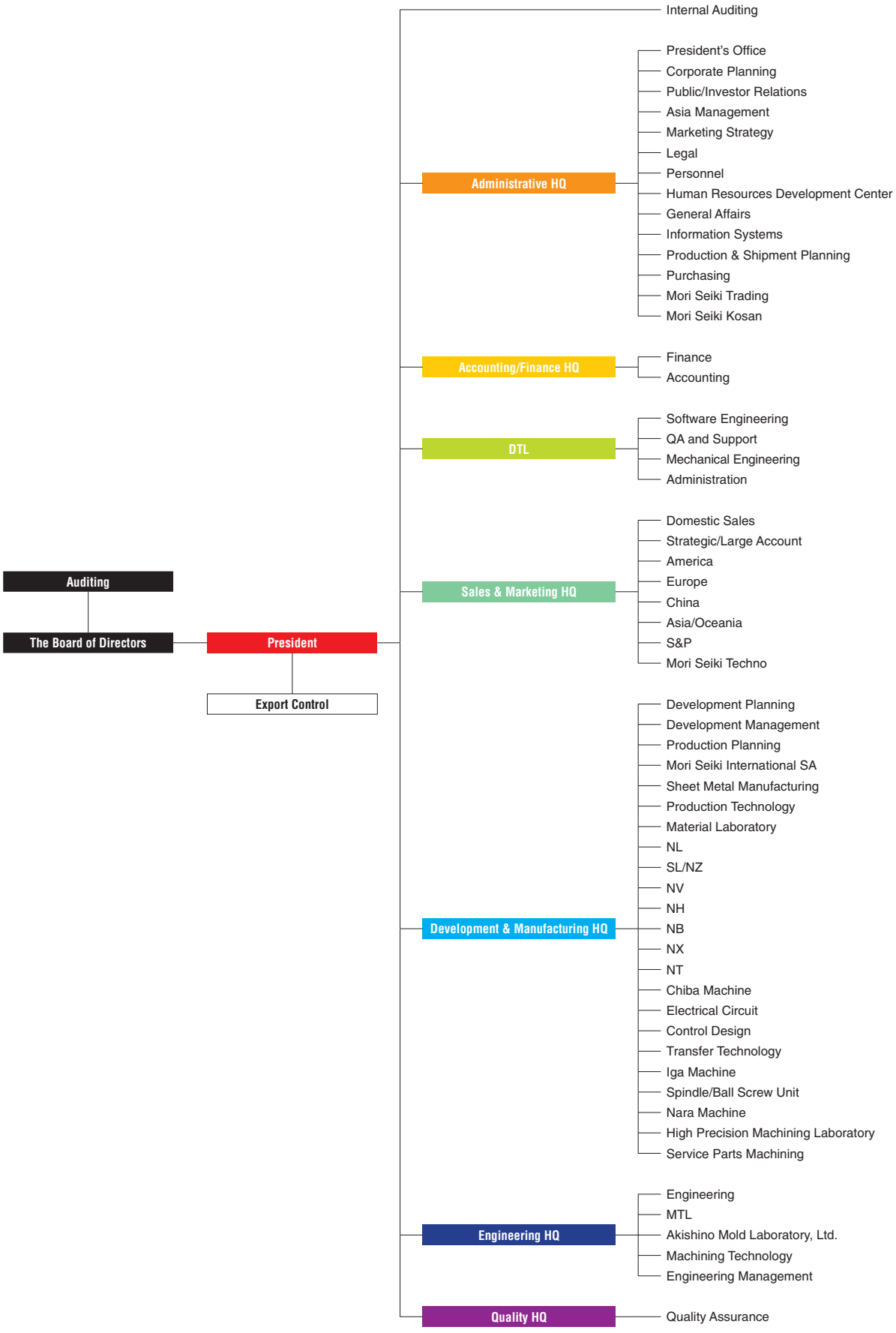
Technical Centers

> Overseas

MORI SEIKI U.S.A., INC.	Chicago Head Office	5655 Meadowbrook Drive, Rolling Meadows, Illinois 60008	Phone: (1)-847-593-5400
	Mori Seiki University	2100 Golf Road Suite 300, Rolling Meadows, Illinois 60008	Phone: (1)-847-290-9000
	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
	San Francisco	2629 7th Street Berkeley, California 94710	Phone: (1)-866-814-7238
	Seattle	19625 62nd. Avenue South, Suite A106, Kent, Washington 98032	Phone: (1)-253-872-1661
	Detroit	29050 Cabot Drive Novi, Michigan 48377	Phone: (1)-248-324-1928
	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	Calle 4 núm. 25, Local D, 2°.piso, Fraccionamiento Industrial Alce Blanco, Naucalpan Estado de México 53370, Mexico	Phone: (52)-55-5359-8785
	Monterrey	Blvd. Aeropuerto No. 4033, Parque Industrial Finsa, Apodaca, Nuevo León. C.P.66600, Mexico	Phone: (52)-81-8145-0701
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
MORI SEIKI Deutschland Sales & Service (Division of MORI SEIKI GmbH)	Stuttgart	Antoniusstrasse 14, 73249 Wernau, Germany	Phone: (49)-7153-934-0
	Frankfurt	Borsigstrasse 20, 65205 Wiesbaden, Germany	Phone: (49)-6122-92-777-0
	München	Bremer Strasse 11, 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 (U.K.) LTD.	Head Office	202 Bedford Avenue, Slough SL1 4RY, England	Phone: (44)-844-800-7647
	Birmingham	4060 Lakeside, Solihull Parkway, Birmingham Business Park, Birmingham, B37 7YN, England	Phone: (44)-844-800-7650
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
	Mori Seiki France Sud-Est S.A.S.	81, Avenue du Progrès 69680 Chassieu, France	Phone: (33)-4-78-90-95-95
	Prague	6th floor of building No. 423, Evropska 178, 160 00 Prague 6, Czech Republic	Phone: (420)-224-362-777
TOBLER S.A.S.	Head Office	4 Avenue de la Vielle France 95380 Louvres, France	Phone: (33)-1-34-47-33-03
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 Polígono Industrial "La Ferreria" 08110 Montcada I Reixac (Barcelona), Spain	Phone: (34)-935-75-36-46
MORI SEIKI Moscow LLC	Head Office	Office N12., 4th Floor, 4th Entrance, Kutuzovskiy av. 88, Moscow, 121374, Russia	Phone: (7)-495-969-2895
MORI SEIKI Istanbul Makina San. ve Tic. Ltd. Sti.	Head Office	Ferhatpasa Mah. Gazipasa Cad. No.11 Samandıra, 34885 Kartal/Istanbul, Turkey	Phone: (90)-216-471-66-36
MORI SEIKI SINGAPORE PTE LTD	Head Office	3 Toh Guan Road East, Singapore 608835	Phone: (65)-6560-5011
	MALAYSIA BRANCH	Suite 13.02, Level 13 The Gardens, South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	Phone: (60)-3-2287-6685
MORI SEIKI MANUFACTURING (THAILAND) CO., LTD.	Head Office	40 Moo 4 Rojana Industrial Park 2, Rojana Road, Tambol U-Thai, Amphur U-Thai, Ayutthaya 13210, Thailand	Phone: (66)-35-746720-30
	Amata Nakorn	4th Floor, Unit 406, Amata Service Center Building, Klong Tamru, Muang District, Chonburi 20000, Thailand	Phone: (66)-38-457013-4
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 LIMITED	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, Development 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	Room 2603 Tian An Tower, No. 88 Zhongshan 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
	Qingdao	Room 906, Zhaoyin Building, No. 36 Hongkong Middle Road, Qingdao City, Shandong 266071, China	Phone: (86)-532-8667-8700
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 LTD.	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
	Perth	13/524 Abernathy Road Kewdale WA 6105, Australia	Phone: (61)-8-9353-4493

