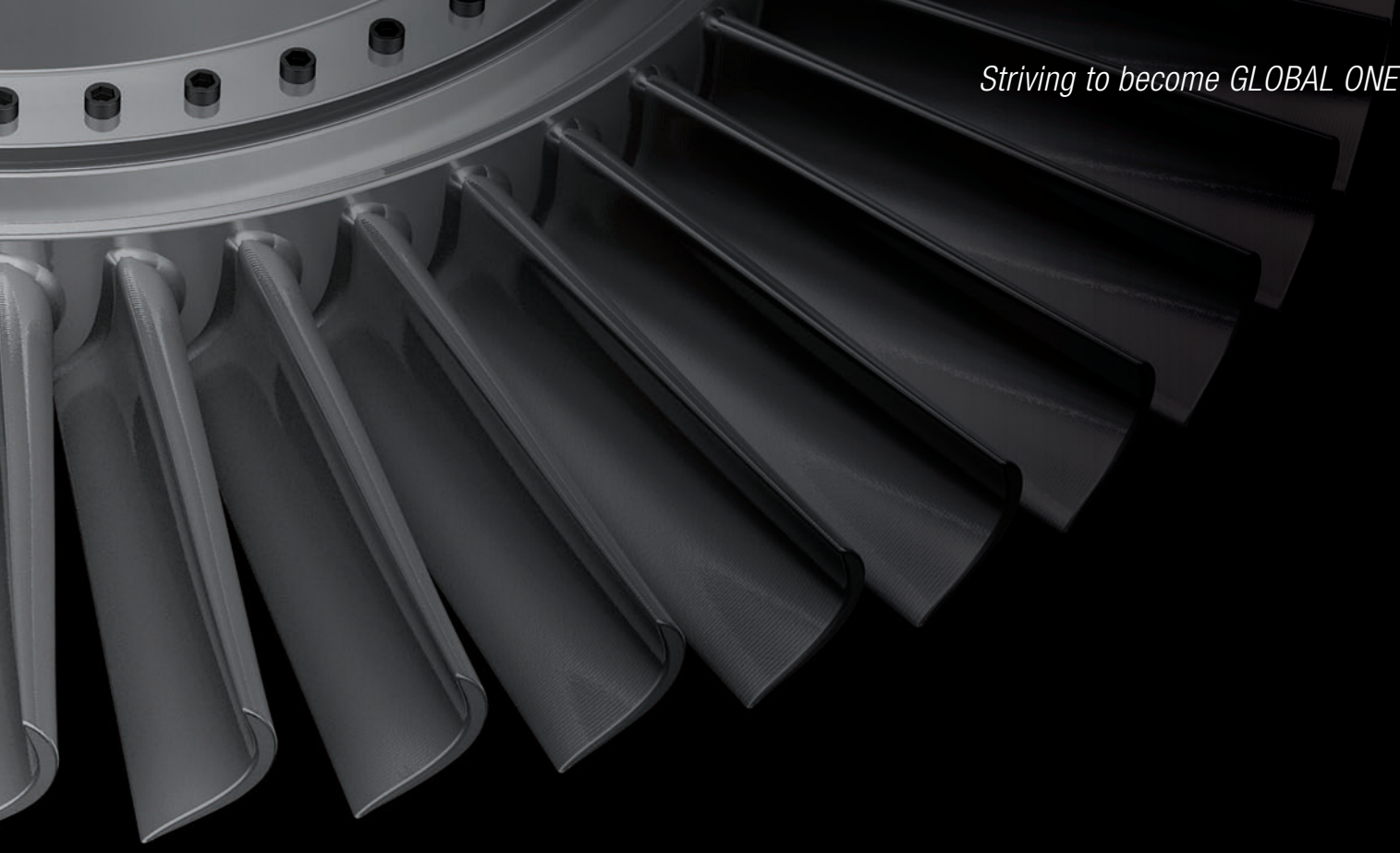
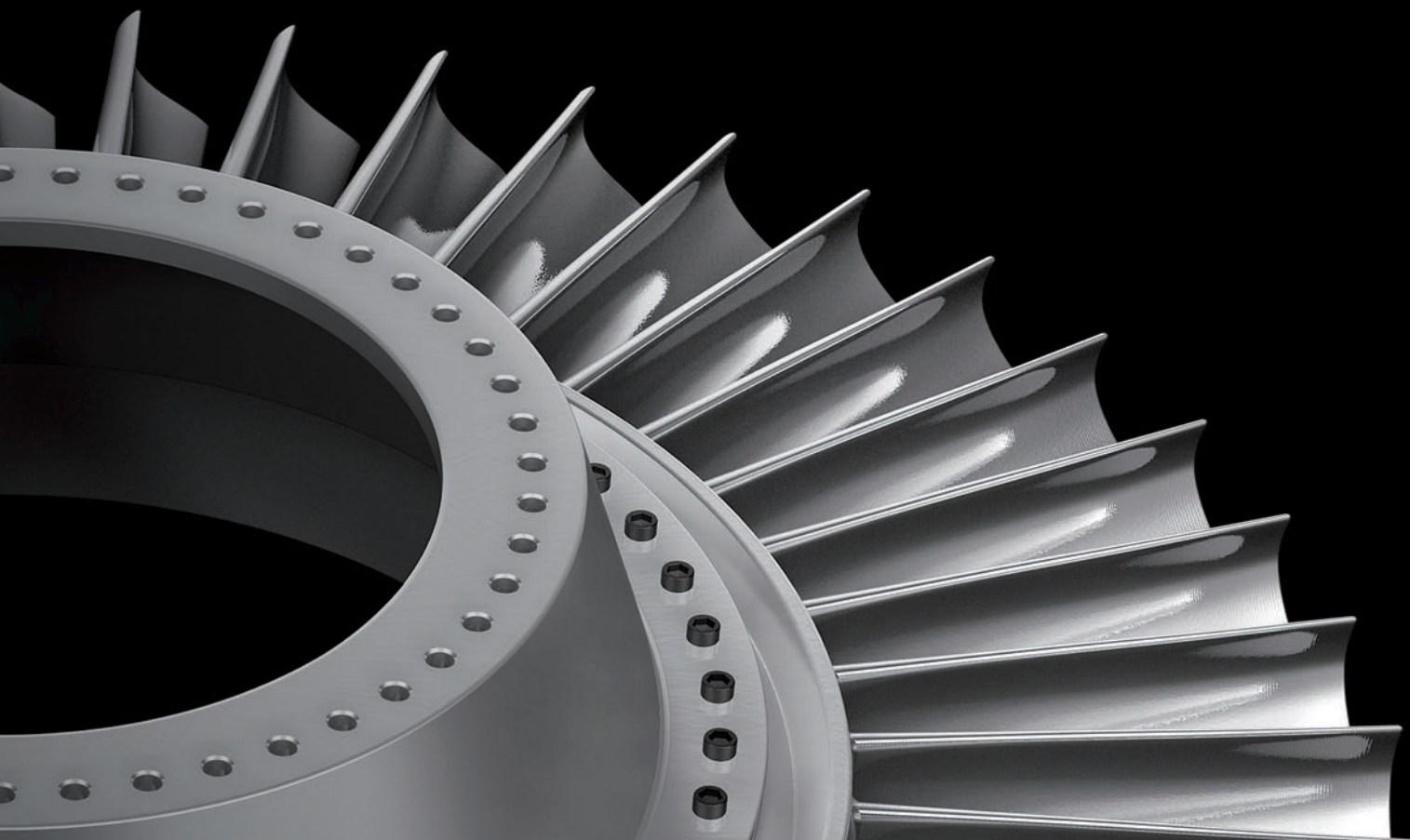
Striving to become GLOBAL ONE



ANNUAL REPORT 2009

FISCAL YEAR ENDED MARCH 31, 2009

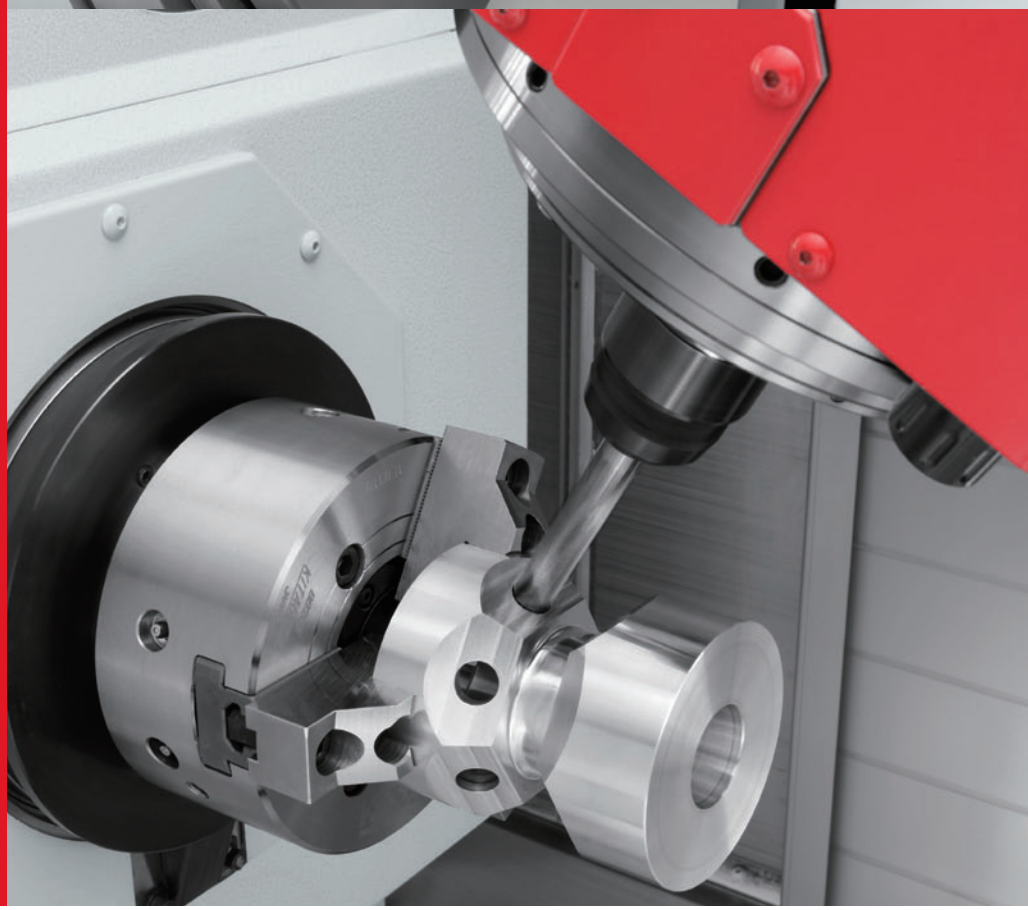
MORI SEIKI
THE MACHINE TOOL COMPANY



NMV3000 DCG

ANNUAL REPORT 2009

NT1000



Striving to become **GLOBAL ONE**

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

Since its founding in 1948, Mori Seiki has supported the starting point for manufacturing by utilizing its high level of technical skills to integrate creative, cutting edge ideas into its products.

In order to meet the expectations of all stakeholders, including customers and shareholders, Mori Seiki will provide first class products and service as a leading machine tool company.

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, 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.

To the Shareholders

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

We are pleased to present the 61th Annual Report (from 1st April, 2008 to 31st March, 2009) of the Mori Seiki Group.

Mori Seiki manufactures premier machine tools, and is expanding widely throughout the world. We take pride in the fact that our machine tools enable our customers to increase their production efficiency and improve their quality and accuracy.

Beginning in the fall of 2008, the world wide financial crisis has adversely affected our business results. Due to an unprecedented drop in demand, we have seen some months where the value of orders declined 80% from the same month the previous year. In this environment, our net sales for FY 2008 was 157.2 billion yen (down 22%), our operating income was 5.9 billion yen (down 81%) and our net loss was 2.2 billion yen. We are predicting that these poor economic conditions have bottomed out because we are gradually starting to see prospects for recovery as customers of all sizes and from all industries and regions are starting to consider their next investment in equipment. There will be demands for machines that will dramatically improve productivity, and demand to replace aging machines. We expect to see gradual recovery beginning in the second half of this fiscal year, followed by a revival of the economy from the next fiscal year going forward. Because of this, we are looking ahead to the period when demand will be increasing by focusing on the development of new models and improving the skill levels of our employees. Under the present conditions, we expect to achieve net sales of 80 billion yen (down 63%) in FY 2009 and to see an operating loss of 12 billion yen and a net loss of 12 billion yen. It is a very challenging year, but we are taking this opportunity to develop a stronger and leaner management base.

As a part of seizing opportunities to improve, we have entered into two new business ventures. First, we have commenced a business and capital collaboration with the German company GILDEMEISTER AG. With this collaboration two of the world's largest manufacturers are working together, to enhance our dominant presence in the machine tool industry. We can make mutual progress in streamlining our operations, including joint sales, purchasing, and development, with the aim being to supply good machines and service to the customers at a reasonable price.

We have also acquired a new subsidiary: BUG Inc., a software development company with many system engineers, which will be working with us on the development of software to be incorporated in Mori Seiki machines.

The Mori Seiki Group is making progress with the second medium-term management plan "PQR555", whose three-year period of implementation runs 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".

The Mori Seiki Group is also increasing the corporate value for the benefit of the shareholders, who understand that machine tools are the representative industrial goods that support manufacturing throughout the world. With regard to distribution of profits, our position is that we are placing priority on strengthening the competitiveness in the market through investment in development, centering on the new products and new technology that will be the core competence, consolidation of our production equipment, and personnel development by comprehensively considering our future business plan, business results, and financial status. With regard to the retained earnings, we are putting them to practical use to strengthen our competitiveness in the market through investment in development centering on the new products and new technology that will be the core competence and consolidation of our production equipment. As for dividends on profits, we are planning to pay an interim dividend of 20 yen per share for the term ending March 2009 and an end-of-term dividend of 20 yen to give 40 yen for the year, and we are planning to pay an interim dividend of 10 yen for the term ending March 2010 and an end-of-term dividend of 10 yen, giving 20 yen for the year.

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.

Targets and Issues

Business and other risks

The following are among the factors that can have an important influence on the judgment of investors. Note that the factors stated in this report that relate to the future are those that the Mori Seiki Group has made judgment on at the end of the term under review.

①The economic conditions in key markets (Japan, the Americas, Europe and Asia)

The percentage composition by region of the Mori Seiki Group's consolidated net sales for the term under review is 35.1% for Japan, 22.1% for the Americas, 29.5% for Europe, and 13.3% for Asia and Oceania. In cases where demand for Mori Seiki products and services decline due to deterioration of the economic trend in any of the regions where the Mori Seiki Group sells and provides its products and services, there is a possibility that the Group's business results may be adversely affected.

②Sudden fluctuations in demand for investment in plant and equipment

It is said that the machine tool industry is by nature easily influenced by the ups and downs of the economy, but the economies of emerging countries like those of Asia, the BRICs (Brazil, Russia, India and China) and central Europe are expanding. The machine tool markets in Japan, the Americas, and Asia and Oceania have also continued to experience stable growth over the medium and long term, but if for some reason, like the financial crisis that originated in the United States in the term under review, there is a drop in demand for investment in plant and equipment in all regions simultaneously, it is possible that the business results of the Mori Seiki Group will be adversely affected.

③Significant changes in the exchange rate against the yen of the U.S. dollar, Euro, etc.

The business activities, business results and financial status of the Mori Seiki Group have been adversely affected by fluctuations in exchange rates. Fluctuations in exchange rates have their effect on the values on conversion to Japanese yen of assets and liabilities arising out of the Mori Seiki Group's foreign currency denominated transactions. Fluctuations in exchange rates also affect the prices of products and services, and our sales figures, where the transactions are denominated in foreign currency. In order to reduce these effects, we are attempting to achieve a balance among the domestic and Asian transactions denominated in yen, American transactions denominated in U.S. dollars, and the European transactions denominated in euros. Regardless, it is possible that the activities, business results and financial status of the Mori Seiki Group will be adversely affected.

④Significant changes in the cost of natural resources or raw materials

If we have to face a situation where prices of raw materials have soared significantly in excess of expectations, the business results of the Mori Seiki Group may be adversely affected.

⑤Security trade management

Important changes in regulations and laws in many of the countries and regions in which Mori Seiki operates may have an effect on the business activities, business results and financial status of the Mori Seiki Group. The machine tools that constitute the core business of the Mori Seiki Group are classified as controlled freight under the laws and regulations relating to export in each country and are subject to control under the framework of international export management. If this control is strengthened due to changes in the international situation, it may have adverse effects on the business activities, business results and financial status of the Mori Seiki Group.

(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.

(3) Issues the company must address

In order that we can achieve our sales targets without being greatly affected by changes in the environment for orders and exchange rate fluctuations, we are endeavoring to further strengthen our corporate constitution through our second medium-term management plan "PQR555", which is being implemented over the three years from FY 2008 to FY 2010.

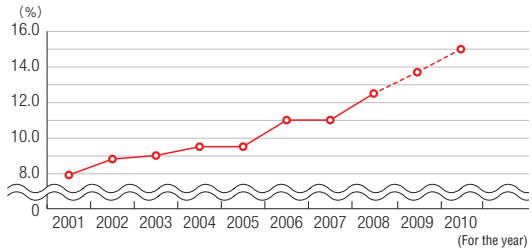
State of Progress with the Medium-term Management Plan

The Group has been promoting our second medium-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 our 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 for 15% of share in the total amount of machine tool orders as reported by the Japan Machine Tool Builders’ Association.
While pursuing stable growth in the mature markets of Japan, Europe, and the Americas, our goal for increased business activity in emerging markets such as BRICs is 25% growth. We are also attempting to expand our share in strategic industries such as the automotive industry, aircraft industry, energy industry, and precision machinery industry.
To this end, along with establishing new branches and expanding our bases in areas where there is excellent demand, we are continuously developing effective and positive sales activities by thoroughly analyzing the customers’ scale, fields of business and demand.

Year-on-year change in Mori Seiki’s share of orders of the Japan Machine Tool Builders’ Association



(2) Strengthening profitability

To further increase profitability, we are pursuing to reduce cost of sales and selling, general and administrative expense, and aiming for a consolidated cost of sales ratio of 55% as well as a consolidated selling, general and administrative expense ratio of 25%. To achieve these goals, we have been striving to reduce cost at the design stage and to increase production and logistical efficiency. For each expense we try to achieve the goals indicated above by setting a target, a controlling budget and actual costs.

(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 constantly improving quality.
With respect to risk management, we emphasize strict observance and compliance to 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 management quality.

Mori Seiki's Global Network (Japan/Europe/Americas/Asia, Oceania, China and Strategic Growth Area)

Japan

Office/Campus			
Nagoya Head Office	Tokyo Branch	Nara Campus No.1 Plant	Nara Campus No.2 Plant
Iga Campus	Chiba Campus	Mori Seiki University	

Japan Technical Centers			
Hokkaido Technical Center	Akita Technical Center	Sendai Technical Center	Yamagata Technical Center
Niigata Technical Center	Nagaoka Technical Center	Koriyama Technical Center	Mito Technical Center
Utsunomiya Technical Center	Kita Kanto Technical Center	Saitama Technical Center	Tokyo Technical Center
MS Project Center	Hachioji Technical Center	Yokohama Technical Center	Yamanashi Technical Center
Nagano Technical Center	Matsumoto Technical Center	Shizuoka Technical Center	Hamamatsu Technical Center
MF Project Center	Toyama Technical Center	Kanazawa Technical Center	Anjo Technical Center
MI Project Center	Nagoya Technical Center	Gifu Technical Center	Mie Technical Center
Keiji Technical Center	Osaka Technical Center	Minami Osaka Technical Center	Himeji Technical Center
Okayama Technical Center	Yonago Technical Center	Takamatsu Technical Center	Ehime Technical Center
Hiroshima Technical Center	Fukuoka Technical Center	Kumamoto Technical Center	

Affiliated Companies		
MORI SEIKI TECHNO, LTD	AKISHINO MOLD LABORATORY, LTD	TAIYO KOKI CO., LTD

Europe

MORI SEIKI G.m.b.H.
Stuttgart

MORI SEIKI Deutschland Sales & Service (Division of MORI SEIKI GmbH)		
Stuttgart	Frankfurt	München
Hamburg	Düsseldorf	Chemnitz

MORI SEIKI INTERNATIONAL SA (DIXI)
Head Office

MORI SEIKI (UK) LTD.	
Head Office	Birmingham

TOBLER S.A.S.
Head Office

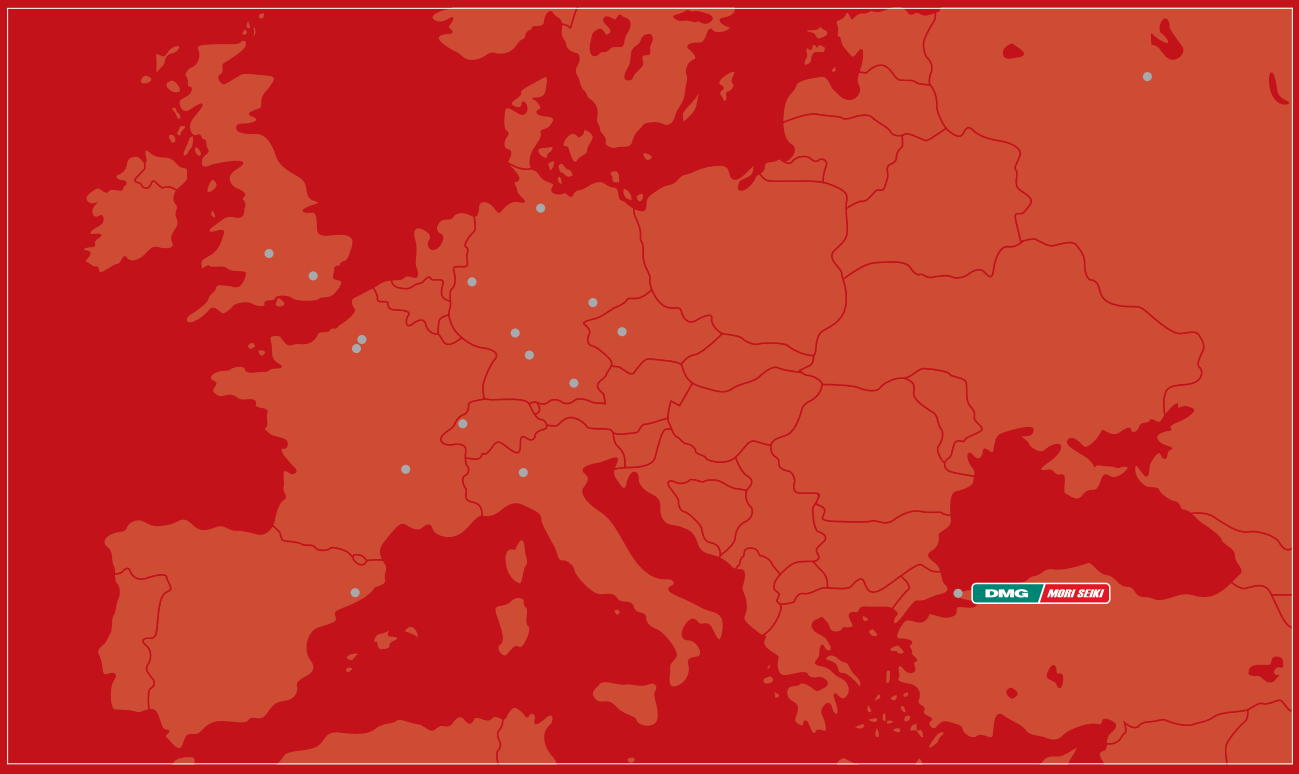
MORI SEIKI FRANCE S.A.S.		
Head Office	MORI SEIKI FRANCE Sud-Est S.A.S.	Prague

