ANNUAL REPORT 2010

FISCAL YEAR ENDED MARCH 31, 2010

MORI SEIKI

THE MACHINE TOOL COMPANY

Striving to become GLOBAL ONE

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 been recognized as an innovator in the machine tool industry. We have always challenged conventional ideas and existing approaches, and have supported customers' production by utilizing our high levels of technical skills to integrate creative, cutting edge ideas into our products.

We have delivered over 180,000 machines worldwide. As the number suggests, our sincere efforts in providing good quality products have gained trust and confidence from many customers, and we have grown to become a leading company in the machine tool industry.

We will continue to provide first class products and service, and will work hard to meet the expectations of all stakeholders including customers and shareholders.

Contents

Mission Statement

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

Enable our customers to maximize their advantages and excel in their respective markets by continually striving to provide innovative, accurate and trouble-free machines at competitive prices; Increase our customers' productivity and efficiency through our latest developments in technology as manifested by our increasingly accurate and progressive manufacturing capabilities;

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

As befits a worldwide corporation, we will:

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

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

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

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

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

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

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

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

Contribute our fair share to our local community and society;

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

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

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.

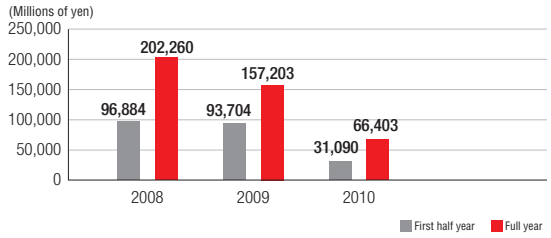
Consolidated Financial Highlights

Fiscal Year Ended 31st March, 2010

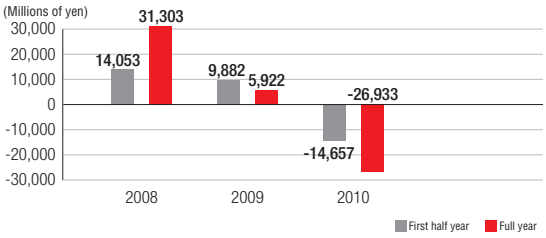
		Millions of yen		Thousands of U.S. dollars
		2010	2009	2010
For the year:				
	Net sales	¥ 66,403	¥ 157,203	$ 713,627
	Net income	(34,693)	(2,153)	(372,843)
Per share (Yen and U.S. dollars)				
	Net income:			
	Basic	¥ (363.87)	¥ (23.59)	$ (3.91)
	Net assets	870.57	1,319.04	9.36
	Cash dividends	20.00	40.00	0.21
At the year end:				
	Total assets	¥ 144,167	¥ 149,216	$1,549,350
	Net assets	98,718	118,929	1,060,914

The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at ¥93.05 = U.S.$1.00, the exchange rate prevailing on 31st March, 2010.

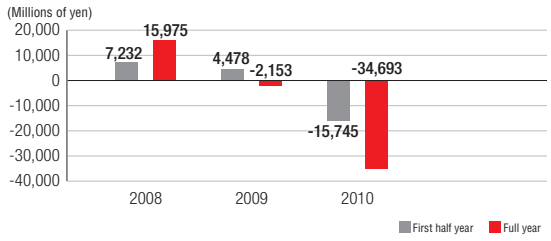
Net sales



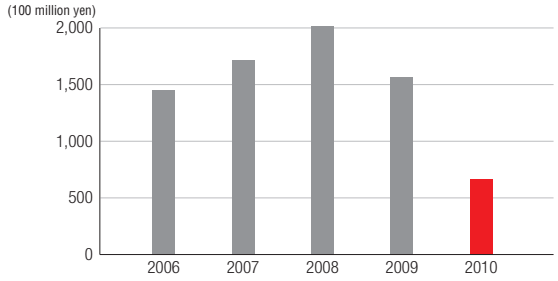
Operating income



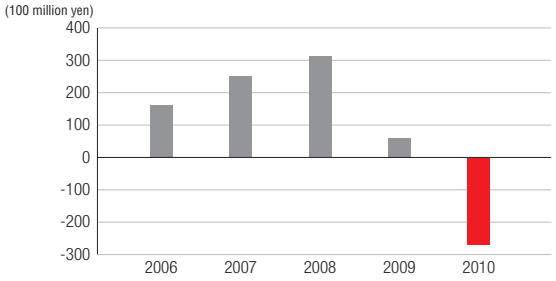
Consolidated (interim) net income in this term



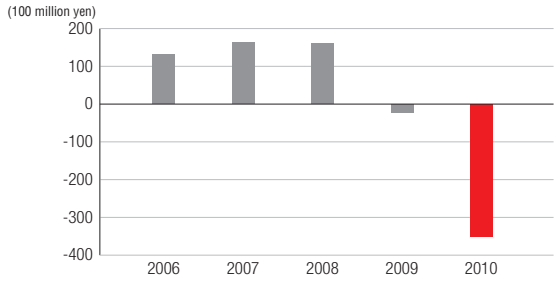
Net sales 66.4 billion yen



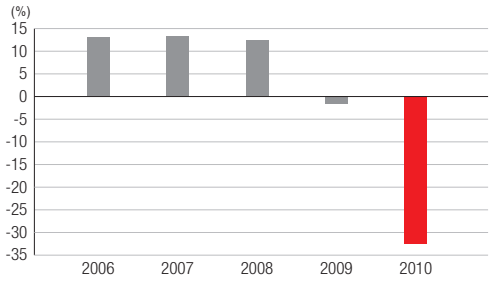
Operating income -26.9 billion yen



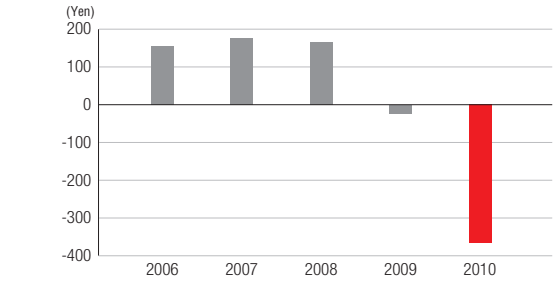
Net income -34.7 billion yen



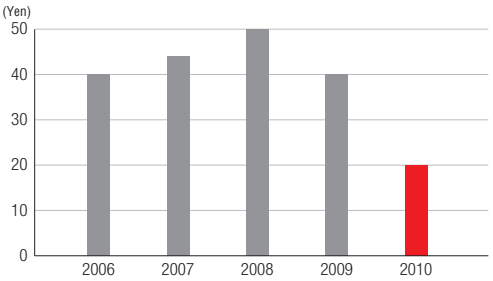
Return on equity -32.6 %



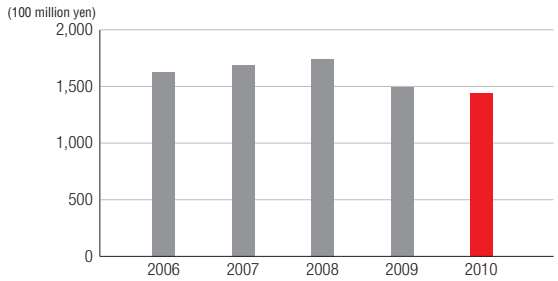
Net income per share -364 yen



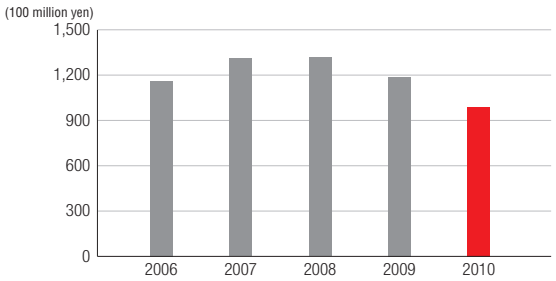
Cash dividends per share 20 yen



Total assets 144.2 billion yen



Net assets 98.7 billion yen



Message from the President

To the Shareholders

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

We are pleased to present the 62nd Annual Report (from 1st April, 2009 to 31st March, 2010) 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.

Although the order environment in the machine tool industry for FY 2009 was unfavorable, markets outside of Japan including Asia and China were starting to show signs of recovery in demand. In addition, the report on the industry's total order value released by the Japan Machine Tool Builders' Association has exceeded that of the same month of the previous year every month since December, 2009. The markets in North America, China and India also showed a strong recovery in demand for Mori Seiki products. With the positive signs emerging, we are now convinced that our orders will increase in the future.

In this business environment, the Mori Seiki Group improved its sales and service network by restructuring Technical Centers both inside and outside of Japan, and promoted cost reduction in all areas. We also raised funds of 16.8 billion yen through a public offering and allocation of new shares to third parties in December 2009, in order to keep financial soundness and to aggressively make investment for future growth.

We have always developed our products to meet the needs of our customers. During FY 2009, we developed and released new products including the NT1000 high-precision, high-efficiency compact integrated mill turn center with a floor space approximately 40% smaller than our conventional machines; the NMV3000 DCG High-Precision, 5-axis control vertical machining center with high-speed, high-precision machining capabilities and outstanding operability; and the new MAPPS IV high-performance operating system equipped with a highly functional CAM software as standard.

In addition, we reduced production in response to the decline in demand, while providing in-house training particularly for manufacturing engineers, so that they can develop a wide variety of skills.

Currently, we are promoting a long-term cooperation with GILDEMEISTER based on the business and capital agreement entered into between Mori Seiki and GILDEMEISTER AG of Germany (hereafter referred to as GILDEMEISTER) in March, 2009. As a part of the cooperation in the manufacturing field, DuraVertical 635 eco vertical machining centers and DuraTurn 310 V3 eco turning centers made by GILDEMEISTER's Shanghai plant have joined our product range. Meanwhile, our NT6600 DCG high-precision, large integrated mill turn centers have been supplied to GILDEMEISTER as an OEM product. We have also supplied major machine tool components including spindles, ball screws and turrets to GILDEMEISTER since last September. In the future, Mori Seiki and GILDEMEISTER will jointly conduct research and development for new models in addition to further expansion of mutual OEM supply. In the sales and service field, we started joint sales and service in Thailand, Indonesia, Taiwan, Turkey, Japan and Korea in 2009 and Australia, India and the United States in 2010. Moreover, with the aim of further expanding our business in Europe, we will establish a joint leasing company by collaborating with Mitsui & Co., Ltd. and GILDEMEISTER, and will begin providing financial services for our customers. We aim to increase orders from our existing customers and win orders from new customers by reducing their cash flow burden. By continuing and deepening these activities, Mori Seiki and GILDEMEISTER will continue to collaborate with each other to establish leadership in the global machine tool market.

Through the efforts with the second medium-term management plan, the PQR555, we implemented cost reduction in all areas to further strengthen our financial structure. In addition, we conducted activities for personnel development and quality improvement to strengthen our management structure. We have been improving our business systems so that we can respond to customer requests in a timely manner when the demand grows in the future.

In this way, we, the Mori Seiki Group, will continue to expand its business globally and implement strategies for medium and long-term growth.

Against this background, our consolidated sales were 66,403 million yen (a 57.8% decrease from the previous fiscal year), consolidated operating loss was 26,933 million yen (previous fiscal year: consolidated operating profit of 5,922 million yen) and consolidated net loss was 34,693 million yen (previous fiscal year: consolidated net loss of 2,153 million yen) due to the extraordinary loss on foreign exchange losses and implementation of business structural reforms including the voluntary early retirement program.

The Mori Seiki Group is increasing the corporate value for our shareholders, who understand that machine tools are 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 10 yen per share for the term ending March 2010 and an end-of-term dividend of 10 yen to give 20 yen for the year, and we are planning to pay an interim dividend of 10 yen for the term ending March 2011 and an end-of-term dividend of 10 yen, giving 20 yen for the year.

The Mori Seiki Group will continue to improve the development, manufacturing, sales and service systems so that we can provide products and service to customers in a timely manner as demand recovers from the recession, and will implement various measures to further improve our financial structure. We look forward to your continued support and guidance.

Masahiko Mori
President Dr. Eng.

Issues to be Addressed

(1) Product Development

Looking at the machine tool market, in addition to the demand for large machines, machines capable of heavy-duty cutting, 5-axis control machines and multi-axis machines from the advanced nations, there are also great expectations for compact machines suited for light machining in Asian countries where there has been a rapid economic recovery, and from the automobile industry where there is growing progress toward the adoption of electric vehicles.
The Group has taken up the meeting of these needs as an issue, and has made progress with the development of a new generation of large machines through innovative design, and the development of compact machines with the focus on high accuracy and cost performance. This fiscal year we will be launching all of these new models in the market.

(2) Quality

We understand quality to include all of the activities in which we relate to the customers through the products, from product planning to development, sales and after-sales service, and all our members of staff are working hard together on a daily basis to improve quality. We are working to accomplish "product accuracy of 5 micrometers" and "strengthening of product inspections", which we have identified as issues in the second medium-term management plan "PQR555" described in a separate section, and also to achieve further improvements in the performance and reliability of our products. We are also concentrating on strengthening our maintenance service, with a 2-year warranty on products, answering customers' inquiries with a 24-hour, 365-day-a-year system, and shipping maintenance parts within 24 hours.
We have also made the preparations for extending this same quality assurance system to the products that have been supplied to us on an OEM basis from GILDEMEISTER, such as "eco" series machines that we launched this spring. The Group will continue to reliably implement a prioritized strategy in order to improve quality.

(3) Trade Controls for Security

In recent years, international concern about measures to prevent the proliferation of weapons of mass destruction and the excess stockpiling of conventional weapons has been growing. To address this, the Group has established internal regulations to ensure compliance with export-related law (the Compliance Program) and is applying these regulations strictly.
Additionally, to prevent the illegal export of our products we have become the first in the machine tool industry to install devices that detect and disable a machine if it is transferred from the site where it was installed. We have also taken action to attach these devices to machines that were exported to "non-white countries"* in the past. We will continue our effort in trade controls for security as an important issue.

*White countries…Countries that are listed in Appended Table 3 of the Export Trade Control Order.
These are regions that are not subject to catch-all regulations.
(From Q&A / glossary in the website of the Ministry of Economy, Trade and Industry)

(4) Compliance with the Law

Regarding compliance with the law, our managers themselves explain the importance of carrying on corporate activities in compliance with the law to all members of staff, and by conducting training towards directors and general employees on a continuing basis, we are seeking to improve and increase directors' and employees' awareness of the law. We have also arranged a system to implement monitoring of the status of compliance with the law, with the Internal Auditing Department in the key role, and are working on strengthening internal control.

(5) Second Medium-term Management Plan "PQR555"

We have been promoting our second medium-term management plan, "PQR555", covering the three-year period from FY 2008 to FY 2010. The basic policy of this plan is, "to maintain stable growth in mature markets, retain a growth path by expanding the 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", and we have set ourselves the three targets of "maintaining growth", "strengthening profitability" and "establishing a global management quality".
This year is the final year of "PQR555". We are promoting the strategies necessary to achieve our targets.

Business and other risks

Among the factors relating to the status of business and the status of accounts covered in the Annual Report, the following 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 described in the securities report Mori Seiki submitted on 18th June, 2010.

(1) The 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 28.7% for Japan, 26.2% for the Americas, 31.0% for Europe, and 14.1% 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.

(2) Sudden 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, 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 61st term, there is a drop in demand for investment in plant and equipment in all regions simultaneously, it is possible that the activities, business results, and financial status of the Mori Seiki Group will be adversely affected.

The business results of the Mori Seiki Group are tending to be greatly influenced by increases and decreases in investment in plant and equipment in line with fluctuations in economic conditions, and both product prices and numbers of units sold can drop suddenly and substantially as a result of decreases in demand. We can see persistent improvement in machine tool orders, partly due to economic stimulus measures adopted by the government of each country, and the completion of inventory adjustment in the manufacturing industry. Although, it is difficult to predict the effects of the economic stimulus measures and exchange rate movements, and in the event that there are sudden fluctuations in the demand trend, or if demand is slow to recover, there is the possibility that it will take some time for the net income of the Mori Seiki Group to achieve profit into black ink within the term.

(3) Influence of Market Competition

Since the number of companies entering the machine tool industry is large, the Mori Seiki Group is exposed to fierce competition in each market and it is now difficult to set advantageous prices for the products. Particularly in the current period of decreasing demand, in addition to Japanese competitors who are clearing out excess inventory at low prices, there are overseas companies who are supplying low-cost products, leading to intensifying competition. The Mori Seiki Group is promoting measures to develop products that are differentiated from the competition by strengthened technical capabilities, to reduce the cost of raw materials and so on, and to strengthen sales capabilities, but if it turns out to be difficult to maintain or expand our market share or maintain profitability in the future, there could be adverse effects on the activities, business results and financial status of the Mori Seiki Group.

(4) Corporate mergers and acquisitions, and capital and business collaboration

The Mori Seiki Group ranks mergers, acquisitions and capital and business collaboration as an important strategy for strengthening its business base, and as part of this we are engaging in capital and business collaboration with GILDEMEISTER AG of Germany. We also took over the measuring instrument business of Sony Manufacturing Systems Corporation, a wholly-owned subsidiary of Sony Corporation, by splitting up the company, and at the end of March 2010 we made the company that resulted from this demerger, Magnescale Co., Ltd., a consolidated subsidiary.

Looking ahead, depending on the success or failure of the corporate mergers, acquisitions, and capital and business collaborations that we engage in, there could be adverse effects on the Mori Seiki Group's activities, business results and financial status.

(5) Significant 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.

(6) Significant 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. We have a policy for covering the soaring costs of raw materials by lowering the costs through negotiation with the suppliers and by passing on rises to the prices of products, but if the costs continue to soar or if measures such as cost negotiations with suppliers are unsuccessful, the activities, business results and financial status of the Mori Seiki Group may be adversely affected.

(7) Security 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.

(8) Dependence on specific fields of industry

The proportion of sales of the Mori Seiki Group in the automobile and related industries is relatively high. This means that fluctuations in the business environment in these industries may adversely affect the activities, business results and financial status of the Mori Seiki Group in the future. Restraint on investment in plant and equipment centering on these industries is still continuing, and if the period of reduced demand is protracted, improvement in the business results of the Mori Seiki Group may be delayed.