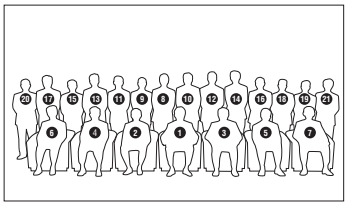
Overseas Representative Offices: Charlotte

Organizational Structure



Board of Directors

Masahiko Mori	President Dr. Eng. ①	Norihide Maeda	Director ⑫
Hiroshi Mizuguchi	Vice President ②	Takahiro Kobi	Director ⑬
Takeshi Saito	Vice President ③	Yasunori Hamabe	Director ⑭
Kazuyuki Hiramoto	Vice President Dr. Eng. ④	Tadashi Saito	Director ⑮
Koji Okura	Senior Executive Managing Director ⑤	Hisao Sato	Director ⑯
Hiroaki Tamai	Senior Executive Managing Director ⑥	Yoshiaki Sugimoto	Director ⑰
Hiraku Nakata	Managing Director ⑦	Koji Kageyama	Statutory Auditor ⑱
Makoto Fujishima	Managing Director Dr. Eng. ⑧	Kyoji Umeoka	Statutory Auditor
Morikuni Uchigasaki	Managing Director ⑨	Katsuhiko Maehori	External Auditor ⑲
Naoshi Takayama	Managing Director ⑩	Yasuo Noishiki	External Auditor ⑳
Toyofumi Nishio	Director ⑪	Takashi Nakanishi	External Auditor ㉑



Financial Section

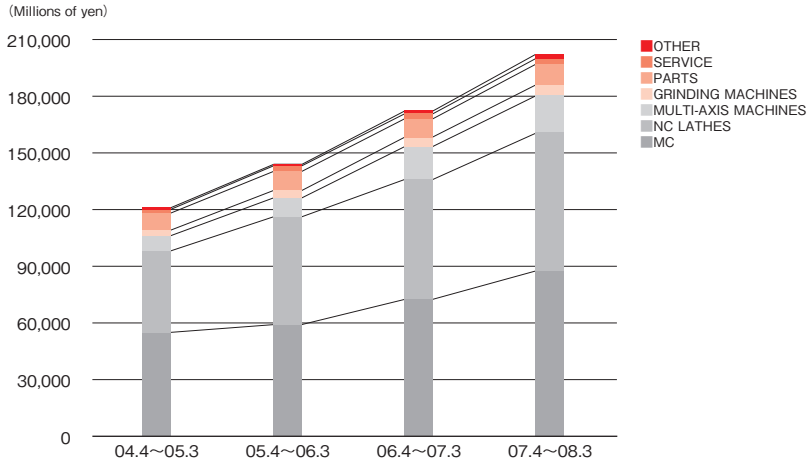
Contents

Consolidated Financial Highlights Ⅱ

> Sales by Products

Fiscal Year	MC	NC LATHES	MULTI-AXIS MACHINES	GRINDING MACHINES	PARTS	SERVICE	OTHER	TOTAL
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%**
2007.4.1～	¥ 87,479	¥ 73,151	¥ 19,901	¥ 5,233	¥ 10,902	¥ 3,014	¥ 2,580	**¥ 202,260**
2008.3.31	43.2%	36.2%	9.8%	2.6%	5.4%	1.5%	1.3%	**100.0%**

(Millions of yen)

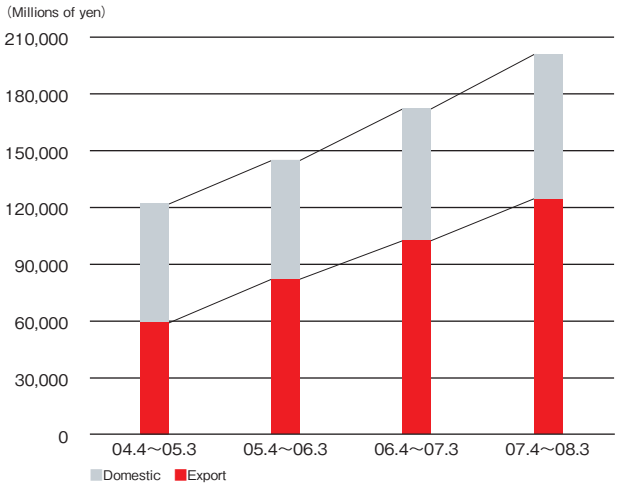


> Overseas Sales

Fiscal Year	TOTAL
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	**¥ 99,729**
	57.9%
2007.4.1～2008.3.31	**¥ 125,544**
	62.1%

(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 corresponding fiscal year.