MORI SEIKI ITALIANA S.R.L.
Head Office

MORI SEIKI ESPANA S.A.
Head Office

MORI SEIKI MOSCOW LLC
Head Office

MORI SEIKI Istanbul Makina San. ve Tic. Ltd. Sti.
Head Office



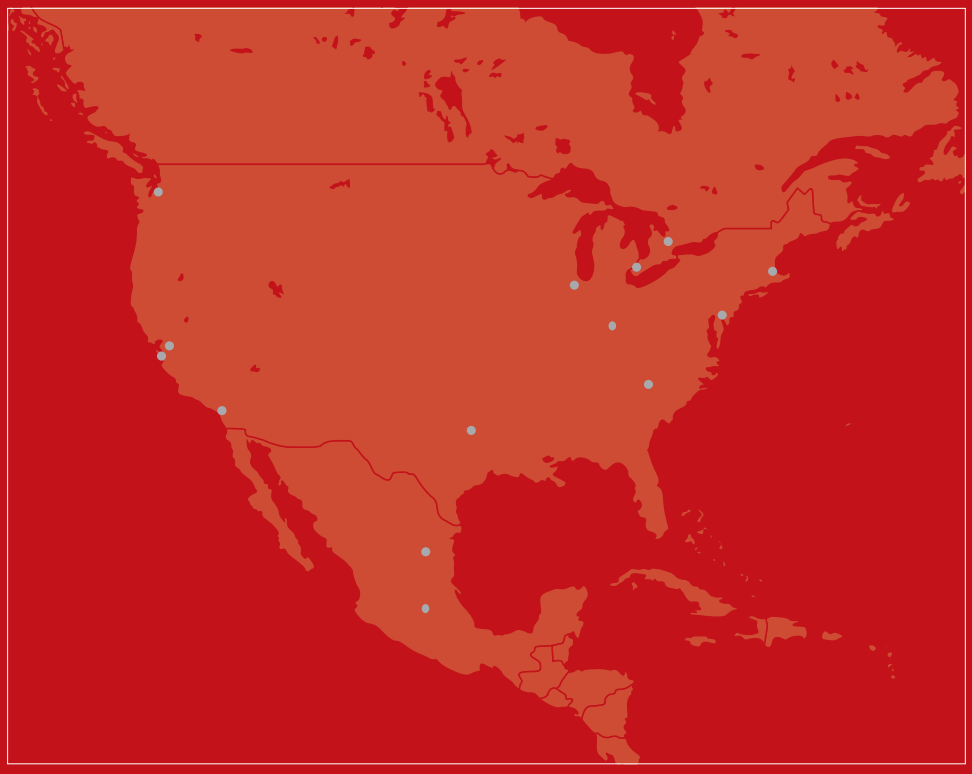
DMG MORI SEIKI ···Joint sales and service centers with Germany's GILDEMEISTER AG

Americas

MORI SEIKI U.S.A., INC.			
Chicago Head Office	Mori Seiki University	Dallas	Los Angeles
San Francisco	Seattle	Detroit	Cincinnati
Boston	New Jersey	Charlotte	

Digital Technology Laboratory Corporation	MORI SEIKI CANADA, LTD.	MORI SEIKI MEXICO, S.A. DE C.V.	
Head Office	Head Office	Head Office	Monterrey

MORI SEIKI BRASIL LTDA.	
Head Office	Curitiba



Asia, Oceania, China and Strategic Growth Area

MORI SEIKI SINGAPORE PTE LTD.
Head Office

MORI SEIKI MALAYSIA Sdn. Bhd.
Head Office

MORI SEIKI MANUFACTURING (THAILAND) CO., LTD.	
Head Office	Bangna

MORI SEIKI (SHANGHAI) CO., LTD.			
Shanghai	Shanghai Engineering Center	Shanghai Parts Center	Beijing
Tianjin	Dalian	Shenzhen	Chongqing
Guangzhou	Suzhou	Wuhan	Qingdao

MORI SEIKI (TAIWAN) CO., LTD.
Head Office

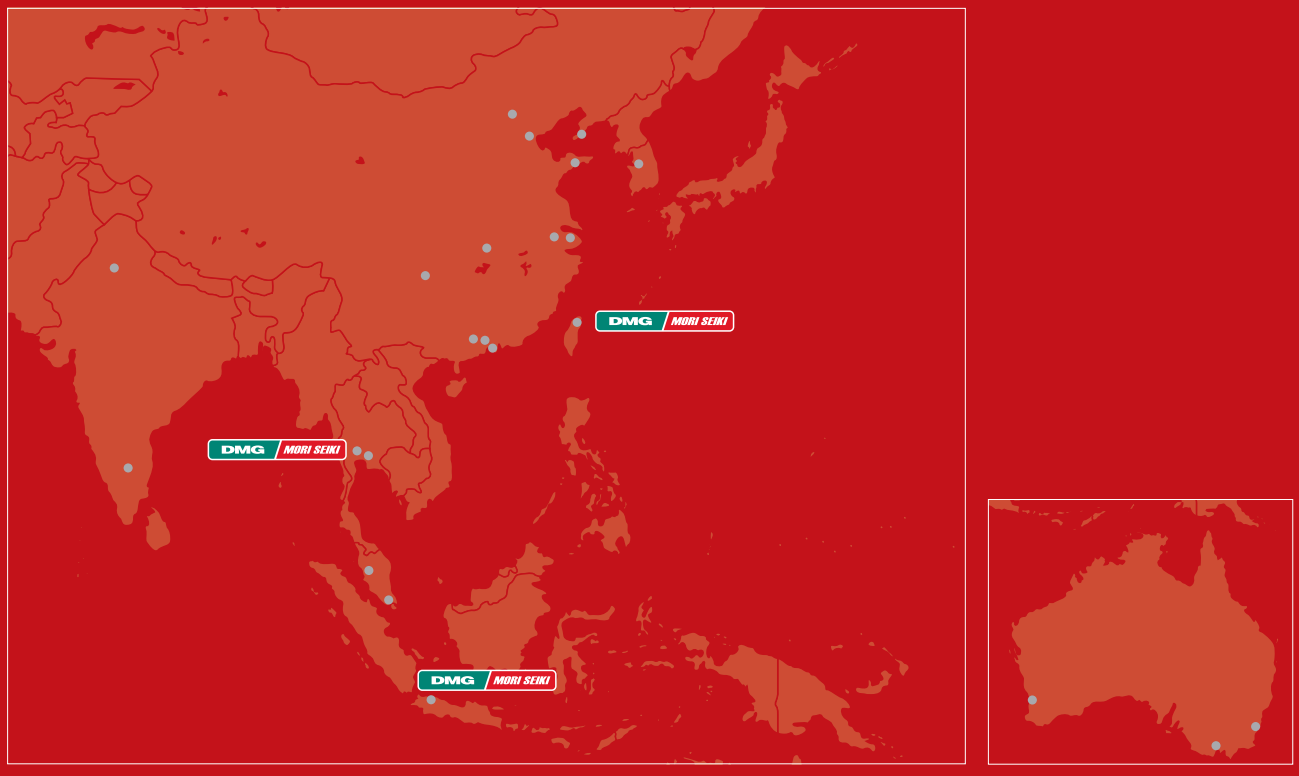
MORI SEIKI HONG KONG LTD.
Head Office

MORI SEIKI KOREA CO., LTD.
Head Office

PT. MORI SEIKI INDONESIA
Head Office

MORI SEIKI India Private LTD.	
Head Office	Bangalore

MORI SEIKI AUSTRALIA PTY LTD.		
Melbourne	Sydney	Perth

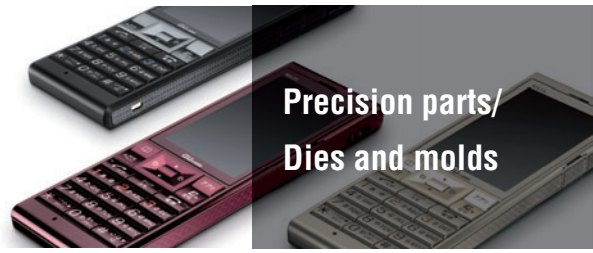


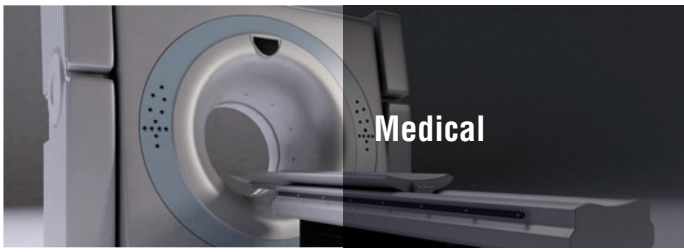
DMG MORI SEIKI · · · Joint sales and service centers with Germany's GILDEMEISTER AG

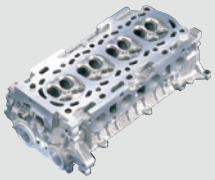
Products Created with Machine Tools

Machine tools which enrich your life

Most of the components, dies and molds which make up many industrial products such as automobiles, trains and mobile phones that we take for granted in our daily lives are manufactured by 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.






Cylinder head

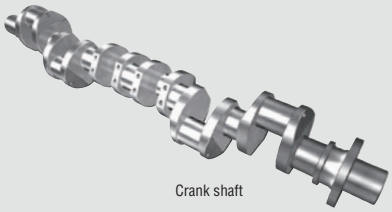

Cylinder block


Transmission casing


Aluminum wheel

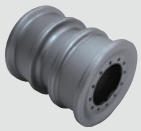

Cam shaft

Many of the components for cars and motorcycles so familiar to us are produced by machine tools. Of all industries, it is the automobile sector where machine tools are most heavily involved.


Crank shaft


Screw propeller


Construction machinery component


Construction machinery component

The large components for the bulldozers and power shovels that build our cities, and for the ships that are capable of transporting large quantities of people and goods, are also produced by machine tools.


Blisk

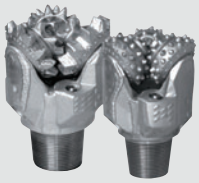

High-pressure compressor housing


Turbine blade

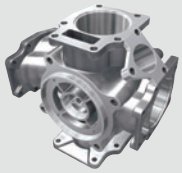

Landing gear

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.


Turbine blade


Rock bits


Bit


Flow meter pump

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


Housing (vacuum pump)

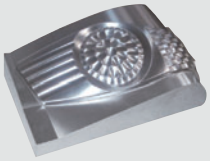

Slide sleeve for optical communications ①


Copier part

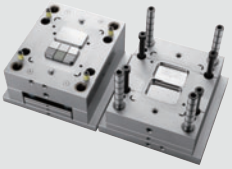

Body tube

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


Mold for constant velocity ball joint


Mold core for a tail lamp


Mobile phone mold

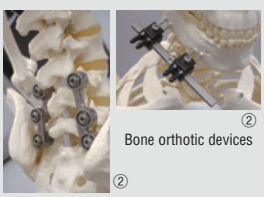

Mold for a pill case

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.


High-speed spindle head for dentistry


Hip joint


Artificial joint


Bone orthotic devices ②

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.

Photos provided by: ① Tepis ② EBI Medical, Inc.

Mori Seiki's Products

Machine tools, which are production assets that make up the foundation of industry, are used to machine precision parts in a diverse range of industries including automobiles, aerospace, construction machinery, electrical appliances, information devices and more. They are also known as "the machines that make machines (mother machines)". As a general manufacturer of machine tools, Mori Seiki boasts a rich line-up that is the foremost in the industry. We do, of course, make improvements to the existing models as needed, and we are always delivering high-precision, high-efficiency machines brimming with originality, such as the latest models typified by the N series. These aim to "improve productivity by 30% and double profits", and incorporate basic performance one rank higher than comparable machines. Additionally, we have created a system that can supply customers with even more choice within the group as a whole by welcoming in the prominent grinder manufacturer, Taiyo Koki, and DIXI Machines, a company that has been producing ultra-high-precision machines. We are also developing the conversational programming system, which has complete compatibility with our original standardized operation panel. This year, which marks the tenth anniversary of the launch of the first standardized operation panel, MAPPS, we have announced the fourth generation, MAPPS Ⅳ, which is the industry's best new high-performance operating system. With exceptional operability, tremendously improved processing speed, and installation of CAM software, people can get a real sense that Mori Seiki's machine tools have evolved dramatically.

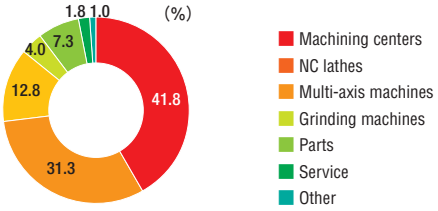
Net sales by product (1st April, 2008 to 31st March, 2009)

(Millions of yen)

Machining centers	NC lathes	Multi-axis machines	Grinding machines	Parts	Service	Other
65,680	49,168	20,165	6,236	11,545	2,846	1,563

Total 157,203

Proportion of sales revenue by product



CNC lathes — Dealing with all kinds of shaft and flange workpieces with varied specifications

The lathe, which is based on the principle of the potter's wheel and mainly machines workpieces from bar materials, is the starting point for Mori Seiki's machine tools. Since we launched our first lathe model in 1968, we have turned out over 100 models of lathes. Their essence is embodied in the NL series of high-rigidity, high-precision CNC lathes. A total of 36 model variations, depending on the size of workpiece and the level of process integration required, has been bought and installed in customers' production sites, making the NL series best-selling machines. In this fiscal year, we have developed the NZL series of 2-turret lathes for machining of large workpieces that can offer several maximum turning diameters. The NZL series, which has turrets installed at upper and lower positions and is capable of continuous machining of 1st and 2nd processes, features options that are ideal for machining workpieces like oil pipes, and these are the optimum models for long, large-diameter workpieces. Another new series of models, the NVL series, comprises large vertical lathes that have the chuck placed facing upward to ensure ease of mounting/dismounting, and stability of large workpieces. While featuring a maximum loading capacity of 8,000 kg, these machines have realized a compact form, answering an increasing need in the market. We have also prepared a range of other machines that give a high return on investment, including general-purpose machines like the CL series which have excellent rigidity despite their simplicity and can easily be equipped with system upgrades like automation; the Dura series with its excellent cost performance; and the NZ-S series which specializes in the machining of small-diameter shaft workpieces.

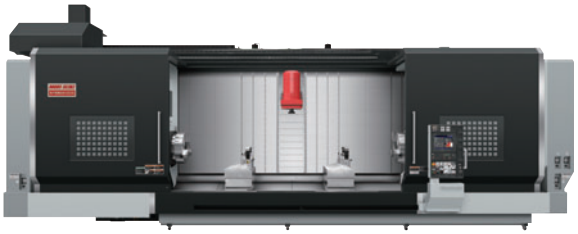
NVL1350

NZL6000CY/2000

NL3000/3000

Multi-axis machines — A new standard for production sites that enables a high level of process integration

The greatest features of the multi-axis machines that meld the turning function of lathes with the milling function of machining centers are a construction with the ultimate in rigidity that we can call an accumulation of original technology, thorough measures against thermal displacement and the equipping of the 3D interference check function as standard. The NT series surpasses machining centers with diverse machining variations, and has become Mori Seiki's representative series as the ultimate integrated mill turn centers. And we have developed the NZ series that can incorporate a maximum of 3 turrets and 2 spindles installed, as the optimum multi-axis turning center for the process integration of mass-produced workpieces. Both these series greatly reduce machining time with outstanding process integration, helping to improve the customers' productivity. Moreover, the NMV series of new type multi-axis machines realizes high-accuracy, high-speed machining of complex shapes at a high level, and achieves exceptional roundness as a 5-axis control machine. Now the new line-up of the compact NT1000 and NMV3000 DCG machines has been added, giving even more depth to the variation in our multi-axis machines.



NT6600 DCG/4000

NZ2000 T3Y3

NMV3000 DCG

Machining centers — Flagship that takes high-speed, high-quality and high-efficiency part machining to the extreme

Machining centers are equipped with automatic tool change units and can handle a great variety of workpieces from round and rectangular items to complex shapes with high-speed feed drives. These are divided into vertical and horizontal types according to differences in the orientation of the spindle and the drive axes. Machining centers that are capable of high machining accuracy and can handle a wide range of tasks from die and mold machining to precision part machining are typified by the NV series. Because the construction of these machines makes use of our original technology of DCG (Driven at the Center of Gravity), tool tip vibration is suppressed to a minimum and they have realized high-speed, high-quality machining. In addition, we have the D series, machines dedicated for die and mold machining equipped with optimum functions for high-accuracy machining as standard, in our product line-up.

Representative models of horizontal machining centers can be found in the NH series and in the NMH series, the world's best 5-axis control machines. These machines are thoroughly designed for production efficiency in prolonged operation, with their strategy for chip processing and consideration for maintainability. They also have a high degree of expandability into unmanned systems using equipment like linear pallet pools, so the series is ideal for labor saving and mass-production machining.

NV6000 DCG

NH5000 DCG

NMH10000 DCG

Grinding machines — Responding to global market needs with original grinding technology

A grinder is a machine tool that grinds workpieces with a rotating grinding wheel.

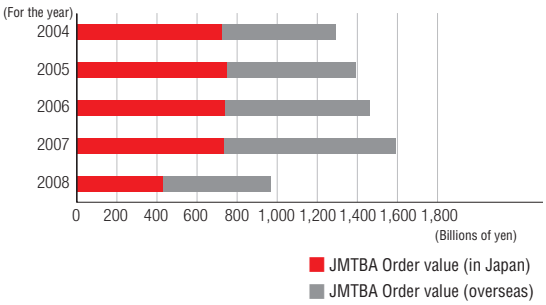
Taiyo Koki's vertical grinders, which have been developed with original development capabilities specialized in the grinding field, that have been honed since the company's foundation, have a variety of merits including reliable accuracy and rigidity, space savings, flexibility, and the facility for automation. From compact machines suited to mass-production parts to large machines suited to small-lot production of a variety of parts, we have many models available in the NVG Ⅱ series, the SVG series, the IGV series and so on, and they have been highly acclaimed by customers across the world.

SVG-1

General Condition of the Market

From 2002 onward, there was unprecedented and continuous growth in the world economy and the Japanese economy. The machine tool industry also saw dramatic growth, and in 2007 the total value of orders of the Japan Machine Tool Builders' Association (JMTBA) reached approximately 1.6 trillion yen, the highest figure on record. In Japan and in European countries there were strong demands relating to complex, high-accuracy machining, so there was a high level of demand for the latest, high-performance machine tools, and we also made good progress with replacing aging equipment. Meanwhile, in countries such as the BRICs (Brazil, Russia, India and China) and elsewhere, which were undergoing rapid economic growth and industrialization, together with an improvement in people's standard of living, there was an increase in demand for high-performance Japanese machine tools, and the machine tool market was rapidly expanding.

Year-on-year change in the share of orders of JMTBA



JMTBA: The Japan Machine Tool Builders' Association

In the first half of FY 2008, despite concern over the effect of soaring crude oil and raw material prices on corporate profits, we maintained a good level of orders due to favorable business results of companies in each country leading to very strong investment in plant and equipment. However, in the second half, the financial crisis that originated in the United States had grave and serious effects on the real economy, including a contraction of credit in all countries, and effects on consumption, investment, employment and trade.

In Japan, too, there were major effects: the deterioration in companies' financing due to the contraction of credit, the clampdown on the profits of exporting companies caused by the abrupt rise in the value of the yen, and the sudden collapse in car sales. Particularly since October last year, there has been a rapid decline in investment in plant and equipment both in Japan and overseas and we have come up against a sudden fall in orders. As a result of this, the value of machine tool orders in 2008 ended up with 970 billion yen, an 39.4% decrease from the previous year.

Outline of Business

FY 2008 was a year in which the environment changed substantially. In the first half of FY 2008, we achieved favorable levels of orders and sales that continued from FY 2007. However, in the second half, as a result of the effects of the financial crisis that originated in the United States, there was a sharp decrease in orders worldwide. There was a dramatic collapse, with Mori Seiki recording a value of received orders that was 75% down in January, 2009. Many machine tools that had been ordered were cancelled. Under these circumstances Mori Seiki aimed at increasing its share of orders, established overseas subsidiaries in Canada (Ontario) and Malaysia (Kuala Lumpur) where the underlying trend is for expansion in demand of machine tools, while also opening new Technical Centers in Germany (Chemnitz) and Austria (Vienna).

Mori Seiki has developed new products to meet expanding demand for large, high-productivity machine tools in the fields of resources, electricity generation from wind power, aircrafts, and railroads. We have developed the NT6600 DCG, a high-precision, high-efficiency integrated mill turn center that is capable of dealing with long, large-diameter parts, and the MV-1003L, a vertical machining center. We have also implemented a full model change with the NH6300 DCG Ⅱ and NH8000 DCG Ⅱ medium-sized and large horizontal machining centers.

We are cautiously optimistic about the economy, as recently received orders indicate that things are leveling out. We expect that the economic policies adopted in each country will improve the investment climate for companies, and Mori Seiki is prepared to respond quickly to the upcoming recovery of orders.

Under these conditions, our consolidated net sales were 157,203 million yen (22.3% down from the previous term), and the consolidated operating income was 5,922 million yen (81.1% down from the previous term).

Currently, Mori Seiki is aiming to establish leadership in the global machine tool market with GILDEMEISTER AG (of Germany), and the companies have agreed on business and capital collaboration with the focus on mutual cooperation. Geographically, Mori Seiki has its strength in Japan and the United States, and on the product front it has its strength in multi-axis machines, machining centers and lathes. We are also manufacturing key components of machine tools such as spindles, motors and ball screws in-house, and we are distinguished by the vertical integration of products. On the other hand, geographically GILDEMEISTER AG has a high share of the business in Europe, and on the product front it stands out with its 5-axis machining centers, large machining centers and low-budget machines. So we can expect a good complementary relationship between the two companies both in terms of expansion of geographic area and products. And by melding the two companies' technical prowess and strong sales networks, we will make progress with development of favorable business on a global scale. In this way the Mori Seiki Group is actively implementing a strategy toward medium and long-term growth by expanding its global business and strengthening research and development.

The trends and business results for each segment, classified by location, are as follows:

In Japan, demand for aircraft and construction machinery industries had been strong in the first half of the year. However, orders for automobile and construction machinery industries had been decreased since October, 2008. Sales were 78,036 million yen ($794,421 thousand) decreased by 23.8% compared with the previous fiscal year.

In the Americas, demands for aircraft, energy, medical equipments, and construction machinery industries had been in a good condition in the first half of the year. However, orders had been decreased since October, 2008 affected by the decline of capital investment due to the economical slowdown. Sales were 29,977 million yen ($305,171 thousand) decreased by 19.3% compared with the previous fiscal year.

In Europe, demand for mainly aircraft industry had been brisk in the first half of the year. However, capital investment had been dull since October, 2008 due to extremely declined factory operating rate in automobile industry in Germany, France, Spain, and central Europe. In addition, demand for agricultural machinery, construction machinery and oil hydraulic industries had been in a slowdown. Sales were 45,451 million yen ($462,700 thousand) decreased by 22.4% compared with the previous fiscal year.