(9) Customer Credit Risks

Partly due to the current worsening of the economy both in Japan and overseas, the Mori Seiki Group is extremely cautious about the credit risk posed by business partners, but if the credit status of customers with large transaction values deteriorates due to worsening of the business results of their business partners for example, the actualization of this risk could adversely affect the activities, business results and financial status of the Mori Seiki Group.

(10) Financial Covenants

Financial covenants have been applied to some loans, such as committed line-of-credit agreements. If there is any infringement of the financial covenant in the future, it may adversely affect the activities, business results and financial status of the Mori Seiki Group.

(11) Intellectual Property Rights

The Mori Seiki Group is generating a lot of new technology and know-how through research and development and the development of new products, and we are seeking to utilize intellectual property rights by applying to patent this valuable technology and know-how. However, in the event of invalidity claims by third parties in relation to the intellectual property rights of the Mori Seiki Group, or if a lawsuit to stop infringement is filed against us, the activities, business results and financial status of the Mori Seiki Group may be adversely affected.

(12) Risks Relating to Lawsuits

The Mori Seiki Group is working to achieve the functions and specifications required by the customers and to pursue appropriate quality with consideration to safety, as we aim for comprehensive quality control on a global basis. Nevertheless, if a serious problem arises with the Mori Seiki Group's products, or if there is a serious accident or there are quality complaints or a recall is initiated, we could be liable to substantial product compensation.

In addition, the Mori Seiki Group is expanding its business both in Japan and overseas, and in the course of carrying on this kind of business there is the possibility that lawsuits for compensation for damage could be filed against us based on responsibilities that arise during this business.

Currently, no lawsuits that have a major influence on the business results of the Mori Seiki Group have been filed against us, but if such a lawsuit is filed in the future and a disadvantageous judgment is made against us, it may adversely affect the activities, business results and financial status of the Mori Seiki Group.

(13) Effects of Natural Disasters, etc.

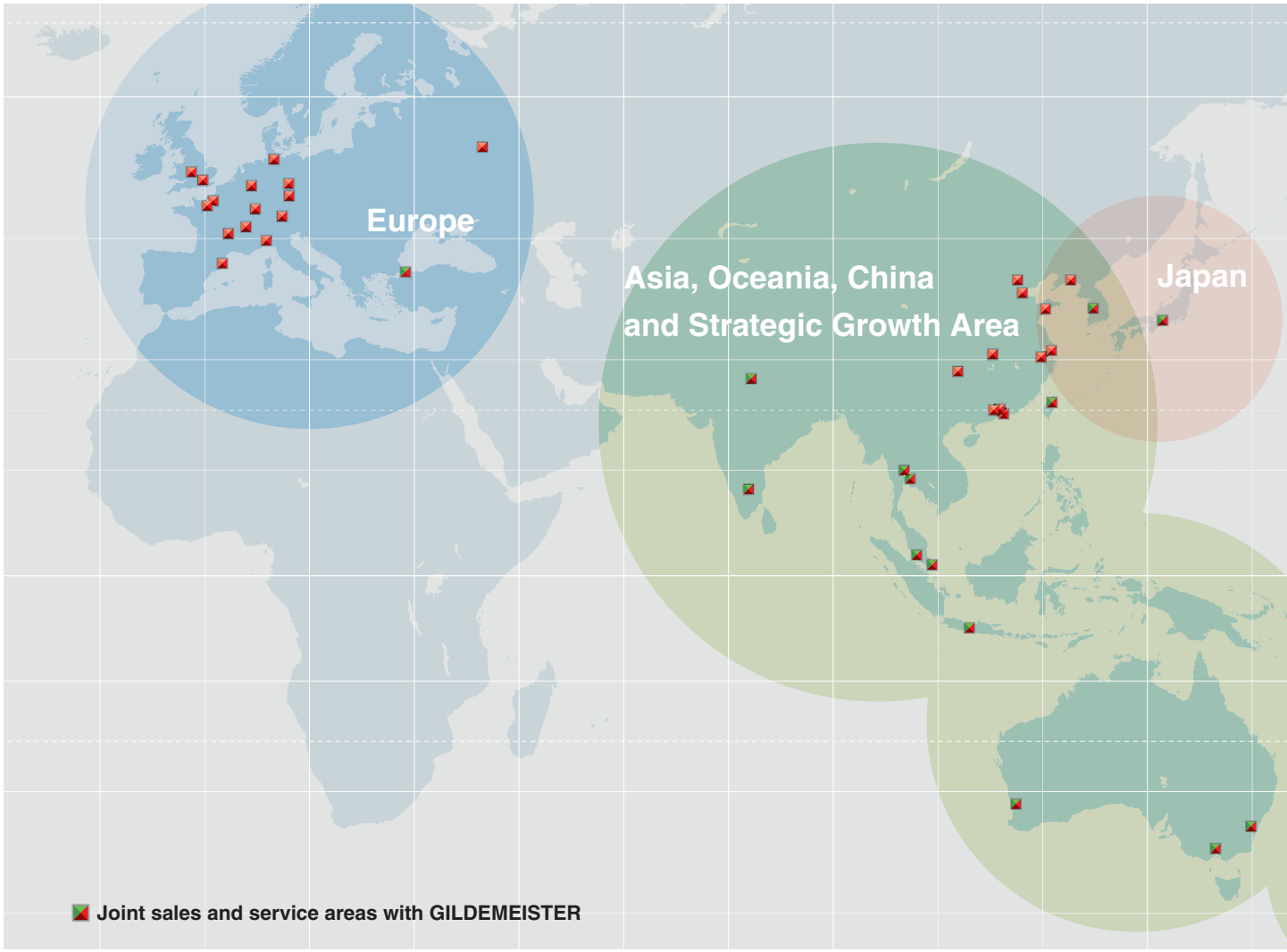
The Mori Seiki Group is expanding its sales and service centers globally, so there is the possibility that it will be affected by disasters that may result from many phenomena including unpredictable natural disasters and computer viruses.

The manufacturing bases of the Mori Seiki Group in Japan are in Mie, Nara, Chiba, and Niigata prefectures, and those overseas are in Switzerland and France. In the event that any of these manufacturing bases were affected by a natural disaster such as an earthquake or flood and rendered unable to supply products, or the supply of products was delayed, the activities, business results and financial status of the Mori Seiki Group could be adversely affected.

(14) Environmental Problems

In the pursuit of its activities, the Mori Seiki Group is subject to a range of environment-related laws and regulations. The Mori Seiki Group carries on its activities while paying careful attention to these laws and regulations, but it is possible that it could bear a legal or social responsibility relating to the environment in activities that it is currently undertaking or activities that it has undertaken in the past. We may also note that additional costs associated with compliance with the law will arise in the future as laws and regulations relating to the environment and social requirements in relation to environmental problems become stricter. As a consequence, depending on the trend in laws and regulations relating to the environment, the activities, business results and financial status of the Mori Seiki Group may be adversely affected.

Mori Seiki's Global Network

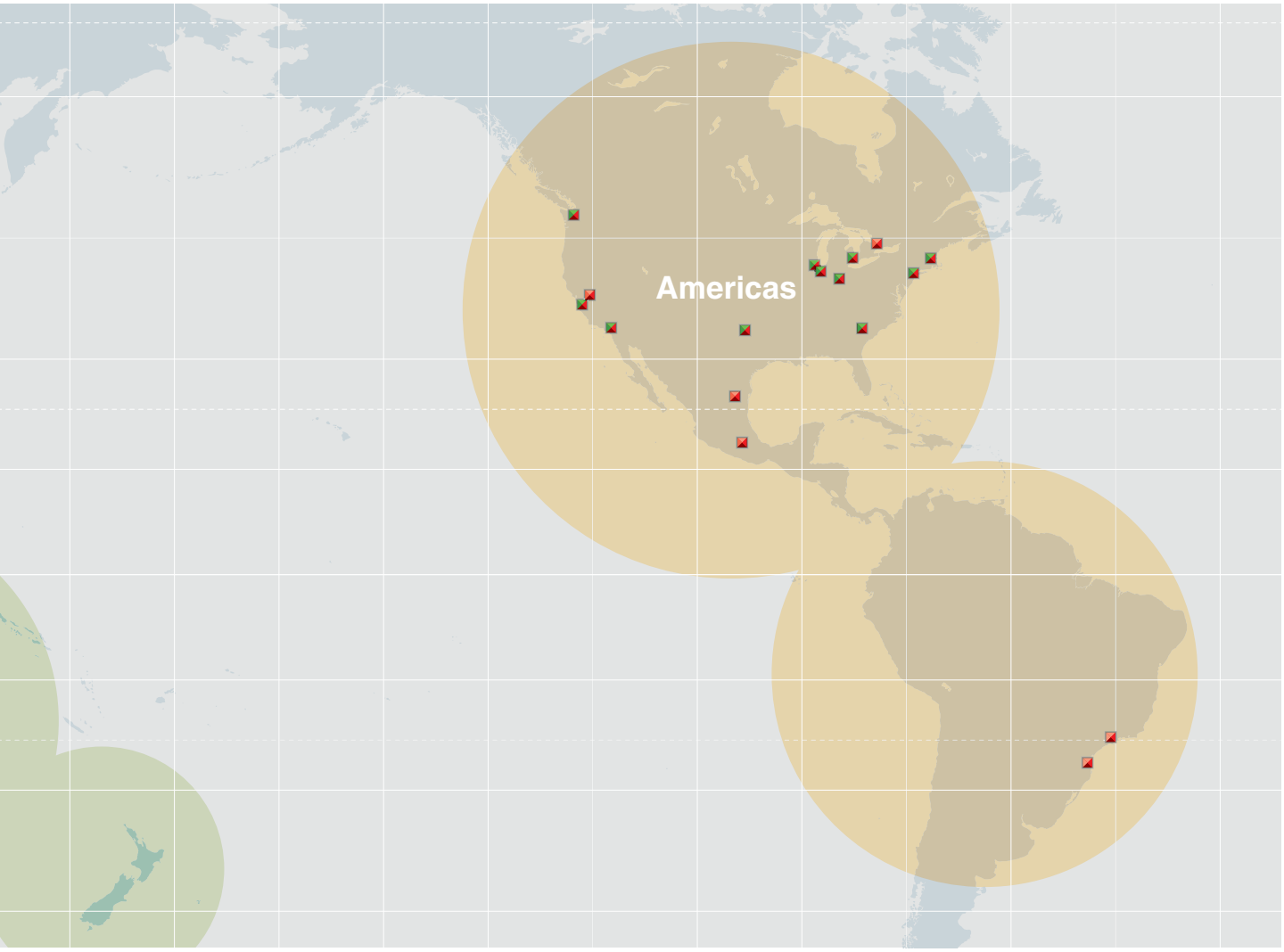


Europe

MORI SEIKI GmbH	Stuttgart Head Office	
MORI SEIKI Deutschland Sales & Service (Division of MORI SEIKI GmbH)	Stuttgart Head Office	
	München	Düsseldorf
	Hamburg	Chemnitz
DIXI Machines, A Division of Mori Seiki International SA	Head Office	
MORI SEIKI (U.K.) LTD.	Head Office	Birmingham
MORI SEIKI FRANCE S.A.S.	Head Office	
	Mori Seiki France Sud-Est S.A.S.	
	Prague	
TOBLER S.A.S.	Head Office	
MORI SEIKI ITALIANA S.R.L.	Head Office	
MORI SEIKI ESPAÑA S.A.	Head Office	
MORI SEIKI Moscow LLC	Head Office	
DMG / MORI SEIKI Turkey	Head Office	

Asia, Oceania, China and Strategic Growth Area

DMG / MORI SEIKI SEA	DMG / MORI SEIKI Singapore	
	DMG / MORISEIKI Malaysia	
DMG / MORI SEIKI Thailand <MORI SEIKI Manufacturing (Thailand) CO., LTD.>	Head Office	Bangna
DMG / MORI SEIKI Taiwan (DMG Machinery Taiwan Ltd.)	Head Office	
MORI SEIKI HONG KONG LIMITED	Head Office	
MORI SEIKI (SHANGHAI) CO., LTD.	Shanghai Head Office	Shenzhen
	Shanghai Engineering Center	Chongqing
	Shanghai Parts Center	Guangzhou
	Beijing	Suzhou
	Tianjin	Wuhan
	Dalian	Qingdao
DMG / MORI SEIKI Korea (DMG Korea Co. Ltd.)	Head Office	
DMG / MORI SEIKI Indonesia (PT. MORI SEIKI Indonesia)	Head Office	
DMG / MORI SEIKI India (DMG India Pvt. Ltd.)	Bangalore Head Office	Delhi
DMG / MORI SEIKI Australia (MORI SEIKI AUSTRALIA PTY LTD.)	Melbourne Head Office	Perth
	Sydney	



Japan

Office/Campus	Nagoya Head Office	Nara Campus No.2 Plant
	Tokyo Branch	Iga Campus
	Nara Campus No.1 Plant	Chiba Campus
Japan Technical Centers	Hokkaido Technical Center	Shizuoka Technical Center
	Akita Technical Center	Hamamatsu Technical Center
	Sendai Technical Center	MF Project Center
	Yamagata Technical Center	Kanazawa Technical Center
	Nagaoka Technical Center	Anjo Technical Center
	Koriyama Technical Center	MI Project Center
	Mito Technical Center	Nagoya Technical Center
	Utsunomiya Technical Center	Keiji Technical Center
	Kita Kanto Technical Center	Osaka Technical Center
	Saitama Technical Center	Himeji Technical Center
	Tokyo Technical Center	Okayama Technical Center
	MS Project Center	Takamatsu Technical Center
	Hachioji Technical Center	Ehime Technical Center
	Yokohama Technical Center	Hiroshima Technical Center
	Nagano Technical Center	Fukuoka Technical Center
	Matsumoto Technical Center	Kumamoto Technical Center

Americas

MORI SEIKI U.S.A., INC.	Mori Seiki University	
DMG / Mori Seiki USA (MORI SEIKI U.S.A., INC.)	Chicago Head Office	Detroit
	Dallas	Cincinnati
	Los Angeles	Boston
	San Francisco	New Jersey
	Seattle	Charlotte
DIGITAL TECHNOLOGY LABORATORY CORPORATION	Head Office	
MORI SEIKI CANADA, LTD.	Head Office	
MORI SEIKI MEXICO, S.A. DE C.V.	Head Office	Monterrey
MORI SEIKI BRASIL LTDA.	Head Office	Curitiba

As of 1st August, 2010

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.

Automobiles

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.


Cylinder head


Cylinder block


Aluminum wheel


Cam shaft

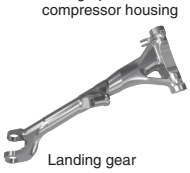
Aircraft/Aerospace

The aircraft/aerospace industry, which demands high levels of technology and precision for airplanes, rockets, and man-made 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.


Blisk


High-pressure compressor housing


Turbine blade


Landing gear

Power generation/ Natural resources/Energy

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


Turbine blade


Rock bits

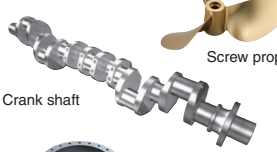

Bit


Flow meter pump

Shipbuilding/ Construction machinery

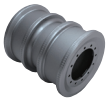
The large components for bulldozers and power shovels that build our cities, and for the ships that are capable of transporting large quantities of people and goods, are also produced by machine tools.

Screw propeller



Crank shaft

Construction machinery component

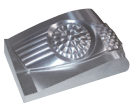


Construction machinery component

Precision parts/Dies and molds

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.

Mobile phone mold



Mold core for a tail lamp

Mold for constant velocity ball joint

Mold for a pill case

Electrical/Communication/ Semiconductors

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.

Body tube

① Slide sleeve for optical communications

Copier part

Housing (vacuum pump)

Medical

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

High-speed spindle head for dentistry

Hip joint

Artificial joint

Bone orthotic devices ②

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

Mori Seiki's Products

Day by day, our society is making significant progress towards a better quality of life.
Society's progress is made possible not only by development of technologies for industrial products but also by high-precision machine tools and utilization technologies.
Machine tools, which are production assets that make up the foundation of industry, are used to manufacture high precision products and components in a diverse range of industries including automobiles, aerospace, construction machinery, electrical appliances, information devices, medical equipment and more. They are evolving to become complex and highly advanced to meet the market demand.
Mori Seiki, one of the world's top general machine tool manufacturers, has formed a business and capital alliance with GILDEMEISTER. This alliance has significantly increased the range of products available with a single source of service and support, enabling us to offer the most extensive product range in the machine tool industry.

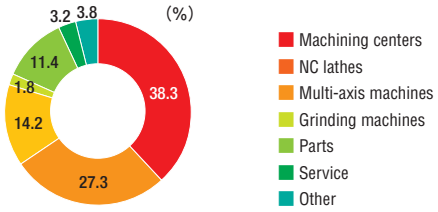
Net sales by product (1st April, 2009 to 31st March, 2010)

(Millions of yen)

Machining centers	NC lathes	Multi-axis machines	Grinding machines	Parts	Service	Other
25,451	18,152	9,443	1,185	7,562	2,113	2,497

Total 66,403

Proportion of sales revenue by product



CNC lathes

The lathe, which is based on the principle of the potter's wheel, rotates a workpiece (material) attached to the spindle and performs cutting by placing a cutting tool against the workpiece. This is a representative model of machine tools and is the starting point for Mori Seiki's machine tools.
Mori Seiki started manufacture and sale of high-speed precision lathes in 1958 and started manufacture and sale of numerically controlled machine tools (CNC lathes) in 1968. Since then, we have turned out over 100 models of lathes.
Among these, the NL Series of high-rigidity, high-precision CNC lathes is our best-selling series with 10,000 units sold from its initial release. A total of 36 model variations, depending on the size of workpiece and the level of process integration required, have been purchased by our customers.
In addition, we have prepared a wide range of machines to handle shaft workpieces and flange workpieces in various sizes: the NZ Series of two-turret lathes for small-diameter shaft machining; the Dura Series with high cost performance; the CL Series, a simple but rigid model that can easily be equipped with systems like automation; the NZL Series of two-turret lathes for large-diameter and long workpieces; the NVL Series equipped with a vertical spindle that makes it easier to load and unload large-diameter workpieces.