> Depreciation, and Amortization Net Income and Investments in Property, Plant and Equipment

Fiscal Year	Depreciation and amortization	Net income	Investments
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
2007.4～2008.3	7,130	15,975	12,041

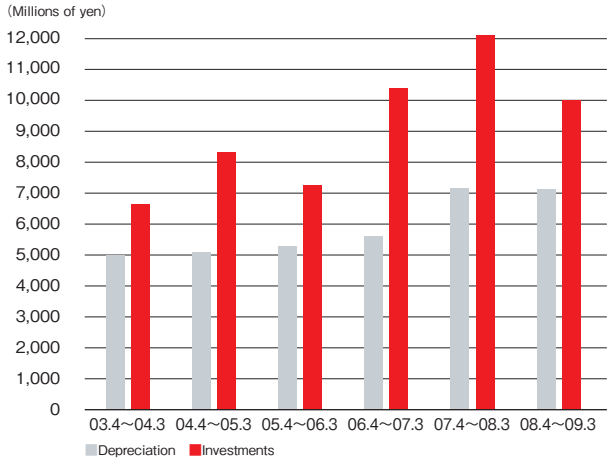
(Millions of yen)

> Estimate

2008.4～2009.3	¥ 7,100	¥ 15,600	¥ 10,000

· Mori Seiki Co., Ltd.'s investments in fixed assets over the past five years totaled approximately ¥44,631 million.

(Millions of yen)



Consolidated Financial Highlights Ⅱ

> Five-year Summary

	Millions of yen					Thousands of U.S. dollars
Fiscal Year	**2007.4~2008.3**	**2006.4~2007.3**	**2005.4~2006.3**	**2004.4~2005.3**	**2003.4~2004.3**	**2007.4~2008.3**
Net sales	**¥ 202,260**	¥ 172,262	¥ 145,340	¥ 122,166	¥ 87,557	$2,018,764
Net income	**15,975**	16,194	13,802	9,381	712	159,447
Net income as a percentage of net sales	**7.9%**	9.4%	9.5%	7.7%	0.8%	7.9%
Selling, general and administrative expenses	**54,759**	44,907	39,060	30,865	24,732	546,552
Cash dividends	**4,782**	4,158	3,677	1,761	883	47,729
Total assets	**174,270**	169,034	162,779	135,631	122,166	1,739,395
Net assets	**131,761**	131,036	116,347	96,443	86,912	1,315,111
Property, plant and equipment, net	**53,809**	49,409	55,747	59,910	56,561	537,070
Working capital	**64,824**	66,590	63,333	40,957	41,239	647,010

Per share data:	Yen					U.S. dollars
Net income	**¥ 165.91**	¥ 174.78	¥ 153.62	¥ 104.94	¥ 7.23	$ 1.66
Cash dividends	**50.00**	44.00	40.00	20.00	10.00	0.50

1. Net income per share is computed based upon the weighted-average number of shares of common stock outstanding during each fiscal year as adjusted for free share distributions.
2. Cash dividends per share are those declared as applicable to the respective fiscal years 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 ¥100.19 = U.S.$1.00, the exchange rate prevailing on 31st March, 2008.

Consolidated Balance Sheets

> ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31st March,		31st March,
	2008	**2007**	**2008**
Current assets:			
Cash and cash equivalents (Note 4)	**¥ 17,984**	¥ 29,959	$ 179,499
Notes and accounts receivable:			
Trade	**38,428**	32,916	383,551
Allowance for doubtful receivables	**(127)**	(281)	(1,267)
Notes and accounts receivable, net	**38,301**	32,635	382,284
Inventories (Note 5)	**38,745**	29,904	386,715
Deferred income taxes (Note 10)	**3,281**	1,882	32,748
Other current assets	**3,665**	3,314	36,580
Total current assets	**101,976**	97,694	1,017,826
Property, plant and equipment (Notes 3 and 7):			
Land (Note 12)	**15,165**	15,533	151,363
Buildings and structures	**62,256**	59,010	621,379
Machinery, equipment and vehicles	**46,395**	43,377	463,070
Construction in progress	**1,131**	82	11,289
	124,947	118,002	1,247,101
Accumulated depreciation	**(71,138)**	(68,593)	(710,031)
Property, plant and equipment, net	**53,809**	49,409	537,070
Investments and other assets:			
Investments in securities (Note 6):			
Unconsolidated subsidiaries and affiliates	**2,890**	3,154	28,845
Other	**8,797**	12,692	87,803
Total investments in securities	**11,687**	15,846	116,648
Deferred income taxes (Note 10)	**1,115**	165	11,129
Other assets:			
Goodwill	**1,012**	1,773	10,101
Other	**4,671**	4,147	46,621
Other assets, net	**5,683**	5,920	56,722
Total investments and other assets	**18,485**	21,931	184,499
Total assets	**¥ 174,270**	¥ 169,034	$ 1,739,395

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,
	2008	**2007**	**2008**
Current liabilities:			
Short-term bank loans (Note 9)	**¥ 696**	¥ 1,500	$ 6,947
Accounts payable, trade	**11,517**	11,612	114,952
Accrued income taxes (Note 10)	**11,407**	4,848	113,854
Accrued expenses	**638**	476	6,368
Deferred income taxes (Note 10)	**79**	164	788
Advances received	**1,637**	1,399	16,339
Allowance for product warranties	**1,555**	811	15,520
Allowance for bonuses to directors and corporate auditors	**164**	159	1,637
Other current liabilities	**9,459**	10,135	94,411
Total current liabilities	**37,152**	31,104	370,816
Long-term liabilities:			
Long-term debt (Note 9)	**2,583**	3,920	25,781
Deferred income taxes (Note 10)	**643**	844	6,418
Deferred income taxes on land revaluation reserve (Notes 10 and 12)	**1,699**	1,699	16,957
Other long-term liabilities	**432**	431	4,312
Total long-term liabilities	**5,357**	6,894	53,468
Contingent liabilities (Note 14)			
Net assets:			
Shareholders' equity (Note 11):			
Common stock:			
Authorized: – 157,550,000 shares – 31st March, 2008 and 2007			
Issued: – 96,475,312 shares – 31st March, 2008	**32,698**		326,360
– 100,366,274 shares – 31st March, 2007		32,022	
Capital surplus	**45,429**	45,329	453,429
Retained earnings (Note 19)	**56,751**	53,986	566,434
Treasury stock, at cost: 2,695,892 shares – 31st March, 2008	(**4,768**)		(47,590)
4,333,935 shares – 31st March, 2007		(5,369)	
Total shareholders' equity	**130,110**	125,968	1,298,633
Valuation and translation adjustments:			
Land revaluation reserve (Note 12)	**1,545**	1,545	15,421
Net unrealized holding gain on securities (Note 6)	**1,571**	4,559	15,680
Net unrealized loss on derivative instruments	(**1,027**)	(1,342)	(10,251)
Translation adjustments	(**1,984**)	(240)	(19,802)
Total valuation and translation adjustments	**105**	4,522	1,048
Stock acquisition rights (Note 11)	**369**	—	3,683
Minority interests	**1,177**	546	11,747
Total net assets	**131,761**	131,036	1,315,111
Total liabilities and net assets	**¥174,270**	¥169,034	$ 1,739,395