In Asia and Oceania, demand for natural resource, automobile and construction machinery industries had been decreased due to the appreciation of the yen. Capital investment had been decreased in the southern part of China where many export-oriented companies are located in. Sales were 3,739 million yen ($38,064 thousand) decreased by 10.2% compared with the previous fiscal year.

Business and Capital Collaboration with GILDEMEISTER AG (of Germany)

Mori Seiki and the German company GILDEMEISTER AG (hereafter “GILDEMEISTER”) reached an agreement on business and capital collaboration on 23rd March, 2009.

Background leading to business and capital collaboration

With the aim of expanding and cultivating its global opportunities in the machine tool market, Mori Seiki has been in conversation with GILDEMEISTER for a common business development.
Both Mori Seiki and GILDEMEISTER are leading sales companies in the Asian and European markets. With this cooperation both parties aim for success not only in their home regions, but also around the globe.
Mori Seiki has a sound sales result in Japan and United States, and is specially known for its multi-axis turning centers, machining centers and the lathe line. Based on its policy for vertical integration, Mori Seiki produces main parts for machine tools, such as spindle motor or ball screws. On the other hand, GILDEMEISTER is particularly strong in European countries and has a direct sales system in 16 other countries. While both companies sell a wide range of machine tools, GILDEMEISTER stands out with its 5-axis machining centers and large milling centers, as well as their low-budget machines.
Mori Seiki and GILDEMEISTER are not only complementary to each other in terms of regions but also products. It is only natural that both companies benefit through a variety of synergies.
For the above reasons, the two companies have decided to engage in a business and capital alliance to further increase their respective corporate values.

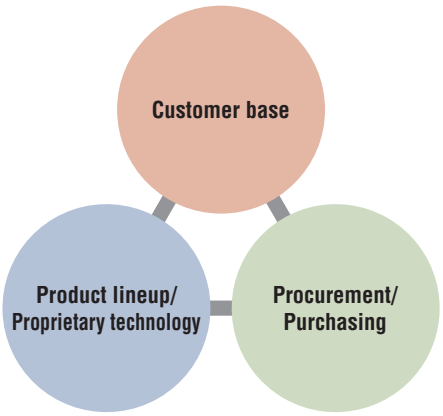
Contents of the business collaboration

The parties are planning business collaboration particularly in the areas of: 1) Production 2) Purchasing 3) Machine developing 4) Sales and services. To realize the synergies, reciprocal representation in equivalent is planned.
Once the formalities required under German law are complete, President Mori will be a member of GILDEMEISTER’s Supervisory Board, while CEO Kapitza of GILDEMEISTER will be appointed Senior Executive Operating Director of Mori Seiki. In addition, a steering committee comprised of the top management of both companies will be created to appropriately manage the progress of the business collaboration and its synergistic effects.

Details of the capital collaboration

Since a stable relationship of trust between the two companies is important, we signed both the Memorandum Of Understanding (MOU) and the Share Subscription Agreement (SSA) on the same date. As a result of these agreements Mori Seiki accepted 2,279,500 new common shares allocated to a third party by GILDEMEISTER on 7th April, 2009 (after this third party allocation and capital increase, we have 5.0% of the voting rights), and on the same date we became the leading shareholder in GILDEMEISTER. By the end of this term GILDEMEISTER will acquire 2,000,000 of Mori Seiki’s common shares (giving 2.26% of the voting rights), making the company our sixth largest shareholder.

Purpose of the capital and business collaboration



Promotion of fusion of cultures and personal exchanges

Fields where results can be expected over the short term	Fields where results can be expected in the long term
・Establishment of joint distributorships in emerging countries, etc. ・Sales of each other’s products ・Joint purchasing, part supply ・Joint development of products	・Integration of sales hubs ・Mutual cooperation with service ・Finance for customers

Comprehensive measures for export control, information system integration

Outline of GILDEMEISTER AG

Company Name	GILDEMEISTER AG
Primary Business	Manufacture and sales of machine tool equipments
Establishment date	1st October, 1870 (Name of company on establishment: Werkzeugmaschinenfabrik GILDEMEISTER & Comme)
Registered address	Gildemeisterstr. 60, D-33689 Bielefeld Germany
Representative	Rüdiger Kapitza, CEO
Capital	112.587 million Euro
Employees	6,451 (consolidated)

Business results (January to December 2008)

Sales Revenue	1,904 Million Euro
Operating Income	158 Million Euro
Net Income	81 Million Euro
Total Assets	1,390 Million Euro

Founded in 1870 and headquartered in Germany, this is the world's largest machine tool builder, with overwhelming strength in the European market. In 1994, the company acquired DECKEL MAHO AG and launched into the milling and drilling machine business. In 1999, by acquiring LCTec GmbH (Pfronten), it entered the laser machine tool business. Currently, in addition to the machine tools division, the solar technology division is a rising presence. In recent years the company has launched the DMG ECOLINE series and has entered the market for low-budget machines.

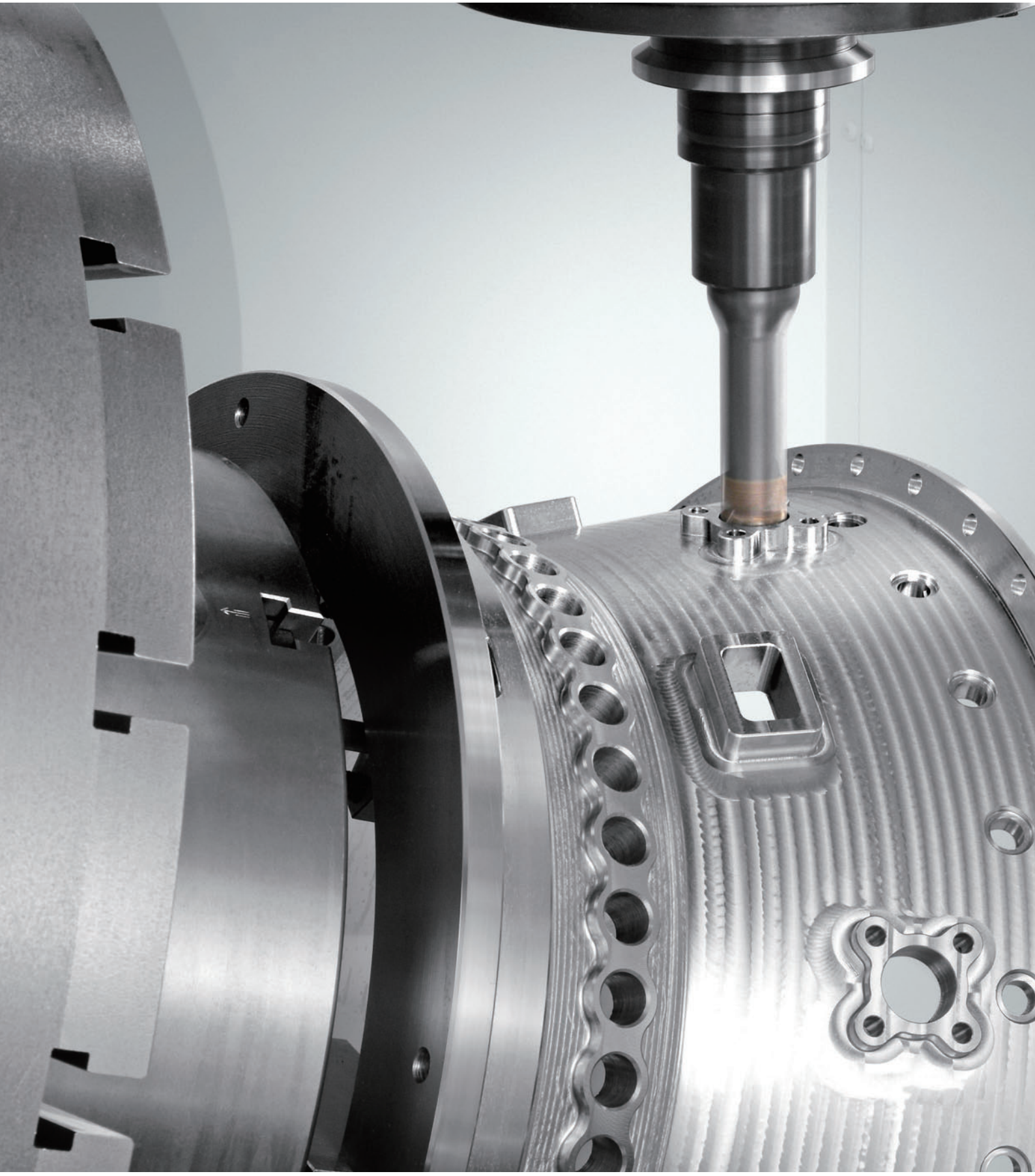
Starting sales and service in selected regions

Beginning 1st July, 2009, we started reciprocal sales and service in Thailand, Indonesia, Taiwan and Turkey. In these regions, one company takes responsibility for sales and service activities for the products, regardless of whether they are Mori Seiki or DMG products. The acting company also responds to demands from customers that relate to existing installed machines.

The purpose of the current reorganization of hubs, which is part of the March 2009 business collaboration project, is to coordinate the two companies' technical dominance and strong sales networks, and build a service system that is capable of immediate response, thereby making an even bigger contribution than before to improving the productivity of our customers.

DMG MORI SEIKI

Unified logo



Results Summary

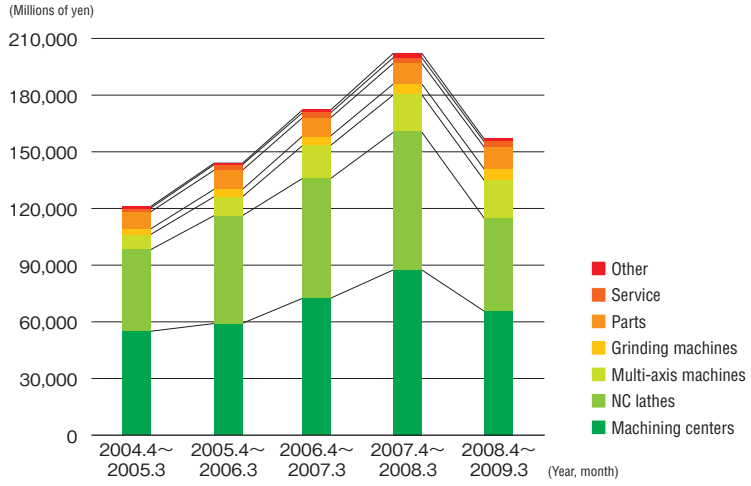
Net Sales

Mori Seiki's sales rose for five consecutive years starting from FY 2003 (the year ending 31st March, 2004). In FY 2007 we achieved our highest ever sales total of 202,260 million yen, but due to a sudden decline in demand in FY 2008, we recorded net sales decreased 22.3% from the previous term at 157,203 million yen ($1,600,356 thousand).
In recent years we have seen the workpieces to be machined becoming increasingly complex, accuracy requirements becoming more severe, and other requirements like shortening of the machining lead time becoming stronger, and in FY 2008 the proportion of multi-axis machines we sold increased 3.0% over the previous term at 12.8%. Conversely, sales of CNC lathes decreased 4.9% at 31.3%.
Mori Seiki has developed new products to meet expanding demand for large, high-productivity machine tools in the fields of resources, electricity generation from wind power, aircraft, and railroads. We have developed the NT6600 DCG, a high-precision, high-efficiency integrated mill turn center that is capable of dealing with long, large-diameter parts, and the MV-1003L, a vertical machining center. We have also implemented a full model change with the NH6300 DCG Ⅱ and NH8000 DCG Ⅱ medium-sized and large horizontal machining centers.

Sales by products

Fiscal Year	Machining centers	NC lathes	Multi-axis machines	Grinding machines	Parts	Service	Other	Total
2004.4.1～ 2005.3.31	¥ 55,412	¥ 42,929	¥ 7,945	¥ 2,846	¥ 9,245	¥ 2,403	¥ 1,386	**¥ 122,166**
	45.4%	35.1%	6.5%	2.3%	7.5%	2.0%	1.2%	**100.0%**
2005.4.1～ 2006.3.31	¥ 59,474	¥ 57,411	¥ 9,749	¥ 4,276	¥ 10,282	¥ 2,792	¥ 1,356	**¥ 145,340**
	40.9%	39.5%	6.7%	3.0%	7.1%	1.9%	0.9%	**100.0%**
2006.4.1～ 2007.3.31	¥ 72,412	¥ 63,428	¥ 17,403	¥ 4,739	¥ 9,811	¥ 2,785	¥ 1,684	**¥ 172,262**
	42.0%	36.8%	10.1%	2.8%	5.7%	1.6%	1.0%	**100.0%**
2007.4.1～ 2008.3.31	¥ 87,479	¥ 73,151	¥ 19,901	¥ 5,233	¥ 10,902	¥ 3,014	¥ 2,580	**¥ 202,260**
	43.2%	36.2%	9.8%	2.6%	5.4%	1.5%	1.3%	**100.0%**
2008.4.1～ 2009.3.31	¥ 65,680	¥ 49,168	¥ 20,165	¥ 6,236	¥ 11,545	¥ 2,846	¥ 1,563	**¥ 157,203**
	$668,635	$500,540	$205,283	$ 63,484	$117,530	$ 28,973	$ 15,911	**$1,600,356**
	41.8%	31.3%	12.8%	4.0%	7.3%	1.8%	1.0%	**100.0%**

(Millions of yen/Thousands of U.S. dollars)



Business results and trends by geographical segment

In Japan, demand for aircraft and construction machinery industries had been strong in the first half of the year. However, orders for automobile and construction machinery industries had been decreased since October, 2008. Sales were 78,036 million yen ($794,421 thousand) decreased by 23.8% compared with the previous fiscal year.

In the Americas, demands for aircraft, energy, medical equipments, and construction machinery industries had been in a good condition in the first half of the year. However, orders had been decreased since October, 2008 affected by the decline of capital investment due to the economical slowdown. Sales were 29,977 million yen ($305,171 thousand) decreased by 19.3% compared with the previous fiscal year.

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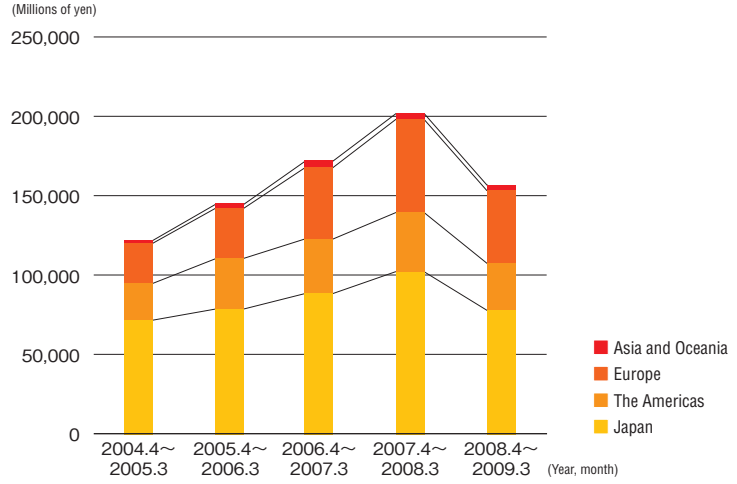
Sales to third parties

Fiscal Year	Japan	The Americas	Europe	Asia and Oceania	Total
2004.4.1～2005.3.31	¥ 71,978	¥ 22,973	¥ 25,163	¥ 2,052	**¥ 122,166**
2005.4.1～2006.3.31	¥ 79,067	¥ 31,774	¥ 31,531	¥ 2,968	**¥ 145,340**
2006.4.1～2007.3.31	¥ 88,644	¥ 34,329	¥ 44,745	¥ 4,544	**¥ 172,262**
2007.4.1～2008.3.31	¥ 102,427	¥ 37,131	¥ 58,539	¥ 4,163	**¥ 202,260**
2008.4.1～2009.3.31	¥ 78,036	¥ 29,977	¥ 45,451	¥ 3,739	**¥ 157,203**
	$ 794,421	$ 305,171	$ 462,700	$ 38,064	**$ 1,600,356**

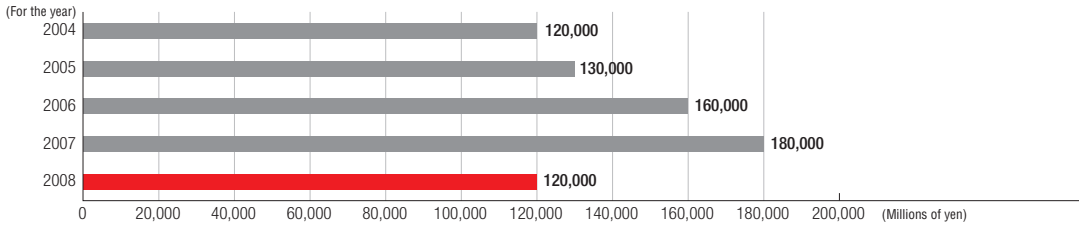
(Millions of yen/Thousands of U.S. dollars)



Orders

Similarly to sales, the trend for orders has also been favorable in recent years. Demand has expanded in all of our four product groups: CNC lathes, machining centers, multi-axis machines and grinding machines. However, due to the sudden drop in demand in FY 2008, orders decreased around 40% from the previous term at 120 billion yen. There was a particularly large drop in demand for CNC lathes, which decreased about 50%.
On the other hand, demand persisted for the machining of complex workpieces that have become more prevalent in recent years, along with demand for improved production efficiency, and the drop in orders for multi-axis machines was restricted to 10% compared with the previous term.

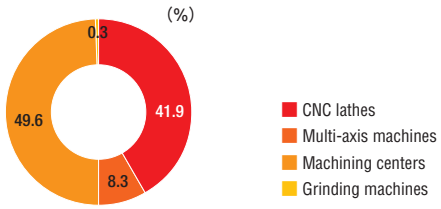
Total orders



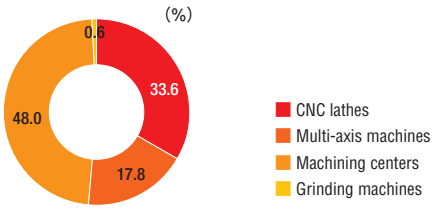
By product

If we look at this on a product-by-product basis, the proportion of CNC lathes has dropped substantially from 41.9% five years ago in FY 2004 to 33.6%. On the other hand, multi-axis machines have significantly increased from 8.3% in FY 2004 to 17.8%. This is due to the introduction into the market of the NT Series and other new multi-axis machine products in response to the growth in the demand for high-accuracy machining of workpieces with complex shapes that we have seen over recent years.

Percentages of orders by product for FY 2004



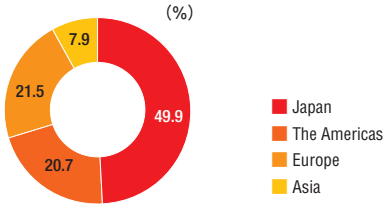
Percentages of orders by product for FY 2008



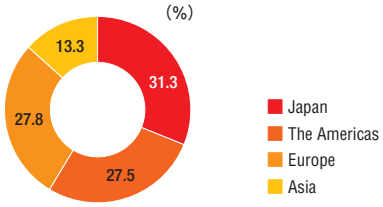
By region

In recent years there has been excellent demand worldwide and orders have continued to expand in all regions. In mature markets including Japan, Europe and the Americas, in addition to the demand for replacement of aging machines, demand has also increased for high-accuracy, complex machine tools to handle workpieces that are becoming increasingly complex and accurate year by year. Meanwhile, in the BRICs and the other emerging regions, the demand for Japanese-made, high-precision machine tools has increased in line with rapid economic growth and industrialization, and improvement in people's standard of living.
Looking at this region by region, in FY 2004 Japan accounted for around 50% of orders but in FY 2008 the proportion had diminished considerably to 31.3%, while conversely the proportions in the Americas, Europe and Asia rose.

Proportion of orders by region in FY 2004



Proportion of orders by region in FY 2008



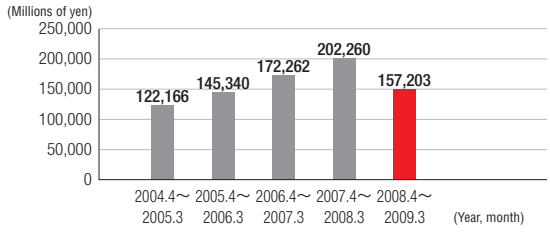
Business Results and Financial Situation

Business results

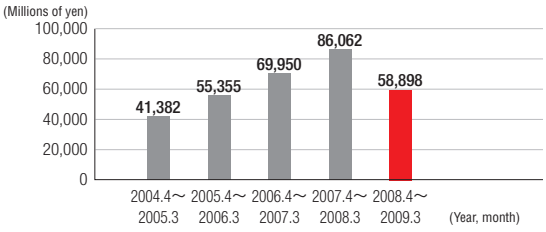
For the fiscal year 2008, net sales were 157,203 million yen ($1,600,356 thousand) decreased by 22.3% from the previous fiscal year, operating income were 5,922 million yen ($60,287 thousand) decreased by 81.1% from the previous fiscal year, and net loss was 2,153 million yen ($21,918 thousand: net income was 15,975 million yen in the previous fiscal year).

	Millions of yen					Thousands of U.S. dollars
Fiscal Year	**2008.4～2009.3**	2007.4～2008.3	2006.4～2007.3	2005.4～2006.3	2004.4～2005.3	**2008.4～2009.3**
Net sales	**¥157,203**	¥202,260	¥172,262	¥145,340	¥122,166	**$1,600,356**
Cost of sales	**98,305**	116,198	102,312	89,985	80,784	**1,000,763**
Gross profit	**58,898**	86,062	69,950	55,355	41,382	**599,593**
Selling, general and administrative expenses	**52,976**	54,759	44,907	39,060	30,865	**539,306**
Operating income	**5,922**	31,303	25,043	16,295	10,517	**60,287**
Income before income taxes and minority interests	**1,282**	27,708	19,403	15,154	10,004	**13,051**
Income taxes						
Current	**1,728**	12,895	5,308	1,146	412	**17,592**
Prior year	**—**	254	—	—	—	**—**
Deferred	**1,428**	(1,592)	(2,202)	126	118	**14,537**
	3,156	11,557	3,106	1,272	530	**32,129**
Income (loss) before minority interests	**(1,874)**	16,151	16,297	13,882	9,474	**(19,078)**
Minority interests in net income of consolidated subsidiaries	**(279)**	(176)	(103)	(80)	(93)	**(2,840)**
Net income (loss)	**¥ (2,153)**	¥15,975	¥16,194	¥13,802	¥9,381	**$ (21,918)**

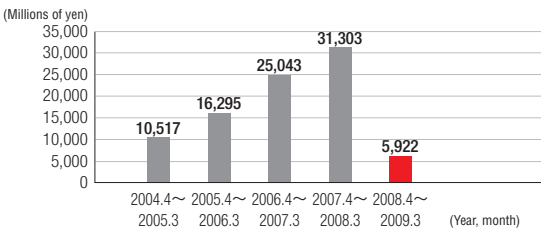
Net sales (Five years)



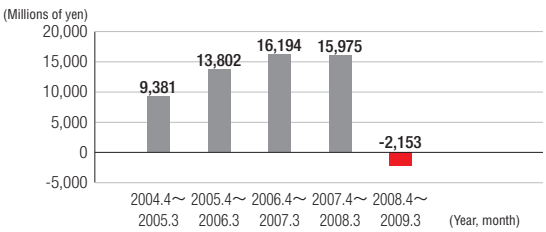
Gross profit (Five years)



Operating income (Five years)



Net income <loss> (Five years)



Financial situation (Assets, liabilities and net assets)

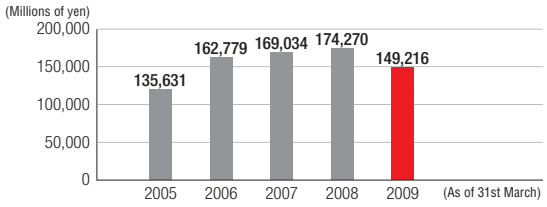
(1) Assets
Total current assets decreased by 22.8% from the end of the previous fiscal year to 78,773 million yen ($801,924 thousand). It was mainly because notes and accounts receivable, trade, decreased by 21,794 million yen ($221,867 thousand).
Property, plant and equipment, net, increased by 1.4% from the end of the previous fiscal year to 54,540 million yen ($555,227 thousand).
Total investments and other assets decreased by 14.0% from the end of the previous fiscal year to 15,903 million yen ($161,896 thousand). As a result, total assets decreased by 14.4% from the end of the previous fiscal year to 149,216 million yen ($1,519,047 thousand).