NZL6000D/2000


NL3000/3000


NVL1350MC

Machining centers

Machining centers use rotary tools that are attached to the spindle, and perform machining for a great variety of workpieces from round and rectangular items to complex shapes that are mounted on the table driven at high speeds. These are equipped with the Automatic Tool Changer (ATC) and can handle a wide range of machining from chamfering, drilling, boring and tapping. They are divided into vertical and horizontal types according to differences in the orientation of the spindle and the drive axes.


NV7000/50


NH10000 DCG


DuraVertical 635 eco

The NV Series that ensures high speed, high precision, high rigidity and excellent operability is a representative of Mori Seiki vertical machining centers. We have also prepared the NVD Series equipped with extensive functions and features for high-quality die and mold machining.
In addition, we have the DURA Series, a simple, but reliable and versatile machine offering outstanding ease of use and cost performance, in our product lineup.
What's more, the NH Series, a representative machine of Mori Seiki horizontal machining centers, achieves the highest level of productivity for long-term operations, offering all the features required for a horizontal machining center, such as high speed, high precision, chip disposal capacity and ease of maintenance.
We have many more machining centers that offer high-speed, high-quality and high-efficiency parts machining.

Multi-axis machines

Mori Seiki has prepared an extensive range of multi-axis machines equipped with our original technologies to meet the increasing needs from various industries for high-precision and high-efficiency machining of complex workpieces. In our product range, we have the NT Series of ultimate integrated mill turn centers that combine the turning function of CNC lathes and the milling function of machining centers on one machine; the NZ Series that can be equipped with up to three turrets and two spindles and offers unprecedented high-efficiency bar stock machining; the NMV Series of the strongest High-Precision, 5-axis control vertical machining centers that allow unparalleled high-precision, high-speed machining of complex workpieces; and the NMH Series of the fastest trunnion type 5-axis control horizontal machining centers. Additionally, the alliance between GILDEMEISTER and Mori Seiki enables us to offer the most extensive range of 5-axis and multi-axis machines in the world. We will continue to provide products that can increase productivity and can simplify processes to reduce machining time.


NT4250 DCG/1500SZ


NZ2000 T3Y3

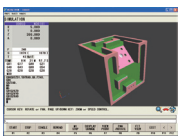

NMV3000 DCG


NMH10000 DCG

Application systems

We have a wide range of application systems that increase customers' productivity and efficiency: the MAPPS Ⅳ high-performance operating system that combines the best hardware in the industry and advanced application/network systems to achieve maximum ease of use; the MORI-AP Series of the automatic conversational programming systems that offer high-efficiency programming for CNC lathes, machining centers, multi-axis machines and lathes equipped with two spindles and three turrets; the MCC Series of system control software for pallet pool automation; the MORI-NET Global Edition Advance internet-based machine monitoring service that offers high-speed, large-capacity data transmission among machines, offices and the Service Center through the network system that combines the Internet and the internal LAN; and the MORI-NET LAN Edition that allows customers to establish a network system to transmit the necessary production information between machines and operators, while collecting, accumulating and managing the information of multiple NC machines.


MAPPS Ⅳ


MORI-APM

Grinding machines

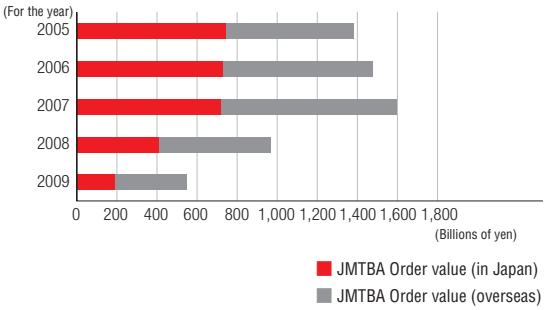
Grinding machines use a grinding wheel to perform finishing on the surface of parts machined on machine tools such as lathes and machining centers. Transmission parts and bearings used in automobiles engines, for example, are required to achieve extremely high precision in units of 0.001 mm. Grinding machines grind the parts until the surfaces becomes smooth.
Grinding is an important process. In the case of automobiles, for example, the process affects acceleration smoothness, fuel efficiency and vibration suppression that determine safety and ride quality. Grinding machines are essential for the final process of parts machining.


SVG-1

General Condition of the Market

The world economy and Japan's economy grew at an unprecedented pace from 2002. The machine tool industry, too, experienced increasing demand for more complex and high-precision machining, especially in Japan, Europe and the United States. The demand for high-performance, cutting-edge machine tools increased, and a large number of aging machines were replaced. In addition, the machine tool market rapidly expanded as the demand for high-performance Japanese machine tools increased in emerging countries known as the BRICs (Brazil, Russia, India and China), where the economy was expanding and the society was becoming more industrialized together with an improvement in people's standard of living. As a result, the industry's total order value released by the Japan Machine Tool Builder's Association (JMTBA) for FY 2004 exceeded 1 trillion yen, and the order value for FY 2007 reached approximately 1.6 trillion yen, the highest figure on record.

Trends in the industry's total order value released by the Japan Machine Tool Builders' Association



JMTBA: The Japan Machine Tool Builders' Association

Although there were concerns that soaring oil and raw material prices could affect business earnings, the machine tool industry maintained the high level of orders for the first half of FY 2008, due to favorable business results and active capital investment in each country. In the second half of the year, however, the financial crisis originated in the United States had a serious impact on the real economy, causing a credit crunch, decline in consumption and investment, increase in unemployment and stagnation of trade throughout the world. 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, demand for capital investments, both inside and outside of Japan, decreased sharply and the number of orders suddenly fell after October, 2008. As a result, the industry's total order value released by the JMTBA for FY 2008 ended up with approximately 970 billion yen, a 39.4% decrease from the previous fiscal year.

In FY 2009, both the world economy and Japan's economy showed signs of recovery from the sudden economic downturn after the global financial crisis, thanks to the economic stimulus measures implemented by each country. However, the pace of recovery was moderate and the economy did not fully recover. The economic growth in emerging countries including the BRICs also slowed down. In this situation, the order value of machine tools, which had bottomed out in January, 2009, remained at low levels, ending the fiscal year with approximately 550 billion yen, which was close to the order value of approximately 520 billion yen recorded for the year after the bubble economy collapse in 1993.

Outline of Business

The order environment in the machine tool industry was unfavorable, but the markets outside of Japan, including China where there was active demand, were starting to show signs of recovery in demand. In addition, the industry's total order value released by the Japan Machine Tool Builders' Association has exceeded that of the same month of the previous year since December, 2009. The markets in North America, China and India have also shown a strong recovery in demand for Mori Seiki products. With the positive signs emerging, we are now convinced that our orders will increase in the future. In addition, in this business environment, the Mori Seiki Group improved its sales and service network by restructuring Technical Centers both inside and outside of Japan. As a result, our consolidated sales were 66,403 million yen ($713,627 thousand) (a 57.8% decrease from the previous fiscal year), and the consolidated operating loss was 26,933 million yen ($289,446 thousand).

The trends and business results for each segment, classified by location, are as follows:
In Japan, the operating rates of machines delivered to major customers showed an upward tendency from the beginning of 2010. The tendency was considered as a sign of increase in potential demand; however, the business conditions have still not fully recovered. The orders remained at low levels in all sectors including the automobile industry. Sales were 28,293 million yen ($304,062 thousand), a 63.7% decrease from the previous fiscal year.

In the Americas, the orders remained at low levels throughout the year, but the aircraft and medical equipment industries showed a strong recovery from the second half of FY 2009. Sales were 16,041 million yen ($172,391 thousand), a 46.5% decrease from the previous fiscal year.
In Europe, the aircraft, medical equipment and environmental technology industries showed signs of recovery from the second half of FY 2009. However, the orders remained at low levels throughout the year. Sales were 20,158 million yen ($216,636 thousand), a 55.6% decrease from the previous fiscal year.
In Asia and Oceania, the orders remained at low levels throughout the year, but the growth in orders from emerging markets was remarkable. In particular, the automobile and infrastructure related industries in China and the automobile related industries in India showed a strong recovery. Sales were 1,911 million yen ($20,538 thousand), a 48.9% decrease from the previous fiscal year.

For our future order environment, we expect that the demand outside of Japan, which has shown signs of recovery since the second half of FY 2009, will continue to grow, and the demand in Japan will also get on a recovery track from the second half of this fiscal year. The Mori Seiki Group will continue to implement various measures to establish the development, manufacturing, sales and service systems, which allow us to provide products and service to customers in a timely manner when the demand recovers from the recession.
Currently, we are promoting a long-term cooperation with GILDEMEISTER based on the business and capital agreement entered into between Mori Seiki and GILDEMEISTER in March, 2009. As a part of the cooperation in the manufacturing field, the DuraVertical 635 eco vertical machining centers and DuraTurn 310 V3 eco turning centers made at GILDEMEISTER's Shanghai plant have joined our product lineup. As a result, we now have the world's largest product lineup that consists of 50 Series covering more than 150 models, allowing our customers to find the best machine from a wide range of choices. Meanwhile, Mori Seiki supplies our NT6600 DCG high-precision, large integrated mill turn centers to GILDEMEISTER as an OEM product.
In the sales and service field, we started joint sales and service in Thailand, Indonesia, Taiwan, Turkey, Japan and Korea in 2009 and Australia, India and the United States in 2010. Moreover, with the aim of further expanding our business in Europe, we will establish a joint leasing company by collaborating with Mitsui & Co., Ltd. and GILDEMEISTER, and will begin providing financial services for our customers. We aim to increase orders from our existing customers and win orders from new customers by reducing their cash flow burden. By continuing and deepening these activities, Mori Seiki and GILDEMEISTER will continue to collaborate with each other to establish leadership in the global machine tool market.
For the Asian market, where further economic growth is expected, we aim to attract new customers by providing leasing services as a new financing option alternative to the conventional cash settlement and LC (Letter of Credit) transactions. We have signed a comprehensive business tie-up agreement with Sumitomo Mitsui Finance & Leasing Co., Ltd. (SMFL) in February, 2010, for leasing services in Asia.

This year, two of the three major machine tool trade fairs in the world, the International Manufacturing Technology Show (IMTS) and the Japan International Machine Tool Fair (JIMTOF), will take place in September in Chicago, United States, and in October in Tokyo, Japan respectively. Other large-scale exhibitions will also take place in China, Germany and Italy. We will make active use of these exhibitions to release new model, to attract new customers and to enhance our brand image.
We have also launched our brand channel on YouTube. We have provided various video clips, such as the corporate profile, machining examples and models, in different languages, so that our customers can quickly and easily find the information they are seeking on the internet.
Moreover, in response to customer need for personnel development, we have provided Education On Demand (EOD) and education at the Mori Seiki University, and have supported our customers to develop their engineers to become excellent technicians. EOD, an unprecedented, high-quality online learning system, allows students to learn subjects such as mechanic operations and safety, anytime, anywhere and at their own pace without worrying about time restrictions or class schedule. EOD is available in 8 languages including Japanese, English, German, Italian, French, Spanish, Chinese and Thai, and students can select the language of their choice. Meanwhile, the Mori Seiki University is providing education in Japan, the United States, Germany and Thailand.
We are also focusing on providing in-house education to offer the first-class products and service to our customers.

Topics for the year

The following are Mori Seiki's major topics for the fiscal year 2009.

2009	April	Launched Education On Demand (EOD)
	May	Opened the Tokyo branch office
		Established Micro Machining Society
		DTL (Digital Technology Laboratory) moved to Davis, California, U.S.A.
	June	Held the Early Summer Productivity Show (Chiba Campus)
	July	Launched the NT1000 high-precision, high-efficiency integrated mill turn center (Photo ①)
		Started joint sales and service with GILDEMEISTER AG in Thailand, Indonesia, Taiwan and Turkey
		Launched the NMV3000 DCG high-precision, 5-axis control vertical machining center
		The NMV8000 DCG received the 39th Machine Design Award (Distinctive Merit Award) sponsored by the Nikkan Kogyo Shimbun
		Released the MAPPS Ⅳ high-performance operating system (Photo ②)
	August	Launched the NV7000 high-precision vertical machining center
	September	Participated in WorldSkills Calgary 2009 as a Founding Sponsor (Photo ③)
	October	Started sales and service of GILDEMEISTER (DMG) machines in Japan
		Exhibited at EMO MILANO 2009 (Photo ④)
		The NL Series of high-rigidity, high-precision CNC lathes achieved a total of 10,000 units ordered
	November	Started joint sales and service with GILDEMEISTER in Korea
		Announced establishment of a joint company with Mitsui & Co., Ltd. and GILDEMEISTER ※1
		Held the Early Winter Productivity Show (Iga Campus)
2010	January	The NT1000 received the one of the 2009 (52nd) Best 10 New Products Awards sponsored by Nikkan Kogyo Shimbun
	February	Installed photovoltaic systems at the Iga Campus
		Entered into an agreement with Sumitomo Mitsui Finance and Leasing Co., Ltd. for leasing service in Asia (China, Hong Kong, Thailand, Singapore, Malaysia, Indonesia, Taiwan, Korea, Australia and India)
	March	Started joint sales and service with GILDEMEISTER in Australia
		Launched the NH10000 DCG high speed, high precision horizontal machining center
		Establishment of Magnescale Co., Ltd. ※2

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※1 Basic agreement on establishment of a joint corporation involving three companies, Mori Seiki Co., Mitsui & Co., Ltd., and GILDEMEISTER AG

On 11th November, 2009, Mori Seiki Co., Ltd., Mitsui & Co., Ltd. and the German company GILDEMEISTER AG came to a basic agreement on the establishment of a joint corporation involving the three companies. The joint corporation was established in June 2010.

(1) Purpose of establishing the joint corporation

In order to provide finance services to customers in Germany, from 2006 Mori Seiki entered into cooperation in the leasing business with MFS Europe GmbH, a subsidiary of Mitsui & Co., Ltd., and that cooperation has continued to the present. In the process of Mori Seiki and GILDEMEISTER AG expanding their joint operations after entering into capital and business collaboration in March 2009, Mori Seiki and GILDEMEISTER AG made new investments to establish a joint corporation among the three companies by taking MFS Europe GmbH as its base, and with the new name. Mori Seiki, Mitsui Co., Ltd. and GILDEMEISTER AG will continue to expand the business of this joint corporation while providing their own know-how and implementing comprehensive risk management. The new company is starting its operations with customer financing services centering on leasing in Germany and the United Kingdom, but plans to gradually expand this business within Europe.

(2) Outline of the joint corporation

① Company name: MG Finance GmbH ② Capital: 15 million Euros (approximately 1.7 billion yen at inception) It is planned, subject to consultation, to increase the capital up to 30 million Euros as the company expands its business ③ Ratio of investment: Mitsui Co., Ltd. 34%, GILDEMEISTER AG 33%, Mori Seiki Co., Ltd. 33% ④ Business: Offering customer financing services with the emphasis on leasing, and dealing in used machines ⑤ Location: Stuttgart, Germany

※2 Agreement concerning the transfer of the measuring instrument business of Sony Manufacturing Systems Corporation

On 8th January, 2010, Mori Seiki Co., Ltd. and Sony Corporation signed an agreement concerning the transfer of the measuring instrument (Magnescales and laserscales) business of Sony Manufacturing Systems Corporation, a 100% subsidiary of Sony. In line with the agreement, the measuring instrument business, which had been mainly run at the Isehara Office of SMS, were transferred to Mori Seiki together with the sales operations conducted by Sony's subsidiaries. After the agreement was concluded, SMS split the business and formed a new company named Magnescale Co., Ltd., and then Mori Seiki has converted the company to its wholly-owned and consolidated subsidiary at the end of March, 2010.

(1) The purpose of the transfer of the business

Mori Seiki had purchased measuring instruments (Magnescales) that use a magnetic technology, from outside the company. However, we have decided to make the measuring instruments in-house in order to further increase the machine accuracy, to achieve cost reduction through mass production and to differentiate ourselves from other machine tool builders. In addition, we will focus on the development of measuring instruments (Laserscales) that use a laser technology, in order to establish a competitive position in the next-generation, ultra precision machine tool market. We will further expand the measuring instrument business transferred from SMS, as well as its sales operations.

(2) Outline of Magnescale Co., Ltd.

① Company name: Magnescale Co., Ltd. ② Capital: 1 billion yen ③ Business: Manufacture and sale of measuring instruments, control devices and related systems
④ Number of employees: 235 (As of March 31, 2010) ⑤ Head Office: 18th floor, Shinagawa Intercity Tower A, 2-15-1 Konan Minato-ku, Tokyo
⑥ Headquarters plant: Isehara City, Kanagawa Prefecture

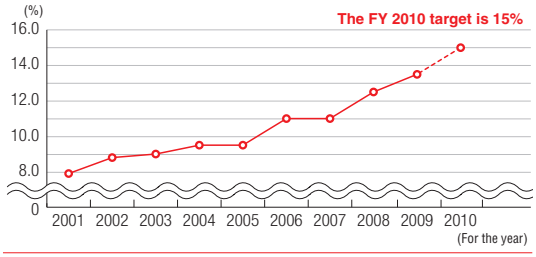
State of Progress with the Medium-term Management Plan

The Mori Seiki Group introduced the first medium-term management plan, the Mori-568PLAN, from FY 2005, and is now promoting the second medium-term management plan, the "PQR555", for the three-year period from FY 2008 to FY 2010. PQR stands for the initial characters of three major aspects: "P" stands for "People", "Q" for "Quality", "R" for "Risk Management", and "555" are our target numbers.
The "PQR555" policy is based on three major pillars: (1) Maintaining growth, (2) Strengthening profitability, and (3) Establishing a global management quality. We would like to achieve the "Global One" status by providing "first-class customers" with "first-class products" and "first-class service" by having "first-class employees". FY 2010 is the final year of the PQR555. We will further strengthen our measures to achieve the targets.