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,
	2008	**2007**	**2008**
Net sales (Note 18)	**¥202,260**	¥172,262	$ 2,018,764
Cost of sales (Note 3 and 8)	**116,198**	102,312	1,159,776
Gross profit (Note 3)	**86,062**	69,950	858,988
Selling, general and administrative expenses (Notes 3, 8 and 13)	**54,759**	44,907	546,552
Operating income (Note 18)	**31,303**	25,043	312,436
Other income (expenses):			
Interest and dividend income	**406**	241	4,052
Interest expense	**(28)**	(48)	(279)
Loss on revaluation of investments in securities (Note 6)	**(542)**	(202)	(5,410)
Foreign exchange loss	**(3,089)**	(340)	(30,831)
Loss on sales and disposal of property, plant and equipment, net	**(503)**	(283)	(5,020)
Loss on impairment of fixed assets (Note 7)	**(190)**	(4,209)	(1,896)
Provision of prior-year allowance for product warranties	**—**	(657)	—
Other, net	**351**	(142)	3,503
Income before income taxes and minority interests (Note 3)	**27,708**	19,403	276,555
Income taxes (Note 10):			
Current	**12,895**	5,308	128,706
Prior year	**254**	—	2,535
Deferred	**(1,592)**	(2,202)	(15,890)
	11,557	3,106	115,351
Income before minority interests	**16,151**	16,297	161,204
Minority interests in net income of consolidated subsidiaries	**(176)**	(103)	(1,757)
Net income	**¥ 15,975**	¥ 16,194	$ 159,447

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

	Number of shares of common stock in issue	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	Stock Acquisition Rights	Minority interests	Total net assets
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
Net income	–	–	–	15,975	–	–	–	–	–	–	–	15,975
Cash dividends	–	–	–	(4,742)	–	–	–	–	–	–	–	(4,742)
Issuance of new shares upon exercise of stock acquisition rights	988,338	676	674	–	–	–	–	–	–	–	–	1,350
Purchases of treasury stock	–	–	–	–	(10,292)	–	–	–	–	–	–	(10,292)
Sales of treasury stock	–	–	(163)	–	2,206	–	–	–	–	–	–	2,043
Retirement of treasury stock	(4,879,300)	–	(411)	(8,276)	8,687	–	–	–	–	–	–	–
Decrease in retained earnings resulting from initial consolidation of a subsidiary	–	–	–	(143)	–	–	–	–	–	–	–	(143)
Decrease in retained earnings resulting from the exclusion of a subsidiary from consolidation	–	–	–	(49)	–	–	–	–	–	–	–	(49)
Net changes of items other than shareholders' equity	–	–	–	–	–	–	(2,988)	315	(1,744)	369	631	(3,417)
Balance at 31st March, 2008	96,475,312	¥ 32,698	¥ 45,429	¥ 56,751	¥ (4,768)	¥ 1,545	¥ 1,571	¥ (1,027)	¥ (1,984)	¥ 369	¥ 1,177	¥ 131,761

	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	Stock Acquisition Rights	Minority interests	Total net assets
Balance at 31st March, 2007	$ 319,613	$ 452,430	$ 538,836	$ (53,588)	$ 15,421	$ 45,504	$ (13,395)	$ (2,395)	$ –	$ 5,449	$1,307,875
Net income	–	–	159,447	–	–	–	–	–	–	–	159,447
Cash dividends	–	–	(47,330)	–	–	–	–	–	–	–	(47,330)
Issuance of new shares upon exercise of stock acquisition rights	6,747	6,727	–	–	–	–	–	–	–	–	13,474
Purchases of treasury stock	–	–	–	(102,725)	–	–	–	–	–	–	(102,725)
Sales of treasury stock	–	(1,626)	–	22,018	–	–	–	–	–	–	20,392
Retirement of treasury stock	–	(4,102)	(82,603)	86,705	–	–	–	–	–	–	–
Decrease in retained earnings resulting from initial consolidation of a subsidiary	–	–	(1,427)	–	–	–	–	–	–	–	(1,427)
Decrease in retained earnings resulting from the exclusion of a subsidiary from consolidation	–	–	(489)	–	–	–	–	–	–	–	(489)
Net changes of items other than shareholders' equity	–	–	–	–	–	(29,824)	3,144	(17,407)	3,683	6,298	(34,106)
Balance at 31st March, 2008	$ 326,360	$ 453,429	$ 566,434	$ (47,590)	$ 15,421	$ 15,680	$ (10,251)	$ (19,802)	$ 3,683	$ 11,747	$1,315,111

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,
	2008	**2007**	**2008**
Operating activities:			
Income before income taxes and minority interests	**¥ 27,708**	¥ 19,403	$ 276,555
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**7,130**	5,686	71,165
Loss on impairment of fixed assets	**190**	4,209	1,896
Loss on sales and disposal of property, plant and equipment, net	**503**	283	5,020
Loss on revaluation of investments in securities	**542**	202	5,410
Increase in allowance for bonuses to directors and corporate auditors	**164**	159	1,637
Decrease in allowance for doubtful receivables	**(159)**	(8)	(1,587)
Increase in allowance for product warranties	**723**	811	7,216
Interest and dividend income	**(406)**	(241)	(4,052)
Interest expense	**28**	48	279
Unrealized exchange loss (gain)	**800**	(846)	7,985
Changes in operating assets and liabilities:			
Notes and accounts receivable	**(6,719)**	(1,789)	(67,062)
Inventories	**(9,982)**	(5,682)	(99,631)
Notes and accounts payable	**(304)**	1,812	(3,034)
Bonuses to directors and corporate auditors	**(159)**	(142)	(1,587)
Other, net	**202**	1,143	2,016
Subtotal	**20,261**	25,048	202,226
Interest and dividend income received	**394**	238	3,932
Interest paid	**(35)**	(50)	(349)
Income taxes paid	**(6,464)**	(1,741)	(64,517)
Net cash provided by operating activities	**14,156**	23,495	141,292
Investing activities:			
Purchases of property, plant and equipment	**(9,105)**	(5,937)	(90,877)
Proceeds from sales of property, plant and equipment	**866**	4,856	8,644
Increase in investments in securities	**(918)**	(1,536)	(9,163)
Increase in investments in subsidiaries and affiliates	**(1,444)**	(1,846)	(14,413)
Purchases of other assets	**(2,091)**	(2,449)	(20,870)
Increase in long-term loans	**—**	(970)	—
Other, net	**(762)**	(201)	(7,606)
Net cash used in investing activities	**(13,454)**	(8,083)	(134,285)
Financing activities:			
(Decrease) increase in short-term bank loans, net	**(804)**	180	(8,025)
Decrease in long-term bank loans	**—**	(10,208)	—
Purchases of treasury stock	**(10,292)**	(2,564)	(102,725)
Proceeds from sales of treasury stock	**2,043**	1,132	20,391
Cash dividends	**(4,722)**	(5,529)	(47,130)
Other, net	**644**	—	6,428
Net cash used in financing activities	**(13,131)**	(16,989)	(131,061)
Effect of exchange rate changes on cash and cash equivalents	**(225)**	(47)	(2,246)
Decrease in cash and cash equivalents	**(12,654)**	(1,624)	(126,300)
Cash and cash equivalents at beginning of the year	**29,959**	31,583	299,022
Increase in cash and cash equivalents resulting from inclusion of a subsidiary in consolidation	**613**	—	6,118
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**(2)**	—	(20)
Cash and cash equivalents at end of the year (Note 4)	**¥ 17,916**	¥29,959	$ 178,820