(2) Liabilities
Total current liabilities decreased by 34.5% from the end of the previous fiscal year to 24,342 million yen ($247,806 thousand). Although short-term bank loans increased by 9,602 million yen ($97,750 thousand), accounts payable, trade, and accrued income taxes respectively decreased by 8,143 million yen ($82,897 thousand) and 10,036 million yen ($102,168 thousand).
Total long-term liabilities increased by 11.0% from the end of the previous fiscal year to 5,945 million yen ($60,521 thousand). It was mainly due to the increase of 296 million yen ($3,013 thousand) in deferred income taxes.

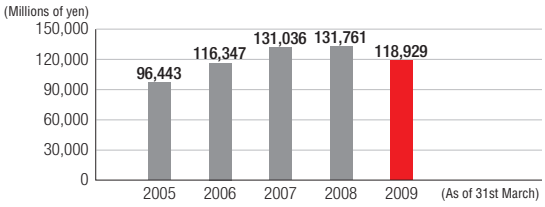
(3) Net assets
Total net assets decreased by 9.7% from the end of the previous fiscal year to 118,929 million yen ($1,210,720 thousand). Major reasons for the decrease were net loss of 2,153 million yen ($21,918 thousand), purchases of treasury stock of 5,821 million yen ($59,259 thousand), and a decrease of translation adjustments of 2,880 million yen ($29,319 thousand).

	Millions of yen					Thousands of U.S. dollars
	31st March,					31st March,
	2009	2008	2007	2006	2005	2009
Current assets:						
Cash and deposits	¥ 14,453	¥ 17,984	¥ 29,959	¥ 31,583	¥ 12,775	$ 147,134
Notes and accounts receivable:						
Trade	16,634	38,428	32,916	29,962	27,765	169,337
Allowance for doubtful receivables	(139)	(127)	(281)	(273)	(329)	(1,415)
Notes and accounts receivable, net	16,495	38,301	32,635	29,689	27,436	167,922
Inventories	37,915	38,745	29,904	25,063	21,069	385,982
Deferred income taxes	1,714	3,281	1,882	142	199	17,449
Other current assets	8,196	3,665	3,314	2,889	2,220	83,437
Total current assets	78,773	101,976	97,694	89,366	63,699	801,924
Property, plant and equipment, net	54,540	53,809	49,409	55,747	59,910	555,227
Investments and other assets:						
Total investments in securities	8,672	11,687	15,846	13,987	8,719	88,283
Deferred income taxes	284	1,115	165	26	5	2,891
Other assets, net	6,947	5,683	5,920	3,653	3,298	70,722
Total investments and other assets	15,903	18,485	21,931	17,666	12,022	161,896
Total assets	149,216	174,270	169,034	162,779	135,631	1,519,047
Current liabilities:						
Short-term bank loans	10,298	696	1,500	1,320	1,370	104,836
Current portion of long-term debt	—	—	—	5,084	5,084	—
Accounts payable, trade	3,374	11,517	11,612	9,698	8,200	34,348
Accrued income taxes	1,371	11,407	4,848	1,248	464	13,957
Deferred income taxes	114	79	164	203	169	1,161
Allowance for product warranties	1,192	1,555	811	—	—	12,135
Allowance for bonuses to directors and corporate auditors	25	164	159	—	—	254
Other current liabilities	7,968	11,734	12,010	8,480	7,455	81,115
Total current liabilities	24,342	37,152	31,104	26,033	22,742	247,806
Long-term liabilities:						
Long-term debt	2,583	2,583	3,920	14,457	12,708	26,295
Deferred income taxes	939	643	844	3,359	1,758	9,559
Deferred income taxes on land revaluation reserve	1,699	1,699	1,699	1,824	1,824	17,296
Accrued retirement benefits	642	—	—	—	—	6,536
Other long-term liabilities	82	432	431	333	—	835
Total long-term liabilities	5,945	5,357	6,894	19,973	16,290	60,521
Minority interests	—	—	—	426	156	—
Total net assets	118,929	131,761	131,036	116,347	96,443	1,210,720
Total liabilities, minority interests and net assets	¥149,216	¥174,270	¥169,034	¥162,779	¥135,631	$1,519,047

Total assets (Five years)



Total net assets (Five years)



Cash Flow

Cash and cash equivalents at the end of FY 2008 were 14,255 million yen ($145,119 thousand) decreased by 3,661 million yen ($37,270 thousand) from the end of the previous fiscal year.
Results of each cash flow for FY 2008 and main reasons are shown below.

Cash flow from operating activities

Net cash provided by operating activities were 8,564 million yen ($87,183 thousand: 14,156 million yen in the previous fiscal year) due to the following items: 1,282 million yen ($13,051 thousand) in income before income taxes and minority interests, a decrease of 19,993 million yen ($203,532 thousand) in notes and accounts receivable, and payment of income taxes in the amount of 15,024 million yen ($152,947 thousand).

Cash flow from investing activities

Net cash used in investing activities were 11,424 million yen ($116,298 thousand: 13,454 million yen in the previous fiscal year) due to 8,104 million yen ($82,500 thousand) for purchases of property, plant and equipment, 2,414 million yen ($24,575 thousand) for purchases of intangible assets, 373 million yen ($3,797 thousand) for investments in subsidiaries, and 310 million yen ($3,156 thousand) for investments in securities.

Cash flow from financing activities

Net cash used in financing activities were 507 million yen ($5,161 thousand: 13,131 million yen in the previous fiscal year) due to 9,602 million yen ($97,750 thousand) of increased short-term bank loans, 4,164 million yen ($42,390 thousand) for payment of cash dividends, and 5,933 million yen ($60,399 thousand) for purchases of treasury stock.

	Millions of yen		Thousands of U.S. dollars
	31st March,		31st March,
	2009	**2008**	**2009**
Cash flow from operating activities	**¥ 8,564**	¥ 14,156	**$ 87,183**
Cash flow from investing activities	(**11,424**)	(13,454)	(**116,298**)
Cash flow from financing activities	(**507**)	(13,131)	(**5,161**)
Cash and cash equivalents at the end of the fiscal year	**14,255**	17,916	**$145,119**

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

Total depreciation and amortization for FY 2008 was 7,290 million yen ($74,214 thousand) increased by 160 million yen ($1,629 thousand). Furthermore, total amount of investments in property, plant and equipment was 10,960 million yen ($111,575 thousand) mainly because of renovations of plants and repairs and enhancement of productive facilities at the Iga campus.

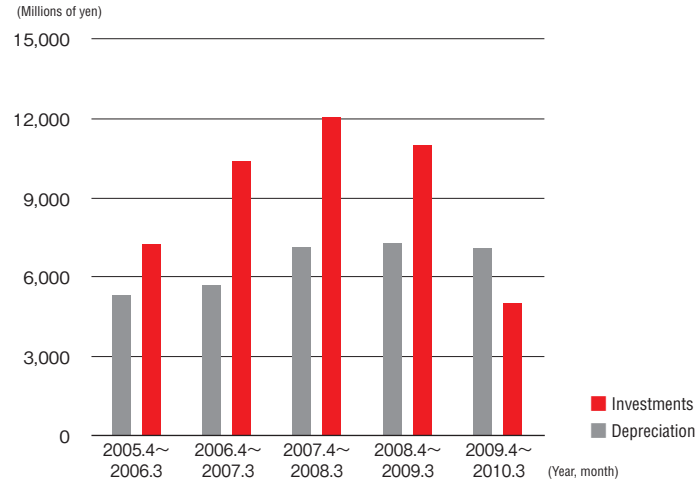
Fiscal Year	Depreciation and amortization	Net income (loss)	Investments
2004.4～2005.3	¥ 5,100	¥ 9,381	¥ 8,328
2005.4～2006.3	¥ 5,289	¥ 13,802	¥ 7,239
2006.4～2007.3	¥ 5,686	¥ 16,194	¥ 10,379
2007.4～2008.3	¥ 7,130	¥ 15,975	¥ 12,041
2008.4～2009.3	**¥ 7,290**	**¥ (2,153)**	**¥ 10,960**
	$ 74,214	**$ (21,918)**	**$ 111,575**

(Millions of yen/Thousands of U.S. dollars)

Forecast

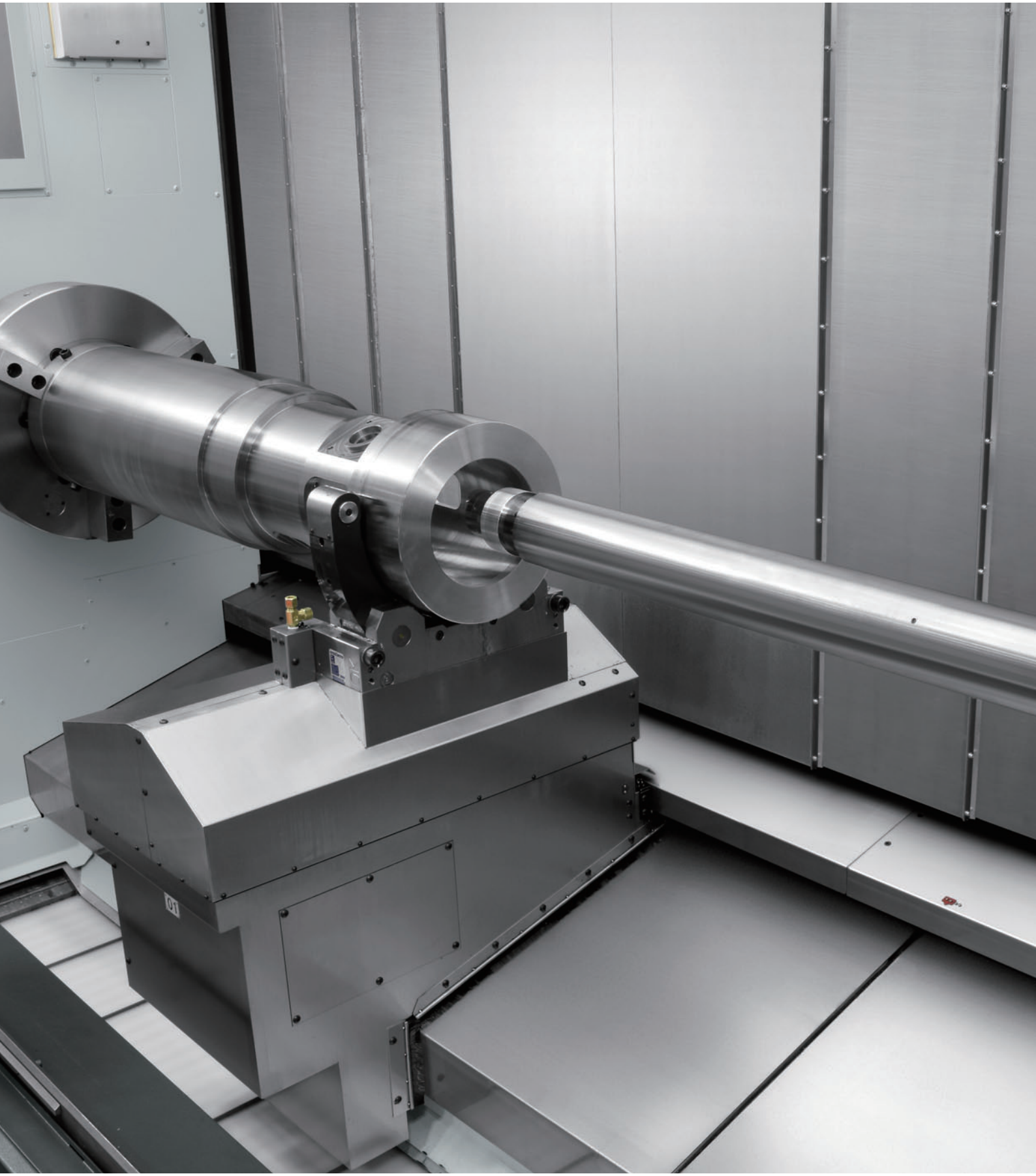
2009.4～2010.3	¥ 7,100	¥ (20,000)	¥ 5,000

·Mori Seiki Co., Ltd.'s investments in property, plant and equipment over the past five years totaled approximately 48,947 million yen. (Millions of yen)



(Note)

The accompanying U.S. dollars in the above have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥98.23 = U.S. $1.00, the exchange rate prevailing on 31st March, 2009.



Condition of the company

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 17th June, 2009, the Board of Directors consists of 7 Directors and the Board of Auditors consists of 3 auditors, 2 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. Further, in January 2009, we introduced an Operating Director system with a vision to expedite decision making by providing a mechanism for deliberating matters relating to the conduct of business in regular Operating Directors' Meetings, and Management Meetings that comprise of the directors, the operating directors and the general managers to meet every month to deliberate and make reports on important matters. In this way, we are strengthening the corporate governance of the Group as a whole.
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, Operating Directors' Meetings, 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.

Mori Seiki clarifies the criteria for the actual behavior of its Directors, Operating Directors and managerial staff through the mission statement, the 10 tenets of the "Mori Seiki Way", the employee handbook, the export control program, and all of the codes of conduct, stipulations and rules relating to the environment, occupational health and safety, quality management systems and so on. We have established a Management Council chaired by the President, and this council serves as a mechanism for putting these behavioral codes of conduct in order, promoting compliance, educating the managerial staff, and taking cross-sectional control. We deal undaunted as an organization with organized violence by antisocial groups, and the basic policy behind our approach is to eradicate antisocial power.

・A system for the storage and management of information concerning the business conduct of Directors.

Mori Seiki manages and saves the information on daily decision making and business conduct obtained through the minutes of general meetings of shareholders, the minutes of Board of Directors Meetings, the minutes of Management Councils, the minutes of Operating Directors' Meetings, the minutes of Management Meetings, and the internal electronic decision-making system. The Directors and Auditors can view this information either in document form or in electromagnetic media at all times.
We have provided "stipulations on the storage and management of information concerning the business conduct of Directors", and have clarified the system for the storage and management of information concerning business conduct.

・Regulations to manage risks of loss, and other systems.

Mori Seiki practices environmental/occupational health and safety/quality risk management in accordance with a management system, risk management relating to the reliability of financial reports, risk management in accordance with the export control program, and risk management in daily business in accordance with the internal electronic decision-making system. We established a Management Council chaired by the President, where the President appoints the Director with overall responsibility and the Director with responsibility in each category, and we are working to build a system where this council comprehensively and generally manages risk throughout the Group as a whole.

・A system to ensure that the Directors' business is conducted efficiently.

Mori Seiki seeks to make the conduct of the Directors' business more efficient by using the following business management system. We have also introduced an Operating Director system in order to support Directors and facilitate fast decision making and efficient conduct of business.

1) Fast decision making using the internal electronic decision-making system
2) Reports on conduct of Directors, Operating Directors and executives in Board of Directors Meetings, Management Councils, Operating Directors' Meetings and Management Meetings and monitoring of the execution of duties by Auditors
3) Drafting the medium-term management plan according to Board of Directors Meetings, Management Councils, Operating Directors' Meetings and Management Meetings, setting the business result targets and budgets for each operating department based on the medium-term management plan, and implementing business result management on a monthly and quarterly basis by utilizing IT
4) Reviewing business results on a monthly basis through Board of Directors Meetings, Management Councils, Operating Directors' Meetings and Management Meetings, and implementing strategies for improvement

・A system to ensure that the corporate group consisting of Mori Seiki and its affiliated companies conducts business in an appropriate manner.

Mori Seiki ascertains and assures the propriety of the business of its subsidiaries and affiliates through the internal electronic decision-making system, use of the weekly report system, various scheduled meetings on a consolidated basis, regular and random visits by the President and responsible Directors, and periodic internal auditing of subsidiaries. With Mori Seiki's Administrative HQ and Accounting/Finance HQ as the departments responsible for the internal control of the Group as a whole, we are making progress with consultation and sharing information about internal controls among Mori Seiki and each of the companies in the group, and building a constitution, including systems for efficiently transmitting directions and requests.

・Matters concerning employees who were appointed by auditors to assist them with their duties and the independence of these employees from Directors.

Mori Seiki currently has two staff members assisting the Auditors. Personnel changes, evaluations, etc. of the assisting staff members must be agreed to by the Auditors, and exchanges of opinions with Auditors are held periodically in order to achieve a system in which the audits are more effective and in which their independence is assured.

・A system in which Directors and employees report to the auditors, and systems for other reports to the auditors.

At Mori Seiki, the Auditors attend important regular meetings including the Board of Directors Meetings, Management Councils, Operating Directors' Meetings, and Management Meetings, listen to the decisions and reports, and, if necessary, request a report from the Directors, Operating Directors or managerial staff.

The Directors, Operating Directors and managerial staff must immediately report any fact that could significantly harm the company to an Auditors Meeting or the Auditors upon discovery of the fact, and the "stipulations to ensure that other audits conducted by the Auditors are carried out effectively" is prepared to make the details of these stipulations clear. It shall also be understood that an Auditors Meeting, or the Auditors, can request reports from the Directors, Operating Directors or managerial staff.

・A system to ensure that other audits conducted by the auditors are carried out effectively.

At Mori Seiki, Auditors Meetings, or the Auditors, have regular and extraordinary exchanges of opinion with both the president and the Accounting Auditors. We will continue to maintain this system as we look ahead.

③ Status of the internal audit and the audit conducted by the 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 anticipation of the promulgation of the Financial Instruments and Exchange Act (the J-SOX Act), Mori Seiki began building an internal control system in October 2005, and, starting with the documentation of the workflow, has thoroughly prepared for this event.

In accordance with the policy decided by the board of auditors and the auditing plan, the auditors attend meetings of the Board of Directors, Operating Directors' Meetings, 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.

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

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

Maintenance of Risk Management Systems

Mori Seiki 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.

Mori Seiki Maintains its A Rating

Mori Seiki successfully maintained an A rating again this year in the ratings by R&I (Rating and Investment Information Inc.). These ratings are organized in 14 levels from AAA to B+ and they indicate the credit risk (the strength of the capacity to repay) of countries and companies that issue government or corporate bonds. Simply put, it indicates the strength and stability of a company. As this rating becomes higher, it becomes possible to borrow money under more favorable conditions.

Our rating was upgraded to A last year, and we were able to maintain the A rating this year because of the fact that we promptly implemented appropriate short-term measures against the sudden economic changes experienced during the past year, and made the necessary investments, conducted employee training programs and developed new models based on the long-term strategy.

Current Issues and Approach Looking Ahead

Mori Seiki currently employs about 500 development engineers and our investment in research and development, including the development of new models, peripheral equipment, elemental technology and so on, is among the best in the industry at 10 billion yen per year. The engineers are a very energetic group, with an average age in the early thirties, and we think that further developing their skills is an important issue, so we have a special organization in charge of their training. There, veteran staff members run various design education and skills training courses, quality engineering courses, sheet metal design training, and English conversation training among others. We also educate these young engineers by sending them on overseas training for a month or giving them a short posting to DTL (the Digital Technology Laboratory) in California, United States.

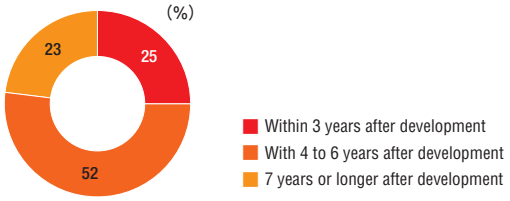
With rapid changes in economic conditions and the ever expanding needs of customers, we must have a product development system that can quickly provide the latest products and technology. We shorten the development period by adopting an approach in which, beginning at the design stage, design reviews are conducted together with the production engineering staff while looking at 3D models and simulation and analysis is performed for static rigidity, vibration, thermal distortion and so on, thereby keeping the regression at the prototyping stage to a minimum.

We are also standardizing various components of machining centers and lathes, including the spindles, ATC units, chip disposal equipment, tool magazines, and electrical cabinets, in order to reduce development man hours and improve production efficiency.

In FY 2008, due to the worldwide recession and customers' hesitancy to invest in plant and equipment, Mori Seiki's level of orders dropped to less than half of its peak in FY 2007. Until the first half of FY 2008, resources, energy, aircrafts, shipbuilding, construction machinery and other industries were performing favorably, and the machine tools that we were principally investing in were the NT6600 DCG large integrated mill turn center along with the MV-1003L large vertical machining center and NH6300 DCG Ⅱ and NH8000 DCG Ⅱ horizontal machining centers for these markets. Our customers greatly appreciated these machines' productivity and accuracy, and the NT6600 DCG got high praise socially as well, winning one of the "Best Ten New Products Awards" sponsored by the Nikkan Kogyo Shimbun.

In this fiscal year, we are putting our efforts into the development of machine tools to be sold in the next period of growth, and launching them in the market. Since the ratio of orders for machines that we have developed within the last 6 years is about 80%, the machine tools that we are now developing will become the key products during the next period of growth. Even in this harsh environment, the fields of resources and energy, aircrafts, railroads, the environment and medical care are staying relatively steady. We also note that China, India and other emerging countries are continuing their investment in their infrastructure to improve the quality of life of their people. In the developed countries, demand is increasing for aircraft using new materials and items related to medical care, like artificial bones. In the period of economic recovery that will probably come in the next two or three years, we expect that the demand for machine tools for these fields and countries will increase substantially. In order to meet this demand, Mori Seiki is launching new machine models that can become the next key machines, including large machine tools like the NVL1350 vertical lathe and NZL2000 4-axis lathe, the NT1000 integrated mill turn center that realizes high-accuracy, high-efficiency machining, and the NMV3000 DCG 5-axis vertical machining center.

Proportion of machine models developed within the last 6 years



Original Technology

Mori Seiki has four original technologies for making machine tools highly accurate.
“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) ——“Technology to minimize vibration”

The vibration occurs when the rotational moment is generated from the moving machine structural parts, and it has had a negative effect on surface quality and machining accuracy.
Our DCG (Driven at the Center of Gravity) technology, which drives the moving structural parts at their center of gravity, controls residual tool tip vibration, improves accuracy and acceleration, and extends tool life.

DDM (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) ——“A revolution in turret milling”

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

ORC (Octagonal Ram Construction) ——“Octagonal shape for a revolutionary feed”

A revolutionary feed mechanism, making the ram a perfect octagonal shape. This preserves the advantage of conventional square guides, which is their damping characteristics, while overcoming the problem of thermal displacement caused by temperature increases in the slideways.
The slideways, which are located diagonally from each other, offset each other’s thermal displacement, because their distortion in response to heat is symmetrical. For this reason, the center of the moving part can be maintained in the same position, achieving high-precision machining during high-speed travel.