1 Maintaining growth

While maintaining stable growth in mature markets including Japan, the Americas and Europe, we aim to expand the market share aggressively in the rapidly growing emerging markets known as the BRICs. To this end, we have prepared an extensive range of products from small precision machines to large machines. We will also further strengthen our sales activities to meet our customers' different needs.
As for the actual results for FY 2009, we have increased the share of orders of the Japan Machine Tool Builders' Association by 1.0% from the previous fiscal year.

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



2 Strengthening profitability

We aim to build a solid financial structure by implementing measures to lower the profit and loss break-even point. To this end, we have strived to reduce the manufacturing and material costs by reducing the costs at the design stage and by improving production and logistical efficiency.
For the actual results for FY 2009, we reduced the material cost to sales ratio, which is one of important indicators to see a company's performance, by 1.4% from the previous fiscal year (on our internal rate).

To provide first-class products and service for customers all over the world

3 Establishing a global management quality

P "People" is one of important factors to achieve the targets set by the PQR555. We have introduced the global human resource management and skill points system to measure the skills of employees, and have provided training according to the skill level of individual employees. Recently, we have focused particularly on English education, and the skill of our employees is improving year by year.

Q For quality, we have set a specific accuracy target for all models and have made careful improvements to pursue high-accuracy and high-efficiency machining. In addition, we constantly strive to increase customer satisfaction by improving the quality of our operations.

R As for risk management, we have strived to strictly comply with laws and regulations, as well as to implement thorough measures to eliminate the risks of business activities. For example, we seriously considered the risks of our machines being used for military purposes, and we introduced the Relocated Machine Security Function earlier than any other companies in the industry. In addition, we are focusing on developing a business continuity plan to ensure that our customers can continue their operations even when a disaster occurs.

Through these efforts, we are striving to establish a global management quality and system to achieve the targets set by the PQR555.

Business 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 machines, machining centers and the lathe line. Based on its policy for vertical integration, Mori Seiki produces main parts for machine tools, such as spindle motors 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 economical 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 two companies are collaborating with each other in five fields: 1) production, 2) purchasing 3) machine development, 4) sales and service, and 5) finance. To maximize synergetic effects, the two companies reached agreement on mutual dispatch of management executives. In November, 2009, President Mori became a member of GILDEMEISTER's Supervisory Board and CEO Kapitza of GILDEMEISTER assumed the post of Senior Executive Operating Director of Mori Seiki based on the formalities required under German law. In addition, a steering committee comprised of the top management of both companies was established 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. During the year ended March, 2010, GILDEMEISTER acquired 4,427,400 of Mori Seiki's common shares (giving 4.00% of the voting rights), making the company our third largest shareholder.

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	118.513 million Euro (as of 31st December, 2009)
Employees	5,450 (consolidated) (as of 31st December, 2009)

Business results (January to December 2009)

Sales Revenue	1,181 million Euro
Operating Income	32 million Euro
Net Income	5 million Euro
Total Assets	1,153 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 economical machines.

Progress of the collaboration

As a part of the cooperation in the manufacturing field, the DuraVertical 635 eco vertical machining centers and DuraTurn 310 V3 eco turning centers made at GILDEMEISTER's Shanghai plant have joined our product lineup. Meanwhile, Mori Seiki supplies our NT6600 DCG high-precision, large integrated mill turn centers to GILDEMEISTER as an OEM product.
We have also supplied major components of a machine tool including spindles, ball screws and turrets to GILDEMEISTER since last September. In the future, Mori Seiki and GILDEMEISTER will further expand mutual OEM supply, and will jointly conduct research and development for new models.
In the sales and service field, we started joint sales and service in Thailand, Indonesia, Taiwan, Turkey, Japan and Korea in 2009 and Australia, India and the United States in 2010. Moreover, with the aim of further expanding our business in Europe, we will establish a joint leasing company by collaborating with Mitsui & Co., Ltd. and GILDEMEISTER, and will begin providing financial services for our customers. We aim to increase orders from our existing customers and win orders from new customers by reducing their cash flow burden.
By continuing and deepening these activities, MORI SEIKI and GILDEMEISTER will continue to collaborate with each other to establish leadership in the global machine tool market.

Although Mori Seiki and GILDEMEISTER, are based in Japan and Germany, countries with different histories, cultures and ways of thinking, we are both rooted in a culture of continual and unflagging improvement of products and have both been fostered by customers. This business and capital collaboration has expanded the scale of the company as well as the product lineup. With the world's largest product lineup, which covers everything from lathes to a variety of 5-axis control machines, we have become able to give even more support to our customers than we have in the past.
The powerful DMG / MORI SEIKI logo that adopts the green and red, the corporate colors of the two companies, expresses the fifty-fifty, equal nature of their relationship. Taking this logo as the mark of our brand, and increasing the synergetic effects of the strengths on both sides, the two companies will continue to develop through friendly competition to provide even better products and service to the customers.

Unified logo

Results Summary (Net Sales)

In FY 2009 (the year ending 31st March, 2010), our net sales decreased 57.8% from the previous year at 66,403 million yen ($713,627 thousand).

Looking at sales by product, the proportion of multi-axis machines was 14.2%, up 1.4 percentage points over the previous year, marking the second straight year of increase. This upward trend is mainly due to greater complexity of workpieces and more demanding requirements for accuracy and machining lead time. In contrast, sales of CNC lathes were down 4.0 percentage points to 27.3%.

Sales by Products

Fiscal Year	Machining centers	NC lathes	Multi-axis machines	Grinding machines	Parts	Service	Other	Total
2005.4.1—	¥ 59,474	¥ 57,411	¥ 9,749	¥ 4,276	¥ 10,282	¥ 2,792	¥ 1,356	**¥ 145,340**
2006.3.31	40.9%	39.5%	6.7%	3.0%	7.1%	1.9%	0.9%	**100.0%**
2006.4.1—	¥ 72,412	¥ 63,428	¥ 17,403	¥ 4,739	¥ 9,811	¥ 2,785	¥ 1,684	**¥ 172,262**
2007.3.31	42.0%	36.8%	10.1%	2.8%	5.7%	1.6%	1.0%	**100.0%**
2007.4.1—	¥ 87,479	¥ 73,151	¥ 19,901	¥ 5,233	¥ 10,902	¥ 3,014	¥ 2,580	**¥ 202,260**
2008.3.31	43.2%	36.2%	9.8%	2.6%	5.4%	1.5%	1.3%	**100.0%**
2008.4.1—	¥ 65,680	¥ 49,168	¥ 20,165	¥ 6,236	¥ 11,545	¥ 2,846	¥ 1,563	**¥ 157,203**
2009.3.31	41.8%	31.3%	12.8%	4.0%	7.3%	1.8%	1.0%	**100.0%**
2009.4.1—	¥ 25,451	¥ 18,152	¥ 9,443	¥ 1,185	¥ 7,562	¥ 2,113	¥ 2,497	**¥ 66,403**
2010.3.31	$273,520	$195,078	$101,483	$ 12,735	$ 81,268	$ 22,708	$ 26,835	**$ 713,627**
	38.3%	27.3%	14.2%	1.8%	11.4%	3.2%	3.8%	**100.0%**

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

Business results and trends by geographical segment

Sales by geographical segment are as follows:

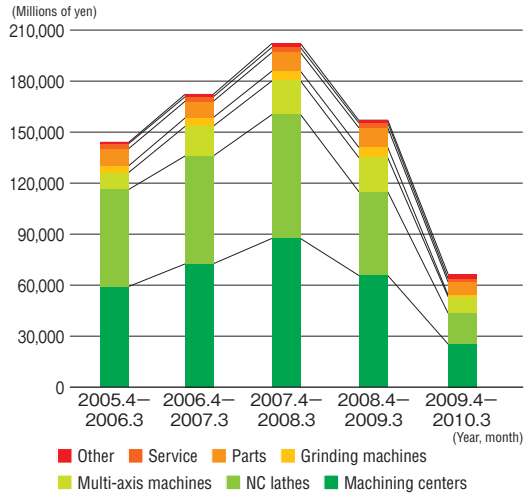
Japan 28,293 million yen ($304,062 thousand) decreased by 63.7% from the previous year; the Americas 16,041 million yen ($172,391 thousand) decreased by 46.5% from the previous year; Europe 20,158 million yen ($216,636 thousand) decreased by 55.6% from the previous year; and Asia/Oceania 1,911 million yen ($20,538 thousand) decreased by 48.9% from the previous year.

Sales to Third Parties

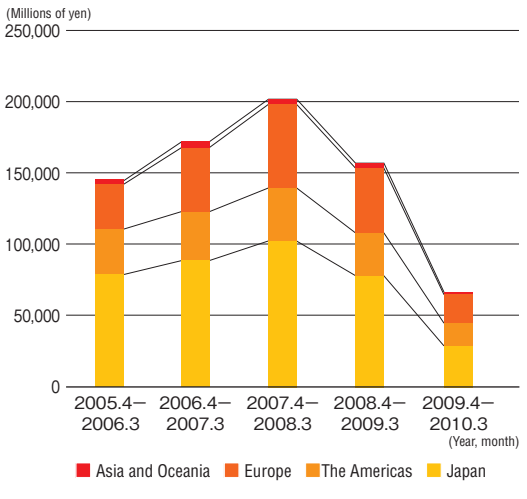
Fiscal Year	Japan	The Americas	Europe	Asia and Oceania	Total
2005.4.1—2006.3.31	¥ 79,067	¥ 31,774	¥ 31,531	¥ 2,968	**¥ 145,340**
2006.4.1—2007.3.31	¥ 88,644	¥ 34,329	¥ 44,745	¥ 4,544	**¥ 172,262**
2007.4.1—2008.3.31	¥ 102,427	¥ 37,131	¥ 58,539	¥ 4,163	**¥ 202,260**
2008.4.1—2009.3.31	¥ 78,036	¥ 29,977	¥ 45,451	¥ 3,739	**¥ 157,203**
2009.4.1—2010.3.31	¥ 28,293	¥ 16,041	¥ 20,158	¥ 1,911	**¥ 66,403**
	$ 304,062	$ 172,391	$ 216,636	$ 20,538	**$ 713,627**

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

Trends in sales by product



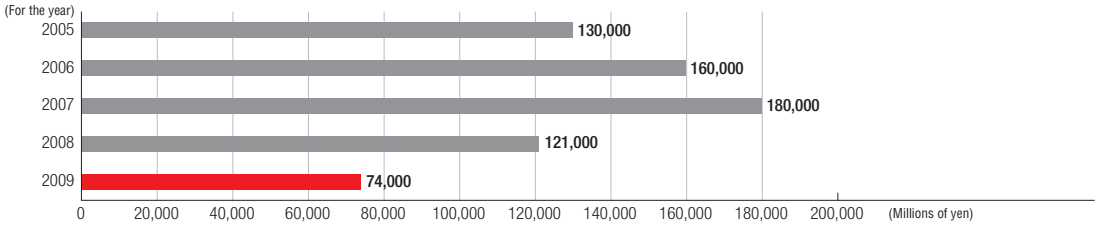
Trends in sales to third parties



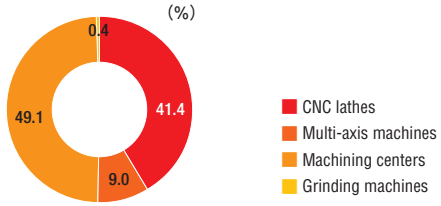
Results Summary (Orders)

With a sharp decline in demand in FY2009, orders decreased 38.8% from the previous year at 74,000 million yen.
By product, although CNC lathes account for as large as 34.4% of our total orders, the proportion has dropped substantially from 41.4% four years ago in FY 2005. On the other hand, multi-axis machines have significantly increased from 9.0% in FY 2005 to 14.2%. This is due to the launch of new multi-axis machines like the NT Series in response to the growth in demand for machining of increasingly complex workpieces and even higher accuracy and shorter machining lead time that we have seen over recent years.
By region, orders in Japan, which accounted for about 50% of total orders in FY 2005, had fallen significantly to 22.1% in FY 2009, while the proportions in the Americas, Europe and Asia rose. In particular, Asia including China has shown a remarkable increase in the recent years.

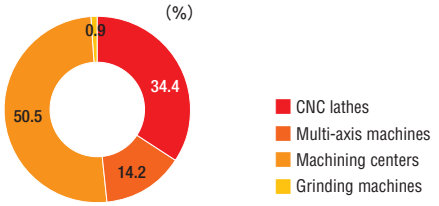
Total orders



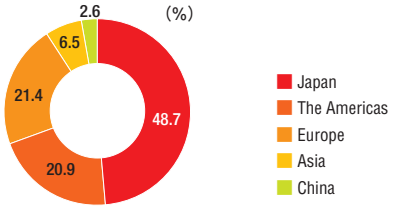
Percentages of orders by product for FY 2005



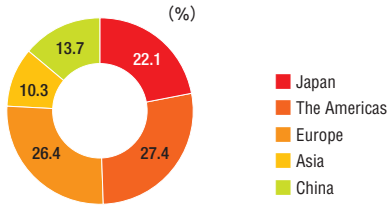
Percentages of orders by product for FY 2009



Proportion of orders by region in FY 2005



Proportion of orders by region in FY 2009



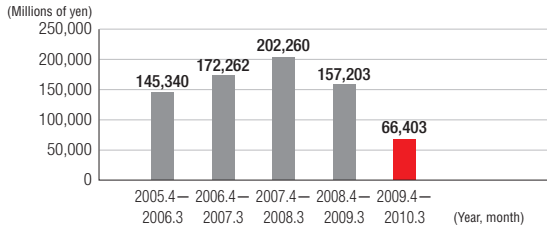
Results Summary (Business Results and Financial Situation)

Business results

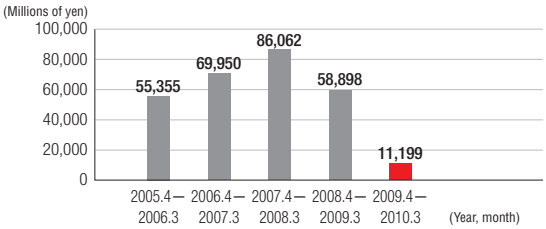
For the fiscal year 2009, net sales were 66,403 million yen ($713,627 thousand) decreased by 57.8% from the previous fiscal year, operating loss was 26,933 million yen ($289,446 thousand: operating income was 5,922 million yen in the previous fiscal year), and net loss was 34,693 million yen ($372,843 thousand: net loss was 2,153 million yen in the previous fiscal year).

	Millions of yen					Thousands of U.S. dollars
Fiscal Year	2009.4—2010.3	2008.4—2009.3	2007.4—2008.3	2006.4—2007.3	2005.4—2006.3	2009.4—2010.3
Net sales	¥ 66,403	¥157,203	¥202,260	¥172,262	¥145,340	$ 713,627
Cost of sales	55,204	98,305	116,198	102,312	89,985	593,272
Gross profit	11,199	58,898	86,062	69,950	55,355	120,355
Selling, general and administrative expenses	38,132	52,976	54,759	44,907	39,060	409,801
Operating (loss) income	(26,933)	5,922	31,303	25,043	16,295	(289,446)
(Loss) income before income taxes and minority interests	(34,641)	1,282	27,708	19,403	15,154	(372,284)
Income taxes						
Current	739	1,728	12,895	5,308	1,146	7,942
Prior year	—	—	254	—	—	—
Deferred	56	1,428	(1,592)	(2,202)	126	602
	795	3,156	11,557	3,106	1,272	8,544
(Loss) income before minority interests	(35,436)	(1,874)	16,151	16,297	13,882	(380,828)
Minority interests in net loss (income) of consolidated subsidiaries	743	(279)	(176)	(103)	(80)	7,985
Net (loss) income	¥ (34,693)	¥ (2,153)	¥ 15,975	¥ 16,194	¥ 13,802	$ (372,843)

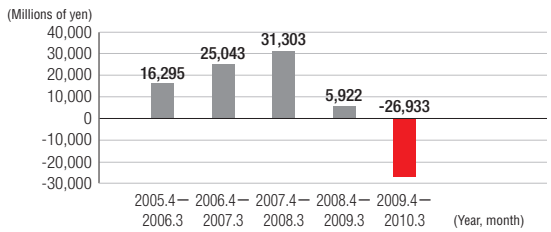
Net sales (Five years)



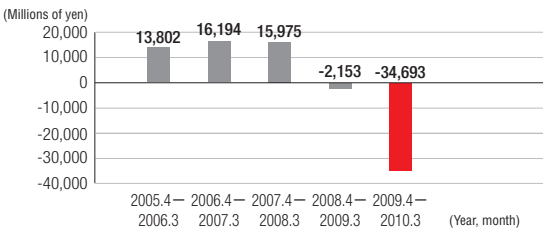
Gross profit (Five years)



Operating income (Five years)



Net income (Five years)



Results Summary (Financial Situation)

Assets, liabilities and net assets

· Assets

Current assets decreased by 20.4% from the end of the previous fiscal year to 62,734 million yen ($674,197 thousand). It was mainly because cash and deposits decreased by 6,937 million yen ($74,551 thousand), and inventories decreased by 4,854 million yen ($52,166 thousand). Property, plant and equipment, net, increased by 5.7% from the end of the previous fiscal year to 57,657 million yen ($619,635 thousand). That was mainly because leased assets increased by 4,595 million yen ($49,382 thousand). Investments and other assets increased by 49.5% from the end of the previous fiscal year to 23,776 million yen ($255,518 thousand). As a result, total assets decreased by 3.4% from the previous fiscal year to 144,167 million yen ($1,549,350 thousand).