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements 31st March, 2008

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 Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated 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 certain information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The accompanying consolidated financial statements have been translated from yen amounts into U.S. dollar amounts, solely for convenience, as a matter of arithmetic computation only, at ¥100.19 = U.S.$1.00, the exchange rate prevailing on 31st March, 2008. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. In addition, significant affiliates over which substantial control is significantly affected by the consolidated group in various ways have been accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

For consolidation purposes, the financial statements of five 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.

(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 excluding minority interests 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 estimated 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 consolidated subsidiaries is calculated by the straight-line method.

The estimated useful lives of property, plant and equipment are summarized as follows:

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

(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 consolidated 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. Investments in investment limited partnerships are stated at the net value of equities based on the most recent financial statements available prepared according to the financial reporting dates specified in the respective partnership agreements.

(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 estimated useful life of the software, generally a period of 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.

3. Changes in Method of Accounting

Changes in Method of Depreciation
In accordance with the 2007 revision of the Corporate Tax Law of Japan effective 1st April, 2007, the method of depreciation of property, plant and equipment acquired on or after 1st April, 2007 has been changed to the procedure stipulated in the revised law. As a result, gross profit decreased by ¥212 million ($2,116 thousand) and operating income and income before income taxes and minority interests decreased by ¥232 million ($2,316 thousand) for the year ended 31st March, 2008 from the corresponding amounts which would have been recorded under the previous method.
Furthermore, effective 1st April, 2007, property, plant and equipment acquired on or prior to 31st March, 2007 are depreciated based on the difference between the equivalent of 5% of acquisition cost and memorandum value over a period of 5 years by the straight-line method once they have been fully depreciated to the limits of their respective depreciable amounts. As a result, gross profit decreased by ¥200 million ($1,996 thousand) and operating income and income before income taxes and minority interests decreased by ¥205 million ($2,046 thousand) for the year ended 31st March, 2008 from the corresponding amounts which would have been recorded under the previous method.
The effect on segment information is described in Note 18.

4. Cash and Cash Equivalents

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in the consolidated balance sheets at 31st March, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2007**	**2008**
Cash and deposits	**¥17,984**	¥29,959	$179,499
Time deposits with an original maturity in excess of 3 months included in cash and deposits	**(68)**	—	(679)
Cash and cash equivalents at end of the year	**¥17,916**	¥29,959	$178,820

Significant non-cash transactions for the years ended 31st March, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2007**	**2008**
Increase in common stock resulting from exercise of stock acquisition rights	**¥ 676**	¥ 2,736	$ 6,747
Increase in capital surplus resulting from exercise of stock acquisition rights	**674**	2,730	6,727
Decrease in bonds with stock acquisition rights resulting from exercise of stock acquisition rights	**(1,337)**	(5,413)	(13,344)
Loss on redemption of bonds	**13**	53	130

5. Inventories

Inventories at 31st March, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	**2007**	**2008**
Merchandise	**¥ 313**	¥ 286	$ 3,124
Finished goods	**13,391**	14,350	133,656
Work in process	**7,868**	6,443	78,531
Raw materials and supplies	**17,173**	8,825	171,404
Total	**¥ 38,745**	¥ 29,904	$ 386,715

6. Securities

Marketable securities classified as other securities at 31st March, 2008 and 2007 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2008			**2007**			**2008**		
	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	**¥5,243**	**¥7,298**	**¥2,055**	¥5,715	¥11,974	¥6,259	$52,331	$72,842	$20,511
Subtotal	**5,243**	**7,298**	**2,055**	5,715	11,974	6,259	52,331	72,842	20,511
(2) Securities whose carrying value does not exceed their acquisition cost:									
Equity securities	**1,151**	**1,102**	**(49)**	402	367	(35)	11,488	10,999	(489)
Subtotal	**1,151**	**1,102**	**(49)**	402	367	(35)	11,488	10,999	(489)
Total	**¥6,394**	**¥8,400**	**¥2,006**	¥6,117	¥12,341	¥6,224	$63,819	$83,841	$20,022

The Company recorded an impairment loss of ¥542 million ($5,410 thousand) and ¥202 million on marketable equity securities classified as other securities for the years ended 31st March, 2008 and 2007, respectively.
An impairment loss is recorded when the market value of a security falls by 30% or more from its carrying value.

The carrying value of principal investments in non-marketable securities at 31st March, 2008 and 2007 was as follows :

	Millions of yen		Thousands of U.S. dollars
	2008	**2007**	**2008**
Investments in unconsolidated subsidiaries	**¥ 1,844**	¥ 2,146	$18,405
Investments in affiliates	**900**	871	8,983
Investments in unlisted stocks	**298**	351	2,974
Investments in limited liability partnership	**99**	—	988
Total	**¥ 3,141**	¥ 3,368	$31,350

7. Loss on Impairment of Fixed Assets

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 and properties held for disposal are grouped individually.
Recoverable amounts are measured at reasonable estimates of their projected net selling prices or value determined by appraisals conducted by real estate appraisers. 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, 2008 related to the following assets and asset groups:

Use	Classification	Location	Millions of yen	Thousands of U.S. dollars
			2008	2008
Mori Seiki (Taiwan) Co., Ltd. Technical Center	Land	Taipei Hsien, Taiwan, R.O.C.	**¥ 76**	$ 758
	Buildings		**114**	1,138
Total			**¥ 190**	$ 1,896

Mori Seiki (Taiwan) Co., Ltd. had utilized land and building(s) in the above table as its head office. However, Mori Seiki (Taiwan) Co., Ltd. determined to sell these assets during the year ended 31st March, 2008. Thus, Mori Seiki (Taiwan) Co., Ltd. recognized a loss on impairment of these assets.