DCG® Driven at the Center of Gravity

DDM® Direct Drive Motor

BMT® Built-in Motor Turret

ORC® Octagonal Ram Construction

DTL

At DTL (Digital Technology Laboratory), more than 80 people work to develop the elemental technology of the future, including auxiliary software for machine tools, CAD/CAM systems, and accuracy compensation software. In concrete terms, they are conducting static and dynamic analyses and thermal analyses using a powerful cluster computer, and developing the simulation systems used on machine tools, peripheral equipment like high-performance rotary tables using DD motors, postprocessors that closely link CAM systems and machine tools, the system software used with peripheral equipment, and interfaces to the peripheral equipment, and software and mechanical systems. The mechanisms and software developed at DTL are incorporated into Mori Seiki's products and contribute to improving the accuracy and operating convenience of machine tools.

Another important role of DTL is its analysis work. 3-dimensional models designed in Japan are virtually tested on a computer, their performance is checked, then model improvements are made to improve the performance. We carry out the design of machine tools with high added value like multi-axis machines and 5-axis-control machine tools, but manufacturing these machines with the requirements for performance such as rigidity and accuracy is quite complex. However, by doing the design on a 3-dimensional CAD system and doing computer-aided evaluation (CAE) on a computer, it has become possible to substantially shorten the series of operations from planning to design, to the review, to prototyping, to verification, to mass production.

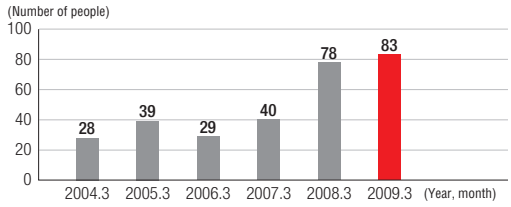
In March 2009, DTL shifted its headquarters from Sacramento, California, U.S.A. to Davis in the same state. The new facility has been provided with a laboratory insulated from vibration and a dedicated thermal isolation chamber. It is here that they are improving analytical accuracy and developing next-generation technology. The laboratory, in particular, is able to insulate the vibration of the factory and the vibration of the surrounding roads and railroads, so it is now possible to develop nano machines and conduct machining experiments at the nanometer level. In the thermal isolation chamber, they conduct research into machine design that can reduce the effects of thermal displacement, and into thermal displacement offset functions.

We have installed 10 of our latest machine tools in the research center, which are used for verification of and research into cutting edge machining technology.

Meanwhile, peripheral equipment made by a variety of manufacturers have been brought into the research center's laboratories, experiments on connection with our ACT (Advanced Communication Technology)* interface are being conducted, and the researchers are making it possible to provide a range of applications to the customers. DTL will continue its activities as an important organization playing a development role for Mori Seiki.

*ACT=Mori Seiki's new proposal for strengthening the cooperation between machine tools and peripheral equipment through the standardization of communications standards and software throughout the system as a whole.

Trend in staff at DTL (past 6 years)



Exterior of new DTL

BUG

In October 2008, Mori Seiki entered into business and capital collaboration with BUG Inc.. BUG Inc. is a software-systems house based in Sapporo Techno-park in Sapporo, Hokkaido, Japan, and is well versed in all platforms and development languages from hardware development to software development. The company's overall technical prowess has been highly praised, and it does business with many major companies in Japan.

As measurement and control technology continues to grow in importance, BUG Inc.'s system development technology and know-how, and their solution development skills enable us to raise the quality of our measurement and control technology development and add value to our machine tools.

Exterior of BUG

Engineering

The Engineering HQ is preparing for the next period of economic expansion, by reducing costs and improving quality.
Mori Seiki is currently working to make its line-up of machine models even more comprehensive. We are putting particular effort into multi-axis machines, and we have put together a rich selection to suit our customers' workpieces: from compact to large machines in each series, including the turning center type NT series, the vertical machining center type NMV series, or the horizontal machining center type NMH series. And, to ensure that the customers can use multi-axis machines as comfortably as they would use a lathe or a machining center, we have installed ESPRIT, which is a kind of CAM system, in addition to the conversational programming software installed on existing machine tools.

Combinations of typical market needs and Mori Seiki's product selection

Automobile part market	:	With the line-up of the NX series of high-precision compact machining centers for use in production lines, we think that we can make a further contribution to automobile part mass production lines.
Energy market	:	In the petroleum-related market, we have provided the NZL6000 2-turret CNC lathe for machining large workpieces. It is capable of 4-axis machining of pipes. Because we have a wider range of multi-axis machines, we can now make proposals for machining the impellers and blades used for wind-power generators and for other green energy equipment.
Aircraft market	:	Because we have now achieved a full line-up of multi-axis machines, we can deal with a wide range of aircraft parts, which have particularly complex shapes, from small to large.
Construction machinery/ agricultural machinery market	:	Production lines suitable for cell production are required for machining parts for construction machinery and agricultural machinery due to infrastructure improvements and increases in food production in the BRICs (Brazil, Russia, India and China). We are proposing production lines that offer process integration, incorporating horizontal machining centers or multi-axis machines by utilizing the more complete production line software.
General machinery part market	:	Demand for the machining of high quality parts with high added value is continuing to increase more than ever. We are proposing the optimum machines from our rich selection of multi-axis machines and the optimum machining methods.

Current approach and outline

The Engineering HQ is building a system that will enable it to provide prompt and ideal engineering support throughout the world.
In Japan, we have established the Eastern Technical Sales Section at the Tokyo branch office, which was opened in May 2009, and augmented the staff. With the establishment of the Western Technical Sales Section inside the Osaka Technical Center, there are now three domestic hubs in combination with the Central Technical Sales Section at the Nagoya Head Office, so we now have a system that enables better customer support.
In addition, through the resident engineering that we started during FY 2007, we are helping with the early construction of production processes at many customers' production sites, and planning to support and reinforce their staff.
In the Asian region, because further development is expected in the future, we have both strengthened the Asia Technical Sales Section and established the China Engineering Section. The China Engineering Section, located in Shanghai, China, and comprised of mainly Chinese engineers, allows us to establish a support system with thorough detailed communication.
In the European region, we are providing customer support that includes test machining and technical guidance, with the German and French application centers at the core.
In the U.S.A. we are providing technical assistance to customers with the main distributor Ellison, with Chicago Technical Center as the hub.

Global engineering system

Industries such as aircrafts and energy are in a trend of globalization, and at Nagoya, Tokyo, London, Paris, Stuttgart, Chicago and Shanghai, seven world hubs where Mori Seiki's engineering must respond to this trend, we have stationed engineering departments that have strong specialist capabilities.
In the aircraft field, we are providing engineering support to Canada, the United Kingdom and France with MTL in the U.S.A. at the core, while in the energy-related field we are providing engineering support to China, Russia, and South America with Japan at the core.
In the automobile industry too, a worldwide reorganization is under way, and progress is being made with a switch to production bases that have close links with the market. In the BRICs (Brazil, Russia, India and China), machining of parts has increased in volume, and it is anticipated that demand for machine tools will become further globalized.

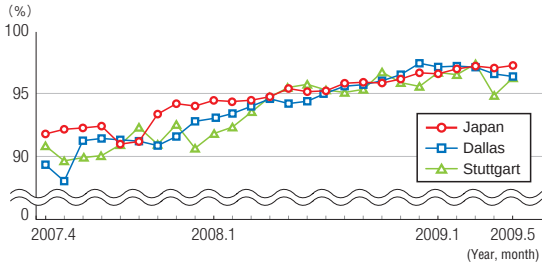
Quality Assurance

The Quality HQ takes all factors relating to products and the customers, from development to manufacturing to sales to service, as “quality”, and aims to increase the customers’ level of satisfaction.
In order to achieve the objectives of the medium-term management plan PQR555 that started from FY 2008, we are working on achieving accuracy of 5 μm, improving the level of customer satisfaction, prompt action in response to product problem reports, implementation of quality inspections in design reviews, and measurement of machined parts. Mori Seiki is implementing the following approach with a view to improving quality.

1) At the design stage, we carry out durability evaluation tests on the individual units that comprise the machine.
2) We carry out tests on accuracy, durability and operability, and destructive tests, using ten prototype machines, and achieve a build with improved design quality.
3) With regard to parts, in order to prevent the occurrence of defective items and their release to later processes, we carry out strict part accuracy checks. In addition, in order not to allow the occurrence or delivery of defective parts, we give thorough quality instructions to the manufacturing processes and suppliers.
4) In the manufacturing processes, we implement quality auditing to determine whether or not the work is carried out in accordance with the Quality Plan Sheets (QC process tables, operation standard documents, checksheets), and we implement a 100-hour running test on all machines before shipment.
5) Immediately after delivery and acceptance, and 1 year after delivery, we survey the level of customer satisfaction. We have rolled out a system in which demands from customers are fed back to the entire company in quality improvement committees (held once a week) and quality meetings (held once a month) that are staged by linking the Iga, Nara and Chiba Campuses through TV conferencing, and we endeavor to improve quality with the whole company involved in this way.
6) In order to increase the operating rate of the 160,000 Mori Seiki machines that are in operation in 67 countries worldwide, we answer customers’ inquiries with a 24-hour, 365-day-a-year system, and we have built a maintenance service system that ships at least 97% of maintenance parts within 24 hours.
7) With a view to further improving the level of customer satisfaction, beginning in April 2007, we extended the product warranty period from the conventional 1 year to 2 years. This has resulted in greatly improved levels of customer satisfaction in FY 2008.

Again this fiscal year, we will continue our work to achieve accuracies of within 5 μm. In addition, by building a quality management system and increasing the number of product inspection points, we will minimize dispersion in quality, and we are developing a more complete product inspection to eliminate problems at the customer’s site.
The Mori Seiki Group will continue to implement important measures to improve quality.

Trend in rate of shipment of parts within 24 hours



Purchasing/Procurement

The Purchasing Department is responsible for the procurement of consumables used in manufacturing of our products, such as raw materials and tools. With approximately 100 personnel at our three production bases in Japan (the Nara, Iga and Chiba Campuses), the Purchasing Department handles everything from price negotiations to ordering, delivery time management, acceptance, and supply of purchased goods to the Manufacturing Department.

Seeking to prosper together with suppliers

Mori Seiki has business relations with more than 700 suppliers in Japan and overseas. We hold explanatory meetings for our suppliers twice a year at our head office to explain the details of the semi-annual settlement of accounts and business environment, as well as the company's future vision. We also select the best supplier(s).
Keeping in mind part of our mission statement, "Seeking to prosper together with suppliers," we will maintain good relationships with our suppliers.

Scene of an explanatory meeting for suppliers

Procurement quality

Acceptance inspections are performed on delivered parts, and we reject items that don't conform to our standards of quality. We also conduct quality inspections on the suppliers, and work on quality improvement activities together with the suppliers. For castings, in particular, we hold casting quality meetings with the suppliers once a month, and we make efforts to maintain and improve the quality of the castings.

Efforts towards material cost reduction

One of the mainstays of our efforts to achieve one of the PQR 555 targets, "consolidated cost of sales ratio of 55%," is material cost reduction activities. In addition to the existing Purchasing Sections at the Nara, Iga and Chiba Campuses, we have newly established the Cost Reduction Sections within the Purchasing Department, in order to strategically promote material cost reduction.
Through a wide range of strategies, including improving negotiation skills; actively adopting VA (Value Analysis) proposals from our suppliers; precisely calculating cost; and holding in-depth meetings with the Development Department and our suppliers from the early development stage, we are committed to achieving further cost reduction. Joint cost reduction activities with the Development Department have certainly resulted in the recent reduced material cost to sales ratio. We, therefore, will continue these efforts in FY 2009.

Reduction in inventory

As a result of the dramatic drop in investment in plant and equipment caused by the worldwide economic recession, which was a result of the last autumn's financial crisis in the U.S.A., Mori Seiki also experienced a sudden drop in incoming orders. We learned from this experience that shortening procurement lead time is important to avoid an excess or out-of-stock situation, even when a sudden increase or decrease in production occurs, so that we are unaffected by the economic situation.

In FY 2009, we will take reduction of procurement lead time by 10% as a target, and maintain an appropriate level of stock (enough for only one month or less) in cooperation with the Manufacturing Department and our suppliers.

Coordinated procurement with GILDEMEISTER AG

In March 2009, Mori Seiki and GILDEMEISTER AG (DMG) of Germany agreed to form a business and capital alliance. The Purchasing Department then established the DMG Procurement Project Section, and started coordinated procurement with DMG in April.

Global links

From the time Mori Seiki began, the suppliers that support our production activities have not only been large companies, but also included about 50 small to medium-sized companies, and now there are over 700 suppliers.

And, in collaboration with DMG, high-quality parts are now being supplied from Europe. The stable supply of high-quality parts supports Mori Seiki's production activities.

Mori Seiki's global links

Manufacturing

Mori Seiki has built three manufacturing hubs: the Iga Campus in Iga City, Mie Prefecture; the Nara Campus at Yamato-Koriyama City, Nara Prefecture; and the Chiba Campus at Funabashi City, Chiba Prefecture. In addition, our subsidiary Taiyo Koki has its manufacturing hub at Nagaoka City, Niigata Prefecture, DIXI Machines has its at Le Locle in Switzerland, and Tobler S.A.S. has its at Louvres in France.

The Iga Campus is our biggest campus, and it manufactures mainly medium-sized and large lathes and machining centers. There is also a plant for the in-house manufacture of the spindles, ball screws, etc. that are key components of machine tools, and Iga also supplies parts to the other campuses. This is a hub that we can certainly call Mori Seiki's mother plant.

The Nara Campus manufactures compact lathes and vertical machining centers, 5-axis vertical machining centers, and machines suited to production lines for the automobile industry. It also manufactures loaders and other peripheral equipment for automation.

The Chiba Campus started operation in 2003. It manufactures mainly the multi-axis machines for which demand has been rapidly growing in recent years.

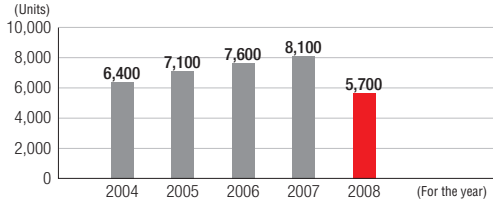
Items manufactured at each Campus

Campus	Items manufactured
Iga Campus	Multi-axis turning centers, CNC lathes, 5-axis control vertical machining centers, 5-axis control horizontal machining centers, Vertical machining centers, Horizontal machining centers
Nara Campus	5-axis control vertical machining centers, CNC lathes, Compact CNC lathes, Compact machining centers, Loaders/Peripheral equipment
Chiba Campus	Multi-axis turning centers, Super integrated machining cell, 2-axis control vertical CNC lathes
TAIYO KOKI	CNC vertical grinding machines, CNC internal grinding machines, CNC cylindrical grinding machines
DIXI Machines	High-precision horizontal machining centers, 5-axis control vertical machining centers, Vertical machining centers
TOBLER S.A.S	Standard expanding mandrels, Face drivers, Special chucks

In our previous medium-term management plan, the "Mori-568PLAN", Mori Seiki set about building a system with a manufacturing capacity of 800 units per month, and at the peak in March 2007 we achieved a monthly production of 832 units.

In the first half of FY 2008, because we had the remainder of the orders from FY 2007 and the new incoming orders were relatively steady, our progress was very favorable, with production from April to September averaging 622 units per month. However, from mid-October onward, incoming orders dropped substantially due to the rapid deterioration of the economy, and with customers cancelling previously ordered machines, the manufacturing departments were quite adversely affected. As a result, the production from October to March in the next year was halved compared to that in the first half, to an average of 331 units per month. The total number of units manufactured in FY 2008 was 5,717, which was down 30% from the previous year's total of 8,134.

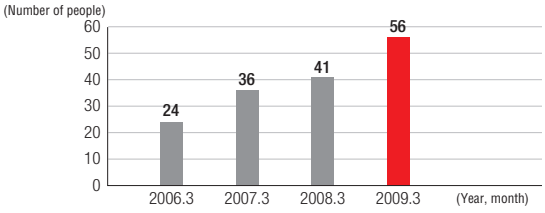
Trend in production volume



In this environment, the Iga, Nara and Chiba Campuses are dedicating two to three days a week to training the manufacturing-related staff. The purpose of continuing with training rather than making these non-business days was to increase the number of staff members who are capable of cell production, and to diversify and improve the skills of the individual staff members, for example by having them learn how to operate machines that they don't usually work on.

In the next period of growth we will be able to station staff members flexibly, and improve production efficiency through the improved individual skills, allowing us to successfully provide high quality machines with short delivery terms, taking the lead over rival companies.

Number of staff members capable of cell production



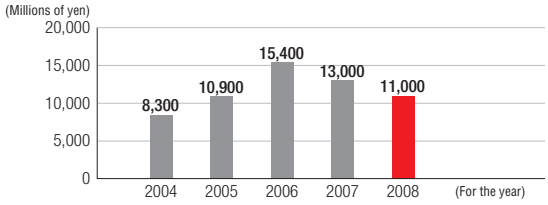
From this fiscal year, we are working on strengthening our production technology capability by converting the Production Technology Department to the Production Technology HQ. Encompassing preparation for trial production of newly developed machines, planning for introduction of machinery and equipment, development and manufacture of fixtures for machining and assembly, and preventive maintenance of equipment and machinery, production technology work is very diversified and plays a very important role. From the development stage, production technicians engage in thorough debate with the personnel responsible for development of machining equipment, the tools and fixtures to be used, assembly procedures and so on, with a vision to improving machining efficiency and assembly efficiency during mass production. In April 2009, a new production management system started. It compensates for the weaknesses of the production management system that had been used up till then, and by realizing daily MRP (Material Requirements Planning) processing and improving the visibility of the progress of part and product manufacture, it manages to reduce the quantity of part inventory and to shorten production lead time.

Investment in plant and equipment

Mori Seiki had planned the construction of a new assembly plant for large machines at the Iga Campus and other facilities, within FY 2008, but construction has been postponed in line with changes in the economic environment. However, we are ready to start construction immediately once demand has started to recover.

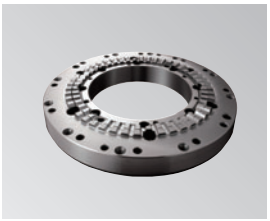
Regarding equipment and machinery, we plan to invest in 23 units in FY 2009. To be specific, we expect to introduce machining equipment for large bearings, which we plan to manufacture in-house, as well as acquire other equipment including large coordinate measuring machines and washing booths. In this way, Mori Seiki is continuing to undertake the investment in machinery and equipment that is necessary to secure our future production and quality.

Trend in investment in plant and equipment



In-house manufacture of parts

Mori Seiki is carrying on the in-house manufacture of spindles, ball screws, castings, heat treated parts, sheet metal parts, curvic couplings and other components within the Iga Campus. As part of this, in FY 2008 we installed two more vacuum carburizing furnace systems, further reinforcing our shift to in-house handling of heat treatment. The operating rate of the in-house manufacturing plants for each of the key components dropped in line with a fall in production volumes, but in FY 2009, as part of our collaboration with the German company GILDEMEISTER AG (DMG), we plan to start supplying key components manufactured in-house to them. We think that both sides can see merit in this, with Mori Seiki increasing the operating rate in its in-house manufacturing plants, and DMG becoming able to procure high-quality components at low prices.



Curvic coupling

Ball screws

TAIYO KOKI

TAIYO KOKI is a manufacturer of grinding machines established in 1986 and headquartered in Nagaoka City, Niigata Prefecture. Grinding machines are important machine tools that are used for the final finishing processes of machine parts using a grinding wheel for which high accuracy is required. 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 as well as in the construction machinery, shipbuilding, aircraft and energy-related industries.

The company became a member of the Mori Seiki Group in May 2001, and it 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 to customer needs, to actively make inroads into overseas markets, and to secure a wide range of personnel. Aiming at becoming an overall specialized manufacturer of grinding machines while honing its original development capability, the company continues to push on in order to keep satisfying more globalized market needs.

TAIYO KOKI
THE GRINDING MACHINE COMPANY

DIXI Machines

This company was founded in 1904 as a manufacturer of machines for machining watch components in the town of Le Locle in the canton of Neuchatel in the Northwest territory of Switzerland boarding France, a district well known for the production of high class watches. Since its establishment, the high quality and reliability of its products and services have given it a strong reputation worldwide in cutting-edge technological fields including the aircraft industry, aerospace industry, automobile industry, medical equipment and machinery tools.

At DIXI Machines, the DHP Series and JIG Series – the world's highest class of high-precision 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 more than 100 years, since the company's foundation, and continues today. In 2007, the company became a member of the Mori Seiki Group, and full-scale knock-down production of the new-concept Dura Series and the NMV5000 DCG 5-axis-control high-precision vertical machining center started at DIXI Machines from FY 2008. 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.

DIXI machines

TOBLER S.A.S.

TOBLER S.A.S was founded in 1945 and is the world's top manufacturer of workholding products such as high-quality, high-precision mandrels and chucks; it became a member of the Mori Seiki Group in 2008.
This company has built up a solid position in the industry based on two principles: tireless research to develop new products, and building a relationship of trust with customers. Using TOBLER products that take advantage of the latest technology enables customers to machine efficiently and with high accuracy. They can also reduce setup time and the number of processes, making it possible to shorten production time. The exacting service of the company has won the deep trust of many customers, notably in the automobile, agricultural equipment and aircraft industries.
The company will continue to provide a variety of solutions in response to customer requirements.

Standard expanding mandrels

Face drivers

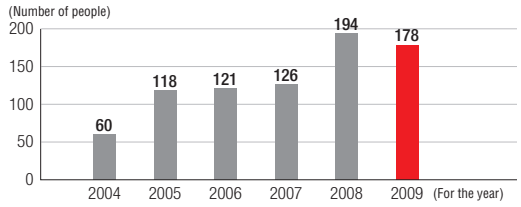
MORI SEIKI TECHNO

In the current times where reduction of costs and transplantation overseas were in the spotlight, we can say that the effective utilization of production assets is a major issue in the minds of customers. MORI SEIKI TECHNO, LTD. provides support for customers to strengthen their equipment by running an "overhaul service" for tuning up customers' existing machines in accordance with their requirements, a "rebuild service" for rebuilding trade-in machines and selling them as Mori Seiki approved machines, and an "upgrade service" for changing specifications according to conditions in each country to support customers' transplantation overseas.

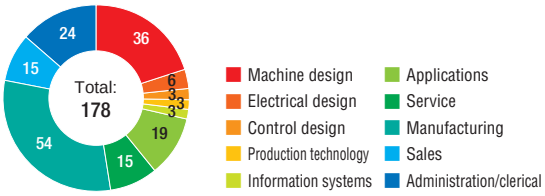
Employees

The second medium-term management plan “PQR555”, which started from FY 2008, sets human resource development/ enhancement (= People, the “P” in PQR) as one of its objectives, and we are therefore putting effort into recruitment and education. 178 new recruits entered the company in April 2009. This is a relatively high number, following last year’s figure of 197. In FY 2010, we will also plan to recruit around 100 people, and our policy is to maintain this level going forward. We give the new recruits general education for two weeks after they have entered the company, and then implement training programs that are fixed for each department to which the recruits have been assigned. In the case of development-related recruits, we implement 3 months of skills training so that the recruits acquire basic knowledge about machine tools before formally posting them.