· Liabilities

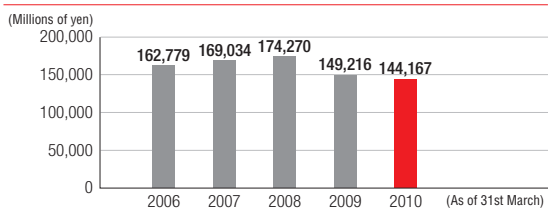
Current liabilities increased by 43.7% from the end of the previous fiscal year to 34,983 million yen ($375,959 thousand). It was mainly because notes and accounts payable, trade increased by 2,713 million yen ($29,156 thousand) and short-term bank loans increased by 8,252 million yen ($88,684 thousand). Long-term liabilities increased by 76.0% from the end of the previous fiscal year to 10,466 million yen ($112,477 thousand). It was mainly due to the increase of 4,160 million yen ($44,707 thousand) in lease obligations.

· Net assets

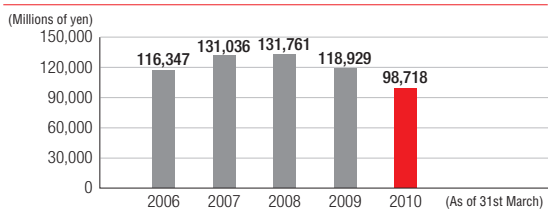
Total net assets decreased by 17.0% from the end of the previous fiscal year to 98,718 million yen ($1,060,914 thousand). Major reasons for the decrease were public offering and allocation of new shares to a third party that increased capital and capital surplus reserve by 8,434 million yen ($90,640 thousand), as well as net loss of 34,693 million yen ($372,843 thousand).

	Millions of yen					Thousands of U.S. dollars
	31st March,					31st March,
	2010	2009	2008	2007	2006	2010
Current assets:						
Cash and deposits	¥ 7,516	¥ 14,453	¥ 17,984	¥ 29,959	¥ 31,583	$ 80,774
Notes and accounts receivable:						
Trade	16,666	16,634	38,428	32,916	29,962	179,108
Allowance for doubtful receivables	(115)	(139)	(127)	(281)	(273)	(1,236)
Notes and accounts receivable, net	16,551	16,495	38,301	32,635	29,689	177,872
Inventories	33,061	37,915	38,745	29,904	25,063	355,304
Deferred income taxes	534	1,714	3,281	1,882	142	5,739
Other current assets	5,072	8,196	3,665	3,314	2,889	54,508
Total current assets	62,734	78,773	101,976	97,694	89,366	674,197
Property, plant and equipment, net	57,657	54,540	53,809	49,409	55,747	619,635
Investments and other assets:						
Total investments in securities	13,030	8,672	11,687	15,846	13,987	140,032
Deferred income taxes	1,569	284	1,115	165	26	16,862
Other assets, net	9,177	6,947	5,683	5,920	3,653	98,624
Total investments and other assets	23,776	15,903	18,485	21,931	17,666	255,518
Total assets	144,167	149,216	174,270	169,034	162,779	1,549,350
Current liabilities:						
Short-term bank loans	18,550	10,298	696	1,500	1,320	199,355
Current portion of long-term debt	271	16	—	—	5,084	2,912
Notes and accounts payable, trade	6,087	3,374	11,517	11,612	9,698	65,416
Accrued income taxes	645	1,371	11,407	4,848	1,248	6,932
Deferred income taxes	36	114	79	164	203	387
Allowance for product warranties	845	1,192	1,555	811	—	9,081
Allowance for bonuses to directors and corporate auditors	—	25	164	159	—	—
Accrued bonuses for employees	235	—	—	—	—	2,526
Other current liabilities	8,314	7,952	11,734	12,010	8,480	89,350
Total current liabilities	34,983	24,342	37,152	31,104	26,033	375,959
Long-term liabilities:						
Long-term debt	6,825	2,665	2,583	3,920	14,457	73,348
Deferred income taxes	1,228	939	643	844	3,359	13,197
Deferred income taxes on land revaluation reserve	1,699	1,699	1,699	1,699	1,824	18,259
Accrued retirement benefits	312	642	—	—	—	3,353
Other long-term liabilities	402	—	432	431	333	4,320
Total long-term liabilities	10,466	5,945	5,357	6,894	19,973	112,477
Minority interests	—	—	—	—	426	—
Total net assets	98,718	118,929	131,761	131,036	116,347	1,060,914
Total liabilities, minority interests and net assets	¥ 144,167	¥ 149,216	¥ 174,270	¥ 169,034	¥ 162,779	$1,549,350

Total assets (Five years)



Total net assets (Five years)



Results Summary (Cash flow)

Cash and cash equivalents at the end of FY 2009 were 7,256 million yen ($77,980 thousand), decreased by 6,999 million yen ($75,218 thousand) from the previous fiscal year.
Results of each cash flow for FY 2009 and main reasons are shown below.

Cash flow from operating activities

Net cash used in operating activities were 15,995 million yen ($171,897 thousand: net cash provided by operating activities were 8,564 million yen in the previous fiscal year) due to the following items: 34,641 million yen ($372,284 thousand) in loss before taxes and minority interests, a decrease of 1,283 million yen ($13,788 thousand) in notes and accounts receivable, a decrease of 6,040 million yen ($64,911thousand) in inventories, and an increase of 1,284 million yen ($13,799 thousand) in notes and accounts payable, trade.

Cash flow from investing activities

Net cash used in investing activities were 12,895 million yen ($138,581 thousand: 11,424 million yen in the previous fiscal year) due to 5,431 million yen ($58,366 thousand) for investments in securities, 5,639 million yen ($60,602 thousand) for purchases of tangible fixed assets, and 2,573 million yen ($27,652 thousand) for purchases of intangible fixed assets.

Cash flow from financing activities

Net cash provided by financing activities were 21,478 million yen ($230,822 thousand: net cash used in financing activities were 507 million yen in the previous fiscal year) due to 16,770 million yen ($180,225 thousand) for proceeds from issuance of common stock, 7,602 million yen ($81,698 thousand) of increased short-term bank loans and 2,658 million yen ($28,565 thousand) for the payment of cash dividends.

	Millions of yen		Thousands of U.S. dollars
	31st March,		31st March,
	2010	**2009**	**2010**
Cash flow from operating activities	**¥（15,995）**	¥ 8,564	**$（171,897）**
Cash flow from investing activities	**（12,895）**	（11,424）	**（138,581）**
Cash flow from financing activities	**21,478**	（507）	**230,822**
Cash and cash equivalents at the end of the fiscal year	**7,256**	14,255	**77,980**

Results Summary (Depreciation, and Amortization in Property, Plant and Equipment, Net Income and Capital Investments)

Total depreciation and amortization for the fiscal year 2009 was 7,629 million yen ($81,988 thousand), increased by 339 million yen ($3,643 thousand). Furthermore, total amount of investments in property, plant and equipment was 6,800 million yen ($73,079 thousand) mainly because of enhancement of productive plants and construction of welfare facilities at the Iga campus.

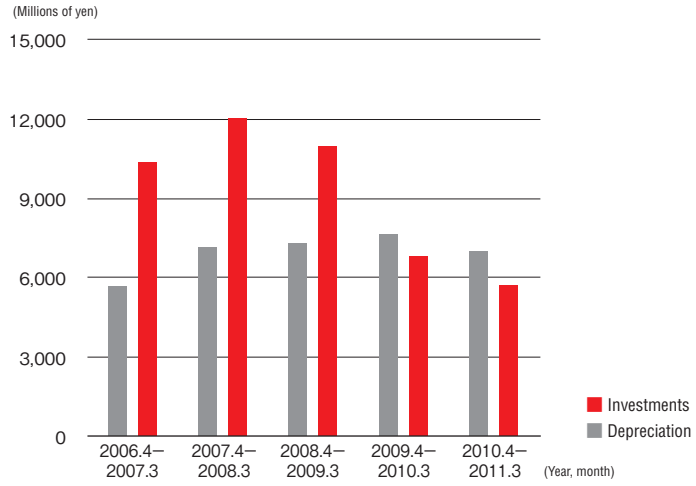
Fiscal Year	Depreciation and amortization	Net income (loss)	Investments
2005.4—2006.3	¥ 5,289	¥ 13,802	¥ 7,239
2006.4—2007.3	¥ 5,686	¥ 16,194	¥ 10,379
2007.4—2008.3	¥ 7,130	¥ 15,975	¥ 12,041
2008.4—2009.3	¥ 7,290	¥ (2,153)	¥ 10,960
2009.4—2010.3	**¥ 7,629**	**¥ (34,693)**	**¥ 6,800**
	$ 81,988	**$ (372,843)**	**$ 73,079**

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

Forecast

2010.4—2011.3	¥ 7,000	¥ 1,000	¥ 5,700

·Mori Seiki Co., Ltd.'s investments in property, plant and equipment over the past five years totaled approximately ¥47,419 million. (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 ¥93.05 = U.S. $1.00, the exchange rate prevailing on 31st March, 2010.

Corporate Governance

(1) 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.

(2) Outline of the system of corporate governance, and reason for adopting the system of corporate governance

Mori Seiki has adopted an auditing system.
As of 18th June, 2010, the Board of Directors consists of 7 Directors and the Board of Auditors consists of 4 auditors, 3 of whom are external auditors.
The Board of Directors meets regularly and whenever necessary to debate important management issues, and to make decisions through lively discussions in which directors state their opinions freely. Also, by making the term served by Board members one year, we have a system in which the mission and responsibilities of the Directors are made clear. Management Meetings attended by the Directors, Operating Directors and General Managers are convened once a month to discuss and report important issues. In addition, to speed up the decision-making process and to improve the soundness of our administration we instituted Management Councils with the President as Chairman in 2006, and Operating Directors' Meetings in 2009, 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.
In this way we have sought to achieve a fast decision-making process with a small number of Directors and reinforce the Board of Directors, we have revamped our management by, establishing a compliance system, and we have established an efficient corporate governance system with an increased level of fairness and transparency in management.

(3) 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 "regulations 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, 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 temporary exchanges of opinion with both the president and the Accounting Auditors. We will continue to maintain this system as we look ahead.

(4) 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 5 full-time working staff, under the direct supervision of the President, which checks that the business operations of the Mori Seiki Group are conducted appropriately and effectively. Regarding our adoption of a system of internal control and reporting (with reference to the "J-SOX" Act, Japan's equivalent of the Sarbanes-Oxley Act), we established the J-SOX Section in the Internal Auditing Department in October 2005 prior to the approval of the bill, promoted the construction of an internal control system, and we have already completed preparations for reliably operating this system within the Group both in Japan and overseas.

With regard to the audit conducted by the Auditors, currently the Board of Auditors is comprised of one Corporate Auditor and three External Auditors who attend the Board of Directors Meetings, Operating Directors' Meetings and Management Meetings in accordance with the policy determined by the Board of Auditors and the auditing plan, and hear the status of execution of relevant work from the Directors, Operating Directors, Internal Auditing Department and so on.

They also peruse documents about important decisions, and examine the status of work and assets in 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 involving corporate governance, compliance, risk management, and overall business management.

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

The independent auditors, Internal Auditing Department, and Accounting Auditors are making efforts to conduct proper and strict accounting audits, by holding meetings every quarter and whenever necessary to actively exchange their opinions and information.

(5) External Directors and External Auditors

Mori Seiki has three External Auditors. Apart from ownership of Mori Seiki shares, the External Auditors have no special financial interest in relation to Mori Seiki, whether in terms of personal/business relations, trade or otherwise, and secure a highly independent status.

Each of the External Auditors debate and decide the auditing policy, the auditing plan, the auditing method, and the allocation of duties, in the Board of Auditors in cooperation with the Corporate Auditor, and auditing is implemented throughout the year based on this. They also exchange opinions regularly with the top management and Directors, and conduct audits by visiting actual sites such as plants and group companies. Information is shared with the Independent Auditor by holding regular meetings.

Mori Seiki has sought to secure a robust auditing system with a team of four Auditors including three External Auditors, and has strengthened monitoring of the management functions. Two of the External Auditors are designated as Independent Directors, and in our judgment implementing the auditing from an independent and fair standpoint by External Auditors gives us a governance system that functions adequately to secure objectivity and neutrality without appointing External Directors. Therefore, we are maintaining the present system.

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"

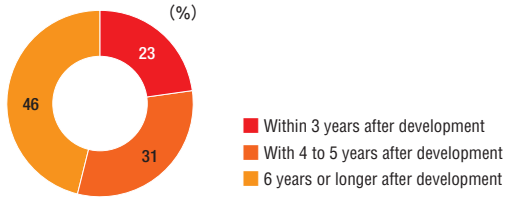
A revolutionary feed mechanism, making the ram a perfect octagonal shape. This preserves the advantage of conventional square guides, which is their damping characteristics, while overcoming the problem of thermal displacement caused by temperature increases in the slideways.
The slideways, which are 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.

Current Issues and Approach Looking Ahead

Mori Seiki currently employs about 500 development engineers, and invests approximately 10 billion yen annually on research and development of new models, control technology, elemental technology, fixtures, and peripheral equipment.
Here, we will introduce our ongoing efforts in research and development activities, which can be categorized into three basic components of machine tools: machine, control technology and software.

In the machine development sections, we have developed new models to meet growing and continuing demand for large, high-productivity machine tools in the resources, wind power, aircraft and railroads related sectors. We have developed the NH10000 DCG large horizontal machining centers; the NV7000 medium-sized vertical machining centers; and the NT1000 specialized in high-precision machining of complex workpieces including medical equipment parts, precision parts, and precision dies and molds.
The NH10000 DCG offers a large work envelope and high rigidity with a maximum workpiece size of φ2,000 mm×1,600 mm and a maximum loading capacity of 3,000 kg, allowing high-speed, high-precision machining of large parts and difficult-to-cut materials. The NV7000 offers increased machine rigidity by using the guideways with a width 2.4 times larger than that of the conventional machine, while achieving an 18% expansion in work envelope and 15% reduction in floor space. The machine can handle a wide range of machining, from high speed to heavy duty cutting, according to customer needs. Following the success of the NT6600 DCG, the NT1000 won the 2009 (52nd) Best 10 New Products Awards sponsored by the Nikkan Kogyo Shimbun. The NT1000 employs Mori Seiki's original DDM (Direct Drive Motor), BMT (Built-in Motor Turret) and ORC (Octagonal Ram Construction) technologies, and is equipped with the MAPPS Ⅳ high-performance operating system. The machine has been highly praised by many industries for its improved productivity per unit area, which is made possible by the compact machine design.
In the control technology development sections, we have developed our forth-generation NC unit, the MAPPS Ⅳ high-performance operating system. The MAPPS is designed to allow customers to run any Mori Seiki machines with a uniform operating system. In recent years, workpieces in the manufacturing industry have been becoming more diversified and complicated, and so demand for high-productivity and highly-advanced machining methods has been growing. In response to the demand, we have developed the MAPPS Ⅳ with ease of use in mind, and have incorporated improved hardware and interface; ESPRIT CAM software as standard (only for specific models); and advanced machining and operating support functions into the system.
In the software development sections, we have developed Education On Demand (EOD) as a solution for customers who have difficulty in developing the skills and knowledge of their engineers due to highly advanced and complicated machine tools. Education On Demand is a new tool for human resource development, with a goal of allowing anyone to lean basic knowledge and technical skills of machine tools. EOD creates an interactive education experience that promotes competency based learning so that anyone can acquire basic knowledge and machine operation skills at anytime, anywhere, 24 hours a day and 7 days a week.

Proportion of machine models developed within the last 5 years



Since the ratio of orders for models that we developed more than 5 years ago accounts for 46% (previous fiscal year: 32%), we are now focusing on developing new models so that we can release the machines in a timely manner when the economy recovers from the recession. In particular, we are concentrating on developing the successors of our best-selling and representative machines, the NL, NV and NH Series. In addition, we will develop machines suitable for the next-generation mass production lines of automobile parts by working closely with customers, and will develop an ultra-precision 5-axis machine based on technical feedback accumulated through academic-industrial joint development activities. At the same time, we will further expand our product range to meet the needs of our customers. We will also develop large machines for the energy and infrastructure related industries, and will improve efficiency in our research and development through the collaboration with GILDEMEISTER. During FY 2010, we are planning to release a total of 17 new models including the NMV1500 DCG high-precision 5-axis control vertical machining center that is specially designed for machining of automobile parts, small dies and molds and medical parts; the NVL1350 Series of large vertical lathes for the aircraft, energy, industrial machinery and construction machinery industries; the NZL2000 and NZL2500 4-axis control CNC lathes; the NZL6000 large, 4-axis control CNC lathe for the construction machinery and energy related industries including the oil and wind power sectors.

Joint research with customers and educational institutions including universities

In recent years, large machine tools have attracted a lot of attention from the aircraft and energy industries. Meanwhile, demand for high-accuracy machining of complex workpieces has been increasing in the medical equipment, precision parts, and precision dies and molds sectors. With the growing need for the machining research and precision machines, Mori Seiki established the Micro Machining Society to accumulate know-how for micro machining and free-form machining. The aim of this organization is to conduct highly advanced research, market development and model development for the micro machining and free-form machining fields. We focus on micro machining and free-form machining using a CAM system or scanner, and conduct test machining on the NVD1500 DCG and on an ultra-precision 5-axis machine under development so that we can provide feedback for the development of the ultra-precision 5-axis machine.

In addition, we established the Kyoto Research Institute in May, 2008, as a research facility for the MTTRF (Machine Tool Technologies Research Foundation), and have developed high-precision machine tools in cooperation with Kyoto University.

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 has established new headquarters in Davis, California, United States. 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. DTL is now in the process of developing an ultra-precision 5-axis machine. The NMV1500 DCG high-precision, 5-axis control vertical machining center has also been developed here. 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.

Exterior of DTL

*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.

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 importance of measurement and control technology continues to grow, BUG that has the system development technology, know-how, and solution development skills will play a more important role. In cooperation with BUG, Mori Seiki will flexibly respond by adding value to machine tools and improving our MAPPS and machine design by raising the quality of our measurement and control technology development.

Exterior of BUG

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. We have established a system that allows us not only to facilitate in-house processes but also to utilize customer feedback even after delivery, thereby reflecting the valuable feedback in our product improvement and providing customers with meticulous after-sales service.