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
			2007
Technical Centers, etc. (30 places)	Land	Kohoku-ku, Yokohama City Onoshiro City, Fukuoka and other	¥ 1,284
	Buildings		2,019
Dormitory (4 places)	Land	Hanamikawa-ku, Chiba City Nara City, Nara Yamatokoriyama City, Nara Sagamihara City, Kanagawa	153
	Buildings		233
Idle property (2 places)	Land	Ikoma City, Nara Eniwa City, Hokkaido	520
Total			¥ 4,209

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 and four domestic consolidated subsidiaries have established an employees' defined contribution pension plan.
In addition to the above, one domestic consolidated subsidiary participates in a small- and medium-sized enterprise mutual aid plan and a multi-employer pension plan covering all of its employees. In the multi-employer pension plan's pension assets at fair value amounted to ¥1,669 million ($67,217 thousand) of pension assets at fair value at 31st March, 2008. The portion of these assets belonging to the subsidiary could not be reasonably calculated.
The required contribution to the multi-employer pension plan and a small- and medium-sized enterprise mutual aid plan during the year ended 31st March, 2008 is recognized as retirement benefit expenses.
Effective the year ended 31st March, 2008, the Company and its domestic consolidated subsidiaries have adopted Partial Amendments to Accounting Standard for Retirement Benefits (Part 2).

The retirement benefit expenses for the years ended 31st March, 2008 and 2007 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Contributions to the pension plan	**¥ 838**	¥ 769	$ 8,364
Contributions to a small- and medium-sized enterprise mutual aid plan	**10**	—	100
Contributions to the multi-employer pension plan	**36**	—	359
Total	**¥ 884**	¥ 769	$ 8,823

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

The weighted-average interest rates on short-term bank loans were 1.36% and 1.83% at 31st March, 2008 and 2007, respectively.
For effective financing purposes, the Company concluded line-of-credit agreements with three banks and the status of these at 31st March, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2007**	**2008**
Lines of credit	**¥ 40,000**	¥ 30,000	$ 399,241
Short-term loans utilized	–	–	–
Available credit	**¥ 40,000**	¥ 30,000	$ 399,241

For effective financing purposes, a domestic consolidated subsidiary concluded committed line-of-credit agreements with two banks and the status of such agreements at 31st March, 2008 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2008	**2008**
Committed lines of credit	**¥ 1,200**	$ 11,977
Short-term loans utilized	**696**	6,947
Available credit	**¥ 504**	$ 5,030

Long-term debt at 31st March, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	**2007**	**2008**
Zero coupon yen convertible bonds with stock acquisition rights due 2013	**¥ 2,583**	¥ 3,920	$ 25,781

The aggregate annual maturities of long-term debt subsequent to 31st March, 2008 are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2009	**¥ –**	$ –
2010	–	–
2011	–	–
2012	–	–
2013	**2,583**	25,781
2014 and thereafter	–	–
	¥ 2,583	$ 25,781

On 13th June, 2005, the Company issued ¥11,615 million 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
Principal amount of bonds in the aggregate	¥11,615 million
Shares issued upon exercise of stock acquisition rights	¥9,006 million
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 taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.49% for the years ended 31st March, 2008 and 2007. The overseas consolidated 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, 2008 and 2007 as a percentage of income before income taxes and minority interests is as follows:

	2008	2007
Statutory tax rate	**40.49%**	40.49%
Increase (decrease) in income taxes resulting from:		
Reversal of valuation allowance	**1.23**	(22.87)
Permanent non-deductible expenses	**0.94**	0.85
Elimination of unrealized gain and loss on inventories	—	(2.97)
Permanently non-taxable income	**(0.19)**	(0.27)
Per capita portion of inhabitants' taxes	**0.21**	0.30
Temporary differences relating to investments in subsidiaries	**0.53**	1.72
Tax credit	**(1.52)**	—
Prior year income taxes	**0.19**	—
Other	**(0.17)**	(1.24)
Effective tax rates	**41.71%**	16.01%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at 31st March, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2007**	**2008**
Current			
Deferred tax assets (reflected in current assets):			
Inventories	**¥ 491**	¥ 286	$ 4,901
Elimination of unrealized gain and loss on inventories	**1,306**	599	13,035
One-time write-off applied to assets	**—**	227	—
Accrued enterprise taxes	**780**	315	7,785
Other	**717**	461	7,157
Deferred tax assets, subtotal	**3,294**	1,888	32,878
Less: valuation allowance	**(13)**	(6)	(130)
Deferred tax assets, total	**¥ 3,281**	¥ 1,882	$ 32,748
Deferred tax liabilities (reflected in current liabilities):			
Other	**¥ (79)**	¥ (164)	$ (788)
Deferred tax liabilities, total	**¥ (79)**	¥ (164)	$ (788)
Non-current			
Deferred tax assets (reflected in investments and other assets):			
Inventories	**¥ 383**	¥ 326	$ 3,823
Loss on devaluation of listed equity securities	**1,248**	1,029	12,456
Depreciation	**759**	677	7,576
One-time write-off applied to assets	**181**	—	1,806
Allowance for doubtful receivables	**15**	17	150
Unrealized loss on derivative instruments	**699**	913	6,977
Other	**97**	120	968
Deferred tax assets, subtotal	**3,382**	3,082	33,756
Less: valuation allowance	**(1,708)**	(1,481)	(17,048)
Deferred tax assets, total	**1,674**	1,601	16,708
Offset of deferred tax liabilities	**(559)**	(1,436)	(5,579)
Deferred tax assets, net	**¥ 1,115**	¥ 165	$ 11,129
Deferred tax liabilities (reflected in long-term liabilities):			
Deferred capital gain on property	**¥ (3)**	¥ (15)	$ (30)
Reserve for depreciation for tax purposes	**(113)**	(116)	(1,128)
Unrealized holding gain on securities	**(443)**	(1,693)	(4,421)
Other	**(643)**	(456)	(6,418)
Deferred tax liabilities, total	**(1,202)**	(2,280)	(11,997)
Offset of deferred tax assets	**559**	1,436	5,579
Deferred tax liabilities, net	**¥ (643)**	¥ (844)	$ (6,418)
Deferred tax liabilities on land revaluation reserve (reflected in long-term liabilities):			
Deferred tax liabilities on land revaluation reserve	**¥ (1,699)**	¥ (1,699)	$ (16,957)

11. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of capital stock. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.
The legal reserve of the Company, which is included in retained earnings, amounted to ¥2,650 million ($26,450 thousand) at 31st March, 2008 and 2007, respectively.