Trend in numbers of recruits



Numbers of new employees assigned to each department in FY 2009

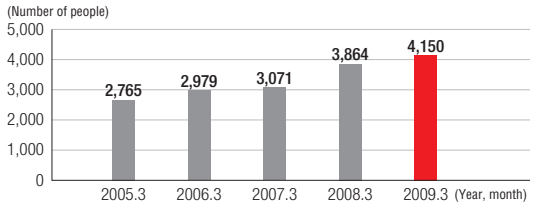


We also actively train existing employees in a wide range of disciplines, from English language training and training in the management by objective system to training for newly appointed officers, skills training, service training and so on. Due to the increase in transactions with overseas parties as a result of globalization in recent years, the improvement of individual employees’ linguistic ability has become a particularly urgent task. For this reason, we are implementing English language training at each of the Campuses and working to improve linguistic ability by providing development-related employees with one month of overseas training combined with language training.

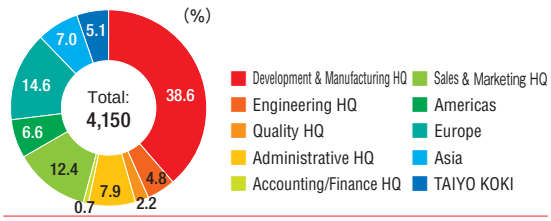
We gave priority to training the manufacturing-related staff who had spare time on their hands due to the drop in the production volume in the second half of FY 2008. Apart from practical training based on operation standards, we also implemented classroom lectures for compliance training, training on manners and so on. Through this training we are raising the skill levels of all employees, nurturing personnel who will be able to operate on a global stage, and building a flexible production system and realizing quality improvements.

The total number of employees as of 31st March, 2009 is 4,150 (including part timers, temporary staff and those on labor contracts). Due to our active new recruitment and year-round recruitment in recent years along with the expansion of our business, we have increased the total number of employees. Looking at it department by department, the Development and Manufacturing HQ has the biggest percentage at 38.6%, while the overseas employees account for 28.2% (14.6% in Europe, 6.6% in the Americas, and 7.0% in Asia), and the Sales HQ accounts for 12.4%.

Change in number of employees

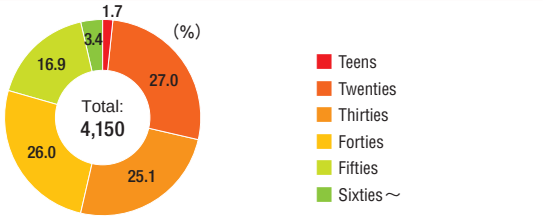


Numbers of employees assigned to each department



The average age of the Mori Seiki staff is 38.9, which is 0.2 years younger than last year. This is due to the fact that the number of new staff members entering the company has increased. The retirement age is 60 but many members of staff continue to work under contract after the retirement age up to 65. Those who are rehired after retirement mainly handle work like overhauling and rebuilding machines that have already been delivered as employees of MORI SEIKI TECHNO, LTD., and also take on duties like guiding younger members of staff in assembly and manufacturing teams.

Age distribution



(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 extremely important, and 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	
Kyoto Research Institute	
Osaka Institute of Technology	

Establishment of the IIT scholarship program

Mori Seiki and the University of Tokyo jointly established the "Mori Seiki IIT Scholarship Program" aimed at the Indian Institutes of Technology (abbreviation IIT), which is located in the Indian city of Hyderabad. On 20th February, 2009, a conferment ceremony was held, and scholarships were conferred on the ten selected students. We hope that all the students who received scholarships this time will study mechanical or electrical engineering or some other field of specialization more widely and deeply so that they can in the future contribute to the development of India, Japan, and perhaps the world as a whole.

Supporting the International Skills Festival for All

The International Skills Festival for All is held once every two years with a view to improving vocational training and levels of technical skill in the participating countries by having young technicians from every country and region of the world aim to be the best in the world by pitting their skills against each other internationally across a wide range of fields.
Mori Seiki was chosen to be an Official Supplier to the 39th International Skills Festival for All, Japan (WorldSkills Shizuoka 2007), which was held in Numazu City of Shizuoka Prefecture for 8 days from November 14 to 21, 2007. Just over 800 people from 50 countries and regions throughout the world took part in 48 different occupations, and 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 was also recognized as a Founding Sponsor to the 40th WorldSkills Competition (WorldSkills Calgary 2009), held in Calgary, Canada from 1st September, 2009. This is the second such recognition in a row, following the 39th WorldSkills Competition in 2007. Mori Seiki will continue to manufacture highly reliable machine tools that we can be proud of throughout the world, and to support young technicians through machine tools.

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 Japan, we receive over 100 applications every year in the four sections of “Parts Machining”, “Die and Mold Machining/ Mold Machining”, “Micro Machining”, and “Academic Research.” Last year at the venue for JIMTOF2008, in addition to the awards for the prize-winning entries in each section, we also exhibited all of the submitted entries in our booth. This was very well received, proving both an opportunity for the parties who submitted entries to show their technical capabilities, and for the visitors attending the show to encounter many techniques. We should note that this contest is not held just in Japan but also in Europe and the Americas, where it has won acclaim.
Mori Seiki will continue to make every effort to improve machining technology in a global setting, and to be able to contribute to the development of the industry.

(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. 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.

Contributing to the local environment

Improvement and beautification campaign around the Nara Campus No. 1 Plant

We are weeding, removing silt and cleaning up the banks of the Bodaisen River, which flows alongside the Nara Campus No. 1 Plant, to restore it to its former beauty.

Environment-friendly machines

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.

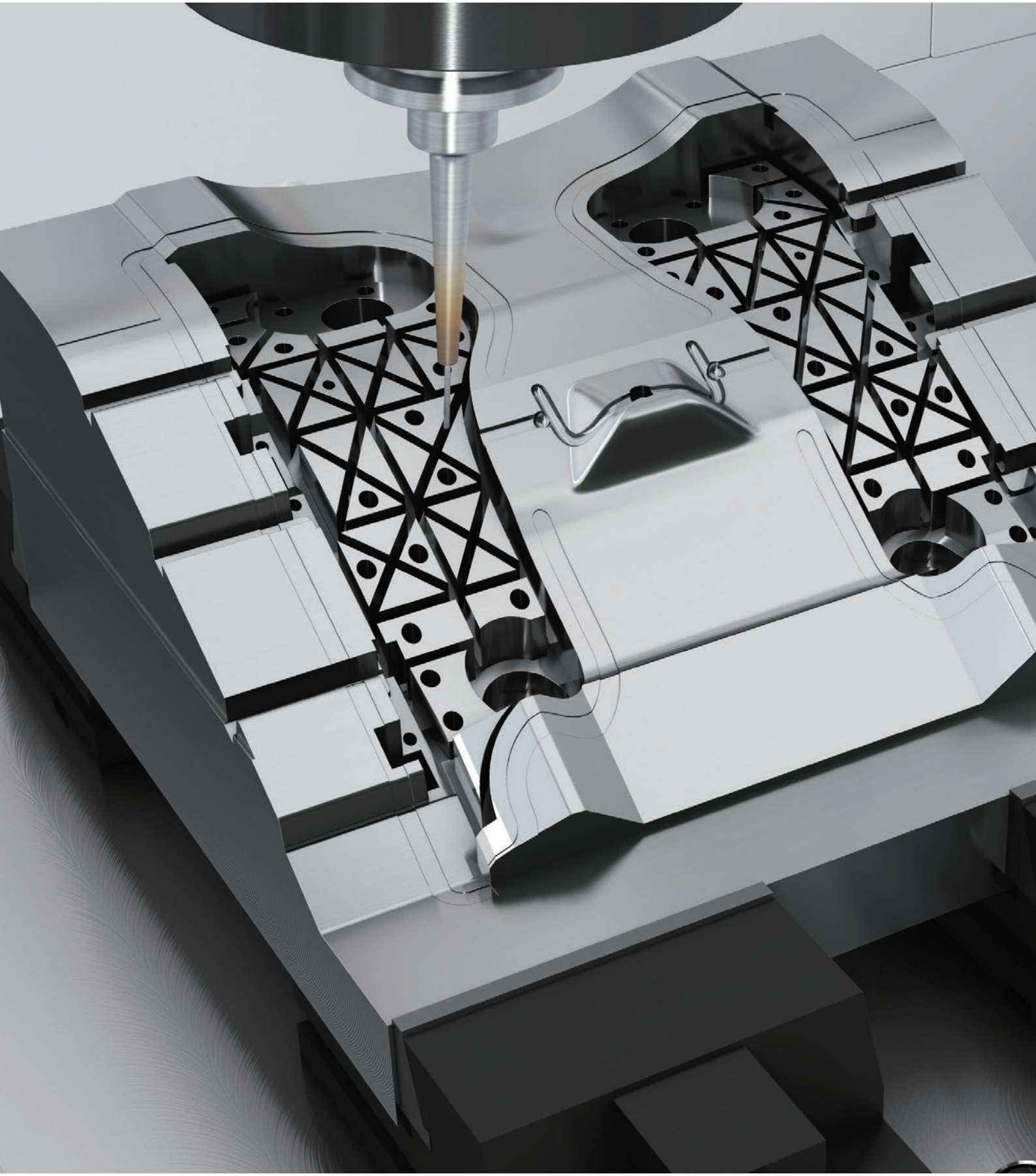
Environmentally-friendly machine transfer

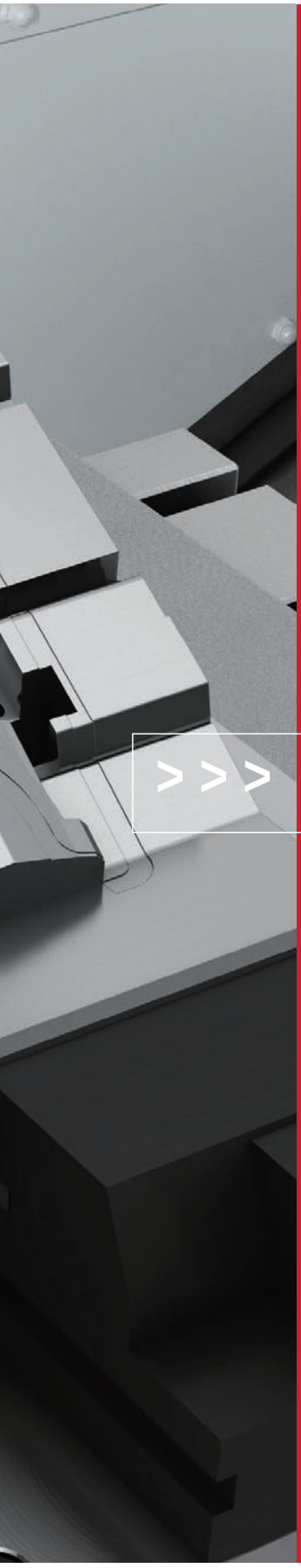
Mori Seiki is an industry pioneer in introducing a traveling lifter to carry large machine tools. Until now, machines were carried on a large crane truck, which was disassembled, transported to the customer's factory on several trailer trucks, and re-assembled there. By contrast, the traveling lifter 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.

During transport

Installation has been completed

Four-wheel-drive





Corporate Information

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.

Corporate Profile (As of 31st March, 2009)

MORI SEIKI CO., LTD.

•President

Masahiko Mori

•Total Assets

133,700 million yen (Individual)/
149,200 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

109,400 million yen (Individual)/
116,800 million yen (Consolidated)

•Employees

2,920 (Individual)/4,150 (Consolidated)

•Homepage address

http://www.moriseiki.com

Affiliated companies

•Domestic consolidated subsidiaries

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

•Unconsolidated subsidiaries

BUG Inc.
3 other companies

•Affiliated companies accounted for using the equity method

WATANABE SEIKOSYO CO., LTD.
MORI SEIKI MOSCOW LLC

•Affiliated companies not accounted for using the equity method

ITOCHU SysTec Corporation

•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 (SHANGHAI) CO., LTD.
MORI SEIKI KOREA CO.,LTD.
PT. MORI SEIKI INDONESIA
MORI SEIKI AUSTRALIA PTY LTD.
MORI SEIKI FRANCE Sud-Est S.A.S.
MORI SEIKI India Private LTD.
MORI SEIKI Istanbul Makina San. ve Tic. Ltd. Sti.
MORI SEIKI MANUFACTURING (THAILAND) CO., LTD.
MORI SEIKI CANADA, LTD.
MORI SEIKI MALAYSIA Sdn. Bhd.
MORI SEIKI TECHNO G.m.b.H.
Digital Technology Laboratory Corporation
MORI SEIKI INTERNATIONAL SA (DIXI)
TOBLER S.A.S.
2 other companies

Office/Campus locations

•Nagoya Head Office

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

•Tokyo Branch

13th floor, Shinagawa Intercity Tower B, 2-15-2 Konan Minato-ku, Tokyo 108-6113, Japan
Phone: +81-(0) 3-5460-3570

•Nara Campus No. 1 Plant

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

•Nara Campus No. 2 Plant

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

•Iga Campus

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

•Chiba Campus

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

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: 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: 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: 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

2005: 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)

2006: February Completed the Chiba Campus No. 2 Plant
March Completed the Iga Campus Casting Plant

2007: January Purchased DIXI Machines in Switzerland
April Established Mori Seiki University
May Established Akishino Mold Laboratory, Ltd.

2008: January Purchased Sandvik Tobler S.A.S. in France
October 60th anniversary of foundation
Business and Capital Collaboration with BUG Inc.

2009: March Business and Capital Collaboration with Germany's GILDEMEISTER AG
May Establishment of Tokyo branch office

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

2009: May Construction of new assembly plant

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

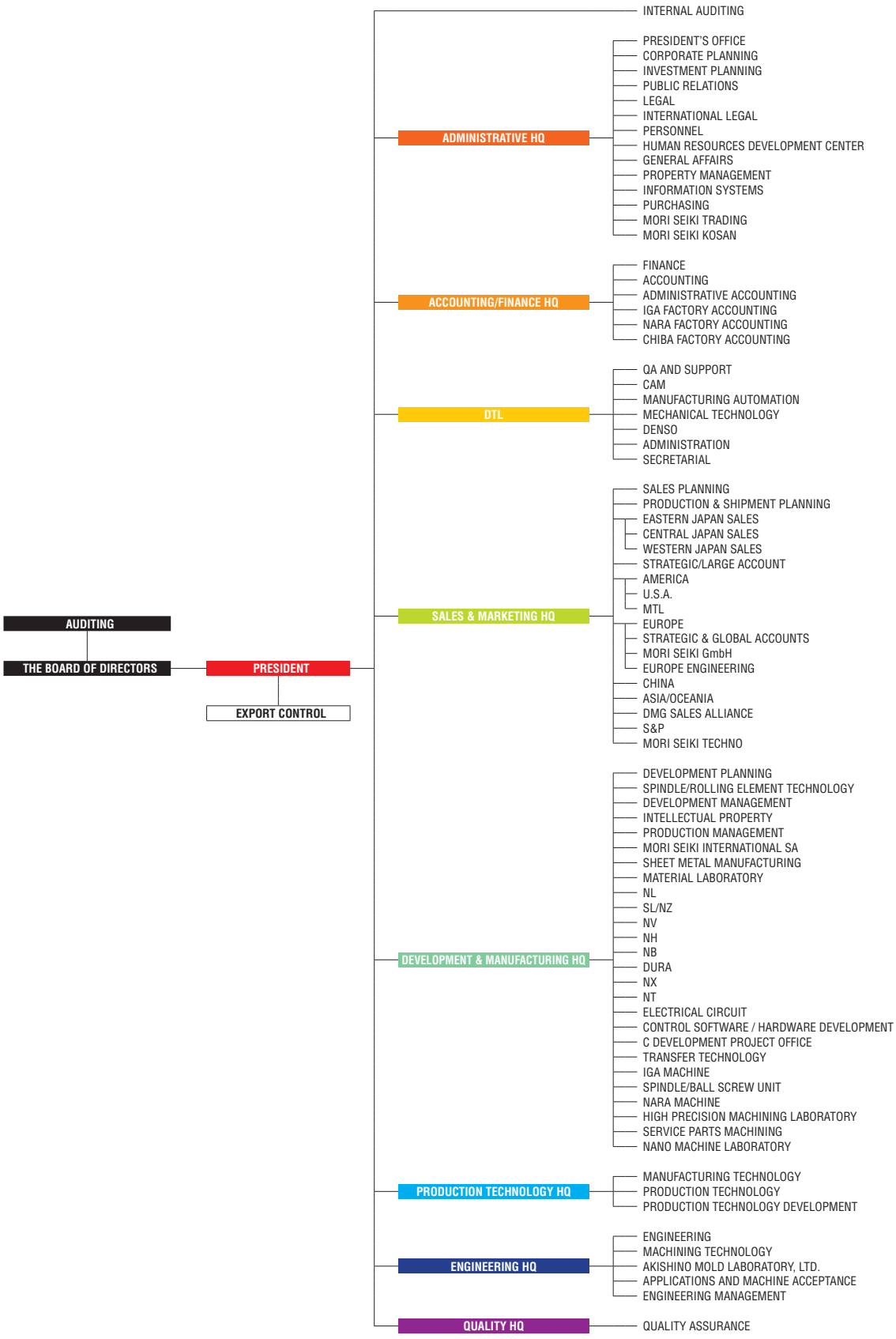
1981: Introduced NC pipe thread cutter for oil well pipes
Introduced the auto-programming system
1985: Introduced the multi-conversational system for NC lathes
Introduced CAD/CAM System HICAM
1987: Introduced the multi-conversational system for machining centers, SEIKI MULTI-M
Introduced the remote diagnosis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

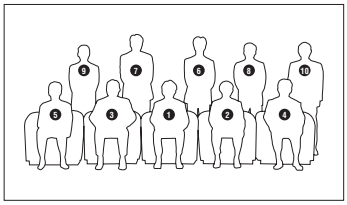
Organizational Structure

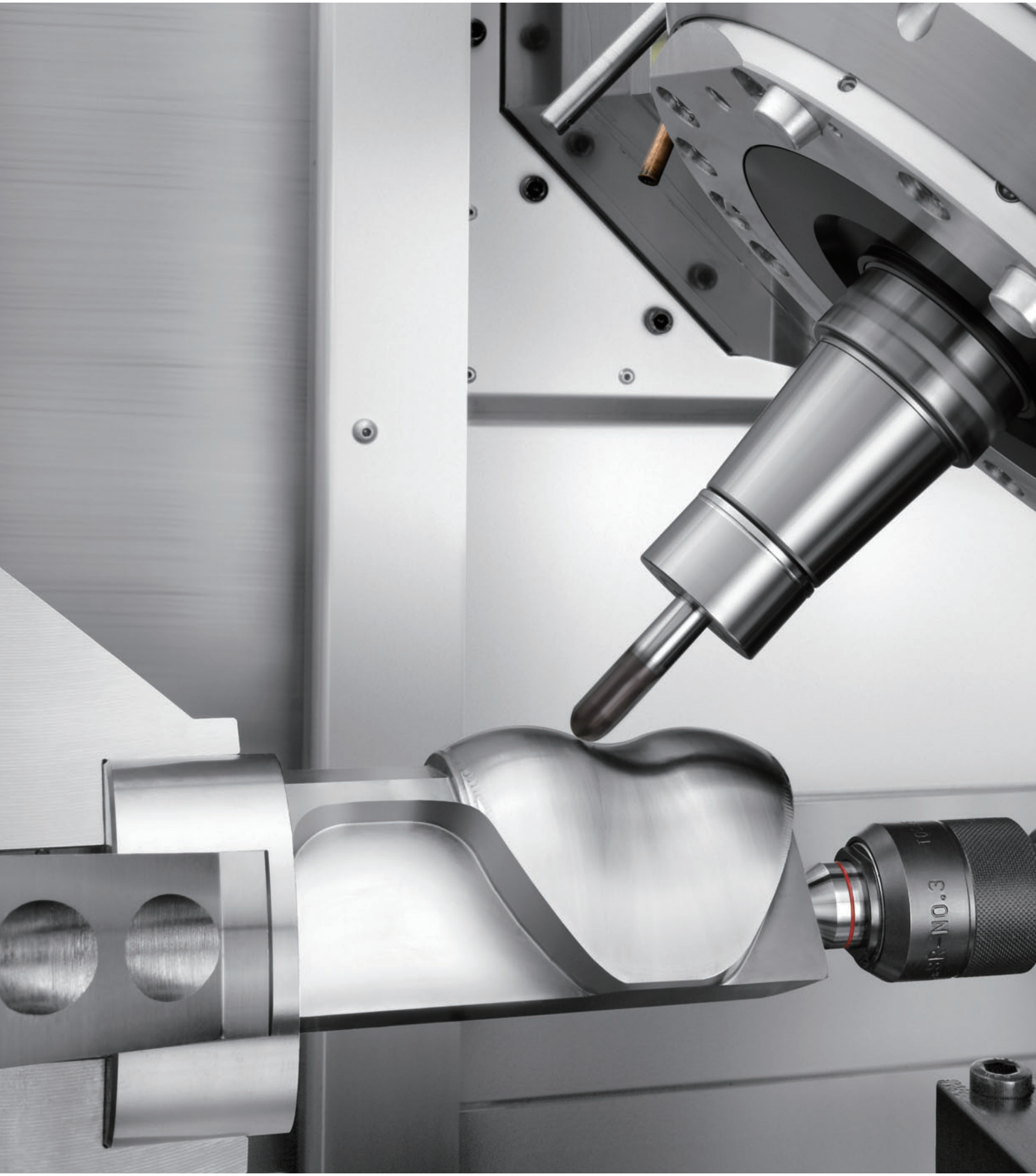
As of 1st July, 2009



Board of Directors

Masahiko Mori	President Dr. Eng. ①	Hiroaki Tamai	Senior Executive Managing Director ⑥
Hiroshi Mizuguchi	Vice President Dr. Eng. ②	Naoshi Takayama	Managing Director ⑦
Takeshi Saito	Vice President ③	Koji Kageyama	Corporate Auditor ⑧
Kazuyuki Hiramoto	Vice President Dr. Eng. ④	Katsuhiko Maehori	External Auditor ⑨
Tatsuo Kondo	Senior Executive Managing Director ⑤	Yasuo Noishiki	External Auditor ⑩

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Financial Section

Consolidated Balance Sheets

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31st March,		31st March,
	2009	**2008**	**2009**
Current assets:			
Cash and deposits (Note 4)	**¥ 14,453**	¥ 17,984	$ 147,134
Notes and accounts receivable:			
Trade	**16,634**	38,428	169,337
Allowance for doubtful receivables	**(139)**	(127)	(1,415)
Notes and accounts receivable, net	**16,495**	38,301	167,922
Inventories (Notes 3 and 5)	**37,915**	38,745	385,982
Deferred income taxes (Note 10)	**1,714**	3,281	17,449
Other current assets	**8,196**	3,665	83,437
Total current assets	**78,773**	101,976	801,924
Property, plant and equipment (Notes 3 and 7) :			
Land (Note 12)	**15,940**	15,165	162,272
Buildings and structures	**63,882**	62,256	650,331
Machinery, equipment and vehicles	**49,357**	46,395	502,464
Construction in progress	**1,862**	1,131	18,955
	131,041	124,947	1,334,022
Accumulated depreciation	**(76,501)**	(71,138)	(778,795)
Property, plant and equipment, net	**54,540**	53,809	555,227
Investments and other assets:			
Investments in securities (Note 6) :			
Unconsolidated subsidiaries and affiliates	**1,413**	2,890	14,385
Other	**7,259**	8,797	73,898
Total investments in securities	**8,672**	11,687	88,283
Deferred income taxes (Note 10)	**284**	1,115	2,891
Other assets:			
Goodwill (Note 7)	**695**	1,012	7,075
Other	**6,252**	4,671	63,647
Other assets, net	**6,947**	5,683	70,722
Total investments and other assets	**15,903**	18,485	161,896
Total assets (Note 18)	**¥149,216**	¥174,270	$ 1,519,047

See accompanying Notes to Consolidated Financial Statements.