In order to achieve the objectives of the second 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.

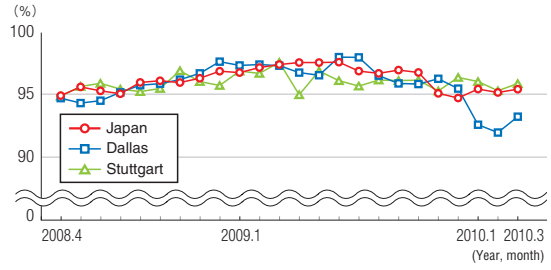
This spring, we embarked on the production of the Dura eco Series at the GILDEMEISTER Shanghai Plant. For this Series, jointly developed with GILDEMEISTER, we established the Mori Seiki Product Inspection Section in the Shanghai plant to conduct quality inspections together with GILDEMEISTER.

Design is an important element in product development, as the saying goes, “Every outcome depends on the design.” Bearing this in mind, we carry out durability evaluation tests on the individual machine components such as spindles, turrets, and tables at the design stage. For new product development, we conduct tests on accuracy, durability and operability, and destructive tests to achieve a build with improved design quality. With regard to parts, in order to prevent the occurrence of defective items and their release to later processes, we carry out strict accuracy checks for parts manufactured in-house. Moreover, in order not to allow the occurrence or delivery of defective parts, we conduct acceptance inspection for delivered parts, as well as giving thorough quality instructions to our suppliers. 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.

Immediately after delivery and acceptance, and one year after delivery, we contact each customer to survey the level of their satisfaction. When we receive a complaint from a customer, it is forwarded to relevant departments as a Product Problem Report (PPR), and provide the customer with an answer basically within 5 working days. 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.

In order to increase the operating rate of the 180,000 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.

Trend in rate of shipment of parts within 24 hours



Manufacturing

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

The Iga Campus is Mori Seiki's largest comprehensive production base in terms of both scale and equipment, and it manufactures large lathes, machining centers and multi-axis machines. The campus includes a plant for in-house manufacturing of spindles, ball screws, etc. that are key components of machine tools. The Iga Campus also supplies parts to the other campuses as well as to GILDEMEISTER AG, our capital and business collaboration partner, so this is a plant that can be referred to as the mother plant of Mori Seiki.

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

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

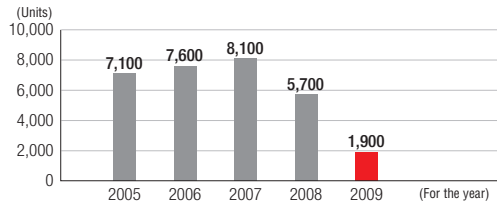
Items manufactured at each Campus

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

As a result of the economic slowdown since the fall of 2008, Mori Seiki also faced a sudden decline in orders received, and the production fell until it dipped below 200 units per month in the first half of FY 2009. However, even in this situation Mori Seiki kept moving forward without suspending business, and looked ahead towards the next economic recovery. We have improved production efficiency by distributing staff members in a flexible manner, improving each of their skills through training, educating staff for providing highly accurate machine tools to customers with shorter delivery times, increasing the number of staff who are capable of handling cell production, and training staff about machines that they are not involved in daily operations to increase their skill levels.

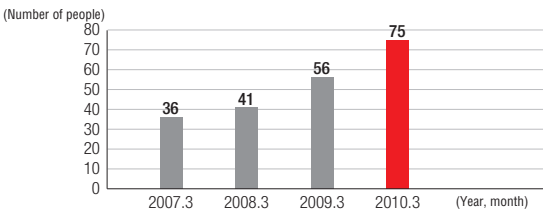
As for production, the adjustment of production due to the sales of inventory ended in the first half of FY 2009. The production was increased for the second half, and has recovered to a level of 326 units per month by March 2010.

Trend in production volume



As the market environment shifts towards multi-item, small-lot production, or even variable-item, variable-lot production, Mori Seiki has pioneered manufacturing methods to tackle the twin challenges of fast delivery and high quality. In the initial process of the manufacturing of machine tools, we have succeeded in increasing our capabilities of parts machining and reducing manufacturing lead time, by increasing both the quality and quantity of our machining equipment. In addition, we have completed an automated system for unmanned operation at night. Also, process management is done through IT, enabling us to share

Number of staff members capable of cell production

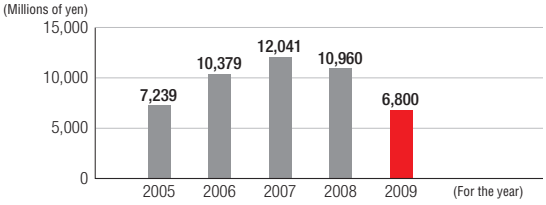


information quickly and efficiently.
At Mori Seiki, we have been strengthening our efforts towards in-house production, to improve the quality and shorten delivery times of our machine tools: to this end we built the Heat Treatment Plant, Casting Plant and Sheet Metal Plant within the Iga Campus, and we also built the Spindle Plant, in which we perform the whole sequence of operations from spindle part machining to assembly and inspection. We are undertaking the in-house manufacture not just of spindles but also of key components that are related to accuracy, including ball screws, turrets and DDM (direct drive motors). We also manufacture the large-diameter bearings that are required for large machine tools to shorten delivery times.
One of the major characteristics of Mori Seiki's manufacturing method is cell production utilizing the auto campsite assembly method. Mori Seiki was the first in the industry to introduce cell production in 2002, in which a single worker is responsible for all of the assembly processes. In comparison to the conventional system of division of work, in which waiting time arose in each process, assembly lead time has been reduced by more than half of the original time. What is more, the "auto campsite" system, which further refines cell production, is a system in which plants are treated like separately divided sites, like automobile camp sites. All the components required for assembly are prepared in advance in the vicinity of the worker from the part racks in the part preparation area, and assembly is carried out by one worker. To ensure that the parts are retrieved efficiently, the parts are managed using QR codes and all of the required parts are collected by the Logistics Team. Working efficiency has significantly improved since the assembly workers do not have to collect parts. As a result, the scope of responsibility for each worker has been clarified, which lead to an improvement in quality. Also, workers at the assembly site input the daily assembly status to a BHT (Barcode Handy Terminal) and save the data on the computers through wireless LAN. Because working time can be centralized, it is possible to determine the assembly time of each of the workers, and to digitally check the difference with respect to the standard time, promoting a greater efficiency.

Investment in plant and equipment

In FY 2010, by putting an emphasis on improving production efficiency and improving the accuracy of machined parts, we plan to introduce coordinate measuring machines, high-precision horizontal machining centers manufactured by DIXI, and 5-face machines capable of turning manufactured by DMG. At the Iga Machining Plant, we plan to renew the double column and horizontal machining centers.

Trend in investment in plant and equipment



Engineering

In the automobile part, aircraft, energy, construction/agricultural and general industrial machinery industries, customers needs have been growing more diverse every year: mass production of parts while maintaining accuracy, reduced running costs, and short delivery times for multiple-item, small-lot production of high-precision parts. The Engineering Department quickly and accurately provides technical support on all sales processes for machine tools, from technical proposals based on customers' requests, inspections of machining time, quotations and test machining before the contract to run-off machining, training at the time of delivery and acceptance inspection afterwards.

As the trend for production bases that are closely associated with local markets progresses, production of parts in BRICs (Brazil, Russia, India and China) and other emerging countries has become more common, and demand for machine tools is becoming more global. For this reason, to create a system that enables us to provide prompt and optimal engineering support throughout the world, we have sited Engineering Departments with high levels of specialist knowledge in seven places around the world - Nagoya, Tokyo, London, Paris, Stuttgart, Chicago, and Shanghai – to respond to customer requests.

In addition, through our Resident Engineering Service, whereby Mori Seiki professionals who know which machining processes they should use just by looking at a workpiece are sent to customer's factories, we do our best to solve problems for customers by making customized suggestions and improvements such as machining methods and process designs which will raise production efficiency, to suit each customer's factory.

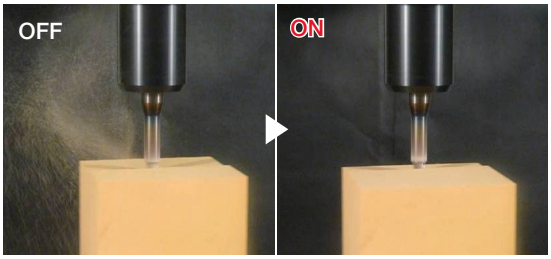
As for our approach in the future, we will provide comprehensive machinery for test machining at each of our bases throughout the world so that we can respond immediately to the customers' requirements, and enhance personnel in the Engineering Departments in Japan as well as overseas so that we can respond to further globalization. We are also proposing new cutting technologies such as dry cutting and machining with reduced cutting force with a view to reducing the load on the environment, and conducting research into making the very best of the performance of the ESPRIT® CAM software that is featured as standard from MAPPS Ⅳ, and of the Siemens and HEIDENHAIN CNC units that serve as the control units on the machines of our business collaboration partner, GILDEMEISTER AG, as a support for sales activities. In the full model change of the NL and NV Series scheduled for this fiscal year, the Engineering Department will participate in the development of new models by providing development assistance.

Latest Machining Technology

Mori Seiki also conducts research and development for cutting technology to improve customers' productivity and efficiency.

ZERO CHIP™

The Zerochip is a device that sucks and isolates a large amount of harmful dust generated during machining of graphite and CFRP (Carbon Fiber Reinforced Plastic), commonly used for aircraft parts. The Zerochip provides a clean air environment for both operator and machine; it reduces time spent cleaning inside the machine and prevents operators' health problems.

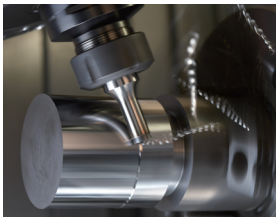


When the Zerochip is turned ON, the amount of dust and chips is substantially reduced.

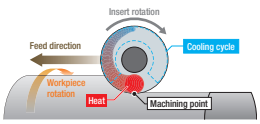
Spinning Tool

The Spinning Tool is an axially-loaded cutting tool that dramatically improves productivity and tool life in turning operation. By suppressing the temperature rise of the tool tip and reducing tool wear in comparison with conventional processes, it improves productivity up to five* times and extends tool life by up to twenty times*.

* It differs depending on conditions.
● The Spinning Tool was jointly developed by Kennametal Inc. and Mori Seiki.



Cutting with the Spinning Tool



Tool-tip temperature cooling cycle

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.
Mori Seiki has business relations with more than 700 suppliers in Japan and overseas. We hold explanatory meetings for our suppliers twice a year 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) in terms of quality, delivery date and price reduction.
Keeping in mind part of our mission statement, "Seeking to prosper together with suppliers," we will maintain good relationships with our suppliers.

Maintaining procurement quality and establishing online ordering system

In order to maintain and improve procurement quality, we perform acceptance inspections on delivered parts and 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 for the purpose of maintaining and improving the quality of the castings.
We introduced the EDI (Electrical Data Interface) online ordering system to streamline our ordering process. Currently, we place orders with approximately 90% of our major suppliers through the EDI system. We will further improve the system for more efficient and streamlined operation.

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 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.
We also formed a special team dedicated to optimization of machining methods and reduction in man-hours in cooperation with suppliers.
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 activities in this fiscal year.
In addition to these, we are working on reduction in overall procurement costs through consolidation of suppliers, which allows us to obtain lower unit prices by taking advantage of large volume purchasing.

CSR (Contributing to society/Protecting the environment)

1) Contributing to society

At Mori Seiki we strive to contribute to society both in Japan and overseas, based on our management philosophy of "contributing to the region and to society as a responsible corporate citizen." Our aim is to contribute to society in the regions where we are operating through machine tools and manufacturing, promotion of scientific techniques and machining technology, cooperation between industry and universities, etc.
We regard these social contributions as extremely important, and 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. 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 British Columbia	Canada
University of Sao Paulo	Brazil
Bremen Institute for Metrology, Automation and Quality Science (BIMAQ)	Germany
Katholieke Universiteit Leuven	Belgium
Swiss Federal Institute of Technology Zurich	Switzerland
Koç University	Turkey
National University of Singapore	Singapore
Kyoto University	Japan
Kyoto Research Institute	
Osaka University	
Kobe University	
Kanazawa University	
Keio University	
Osaka Institute of Technology	

Establishment of the IIT scholarship program

In 2008 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.
This year's conferment ceremony was held in January 2010 and scholarships were conferred on the 28 selected students.
We hope that all the students who received scholarships will study mechanical, electrical or aeronautical engineering or some other field of specialization more widely and deeply, so that they can play an active role in these fields around the world, including India and Japan. And we also hope that they will become interested in Mori Seiki as well as machine tools and pursue their career in this field.

Supporting the WorldSkills Competition

Mori Seiki was recognized as a Founding Sponsor for the 40th WorldSkills Competition (WorldSkills Calgary 2009), held in Calgary (Alberta, Canada) in September, 2009. This is the second such recognition in a row, following the 39th WorldSkills competition which took place in 2007 in Numazu City of Shizuoka Prefecture, Japan.
The WorldSkills competition is held once every two years with a view to improving levels of technical skill in the participating countries. Over 10,000 young engineers have competed in this event throughout its long history. For this year's event, over 1,000 participants from 51 countries — the winners of highly competitive preliminary contests — competed for top honors.
Mori Seiki's DuraVertical 5100 vertical machining center and DuraTurn 2050 2-axis CNC lathe from the Dura Series were selected to highlight the abilities of the competitors. A total of 20 machines were used for the milling and turning events at WorldSkills 2009. Prior to the event, those competing in the Milling, Turning and Team Manufacturing challenges received Mori Seiki's advanced online training, Education On Demand (EOD), to acquire basic knowledge of the machine tools.
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.

Cutting Dream Contest

Mori Seiki holds the “Cutting Dream Contest” for companies, technical colleges, universities and research institutions that perform cutting operations using machine tools, with the aim of improving and exchanging technology and techniques throughout the machining industry. Last year, its sixth year in Japan, the contest was staged with five categories: Production Parts Machining; Prototype & Test Cut Machining; Die & Mold/Free Form Machining; Micro Machining; and Academic Research, attracting a total of 153 entries from all over Japan.

We should note that this contest is not held just in Japan but also in Europe and the Americas, where it has also won acclaim.

Mori Seiki will continue to provide opportunities for exchanging knowledge and techniques among the machining industry through a variety of events.

2) 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	Prevention of pollution	Saving resources, recycling, longer product life
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.	Properly controlling industrial wastes and prohibition/reduction of hazardous substances.	● 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.

Efforts towards environmental preservation

The Iga Campus, one of Mori Seiki's core factories, boasts its green space ratio of 28.3%, which exceeds the minimum requirement of 25% stipulated in Japan's Factory Location Act. In February 2009, we installed a 60 kW photovoltaic system at the Iga Campus. This system is equipped with a solar tracker and is capable of generating 1.3 times more energy than a fixed type.

The Iga Campus also incorporates "green" features such as window glass with good light-blocking properties which help to reduce air-conditioning load and energy-saving lights for lower electricity consumption. As for parts delivery from suppliers, we use a cooperative delivery system to reduce the number of trucks. The utilization of returnable containers also allows us to reduce packaging waste.

Mori Seiki will continue to actively participate in local environmental activities too, such as weeding, removing silt and cleaning up the banks of the Bodaisen River flowing alongside the Nara No. 1 Plant.

Solar panel with an angle of rotation of 220°
(110° to the east and 110° to the west)

Commitment to energy savings

Mori Seiki has been committed to energy conservation to fulfill its aim of improving specific energy consumption by 1% on a year-on-year basis. For FY 2009 decrease in production prevented us from achieving the annual target. However, from 2010 onward, we expect to attain at least 5% improvement in specific energy consumption, as a result of introducing various energy-efficient devices.

We are also proceeding with our efforts to control factory temperature variations by improving thermal insulation of the roof and walls of the Machining Plant and using energy-efficient air conditioning systems. Temperature-controlled factories enable us to minimize thermal displacement in machines, thereby performing high-precision machining while saving energy.

In parts machining, we are striving to improve a material removal rate in metal machining, as well as reducing running time of machine accessories like pumps so that we can further increase the operating rate of our equipment while reducing power consumption.

Our other energy conservation efforts include investment in energy saving equipment including a 30 kW photovoltaic system to be installed at the Nara Campus and some other equipment to reduce the use of the fuel oil for air conditioners and electricity for production. Through the introduction of new equipment like the NMB bridge-type machining center in the Machining Plant and review of cutting conditions, we will work on both shortening machining cycle time and energy savings.

For the development of new models, we will create machines that feature more than 25% less power consumption compared to conventional machines.

Employees

The second medium-term management plan PQR555, which started in FY 2008, sets human resource development/ enhancement (= People, the "P" in PQR) as one of its objectives. We consider this as an essential element to achieve our goals, and are putting more effort into recruitment of talented people and employee training, with the aim of developing personnel with global perspective.

Because Mori Seiki, who entered into business and capital collaboration with GILDEMEISTER, is rapidly expanding in scale and becoming global in its activity, the education of personnel who can operate globally is increasingly important.

Mori Seiki is dedicated to the investment in development of human resources as well as in research and development. We actively invest approximately 1% of sales in education. We have established Mori Seiki University (MSU), a division that functions as a comprehensive educational resource, in Japan, the Americas, Europe and Asia, and provide training not only for personnel in the engineering and production departments but also for those in the administrative and sales departments. Our wide variety of training programs include: health and safety training; skills training; new employee training; MBO training; finance training; legal training; manufacturing training; CAD/CAM training; service engineer training; application engineer training; training for newly-appointed personnel; problem-solving training; presentation training; and English language training.