Common stock and treasury stock
Movements in common stock and treasury stock for the years ended 31st March, 2008 and 2007 are summarized as follows:

	Number of Shares			
	2008			
	31st March, 2007	Increase	Decrease	31st March, 2008
Common stock	100,366,274	988,338	4,879,300	96,475,312
Treasury stock	4,333,935	4,907,064	6,545,107	2,695,892

Stock acquisition rights
The exercisable period for stock options which were issued as stock acquisition rights has not begun.

	Number of Shares			
	2007			
	31st March, 2006	Increase	Decrease	31st March, 2007
Common stock	96,364,872	4,001,402	—	100,366,274
Treasury stock	4,454,518	1,005,408	1,125,991	4,333,935

Stock option plans
The Company has certain stock option plans. The following stock option plans for certain executive officers, employees of the Company and certain consolidated subsidiaries were approved at annual general meetings of the shareholders.

The stock option plans of the Company are summarized as follows:

Date of approval	Number of options granted	Exercisable period
27th June, 2002	2,972,000	From 1st July, 2004 up to and including 30th June , 2007
25th June, 2004	1,102,000	From 1st July, 2006 up to and including 30th June, 2009
29th June, 2005	2,798,000	From 1st July, 2007 up to and including 30th June, 2010
28th June, 2007	1,180,000	From 1st July, 2009 up to and including 30th June, 2012

Movements in stock subscriptions rights and exercise price are summarized as follows:

	Stock subscription rights granted on 27th June, 2002 as a stock option plan	Stock subscription rights granted on 25th June, 2004 as a stock option plan	Stock subscription rights granted on 29th June, 2005 as a stock option plan	Stock subscription rights granted on 28th June, 2007 as a stock option plan
Stock subscription rights which have not been vested				
Outstanding as of 31st March, 2007	—	—	2,776,000	—
Granted	—	—	—	1,180,000
Forfeited	—	—	—	80,000
Vested	—	—	2,776,000	—
Outstanding as of 31st March, 2008	—	—	—	1,100,000
Stock subscription rights which have been vested				
Outstanding as of 31st March, 2007	117,100	311,400	—	—
Vested	—	—	2,776,000	—
Exercised	111,100	119,000	1,435,400	—
Forfeited	6,000	—	2,000	—
Outstanding as of 31st March, 2008	—	192,400	1,338,600	—
Exercise price (Yen)	¥ 1,088	¥ 957	¥ 1,259	¥ 4,040
Weighted average exercise price (Yen)	3,480	3,079	2,880	—
Weighted average fair value per stock at the granted date (Yen)	—	—	—	866
Exercise price (U.S. dollars)	$10.86	$9.55	$12.57	$40.32
Weighted average exercise price (U.S. dollars)	34.73	30.73	28.75	—
Weighted average fair value per stock at the granted date (U.S. dollars)	—	—	—	8.64

The exercise 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 ¥2,662 million ($26,570 thousand) and ¥3,089 million at 31st March, 2008 and 2007, respectively.

13. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	**2007**	**2008**
Research and Development Costs	**¥4,550**	¥3,553	$45,414

14. Contingent Liabilities

At 31st March, 2008, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
	2008	**2008**
Guarantees of lease payments by customers	**¥2,339**	$23,346

15. Derivative Financial Instruments

To avoid the risk arising from 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 its 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 arising from fluctuation in foreign currency exchange rates within the scope of the needs arising from the underlying items hedged.

The estimated fair value of the derivatives positions outstanding at 31st March, 2008 and 2007 is summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2008			**2007**			**2008**		
	Contract value (notional principal amount)	Estimated fair value	Unrealized gain (loss)	Contract value (notional principal amount)	Estimated fair value	Unrealized loss	Contract value (notional principal amount)	Estimated fair value	Unrealized gain (loss)
Forward foreign exchange contracts Selling:									
U.S. dollars	**¥ 6,051**	**¥ 5,371**	**¥ 680**	¥ 3,033	¥ 2,985	¥ (48)	$ 60,395	$ 53,608	$ 6,787
Euro	**9,118**	**9,638**	**(520)**	7,343	7,048	(295)	91,007	96,197	(5,190)
Pound sterling	—	—	—	454	437	(17)	—	—	—
Total	**¥ 15,169**	**¥ 15,009**	**¥ 160**	¥ 10,830	¥ 10,470	¥ (360)	$ 151,402	$ 149,805	$ 1,597

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, 2008 and 2007, which would have been reflected in the accompanying consolidated 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		
	2008			**2007**			**2008**		
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	**¥9,384**	**¥3,739**	**¥5,645**	¥9,142	¥2,844	¥6,298	$93,662	$37,319	$56,343

Lease payments of the Company and its consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥1,735 million ($17,317 thousand) and ¥1,288 million for the years ended 31st March, 2008 and 2007, 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 ¥1,624 million ($16,209 thousand) and ¥1,218 million for the years ended 31st March, 2008 and 2007, respectively.

Interest expense for finance leases amounted to ¥152 million ($1,517 thousand) and ¥137 million for the years ended 31 March, 2008 and 2007, respectively under the principle method mentioned above.

Future minimum lease payments subsequent to 31st March, 2008 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
	2008	**2008**
Year ending 31st March,		
2009	**¥ 1,412**	$ 14,093
2010 and thereafter	**4,337**	43,288
Total	**¥ 5,749**	$ 57,381

(2) **Operating leases:**

Future minimum lease payments subsequent to 31st March, 2008 under operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2008	**2008**
Year ending 31st March,		
2009	**¥ 1,033**	$ 10,310
2010 and thereafter	**10,247**	102,276
Total	**¥ 11,280**	$ 112,586

17. Amounts per Share

Amounts per share at 31st March, 2008 and 2007 and for the years then ended were as follows:

	Yen		U.S. dollars
	2008	**2007**	**2008**
Amounts per share:			
Net assets	**¥1,388.52**	¥1,358.82	$13.86
Net income:			
Basic	**165.91**	174.78	1.66
Diluted	**161.99**	166.12	1.62
Cash dividends	**50.00**	44.00	0.50

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 fiscal years.

18. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of computerized numerically-controlled lathes, vertical-type and horizontal-type machining centers, multi-axis machines and grinding machines 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, 2008 and 2007 has been omitted.