Liabilities and Net Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31st March,		31st March,
	2009	**2008**	**2009**
Current liabilities:			
Short-term bank loans (Note 9)	**¥ 10,298**	¥ 696	$ 104,836
Current portion of long-term debt (Note 9)	**16**	—	163
Accounts payable, trade	**3,374**	11,517	34,348
Accrued income taxes (Note 10)	**1,371**	11,407	13,957
Accrued expenses	**1,268**	638	12,908
Deferred income taxes (Note 10)	**114**	79	1,161
Advances received	**1,554**	1,637	15,820
Allowance for product warranties	**1,192**	1,555	12,135
Allowance for bonuses to directors and corporate auditors	**25**	164	254
Other current liabilities	**5,130**	9,459	52,224
Total current liabilities	**24,342**	37,152	247,806
Long-term liabilities:			
Long-term debt (Note 9)	**2,665**	2,583	27,130
Deferred income taxes (Note 10)	**939**	643	9,559
Deferred income taxes on land revaluation reserve (Notes 10 and 12)	**1,699**	1,699	17,296
Accrued retirement benefits (Note 8)	**642**	—	6,536
Other long-term liabilities	—	432	—
Total long-term liabilities	**5,945**	5,357	60,521
Contingent liabilities (Note 13)			
Net assets			
Shareholders' equity (Note 11) :			
Common stock:			
Authorized – 157,550,000 shares – 31st March, 2009 and 2008			
Issued – 96,475,312 shares – 31st March, 2009 and 2008	**32,698**	32,698	332,872
Capital surplus	**45,429**	45,429	462,476
Retained earnings (Note 20)	**50,185**	56,751	510,893
Treasury stock, at cost: 7,925,975 shares – 31st March, 2009	**(10,589)**	—	(107,798)
2,695,892 shares – 31st March, 2008	—	(4,768)	—
Total shareholders' equity	**117,723**	130,110	1,198,443
Valuation and translation adjustments:			
Land revaluation reserve (Note 12)	**1,545**	1,545	15,728
Net unrealized holding gain on securities (Note 6)	**1,194**	1,571	12,155
Net unrealized gain (loss) on derivative instruments	**1,202**	(1,027)	12,237
Translation adjustments	**(4,864)**	(1,984)	(49,516)
Total valuation and translation adjustments	**(923)**	105	(9,396)
Stock acquisition rights (Note 11)	**829**	369	8,439
Minority interests	**1,300**	1,177	13,234
Total net assets	**118,929**	131,761	1,210,720
Total liabilities and net assets	**¥149,216**	¥174,270	$ 1,519,047

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Year ended 31st March,		Year ended 31st March,
	2009	**2008**	**2009**
Net sales (Note 18)	**¥ 157,203**	¥ 202,260	$ 1,600,356
Cost of sales (Note 8)	**98,305**	116,198	1,000,763
Gross profit	**58,898**	86,062	599,593
Selling, general and administrative expenses (Notes 8 and 14)	**52,976**	54,759	539,306
Operating income (Note 18)	**5,922**	31,303	60,287
Other income (expenses) :			
Interest and dividend income	**319**	406	3,247
Interest expense	**(133)**	(28)	(1,354)
Loss on revaluation of investments in securities (Note 6)	**(1,211)**	(542)	(12,328)
Foreign exchange loss	**(2,584)**	(3,089)	(26,306)
Loss on sales and disposal of property, plant and equipment, net	**(573)**	(503)	(5,833)
Loss on impairment of fixed assets (Note 7)	**(129)**	(190)	(1,313)
Other, net	**(329)**	351	(3,349)
Income before income taxes and minority interests	**1,282**	27,708	13,051
Income taxes (Note 10) :			
Current	**1,728**	12,895	17,592
Prior year	**—**	254	—
Deferred	**1,428**	(1,592)	14,537
	3,156	11,557	32,129
(Loss) income before minority interests	**(1,874)**	16,151	(19,078)
Minority interests in net income of consolidated subsidiaries	**(279)**	(176)	(2,840)
Net (loss) income	**¥ (2,153)**	¥ 15,975	$ (21,918)

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 gain (loss) on derivative instruments	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
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
Effect of changes in accounting policies applied to foreign subsidiaries (Note 3)	–	–	–	(69)	–	–	–	–	–	–	–	(69)
Net loss	–	–	–	(2,153)	–	–	–	–	–	–	–	(2,153)
Cash dividends	–	–	–	(4,174)	–	–	–	–	–	–	–	(4,174)
Purchases of treasury stock	–	–	–	–	(5,933)	–	–	–	–	–	–	(5,933)
Sales of treasury stock	–	–	–	(37)	112	–	–	–	–	–	–	75
Decrease in retained earnings resulting from initial consolidation of subsidiaries	–	–	–	(133)	–	–	–	–	–	–	–	(133)
Net changes of items other than shareholders' equity	–	–	–	–	–	–	(377)	2,229	(2,880)	460	123	(445)
Balance at 31st March, 2009	96,475,312	¥32,698	¥45,429	¥50,185	¥ (10,589)	¥ 1,545	¥ 1,194	¥ 1,202	¥ (4,864)	¥ 829	¥1,300	¥118,929

	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 gain (loss) on derivative instruments	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at 31st March, 2008	$332,872	$462,476	$577,736	$ (48,539)	$15,728	$ 15,993	$ (10,455)	$ (20,197)	$3,756	$11,982	$1,341,352
Effect of changes in accounting policies applied to foreign subsidiaries (Note 3)	–	–	(702)	–	–	–	–	–	–	–	(702)
Net loss	–	–	(21,918)	–	–	–	–	–	–	–	(21,918)
Cash dividends	–	–	(42,492)	–	–	–	–	–	–	–	(42,492)
Purchases of treasury stock	–	–	–	(60,399)	–	–	–	–	–	–	(60,399)
Sales of treasury stock	–	–	(377)	1,140	–	–	–	–	–	–	763
Decrease in retained earnings resulting from initial consolidation of subsidiaries	–	–	(1,354)	–	–	–	–	–	–	–	(1,354)
Net changes of items other than shareholders' equity	–	–	–	–	–	(3,838)	22,692	(29,319)	4,683	1,252	(4,530)
Balance at 31st March, 2009	$332,872	$462,476	$510,893	$ (107,798)	$15,728	$ 12,155	$ 12,237	$ (49,516)	$8,439	$13,234	$1,210,720

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,
	2009	**2008**	**2009**
Operating activities:			
Income before income taxes and minority interests	**¥ 1,282**	¥ 27,708	$ 13,051
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**7,290**	7,130	74,214
Loss on impairment of fixed assets	**129**	190	1,313
Loss on sales and disposal of property, plant and equipment, net	**573**	503	5,833
Loss on revaluation of investments in securities	**1,211**	542	12,328
Increase in allowance for bonuses to directors and corporate auditors	**25**	164	254
Increase (decrease) in allowance for doubtful receivables	**9**	(159)	92
Increase in accrued retirement benefits	**603**	—	6,139
(Decrease) increase in allowance for product warranties	**(361)**	723	(3,675)
Interest and dividend income	**(319)**	(406)	(3,247)
Interest expense	**133**	28	1,354
Unrealized exchange loss	**3,192**	800	32,495
Changes in operating assets and liabilities:			
Notes and accounts receivable	**19,993**	(6,719)	203,532
Inventories	**(1,455)**	(9,982)	(14,812)
Notes and accounts payable	**(8,120)**	(304)	(82,663)
Bonuses to directors and corporate auditors	**(164)**	(159)	(1,670)
Other, net	**(640)**	202	(6,515)
Subtotal	**23,381**	20,261	238,023
Interest and dividend income received	**337**	394	3,431
Interest paid	**(130)**	(35)	(1,324)
Income taxes paid	**(15,024)**	(6,464)	(152,947)
Net cash provided by operating activities	**8,564**	14,156	87,183
Investing activities:			
Purchases of property, plant and equipment	**(8,104)**	(9,105)	(82,500)
Proceeds from sales of property, plant and equipment	**373**	866	3,797
Increase in investments in securities	**(310)**	(918)	(3,156)
Increase in investments in subsidiaries	**(373)**	(1,444)	(3,797)
Purchases of other assets	**(2,414)**	(2,091)	(24,575)
Other, net	**(596)**	(762)	(6,067)
Net cash used in investing activities	**(11,424)**	(13,454)	(116,298)
Financing activities:			
Increase (decrease) in short-term bank loans, net	**9,602**	(804)	97,750
Purchases of treasury stock	**(5,933)**	(10,292)	(60,399)
Proceeds from sales of treasury stock	**72**	2,043	733
Cash dividends	**(4,164)**	(4,722)	(42,390)
Other, net	**(84)**	644	(855)
Net cash used in financing activities	**(507)**	(13,131)	(5,161)
Effect of exchange rate changes on cash and cash equivalents	**(709)**	(225)	(7,218)
Decrease in cash and cash equivalents	**(4,076)**	(12,654)	(41,494)
Cash and cash equivalents at beginning of the year	**17,916**	29,959	182,388
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	**415**	613	4,225
Decrease in cash and cash equivalents resulting from exclusion of a subsidiary from consolidation	—	(2)	—
Cash and cash equivalents at end of the year (Note 4)	**¥ 14,255**	¥ 17,916	$ 145,119

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements 31st March, 2009

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 financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a format which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

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 ¥98.23=U.S.$1.00, the exchange rate prevailing on 31st March, 2009. 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 of the Company and its domestic consolidated subsidiaries are stated at lower of cost or net selling value, cost being determined by gross average method.

Merchandise, finished goods and work-in-process of overseas consolidated subsidiaries are stated at lower of cost or net selling value, cost being determined by the first-in, first-out method.

Raw materials are stated at lower of cost or market value, cost being determined by the moving average method.

Supplies are stated at lower of cost or market value, cost being determined by the last purchase price method.

(6) Property, plant and equipment (Other than leased assets)

Depreciation of property, plant and equipment of the Company and its 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 its domestic consolidated subsidiaries acquired on or subsequent to 1st April, 1998 is calculated by the straight-line method. Depreciation of property, plant and equipment of the overseas subsidiaries is calculated by the straight-line method.

The 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

(Additional information)

Change in useful life

Effective the year ended 31st March, 2009, based on the revision of the Corporation Tax Law of Japan, the Company and its one domestic consolidated subsidiary have changed the useful life of machinery from 10 years to 9 years as a result of the reconsideration of the useful life of machinery to reflect more realistic useful lives.

As a result, gross profit decreased by 112 million yen ($1,140 thousand) and operating income and income before income taxes and minority interests decreased by 117 million yen ($1,191 thousand) for the year ended 31st March, 2009.

The effect on segment information is described in Note 18.

(7) Leased assets

Leased assets under finance lease contracts that do not transfer ownership to the lessee are amortized to a residual value of zero by the straight-line method using the term of the contract as the useful life.

Finance lease transactions commencing on or before 31st March, 2008 other than those in which the ownership of the leased assets is transferred to the lessee are accounted for in the same manner as operating 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 in the Company and one domestic consolidated subsidiary.

(13) Accrued retirement benefits

Accrued retirement benefits is calculated based on the estimated amount of the retirement benefit obligation and the fair value of the pension plan assets at 31st March, 2009 to provide retirement benefits for employees in certain overseas consolidated subsidiaries.

Actuarial gain or loss is amortized by the straight-line method over a certain period within the average remaining years of service of the active participants in the plans.

(14) Derivatives

Derivatives are stated at fair value.

(15) 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.

(16) Research and development costs and computer software

Research and development costs are charged to income when incurred.

Expenditures relating to software developed for internal use are charged to income when incurred unless these contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over the useful life of the software, generally 5 years. Expenditures relating to software developed for sale in the market are capitalized as assets and amortized by the straight-line method over the prospective sales period, generally 3 years.

3. Changes in Method of Accounting

(1) Changes in method of measuring of inventories

Effective the year ended 31st March, 2009, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan (ASBJ) Statement No.9 issued on 5th July, 2006).

The effect of this change on operating results was immaterial for the year ended 31st March, 2009.

The effect on segment information is described in Note 18.

(2) Application of accounting standards for leases

Effective the year ended 31st March, 2009, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 originally issued by the First Committee of the Business Accounting Council on 17th June, 1993 and revised by ASBJ on 30th March, 2007) and "Implementation Guidance Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on 18th January, 1994 and revised by ASBJ on 30th March, 2007). According to the new accounting standard, lease transactions are accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee.

Finance lease transactions commencing on or before 31st March, 2008 other than those in which the ownership of the leased assets is transferred to the Company or its domestic consolidated subsidiaries are accounted for in the same manner as operating leases.

The effect of this change on operating results was immaterial for the year ended 31st March, 2009.

The effect on segment information is described in Note 18.

(3) Accounting policies applied to foreign subsidiaries

Effective the year ended 31st March, 2009, the Company and its overseas consolidated subsidiaries have adopted "Practical Solution on Unification of Accounting Policies applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No.18 issued on 17th May, 2006).

The effect of this change on operating results was immaterial for the year ended 31st March, 2009.

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 balance sheets at 31st March, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2008**	**2009**
Cash and deposits	**¥ 14,453**	¥ 17,984	$ 147,134
Time deposits with an original maturity in excess of 3 months included in cash and deposits	**(198)**	(68)	(2,015)
Cash and cash equivalents at end of the year	**¥ 14,255**	¥ 17,916	$ 145,119

5. Inventories

Inventories at 31st March, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	**2008**	**2009**
Merchandise	**¥ 315**	¥ 313	$ 3,207
Finished goods	**14,337**	13,391	145,953
Work in process	**5,809**	7,868	59,137
Raw materials and supplies	**17,454**	17,173	177,685
Total	**¥ 37,915**	¥ 38,745	$ 385,982

6. Securities

Marketable securities classified as other securities at 31st March, 2009 and 2008 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2009			2008			2009		
	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	**¥4,017**	**¥5,559**	**¥1,542**	¥5,243	¥7,298	¥2,055	$40,894	$56,592	$15,698
Subtotal	**4,017**	**5,559**	**1,542**	5,243	7,298	2,055	40,894	56,592	15,698
(2) Securities whose carrying value does not exceed their acquisition cost:									
Equity securities	**1,166**	**1,008**	**(158)**	1,151	1,102	(49)	11,870	10,261	(1,609)
Subtotal	**1,166**	**1,008**	**(158)**	1,151	1,102	(49)	11,870	10,261	(1,609)
Total	**¥5,183**	**¥6,567**	**¥1,384**	¥6,394	¥8,400	¥2,006	$52,764	$66,853	$14,089

The Company recorded an impairment loss of 1,211 million yen ($12,328 thousand) and 542 million yen on marketable equity securities classified as other securities for the years ended 31st March, 2009 and 2008, 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, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Investments in unconsolidated subsidiaries	**¥ 573**	¥ 1,924	$ 5,833
Investments in affiliates	**840**	966	8,552
Investments in unlisted stocks	**595**	298	6,057
Investments in limited liability partnership	**97**	99	988
Total	**¥ 2,105**	¥ 3,287	$21,430

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 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 goodwill are measured at estimates of their cash flows in the future, using their value in use.
Loss on impairment of fixed assets recorded for the year ended 31st March, 2009 related to the following assets and asset groups:

Use	Classification	Location	Millions of yen	Thousands of U.S. dollars
			2009	2009
Head office of Mori Seiki U.S.A., INC.	Land Buildings Machinery and equipment	Illinois, U.S.A.	**¥ 28**	$ 285
Mori Seiki International SA (DIXI)	Goodwill	—	**101**	1,028
Total			**¥ 129**	$ 1,313

① Mori Seiki U.S.A., INC. had utilized land, buildings, machinery and equipment as outlined in the above table for its head office. However, Mori Seiki U.S.A., INC. determined to sell these assets during the year ended 31st March, 2009. As a result, Mori Seiki U.S.A., INC. recognized a loss on impairment of these assets.

② Mori Seiki International SA (DIXI) recognized a loss on impairment of goodwill as outlined in the above table since the profitability arising from its operating activities had decreased. Mori Seiki International SA (DIXI) believed that the estimate of the recoverable amount was nil.

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
			2008
Mori Seiki (Taiwan) Co., Ltd. Technical Center	Land	Taipei Hsien, Taiwan, R.O.C.	¥ 76
	Buildings		114
Total			¥ 190

Mori Seiki (Taiwan) Co., Ltd. had utilized land and buildings as outlined in the above table for its head offices. 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.

8. Retirement Benefits

The Company and six 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. Furthermore, certain overseas consolidated subsidiaries have established a defined benefit plan, a benefit plan for a lump-sum payment, or an employees' defined contribution pension plan.
The multi-employer pension plan's pension assets at fair value amounted to 428 million yen ($4,357 thousand) of pension assets at fair value at 31st March, 2009. 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, 2009 is recognized as retirement benefit expenses.

The following table sets forth the funded and accrued status of the retirement benefit plans for employees and the amounts recognized in the accompanying consolidated balance sheet at 31st March, 2009 for the defined benefit pension plans of certain consolidated subsidiaries:

	Millions of yen	Thousands of U.S. dollars
	2009	**2009**
(1) Retirement benefit obligation	**¥ (2,394)**	$ (24,371)
(2) Plan assets at fair value	**1,635**	16,644
(3) Unfunded retirement benefit obligation (1)+(2)	**(759)**	(7,727)
(4) Unrecognized actuarial loss	**117**	1,191
(5) Accrued retirement benefits (3)+(4)	**¥ (642)**	$ (6,536)

The retirement benefit expenses for the years ended 31st March, 2009 and 2008 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2008**	**2009**
Service cost	**¥ 80**	¥ —	$ 814
Interest cost	**159**	—	1,619
Expected return on plan assets	**(138)**	—	(1,405)
Amortization of actuarial loss	**258**	—	2,626
Contributions to the pension plan	**1,047**	838	10,659
Contributions to a small- and medium-sized enterprise mutual aid plan	**11**	10	112
Contributions to the multi-employer pension plan	**39**	36	397
Total	**¥ 1,456**	¥ 884	$ 14,822

The assumptions used in accounting for the retirement benefit obligation for the year ended 31st March, 2009 are outlined as follows:

	2009
(1) Discount rate	**3.00~6.35%**
(2) Expected rate of return on plan assets	**4.00~6.22%**
(3) Allocation method of estimated benefits	**Straight-line method**
(4) Amortization period of actuarial gain or loss	**1 to 10 years (Period within the average remaining years of service of eligible employees)**

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

The weighted-average interest rates on short-term bank loans were 0.81% and 1.36% at 31st March, 2009 and 2008, respectively.

For effective financing purposes, the Company concluded bank overdraft agreements with three banks and the status of these at 31st March, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2008**	**2009**
Lines of credit of bank overdrafts	**¥ 45,000**	¥ 40,000	$ 458,109
Bank overdrafts utilized	**(9,800)**	—	(99,766)
Available credit	**¥ 35,200**	¥ 40,000	$ 358,343

For effective financing purposes, the Company and a domestic subsidiary concluded committed line-of-credit agreements with 24 banks at 31st March, 2009, and a domestic consolidated subsidiary concluded committed line-of-credit agreements with two banks at 31st March, 2008. The status of such agreements at 31st March, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2008**	**2009**
Committed lines of credit	**¥ 31,200**	¥ 1,200	$ 317,622
Short-term loans utilized	**(498)**	(696)	(5,070)
Available credit	**¥ 30,702**	¥ 504	$ 312,552

Long-term debt at 31st March, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	**2008**	**2009**
Bonds:			
Zero coupon yen convertible bonds with stock acquisition rights due 2013	**¥ 2,583**	¥2,583	$ 26,295
Finance lease obligations:			
Finance lease agreements expiring through 2015	**98**	—	998
	2,681	2,583	27,293
Less current portion	**(16)**	—	(163)
Net long-term dept	**¥ 2,665**	¥ 2,583	$ 27,130

The aggregate annual maturities of long-term debt subsequent to 31st March, 2009 are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2010	**¥ 16**	$ 163
2011	**19**	193
2012	**18**	183
2013	**2,601**	26,479
2014	**16**	163
2015 and thereafter	**11**	112
Total	**¥ 2,681**	$ 27,293

On 13th June, 2005, the Company issued 11,615 million yen 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 yen
Principal amount of bonds in the aggregate	11,615 million yen
Total amount of the shares issued upon exercise of stock acquisition rights	9,006 million yen
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 redemption of the bond at its face value.

10. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of approximately 40.49% for the years ended 31st March, 2009 and 2008. The overseas subsidiaries are subject to the income tax regulations of the respective countries in which they operate.

A reconciliation of the differences between the statutory tax rate and effective tax rates for the years ended 31st March, 2009 and 2008 as a percentage of income before income taxes and minority interests is as follows:

	2009	2008
Statutory tax rate	**40.49%**	40.49%
Increase (decrease) in income taxes resulting from:		
Reversal of valuation allowance	**186.49**	1.23
Permanent non-deductible expenses	**28.29**	0.94
Permanently non-taxable income	**(3.29)**	(0.19)
Per capita portion of inhabitants' taxes	**5.11**	0.21
Temporary differences relating to investments in subsidiaries	**(6.15)**	0.53
Tax credit	**—**	(1.52)
Prior year income taxes	**—**	0.19
Other	**(4.72)**	(0.17)
Effective tax rates	**246.22%**	41.71%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at 31st March, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2008**	**2009**
Current			
Deferred tax assets (reflected in current assets):			
Inventories	**¥ 705**	¥ 491	$ 7,177
Elimination of unrealized gain and loss on inventories	**609**	1,306	6,200
Allowance for doubtful receivables	**2**	43	20
Accrued enterprise taxes	**25**	780	255
Other	**657**	674	6,688
Deferred tax assets, subtotal	**1,998**	3,294	20,340
Less: valuation allowance	**(64)**	(13)	(652)
Deferred tax assets, total	**¥ 1,934**	¥ 3,281	$ 19,688
Offset of deferred tax liabilities	**(220)**	—	(2,239)
Deferred tax assets, net	**¥ 1,714**	¥ 3,281	$ 17,449
Deferred tax liabilities (reflected in current liabilities):			
Enterprise taxes receivable	**¥ (217)**	¥ —	$ (2,209)
Other	**(117)**	(79)	(1,191)
Deferred tax liabilities, total	**(334)**	(79)	(3,400)
Offset of deferred tax assets	**220**	—	2,239
Deferred tax liabilities, net	**¥ (114)**	¥ (79)	$ (1,161)
Non-current			
Deferred tax assets (reflected in investments and other assets):			
Inventories	**¥ 402**	¥ 383	$ 4,093
Loss on devaluation of listed equity securities	**1,255**	1,248	12,776
Depreciation	**681**	759	6,933
One-time write-off applied to assets	**77**	181	784
Allowance for doubtful receivables	**18**	15	183
Unrealized loss on derivative instruments	**—**	699	—
Tax loss carry forwards	**1,739**	—	17,703
Other	**401**	97	4,082
Deferred tax assets, subtotal	**4,573**	3,382	46,554
Less: valuation allowance	**(3,718)**	(1,708)	(37,850)
Deferred tax assets, total	**855**	1,674	8,704
Offset of deferred tax liabilities	**(571)**	(559)	(5,813)
Deferred tax assets, net	**¥ 284**	¥ 1,115	$ 2,891
Deferred tax liabilities (reflected in long-term liabilities):			
Unrealized gain on derivative instruments	**¥ (818)**	¥ —	$ (8,327)
Deferred capital gain on property	**—**	(3)	—
Reserve for depreciation for tax purposes	**(109)**	(113)	(1,110)
Unrealized holding gain on securities	**(182)**	(443)	(1,853)
Other	**(401)**	(643)	(4,082)
Deferred tax liabilities, total	**(1,510)**	(1,202)	(15,372)
Offset of deferred tax assets	**571**	559	5,813
Deferred tax liabilities, net	**¥ (939)**	¥ (643)	$ (9,559)
Deferred tax liabilities on land revaluation reserve (reflected in long-term liabilities):			
Deferred tax liabilities on land revaluation reserve	**¥ (1,699)**	¥ (1,699)	$ (17,296)

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 yen ($26,978 thousand) at 31st March, 2009 and 2008.