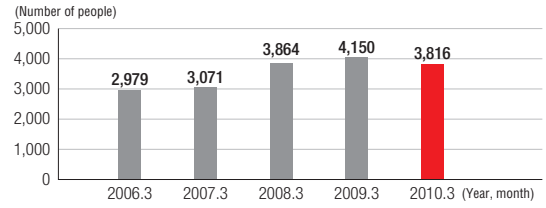
In particular, we are placing importance on English language training; in order to improve linguistic abilities and international sensibilities, we invite foreign instructors to each Campus for English training. Those who wish to attend English training are placed into classes based on their TOEIC scores, and receive two-hour sessions once a week. Each of our young engineers take a long posting at an overseas Technical Center, working with foreign staff, to help develop an appreciation of other cultures. We also educate our top-level management on the latest overseas markets and social conditions, and cultivate personnel who can take a broad perspective and grasp a panoramic view of issues.

The number of employees recruited overseas now exceeds 1,000, making up 30% of our total workforce. In order to further promote localization, it is important for us to educate local staff, in addition to hiring people with excellent management skills. Moreover, to ensure consistent quality of service worldwide, we must educate our employees so that each of them can conduct themselves as representatives of Mori Seiki when meeting our customers or others from across the globe.

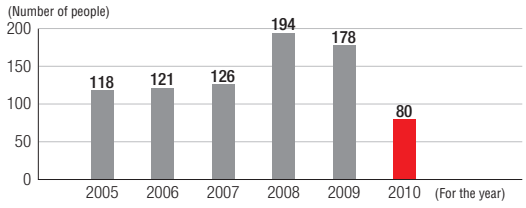
Since we utilize English language not only for business but also for overseas staff training, English is becoming more and more important in our workplace. At Mori Seiki, we use the TOEIC to measure employees' general English ability, and set a TOEIC score of 500 as our company standard and one of the requirements for promotion.

Currently, overseas sales account for approximately 70% of Mori Seiki's total sales. We will therefore continue to provide English language training for our employees, hoping that anyone in any department can communicate in English.

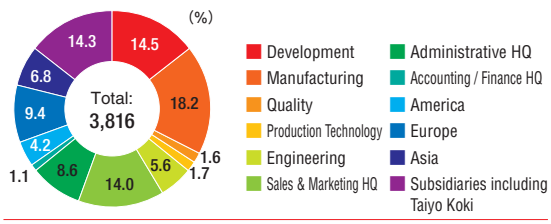
Change in number of employees



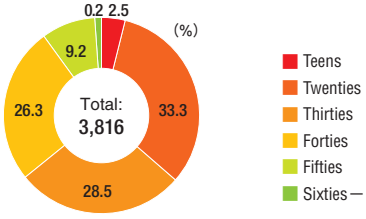
Trend in numbers of recruits



Numbers of employees assigned to each department



Age distribution



TAIYO KOKI

TAIYO KOKI is a manufacturer of grinding machines established in 1986 and headquartered in Nagaoka City, Niigata Prefecture.
Grinding machines use a grinding wheel to produce a smooth finish on a surface of workpieces machined on machine tools such as lathes and machining centers. TAIYO KOKI's products are divided into three categories: vertical grinding machines, horizontal grinding machines and specialized grinding machines. 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 was listed on the JASDAQ Securities Exchange in December 2007. This has not only consolidated the company's capital and organization, but also made it possible to complete investment in production equipment that allows it to respond to customer needs, to actively make inroads into overseas markets, and secure a wide range of personnel.
We opened sales bases in Chicago, USA in 2008, and Beijing, China and Paris, France in 2009. We also established an assembly plant in May 2009. 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

NVGⅡ-8T

SVG-1

Company Name	TAIYO KOKI CO., LTD
Location	Nagaoka City, Niigata
Establishment	14th March, 1986
Capital	700 million yen
Number of employees	170
Business	Development, manufacture and sale of machine tools (grinding machines)
URL	www.taiyokoki.com/

DIXI Machines

DIXI Machines was founded in 1904 as a manufacturer of machines for watch components in Le Locle, Neuchatel, the Northwest territory of Switzerland boarding France and 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 aircraft, aerospace, automobiles, 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 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 knock-down production of the Dura Series machines and the NMV5000 DCG high-precision 5-axis control vertical machining center started at DIXI Machines from 2008. The company will also begin manufacturing the NMV1500 DCG high-precision 5-axis control vertical machining center in 2010. In the future, we will embark on the development of 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

JIG 1200 Ⅱ

DHP 80 Ⅱ/DHP 100 Ⅱ

Company Name	MORI SEIKI INTERNATIONAL SA(DIXI)
Location	Neuchatel, Switzerland
Establishment	January 2007
Capital	85 million Swiss Francs
Number of employees	130 (as of 31st March, 2010)
Business	Manufacture and sale of jig borers and machining centers
URL	www.moriseiki.com/dixi

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

Company Name	TOBLER S.A.S.
Location	Louvres, France
Establishment	1945
Capital	1.28 million Euro
Business	Manufacture and sale of machine tool accessories
URL	www.moriseiki.com/tobler/

Magnescale

On 31st March, 2010, Magnescale Co., Ltd. was launched as a wholly owned subsidiary of Mori Seiki, after Mori Seiki took over the measuring instrument division of Sony Manufacturing Systems Corporation.

Ever since the foundation of its predecessor in 1969, and the development of one-of-a-kind Magnescale products, we have long been working to serve our customers by offering measurement devices that are easier to use and scales that maintain greater precision.

At Magnescale, we have been conducting our business based on our fundamental principles, "Contributing to the progress and development of manufacturing through our high-precision measurement technologies." For instance, our Magnescale products, which originated from tape recorder magnetic storage technology, and boast high resistance to environmental stresses and offer exceptional precision and high resolution, have spurred progress in the machine tool industry.

Meanwhile, our Laserscale products, which originated from optical disk-derived optoelectronics technologies, and were developed with electronics miniaturization in mind, have contributed to improvements in advanced semiconductor technologies and high-density production equipment. Moreover, in today's manufacturing industry, our principles further call for us to pursue technical innovation with a global perspective, which involves addressing problems facing the global environment.

To that end, we aim both to develop better measuring devices and to work on systematization technologies. We believe that the most important thing for us is to develop an even closer partnership with our customers — a partnership that enables us to anticipate the needs of customers who engage in manufacturing. With that in mind, we at Magnescale are working to enhance our capacity to come up with cutting-edge technologies, and are actively seeking solutions to the challenges our customers face. Such efforts combined are enabling us to upgrade production technologies and are thereby yielding higher product quality and reliability. In this regard, acting as a partner in this new era, we shall work even harder to meet the needs of our customers.

Magnescale®

SR87

RU77

LASERSCALE®

BH20

Digital Gauge

DK800

Company Name	Magnescale Co., Ltd.
Location	**Head office** Minato Ward, Tokyo
	Isehara Plant Isehara City, Kanagawa
Establishment	31st March, 2010
Capital	One billion yen
Number of employees	235 (as of 31st March, 2010)
Business	Manufacture and sale of measurement devices (Magnescale, Laserscale and Digital Gauge, etc.), control devices and related systems
URL	www.mgscale.com/

Corporate Profile (As of 31st March, 2010)

MORI SEIKI CO., LTD.

• President

Masahiko Mori

• Capital

41,100 million yen (Individual)/
41,100 million yen (Consolidated)

• Shareholders' Equity

96,600 million yen (Individual)/
96,300 million yen (Consolidated)

• Total Assets

130,900 million yen (Individual)/
144,200 million yen (Consolidated)

• Business Operations

Manufacture and Sale of Machine Tools

• Employees

2,208 (Individual)/3,816 (Consolidated)

• Head Office

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

• Homepage address

http://www.moriseiki.com

Affiliated companies

• Domestic consolidated subsidiaries

TAIYO KOKI CO., LTD.
B.U.G., Inc.
Magnescale Co., Ltd.
MORI SEIKI TECHNO, LTD.
MORI SEIKI TRADING, LTD.
MORI SEIKI HIGH PRECISION MACHINING LABORATORY, LTD.
MORI SEIKI KOSAN, LTD.
AKISHINO MOLD LABORATORY, LTD.

• Unconsolidated subsidiaries

DMG / MORI SEIKI AUSTRALIA PTY LTD.
6 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 GmbH
MORI SEIKI (UK) LIMITED
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.
Digital Technology Laboratory Corporation
PT. MORI SEIKI INDONESIA
MORI SEIKI AUSTRALIA PTY LTD.
MORI SEIKI FRANCE Sud-Est S.A.S.
MORI SEIKI TECHNO GmbH
MORI SEIKI India Private LTD.
MORI SEIKI INTERNATIONAL SA (DIXI)
TOBLER S.A.S.
MORI SEIKI MANUFACTURING (THAILAND) CO., LTD.
MORI SEIKI Istanbul Makina San. ve Tic. Ltd. Sti.
MORI SEIKI CANADA, LTD.
MORI SEIKI MALAYSIA Sdn. Bhd.
MORI SEIKI (UK) PENSIONS LIMITED
1 other company

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

18th floor, Shinagawa Intercity Tower A,
2-15-1 Konan Minato-ku,
Tokyo 108-6018, 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	Opened the Tokyo Branch
October	Started sales and service for DMG brand products in Japan
2010: March	Established Magnescale Co., Ltd.

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
2008: November	Opened a new office in Chicago, USA
2009: May	Completed the new Assembly Plant
August	Opened a new office in Beijing, China
December	Opened a new office in Paris, France

HITACHI SEIKI CO., LTD.

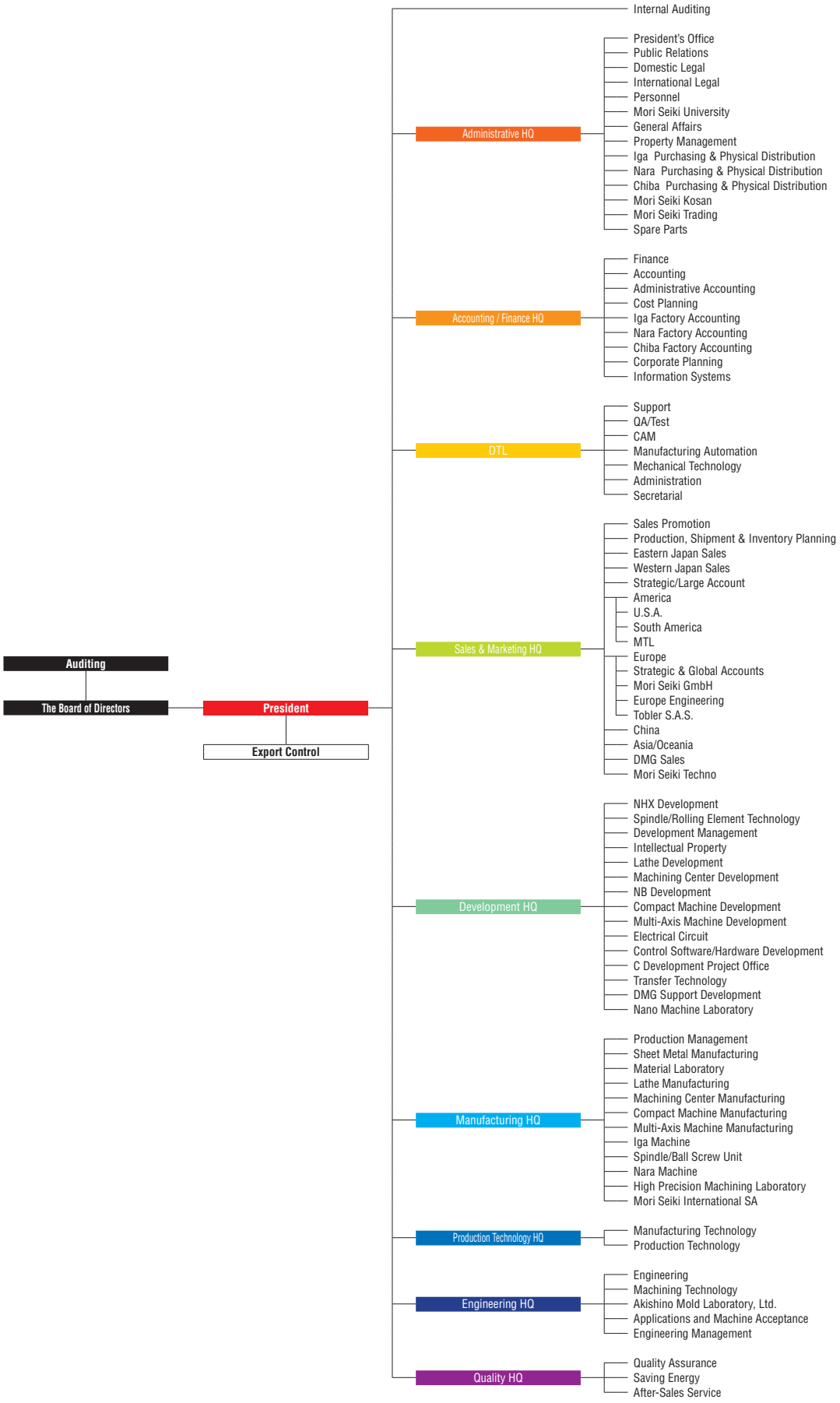
1936:	Establishment
1937:	Completed the first turret lathe in Japan
1942:	Established the Abiko Plant
1950:	Introduced the 3A turret lathe
1953:	Introduced the world's first hydraulic profile car wheel lathe
1954:	Introduced the 2ML, 3ML and 4MK milling machines
1955:	Introduced the first lens spherical 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

Magnescale Co., Ltd.

1965:	Released magnetic measuring technology
1969:	Established Sony Magnescale Co., Ltd. for the development, design, and manufacture of magnetic measuring instruments, Magnescales
1981:	Established the Isehara office
1996:	Changed company name to Sony Precision Technology Inc.
2004:	Changed company name to Sony Manufacturing Systems Corporation
2010:	Established Magnescale Co., Ltd.

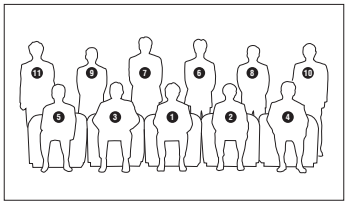
Organizational Structure

As of 1st August, 2010



Board of Directors

Masahiko Mori	President Dr. Eng. ①	Naoshi Takayama	Managing Director ⑦
Hiroshi Mizuguchi	Vice President Dr. Eng. ②	Koji Kageyama	Corporate Auditor ⑧
Takeshi Saito	Vice President ③	Katsuhiko Maehori	External Auditor ⑨
Kazuyuki Hiramoto	Vice President Dr. Eng. ④	Yasuo Noishiki	External Auditor ⑩
Tatsuo Kondo	Vice President ⑤	Yoshito Kato	External Auditor ⑪
Hiroaki Tamai	Senior Executive Managing Director ⑥		



Financial Section (Consolidated Balance Sheets)

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31st March,		31st March,
	2010	**2009**	**2010**
Current assets:			
Cash and deposits (Notes 4 and 6)	**¥ 7,516**	¥ 14,453	$ 80,774
Notes and accounts receivable (Note 6):			
Trade	**16,666**	16,634	179,108
Allowance for doubtful receivables	**(115)**	(139)	(1,236)
Notes and accounts receivable, net	**16,551**	16,495	177,872
Inventories (Note 5)	**33,061**	37,915	355,304
Deferred income taxes (Note 11)	**534**	1,714	5,739
Other current assets	**5,072**	8,196	54,508
Total current assets	**62,734**	78,773	674,197
Property, plant and equipment (Note 8):			
Land (Note 13)	**17,152**	15,940	184,331
Buildings and structures	**67,421**	63,882	724,567
Machinery, equipment and vehicles	**33,195**	49,266	356,744
Leased assets (Note 17)	**4,686**	91	50,360
Construction in progress	**1,723**	1,862	18,517
	124,177	131,041	1,334,519
Accumulated depreciation	**(66,520)**	(76,501)	(714,884)
Property, plant and equipment, net	**57,657**	54,540	619,635
Investments and other assets:			
Investments in securities (Notes 6, 7 and 18):			
Unconsolidated subsidiaries and affiliates	**1,025**	1,413	11,015
Other	**12,005**	7,259	129,017
Total investments in securities	**13,030**	8,672	140,032
Deferred income taxes (Note 11)	**1,569**	284	16,862
Other assets:			
Goodwill (Note 8)	**2,024**	695	21,752
Other	**7,153**	6,252	76,872
Total other assets	**9,177**	6,947	98,624
Total investments and other assets	**23,776**	15,903	255,518
Total assets (Note 21):	**¥144,167**	¥149,216	$ 1,549,350

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,
	2010	**2009**	**2010**
Current liabilities:			
Short-term bank loans (Notes 6 and 10)	**¥ 18,550**	¥ 10,298	$ 199,355
Current portion of long-term debt (Note 10)	**271**	16	2,912
Notes and accounts payable, trade (Note 6)	**6,087**	3,374	65,416
Accrued income taxes (Note 11)	**645**	1,371	6,932
Accrued expenses	**1,781**	1,268	19,140
Deferred income taxes (Note 11)	**36**	114	387
Advances received	**925**	1,554	9,941
Allowance for product warranties	**845**	1,192	9,081
Allowance for bonuses to directors and corporate auditors	**—**	25	—
Accrued bonuses to employees	**235**	—	2,526
Other current liabilities	**5,608**	5,130	60,269
Total current liabilities	**34,983**	24,342	375,959
Long-term liabilities:			
Long-term debt (Note 10)	**6,825**	2,665	73,348
Deferred income taxes (Note 11)	**1,228**	939	13,197
Deferred income taxes on land revaluation reserve (Notes 11 and 13)	**1,699**	1,699	18,259
Accrued retirement benefits (Note 9)	**312**	642	3,353
Other long-term liabilities	**402**	—	4,320
Total long-term liabilities	**10,466**	5,945	112,477
Contingent liabilities (Note 14)			
Net assets			
Shareholders' equity (Note 12):			
Common stock:			
Authorized – 157,550,000 shares – 31st March, 2010 and 2009			
Issued – 118,475,312 shares – 31st March, 2010	**41,132**	—	442,042
– 96,475,312 shares – 31st March, 2009	**—**	32,698	—
Capital surplus (Note 22)	**53,863**	45,429	578,861
Retained earnings (Note 22)	**12,821**	50,185	137,786
Treasury stock, at cost: 7,892,985 shares – 31st March, 2010	**(10,544)**	—	(113,315)
7,925,975 shares – 31st March, 2009	**—**	(10,589)	—
Total shareholders' equity	**97,272**	117,723	1,045,374
Valuation and translation adjustments:			
Land revaluation reserve (Note 13)	**1,545**	1,545	16,604
Net unrealized holding gain on securities (Note 7)	**1,750**	1,194	18,807
Net unrealized gain on derivative instruments	**944**	1,202	10,145
Translation adjustments	**(5,242)**	(4,864)	(56,335)
Total valuation and translation adjustments	**(1,003)**	(923)	(10,779)
Stock acquisition rights (Note 12)	**1,534**	829	16,486
Minority interests	**915**	1,300	9,833
Total net assets	**98,718**	118,929	1,060,914
Total liabilities and net assets	**¥144,167**	¥149,216	$ 1,549,350