The geographical segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2008 and 2007 is outlined as follows:

	Millions of yen						
	2008						
	Japan	The Americas	Europe	Asia and Oceania	Total	Eliminations	Consolidated
Sales to third parties	**¥ 102,427**	**¥ 37,131**	**¥ 58,539**	**¥ 4,163**	**¥ 202,260**	**¥ –**	**¥ 202,260**
Inter-group sales	**82,051**	**836**	**1,112**	**1,539**	**85,538**	**(85,538)**	**–**
Net sales	**184,478**	**37,967**	**59,651**	**5,702**	**287,798**	**(85,538)**	**202,260**
Operating expenses	**154,212**	**37,492**	**57,252**	**5,694**	**254,650**	**(83,693)**	**170,957**
Operating income	**¥ 30,266**	**¥ 475**	**¥ 2,399**	**¥ 8**	**¥ 33,148**	**¥ (1,845)**	**¥ 31,303**
Total assets	**¥ 147,150**	**¥ 15,199**	**¥ 34,853**	**¥ 3,197**	**¥ 200,399**	**¥ (26,129)**	**¥ 174,270**

	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

	Thousands of U.S. dollars						
	2008						
	Japan	The Americas	Europe	Asia and Oceania	Total	Eliminations	Consolidated
Sales to third parties	$1,022,327	$ 370,606	$ 584,280	$ 41,551	$2,018,764	$ –	$2,018,764
Inter-group sales	818,954	8,344	11,099	15,361	853,758	(853,758)	–
Net sales	1,841,281	378,950	595,379	56,912	2,872,522	(853,758)	2,018,764
Operating expenses	1,539,196	374,209	571,434	56,832	2,541,671	(835,343)	1,706,328
Operating income	$ 302,085	$ 4,741	$ 23,945	$ 80	$ 330,851	$ (18,415)	$ 312,436
Total assets	$1,468,710	$ 151,702	$ 347,869	$ 31,909	$2,000,190	$ (260,795)	$1,739,395

As described in Notes 3, in accordance with the 2007 revision of the Corporate Tax Law of Japan, effective 1st April, 2007, the method of depreciation of property, plant and equipment acquired on or after 1st April, 2007 has been changed to the procedure stipulated in the revised law. As a result, operating income for Japan segment decreased by ¥232 million ($2,316 thousand) for the year ended 31st March, 2008 from the corresponding amounts which would have been recorded under the previous method.

Furthermore, effective 1st April, 2007, property, plant and equipment acquired on or prior to 31st March, 2007 are depreciated based on the difference between the equivalent of 5% of acquisition cost and memorandum value over a period of 5 years by the straight-line method once they have been fully depreciated to the limits of their respective depreciable amounts. As a result, operating income for Japan segment decreased by ¥205 million ($2,046 thousand) for the year ended 31st March, 2008 from the corresponding amounts which would have been recorded under the previous method.

The above changes in method of accounting had no effect on the above geographical segments other than on the Japan segment for the year ended 31st March, 2008.

Effective the year ended 31st March, 2008, due to a revision to segment classification, sales for Turkey, that were included in Europe for the year ended 31st March, 2007, have been included in Asia and Oceania.

The effect of this change in the classification of geographical segment information was immaterial for the year ended 31st March, 2008.

Overseas sales, which include export sales of the Company and sales (other than exports to Japan) of the overseas consolidated subsidiaries, totaled ¥125,544 million ($1,253,059 thousand) and ¥99,729 million, or 62.1% and 57.9% of consolidated net sales, for the years ended 31st March, 2008 and 2007, respectively.

Effective the year ended 31st March, 2008, due to a revision to segment classification, sales for Turkey, Israel and Russia, that were included in Europe for the year ended 31st March, 2007, have been included in Asia and Oceania.

The effect of this change in the classification of overseas sales information was immaterial for the year ended 31st March, 2008.

19. Subsequent Event

The following distribution of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2008, was approved at the annual general meeting of the shareholders of the Company held on 18th June, 2008:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥25.00 (U.S.$0.25) per share	**¥2,345**	$23,406

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, 2008 and 2007, 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, 2008 and 2007, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2008 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

Osaka, Japan
18th June, 2008

Stock Information (As of 31st March, 2008)

> MORI SEIKI CO., LTD.

· Foundation
26th October, 1948

· Fiscal Year End
31st March

· Number of Shares Issued
96,475,312 shares

· Stock Exchange Listings
Tokyo and Osaka Stock Exchanges

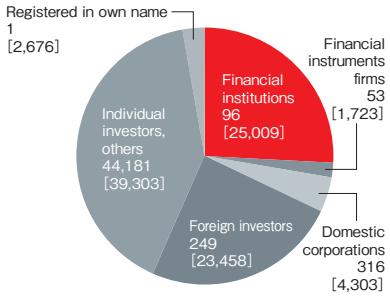
· Number of Shares Outstanding
157,550,000 shares

· Number of Shareholders
44,896

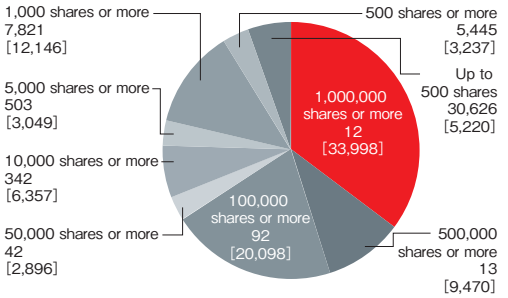
> Major Shareholders

Shareholder Name	Number of shares held (1,000 shares)	Voting Rights (%)
Japan Trustee Services Bank, Ltd. (Trust account)	5,662	6.04
The Master Trust Bank of Japan, Ltd. (Trust account)	5,155	5.50
Masahiko Mori	4,615	4.92
State Street Bank and Trust Company	3,168	3.38
The Nanto Bank, Ltd.	2,920	3.11
JPMorgan Chase Bank 380084	2,689	2.87
MORI SEIKI CO., LTD.	2,676	—
Chieko Mori	2,287	2.44
Masaru Mori	1,822	1.94
Kazuhiko Mori	1,000	1.06

> Distribution by shareholders [Units: 1,000 shares]



> Distribution by number of shares [Units: 1,000 shares]



> Contact for investors

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Phone: +81-(0)52-587-1830

> Administration of register of shareholders

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

1-1-5 Dojimahama, Kita-ku, Osaka 530-0004, 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
The bank of New York Mellon
Tel: +1 (201) 680-6825
U.S. toll free: 888-269-2377 (888-BNY-ADRS)
URL: http://www.adrbnymellon.com
(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

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