Common stock and treasury stock

Movements in common stock and treasury stock for the years ended 31st March, 2009 and 2008 are summarized as follows:

	Number of Shares			
	2009			
	31st March, 2008	Increase	Decrease	31st March, 2009
Common stock	96,475,312	—	—	96,475,312
Treasury stock	2,695,892	5,291,188	61,105	7,925,975

Stock acquisition rights

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

	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 option plans

The Company and one domestic consolidated subsidiary have stock option plans. The following stock option plans for certain executive officers, employees of the Company and certain consolidated subsidiaries and the stock option plan of the domestic consolidated subsidiary were approved at annual general meetings of the shareholders.

The stock option plans of the Company and the domestic consolidated subsidiary at 31st March, 2009 are summarized as follows:

Company	Date of approval	Number of options granted	Exercisable period
The Company	25th June, 2004	1,102,000	**From 1st July, 2006 up to and including 30th June, 2009**
The Company	29th June, 2005	2,798,000	**From 1st July, 2007 up to and including 30th June, 2010**
The Company	28th June, 2007	1,180,000	**From 1st July, 2009 up to and including 30th June, 2012**
The Company	18th June, 2008	4,155,000	**From 1st July, 2010 up to and including 30th June, 2013**
Taiyo Koki Co., Ltd.	20th June, 2008	50,400	**From 1st July, 2010 up to and including 30th June, 2013**

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

Company	The Company	The Company	The Company	The Company	Taiyo Koki Co., Ltd.
Date of approval	**25th June, 2004**	**29th June, 2005**	**28th June, 2007**	**18th June, 2008**	**20th June, 2008**
Stock subscription rights which have not been vested					
Outstanding as of 31st March, 2008	—	—	1,100,000	—	—
Granted	—	—	—	4,155,000	50,400
Retired	—	—	1,100,000	—	—
Forfeited	—	—	—	60,500	3,600
Vested	—	—	—	—	—
Outstanding as of 31st March, 2009	—	—	—	4,094,500	46,800
Stock subscription rights which have been vested					
Outstanding as of 31st March, 2008	192,400	1,338,600	—	—	—
Vested	—	—	—	—	—
Exercised	17,500	43,000	—	—	—
Forfeited	4,000	3,700	—	—	—
Outstanding as of 31st March, 2009	170,900	1,291,900	—	—	—
Exercise price (Yen)	¥957	¥1,259	¥4,040	¥1,563	¥1,806
Weighted average exercise price (Yen)	1,840	1,832	—	—	—
Weighted average fair value per stock at the granted date (Yen)	—	—	866	174	428
Exercise price (U.S. dollars)	$9.74	$12.82	$41.13	$15.91	$18.39
Weighted average exercise price (U.S. dollars)	18.73	18.65	—	—	—
Weighted average fair value per stock at the granted date (U.S. dollars)	—	—	8.82	1.77	4.36

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

A stock option plan at the shareholders' meeting of the Company on 18th June, 2007 was granted and subsequently retired at the Board of Directors' meeting of the Company on 18th June, 2008. Since the retired stock option plan was assumed as a part of stock option plan granted at the shareholders' meeting of the Company on 18th June, 2008, the exercise price of the stock option plan was adjusted from 4,040 yen ($41.13) to 1,563 yen ($15.91).

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 2,605 million yen ($26,519 thousand) and 2,662 million yen on 31st March, 2009 and 2008, respectively.

13. Contingent Liabilities

At 31st March, 2009, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
	2009	**2009**
Guarantees of lease payments by customers	**¥ 1,963**	$ 19,984
Keep-well agreement with a subsidiary (B.U.G., INC.)	**650**	6,617

14. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	**2008**	**2009**
Research and development costs	**¥5,673**	¥4,550	$57,752

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, 2009 and 2008 is summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2009			**2008**			**2009**		
Forward foreign exchange contracts	Contract value (notional principal amount)	Estimated fair value	Unrealized gain	Contract value (notional principal amount)	Estimated fair value	Unrealized gain (loss)	Contract value (notional principal amount)	Estimated fair value	Unrealized gain
Selling:									
U.S. dollars	**¥ 1,988**	**¥ 1,767**	**¥ 221**	¥ 6,051	¥ 5,371	¥ 680	$ 20,238	$ 17,988	$ 2,250
Euro	**6,645**	**6,110**	**535**	9,118	9,638	(520)	67,647	62,201	5,446
Total	**¥ 8,633**	**¥ 7,877**	**¥ 756**	¥ 15,169	¥ 15,009	¥ 160	$ 87,885	$ 80,189	$ 7,696

16. Leases

(1) Finance leases

Finance lease transactions commencing on or before 31st March, 2008 other than those in which the ownership of the leased assets is transferred to the Company and its domestic consolidated subsidiaries are accounted for in the same manner as operating 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 domestic consolidated subsidiaries at 31st March, 2009 and 2008, 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 domestic consolidated subsidiaries were capitalized:

	Millions of yen						Thousands of U.S. dollars		
	2009			**2008**			**2009**		
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	**¥ 8,024**	**¥ 3,792**	**¥ 4,232**	¥ 9,384	¥ 3,739	¥ 5,645	$ 81,686	$ 38,603	$ 43,083

Lease payments of the Company and its domestic consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to 1,537 million yen ($15,647 thousand) and 1,735 million yen for the years ended 31st March, 2009 and 2008, respectively.

Depreciation related to leased property of the Company and its domestic consolidated subsidiaries is calculated by the straight-line method over the respective lease terms assuming a nil residual value and amounted to 1,430 million yen ($14,558 thousand) and 1,624 million yen for the years ended 31st March, 2009 and 2008, respectively.

Interest expense for finance leases amounted to 123 million yen ($1,252 thousand) and 152 million yen for the years ended 31st March, 2009 and 2008, respectively under the principle method mentioned above.

Future minimum lease payments subsequent to 31st March, 2009 under finance leases other than those which transfer the ownership of the leased property to the Company and its domestic consolidated subsidiaries are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending 31st March,		
2010	**¥ 1,346**	$ 13,703
2011 and thereafter	**3,021**	30,754
Total	**¥ 4,367**	$ 44,457

(2) Operating leases:

Future minimum lease payments subsequent to 31st March, 2009 under operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending 31st March,		
2010	**¥ 1,060**	$ 10,791
2011 and thereafter	**9,762**	99,379
Total	**¥ 10,822**	$ 110,170

17. Amounts per Share

Amounts per share at 31st March, 2009 and 2008 and for the years then ended were as follows:

	Yen		U.S. dollars
	2009	**2008**	**2009**
Amounts per share:			
Net assets	**¥ 1,319.04**	¥ 1,388.52	$ 13.43
Net(loss)income:			
Basic	**(23.59)**	165.91	(0.24)
Diluted	**—**	161.99	—
Cash dividends	**40.00**	50.00	0.41

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 or loss per share was computed based on the net income or loss 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. However, diluted net income per share for the year ended 31st March, 2009 has not been presented because the Company and consolidated subsidiaries recorded a net loss.

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 CNC 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, 2009 and 2008 has been omitted.

The geographical segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2009 and 2008 is outlined as follows:

	Millions of yen						
	2009						
	Japan	The Americas	Europe	Asia and Oceania	Total	Eliminations	Consolidated
Sales to third parties	¥ 78,036	¥ 29,977	¥ 45,451	¥ 3,739	¥ 157,203	¥ —	¥ 157,203
Inter-group sales	64,200	994	1,636	1,289	68,119	(68,119)	—
Net sales	142,236	30,971	47,087	5,028	225,322	(68,119)	157,203
Operating expenses	136,146	29,865	47,033	5,732	218,776	(67,495)	151,281
Operating income (loss)	¥ 6,090	¥ 1,106	¥ 54	¥ (704)	¥ 6,546	¥ (624)	¥ 5,922
Total assets	¥ 130,871	¥ 15,429	¥ 26,693	¥ 4,364	¥ 177,357	¥ (28,141)	¥ 149,216

	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

	Thousands of U.S. dollars						
	2009						
	Japan	The Americas	Europe	Asia and Oceania	Total	Eliminations	Consolidated
Sales to third parties	$ 794,421	$ 305,171	$ 462,700	$ 38,064	$1,600,356	$ —	$1,600,356
Inter-group sales	653,568	10,119	16,655	13,122	693,464	(693,464)	—
Net sales	1,447,989	315,290	479,355	51,186	2,293,820	(693,464)	1,600,356
Operating expenses	1,385,992	304,031	478,805	58,353	2,227,181	(687,112)	1,540,069
Operating income (loss)	$ 61,997	$ 11,259	$ 550	$ (7,167)	$ 66,639	$ (6,352)	$ 60,287
Total assets	$1,332,292	$ 157,070	$ 271,740	$ 44,426	$1,805,528	$ (286,481)	$1,519,047

(1) Changes in method of measuring of inventories

As described in Note 3, effective the year ended 31st March, 2009, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan (ASBJ) Statement No.9 issued on 5th July, 2006).

The effect of this change on operating results was immaterial for the year ended 31st March, 2009.

(2) Application of accounting standards for leases

As described in Note 3, effective the year ended 31st March, 2009, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 originally issued by the First Committee of the Business Accounting Council on 17th June, 1993 and revised by ASBJ on 30th March, 2007) and "Implementation Guidance for Accounting Standards for Lease Transactions" (Guidance No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on 18th January, 1994 and revised by ASBJ on 30th March, 2007). According to the new accounting standard, lease transactions are accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee.

Finance lease transactions commencing on or before 31st March, 2008 other than those in which the ownership of the leased assets is transferred to the Company and its domestic consolidated subsidiaries are accounted for in the same manner as operating leases.

The effect of this change on operating results was immaterial for the year ended 31st March, 2009.

(3) Accounting policies applied to foreign subsidiaries

As described in Note 3, effective the year ended 31st March, 2009, the Company and its overseas consolidated subsidiaries have adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ PITF No.18 issued on 17th May, 2006).

The effect of this change on operating results was immaterial for the year ended 31st March, 2009.

(Additional information)

Change in useful life

As described in Note 2, effective the year ended 31st March, 2009, based on the revision of the Corporation Tax Law, the Company and its one domestic consolidated subsidiary have changed the useful life of machinery from 10 years to 9 years as a result of the reconsideration of the useful life of machinery to reflect more realistic useful lives.

As a result, operating income in Japan decreased by 117 million yen ($1,191 thousand) for the year ended 31st March, 2009. There is no effect of this change other than for Japan.

Overseas sales, which include export sales of the Company and sales (other than exports to Japan) of the overseas consolidated subsidiaries, totaled 101,998 million yen ($1,038,359 thousand) and 125,544 million yen, or 64.9% and 62.1% of consolidated net sales for the years ended 31st March, 2009 and 2008, respectively.

19. Related Party Transaction

(Additional Information)

Effective the year ended 31st March, 2009, the Company has adopted a new accounting standard, "Accounting Standard for Related Party Disclosures" (Accounting Standards Board of Japan, Statement No.11) and "Guidance on Accounting Standard for Related Party Disclosures" (Accounting Standards Board of Japan, Guidance No. 13).

Related party transaction for the year ended 31st March, 2009 is as follows:

Related party	Equity ownership percentage	Nature of transaction	Millions of yen	Thousands of U.S. dollars
Subsidiary (unconsolidated) B.U.G. INC.	49.9%	Keep-well agreement for bank loans	**¥ 650**	$ 6,617

Although the equity ownership is below 50%, B.U.G. INC. has been recognized as a subsidiary since the Company exerts substantial control over it.

20. Subsequent Event

Appropriation of retained earnings

The following distribution of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2009, was approved at the annual general meeting of the shareholders of the Company held on 17th June, 2009:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥20.00 (U.S.$0.20) per share	**¥ 1,771**	$ 18,029

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, 2009 and 2008, and the related consolidated statements of operations, 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, 2009 and 2008, 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, 2009 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 LLC

Osaka, Japan
17th June, 2009

Stock Information (As of 31st March, 2009)

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

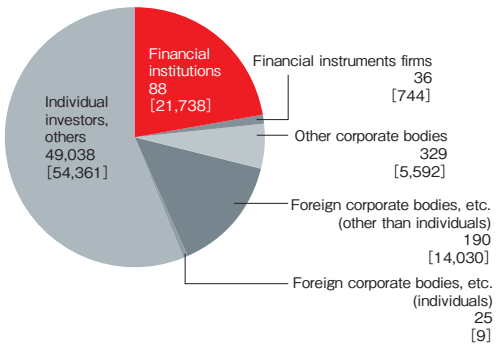
Number of Shares Outstanding
157,550,000 shares

Number of Shareholders
49,706

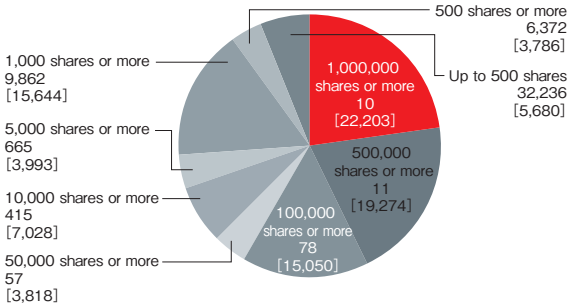
Major shareholders

Shareholder Name	Number of Shares Held (1,000 shares)	Voting Rights (%)
MORI SEIKI CO., LTD.	7,906	—
Japan Trustee Services Bank, Ltd. (Trust account)	5,128	5.79%
Masahiko Mori	4,615	5.21%
Japan Trustee Services Bank, Ltd. (Trust account 4G)	4,114	4.65%
The Master Trust Bank of Japan, Ltd. (Trust account)	3,162	3.57%
Chieko Mori	2,287	2.58%
Credit Suisse (Hong Kong) Limited (Standing Proxy, Citibank Japan Ltd.)	2,000	2.26%
Masaru Mori	1,822	2.06%
SUMITOMO MITSUI BANKING CORPORATION	1,200	1.35%
Kazuhiko Mori	1,010	1.14%

Distribution by shareholders [Units: 1,000 shares]



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



Contact for investors

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(Investor Relations)

13th floor, Shinagawa Intercity Tower B, 2-15-2
Konan Minato-ku, Tokyo 108-6113, Japan
Phone: +81-(0) 3-5460-3571

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 26th January, 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 United States 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 (United States 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?

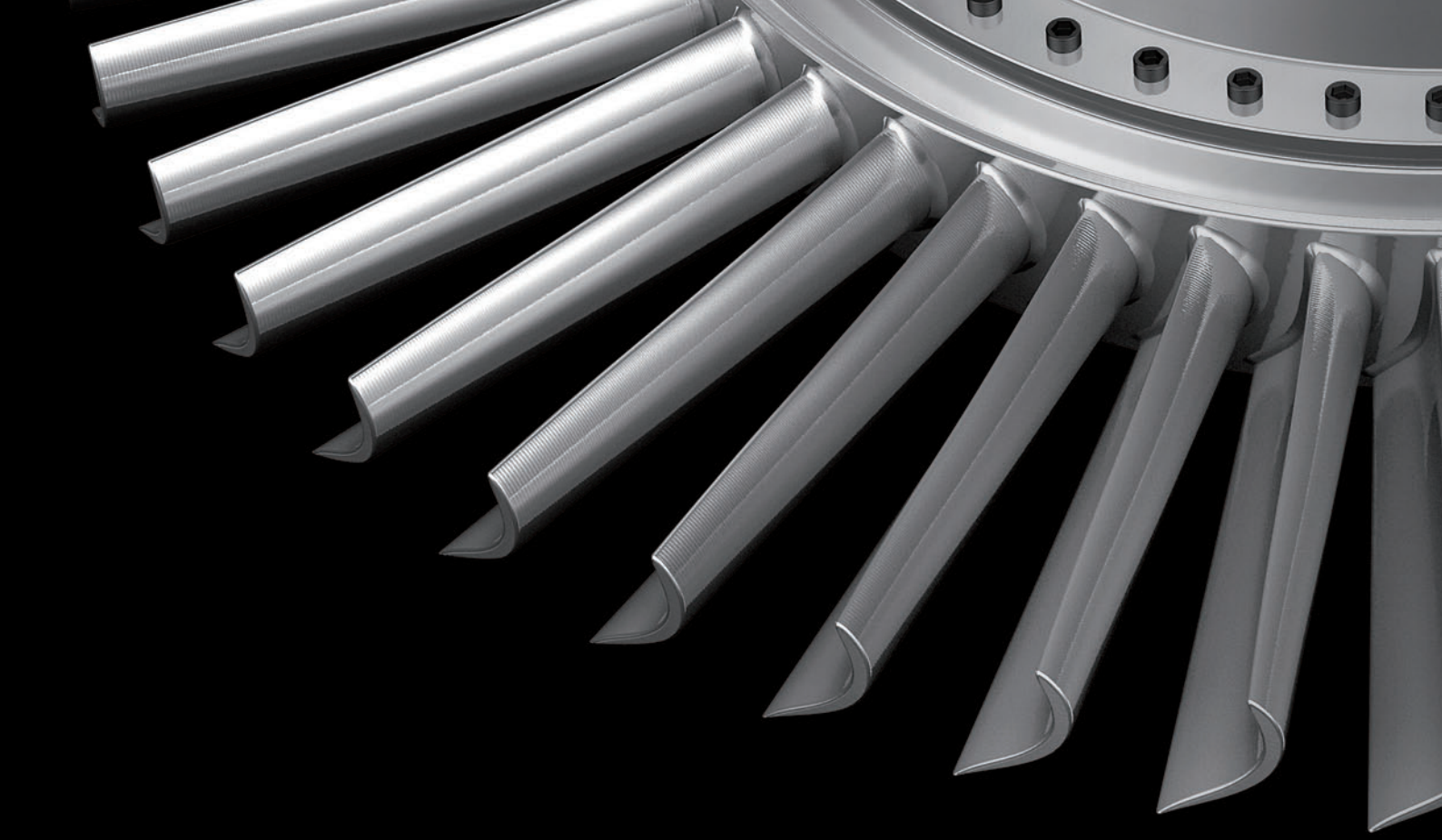
ADR is the acronym for American Depositary Receipts, which are U.S. dollar-denominated transferable registered securities that foreign companies can distribute in the United States instead of the underlying stock. They facilitate investment in foreign stock by United States investors. The underlying stock is held in custody (deposit) in the issuing company's home country, and ADRs are issued by the depositary bank in the United States 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 United States stock markets, and other conditions. Level 1 offers a convenient means for foreign companies to distribute securities in the United States 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.



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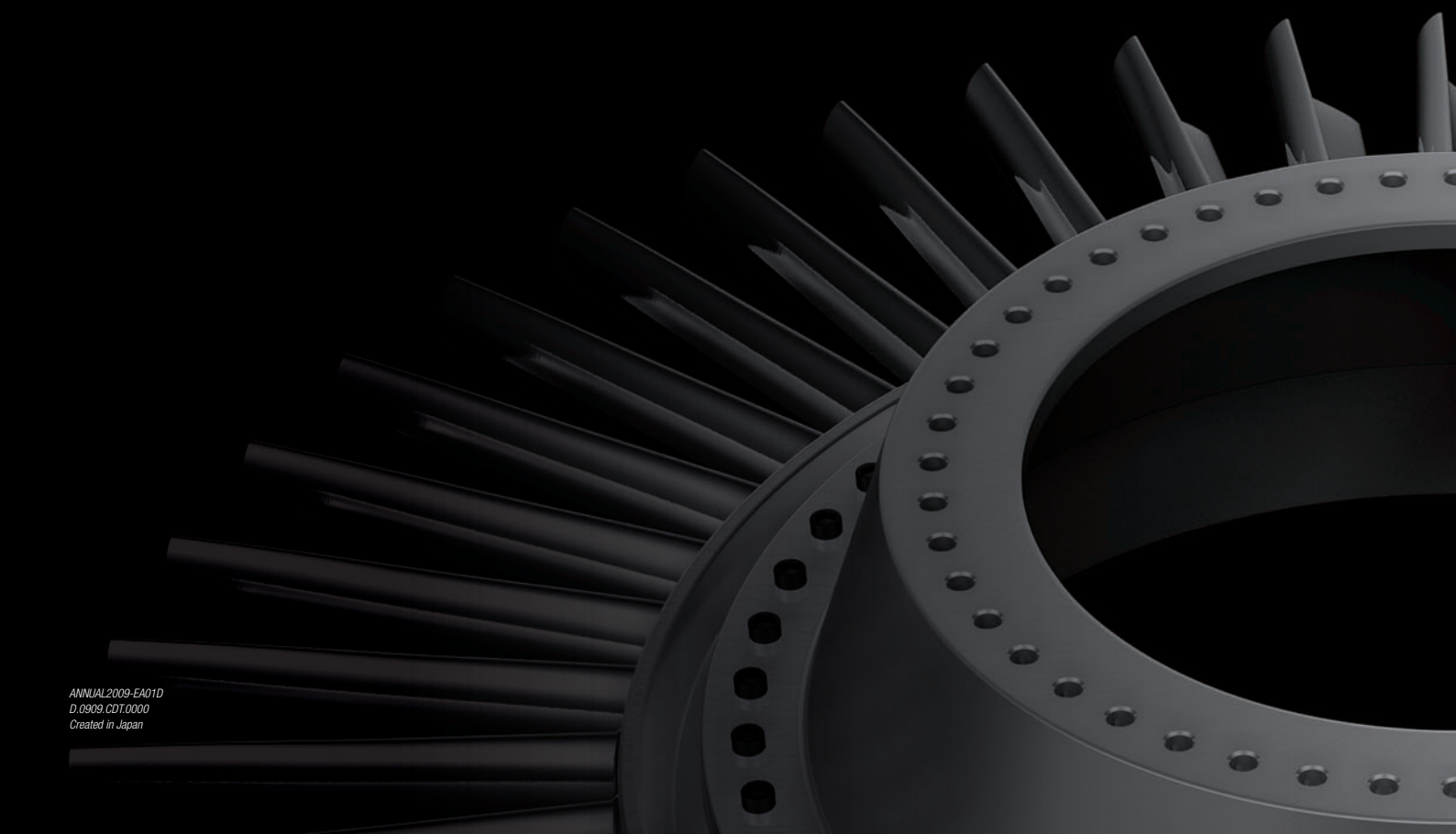

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