See accompanying Notes to Consolidated Financial Statements

Financial Section (Consolidated Statements of Operations)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Year ended 31st March,		Year ended 31st March,
	2010	**2009**	**2010**
Net sales (Note 21)	**¥ 66,403**	¥ 157,203	$ 713,627
Cost of sales (Note 9)	**55,204**	98,305	593,272
Gross profit	**11,199**	58,898	120,355
Selling, general and administrative expenses (Notes 9 and 15)	**38,132**	52,976	409,801
Operating (loss) income (Note 21)	**(26,933)**	5,922	(289,446)
Other income (expenses) :			
Interest and dividend income	**209**	319	2,246
Interest expense	**(290)**	(133)	(3,117)
Loss on revaluation of investments in securities (Note 7)	**(32)**	(1,211)	(344)
Foreign exchange gain (loss)	**604**	(2,584)	6,491
Gain on sales of investments in securities (Note 7)	**1,007**	—	10,822
Gain on sales of investment in a subsidiary	**30**	—	322
Loss on sales and disposal of property, plant and equipment, net	**(89)**	(573)	(956)
Loss on impairment of fixed assets (Note 8)	**(234)**	(129)	(2,515)
Business restructuring expenses (Notes 9 and 20)	**(8,714)**	—	(93,648)
Other, net	**(199)**	(329)	(2,139)
(Loss) income before income taxes and minority interests	**(34,641)**	1,282	(372,284)
Income taxes (Note 11) :			
Current	**739**	1,728	7,942
Deferred	**56**	1,428	602
	795	3,156	8,544
Loss before minority interests	**(35,436)**	(1,874)	(380,828)
Minority interests in net loss (income) of consolidated subsidiaries	**743**	(279)	7,985
Net loss	**¥ (34,693)**	¥ (2,153)	$ (372,843)

See accompanying Notes to Consolidated Financial Statements

Financial Section (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 on derivative instruments	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
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
Net loss	–	–	–	(34,693)	–	–	–	–	–	–	–	(34,693)
Issuance of common stock	22,000,000	8,434	8,434	–	–	–	–	–	–	–	–	16,868
Cash dividends	–	–	–	(2,658)	–	–	–	–	–	–	–	(2,658)
Purchases of treasury stock	–	–	–	–	(1)	–	–	–	–	–	–	(1)
Sales of treasury stock	–	–	–	(13)	46	–	–	–	–	–	–	33
Net changes of items other than shareholders' equity	–	–	–	–	–	–	556	(258)	(378)	705	(385)	240
Balance at 31st March, 2010	118,475,312	¥41,132	¥53,863	¥12,821	¥ (10,544)	¥ 1,545	¥ 1,750	¥944	¥ (5,242)	¥1,534	¥915	¥98,718

	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 on derivative instruments	Translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at 31st March, 2009	$351,402	$488,221	$539,334	$ (113,799)	$16,604	$12,832	$12,918	$ (52,273)	$8,909	$13,971	$1,278,119
Net loss	–	–	(372,843)	–	–	–	–	–	–	–	(372,843)
Issuance of common stock	90,640	90,640	–	–	–	–	–	–	–	–	181,280
Cash dividends	–	–	(28,565)	–	–	–	–	–	–	–	(28,565)
Purchases of treasury stock	–	–	–	(10)	–	–	–	–	–	–	(10)
Sales of treasury stock	–	–	(140)	494	–	–	–	–	–	–	354
Net changes of items other than shareholders' equity	–	–	–	–	–	5,975	(2,773)	(4,062)	7,577	(4,138)	2,579
Balance at 31st March, 2010	$442,042	$578,861	$137,786	$ (113,315)	$16,604	$18,807	$10,145	$ (56,335)	$16,486	$9,833	$1,060,914

See accompanying Notes to Consolidated Financial Statements

Financial Section (Consolidated Statements of Cash Flows)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Year ended 31st March,		Year ended 31st March,
	2010	**2009**	**2010**
Operating activities:			
(Loss) income before income taxes and minority interests	**¥ (34,641)**	¥ 1,282	$ (372,284)
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash (used in) provided by operating activities:			
Depreciation and amortization	**7,629**	7,290	81,988
Loss on impairment of fixed assets	**234**	129	2,515
Loss on sales and disposal of property, plant and equipment, net	**89**	573	956
Gain on sales of investments in securities	**(1,007)**	—	(10,822)
Gain on sales of investment in subsidiary	**(30)**	—	(322)
Loss on revaluation of investments in securities	**32**	1,211	344
Business restructuring expenses	**8,714**	—	93,648
(Decrease) increase in allowance for bonuses to directors and corporate auditors	**(25)**	25	(269)
Decrease in accrued bonuses to employees	**(15)**	—	(161)
(Decrease) increase in allowance for doubtful receivables	**(13)**	9	(140)
(Decrease) increase in accrued retirement benefits	**(451)**	603	(4,847)
Decrease in allowance for product warranties	**(354)**	(361)	(3,804)
Interest and dividend income	**(209)**	(319)	(2,246)
Interest expense	**290**	133	3,117
Unrealized exchange loss	**488**	3,192	5,245
Changes in operating assets and liabilities:			
Notes and accounts receivable	**1,283**	19,993	13,788
Inventories	**6,040**	(1,455)	64,911
Notes and accounts payable	**1,284**	(8,120)	13,799
Bonuses to directors and corporate auditors	—	(164)	—
Other, net	**309**	(640)	3,321
Subtotal	**(10,353)**	23,381	(111,263)
Interest and dividend income received	**210**	337	2,257
Interest paid	**(283)**	(130)	(3,042)
Business restructuring expenses paid	**(7,360)**	—	(79,097)
Income taxes refund (paid)	**1,791**	(15,024)	19,248
Net cash (used in) provided by operating activities	**(15,995)**	8,564	(171,897)
Investing activities:			
Purchases of property, plant and equipment	**(5,639)**	(8,104)	(60,602)
Proceeds from sales of property, plant and equipment	**3,678**	373	39,527
Increase in investments in securities	**(5,431)**	(310)	(58,366)
Proceeds from sales of investments in securities	**2,366**	—	25,427
Increase in investments in subsidiaries	**(136)**	(373)	(1,461)
Proceeds from sales of investments in subsidiaries	**216**	—	2,321
Acquisition of shares of a subsidiary resulting in change in scope of consolidation (Note 18)	**(5,324)**	—	(57,216)
Purchases of other assets	**(2,573)**	(2,414)	(27,652)
Other, net	**(52)**	(596)	(559)
Net cash used in investing activities	**(12,895)**	(11,424)	(138,581)
Financing activities:			
Increase in short-term bank loans, net	**7,602**	9,602	81,698
Purchases of treasury stock	**(6)**	(5,933)	(64)
Proceeds from sales of treasury stock	**33**	72	354
Proceeds from issuance of common stock	**16,770**	—	180,225
Cash dividends	**(2,658)**	(4,164)	(28,565)
Other, net	**(263)**	(84)	(2,826)
Net cash provided by (used in) financing activities	**21,478**	(507)	230,822
Effect of exchange rate changes on cash and cash equivalents	**(45)**	(709)	(483)
Decrease in cash and cash equivalents	**(7,457)**	(4,076)	(80,139)
Cash and cash equivalents at beginning of the year	**14,255**	17,916	153,197
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	**458**	415	4,922
Cash and cash equivalents at end of the year (Note 4)	**¥ 7,256**	¥ 14,255	$ 77,980

See accompanying Notes to Consolidated Financial Statements

Financial Section (Notes to Consolidated Financial Statements 31st March, 2010)

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.

Certain reclassifications of previously reported amounts have been made to the consolidated balance sheet at 31st March, 2009 to confirm them to the 2010 presentation. Such reclassifications had no effect on consolidated net assets.

The accompanying consolidated financial statements have been translated from yen amounts into U.S. dollar amounts, solely for convenience, as a matter of arithmetic computation only, at ¥93.05 = U.S.$1.00, the exchange rate prevailing on 31st March, 2010. 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 six consolidated subsidiaries; one subsidiary's fiscal year end is 30th September and that of the other five subsidiaries 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 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 and operating income and income before income taxes and minority interests decreased by ¥117 million for the year ended 31st March, 2009.

The effect on segment information is described in Note 21.

(7) Leased assets

Leased assets under finance lease contracts that transfer ownership to the lessee are depreciated by using the economic useful lives of leased assets.

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

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. As of 31st March, 2010, no allowance for bonuses to directors and corporate auditors was recorded.

(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 and 2010 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 eligible employees.

(14) Accrued bonuses to employees
For two consolidated subsidiaries, accrued bonuses to employees are provided for based on the estimated amount to be paid to employees after the balance sheet date for their services rendered during the current period.

(15) Derivatives
Derivatives are stated at fair value.

(16) 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.

(17) Research and development costs and computer software (Other than leased assets)
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.

(18) Stock issuance cost
Stock issuance cost is charged to income as incurred.

3. Changes in Method of Accounting

(1) Application of accounting standards for financial instruments
Effective the year ended 31st March, 2010, the Company and its consolidated subsidiaries adopted "Accounting Standard for Financial Instruments" (Accounting Standards Board of Japan (ASBJ) Statement No. 10 issued on 10th March, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19 issued on 10th March, 2008). The effect of this change on operating results was nil for the year ended 31st March, 2010.

(2) Change in method of measuring of inventories
Effective the year ended 31st March, 2009, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Measurement of Inventories" (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 21.

(3) Application of accounting standards for leases
Effective the year ended 31st March, 2009, the Company and its domestic consolidated subsidiaries 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 21.

(4) Accounting policies applied to foreign subsidiaries
Effective the year ended 31st March, 2009, the Company and its overseas consolidated subsidiaries 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 21.

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, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2009**	**2010**
Cash and deposits	**¥ 7,516**	¥ 14,453	$ 80,774
Time deposits with an original maturity in excess of 3 months included in cash and deposits	**(260)**	(198)	(2,794)
Cash and cash equivalents at end of the year	**¥ 7,256**	¥ 14,255	$ 77,980

5. Inventories

Inventories at 31st March, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	**2009**	**2010**
Merchandise	**¥ 33**	¥ 315	$ 355
Finished goods	**10,035**	14,337	107,845
Work in process	**6,242**	5,809	67,082
Raw materials and supplies	**16,751**	17,454	180,022
Total	**¥ 33,061**	¥ 37,915	$ 355,304

6. Financial Instruments

Status of financial instruments

(1) Policy for financial instruments

The Company and its consolidated subsidiaries raise capital partly by issuing stock, as necessary, for capital expenditure plans related to manufacturing and sales of machine tools. The Company and its consolidated subsidiaries raise short-term capital, as necessary, partly by borrowings from banks.

The Company and its consolidated subsidiaries manage surplus funds by investing only in short-term deposits and others and do not enter into speculative transactions. The purpose of derivative transactions is avoiding the risks as described hereinafter, and transactions are not carried out for speculative purposes.

(2) Types of financial instruments and related risk

Notes and accounts receivable, trade are operating claims and are subject to the credit risk of customers. Foreign-currency denominated operating claims, which result from operating globally and are subject to risk from exchange rate fluctuations, are hedged using forward exchange contracts limited to the necessary amounts, reviewing actual export performance. Most operating claims are settled within three months.

Investments in securities are mainly shares of counterparty companies and are subject to risk from market price fluctuations.

Notes and accounts payable, trade are operating obligations and mostly are payable within three months. A portion of these is denominated in foreign currencies, and is subject to risk from exchange rate fluctuations. However, the portion is within the range of balance of accounts receivable in the same currencies.

The main purpose of short-term bank loans is the provision of short-term operating capital. Monthly cash flows are reviewed and refunding and funding are repeated within one month so as to realize efficient financing. A portion of short-term bank loans has some financial covenants.

Short-term bank loans and notes and accounts payable, trade are subject to liquidity risk.

Derivative transactions are forward exchange contracts entered into in order to avoid the risk arising from fluctuations in foreign currency exchange rates related to operating claims.

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that counterparties may default)

The Company and the consolidated subsidiaries regularly obtain the credit information related to customer operating claims and manage collection dates and outstanding amounts in accordance with credit control policy.

To minimize the counterparty risk when entering into derivative transactions, counterparties are limited to financial institutions with high credit ratings.

The maximum amount of credit risk as of the end of the fiscal year reflects the amounts recorded in the balance sheet for financial assets that are subject to credit risk.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

The Company hedges risks arising from fluctuations in foreign exchange rates, which are relevant to operating claims and are analyzed by currency and settlement month, by using forward foreign exchange contracts. The foreign-currency denominated operating claims that are expected to be most likely resulting from forecasted export transactions are hedged by using forward foreign exchange contracts depending on circumstances in the foreign currency exchange market.

The market values of investments in securities and the financial position of the issuer (counterparty company) are regularly reviewed.

For derivative transactions, the finance department of the Company enters into and manages transactions, and the responsible director approves them based on internal regulations. The consolidated subsidiaries do not enter into derivative transactions.

(c) Monitoring of liquidity risk (the risk of being unable to make payment on payment date)

The finance department of the Company prepares and updates funding plans in a timely manner based on reports submitted by each department to manage liquidity risk.

(4) Supplementary explanation of the market value of financial instruments

The market value of financial instruments is based on the market price, and when no market price exists, a rationally calculated amount is used. These calculations include variable factors, so the resulting amount may fluctuate if different underlying assumptions are applied. The amounts of contracts related derivative transactions listed in the following section do not in themselves indicate the market risk of derivative transactions.

Market value of financial instruments

The amounts recorded in the consolidated balance sheet, their market values and resulting differences as of 31st March, 2010, are as follows. Instruments for which it is deemed extremely difficult to determine the market value are not included.

	Millions of Yen		
	2010		
	Carrying amount	Market value	Unrealized gain (loss)
Assets			
Cash and deposits	¥ 7,516	¥ 7,516	¥ —
Notes and accounts receivable, trade	16,666	16,666	—
Investments in securities			
Other securities	11,305	11,305	—
Total assets	¥ 35,487	¥ 35,487	¥ —
Liabilities			
Notes and accounts payable, trade	¥ 6,087	¥ 6,087	¥ —
Short-term bank loans	18,550	18,550	—
Total liabilities	¥ 24,637	¥ 24,637	¥ —
Derivative transactions			
Subject to hedge accounting	¥ 1,586	¥ 1,586	¥ —
Not subject to hedge accounting	418	418	—
Total derivative transactions (※)	¥ 2,004	¥ 2,004	¥ —

	Thousands of U.S. dollars		
	2010		
	Carrying amount	Market value	Unrealized gain (loss)
Assets			
Cash and deposits	$ 80,774	$ 80,774	$ —
Notes and accounts receivables, trade	179,108	179,108	—
Investments in securities			
Other securities	121,494	121,494	—
Total assets	$ 381,376	$ 381,376	$ —
Liability			
Notes and accounts payable, trade	$ 65,416	$ 65,416	$ —
Short-term bank loans	199,355	199,355	—
Total liabilities	$ 264,771	$ 264,771	$ —
Derivative transactions			
Subject to hedge accounting	$ 17,045	$ 17,045	$ —
Not subject to hedge accounting	4,492	4,492	—
Total derivative transactions (※)	$ 21,537	$ 21,537	$ —

(※) The value of assets and liabilities arising from derivatives is shown at net value.

Financial Section (Notes to Consolidated Financial Statements 31st March, 2010)

Note 1: Methods to determine the market value of financial instruments and other matters related to securities and derivative transactions
As to cash and deposits, a portion of deposits represents time deposits with maturities within one year and the market value is therefore nearly equal to the book value. So the market value is determined at book value.
As to notes and accounts receivable, trade, most of them are settled within a short time and the market value is therefore nearly equal to the book value. So the market value is determined at book value.
As to investments in securities, the market value is determined at the quoted exchange prices for equity securities.
As to notes and accounts payable, trade, most of them are settled within a short time and the market value is therefore nearly equal to the book value. So the market value is determined at book value.
As to short-term bank loans, most of them are repaid within one month in accordance with financing plans and the market value is therefore nearly equal to the book value. So the market value is determined at book value.

Note 2: Financial instruments for which it is extremely difficult to determine the market value were as follows:

	Millions of yen	Thousands of U.S. dollars
	Book value	
	2010	
Investments in unconsolidated subsidiaries	**¥ 356**	$ 3,826
Investments in affiliates	**669**	7,189
Investments in unlisted stocks	**608**	6,534
Investments in limited liability partnership	**92**	989
Total	**¥ 1,725**	$ 18,538

Note 3: Scheduled redemptions of monetary claims with maturities subsequent to 31st March, 2010 are as follows:

	Millions of yen			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Deposits	¥ 7,511	¥ —	¥ —	¥ —
Notes and accounts receivables, trade	16,655	11	—	—
Total	¥ 24,166	¥ 11	¥ —	¥ —

	Thousands of U.S. dollars			
	Within 1 year	Over 1 year within 5 years	Over 5 years within 10 years	Over 10 years
Deposits	$ 80,720	$ —	$ —	$ —
Notes and accounts receivables, trade	178,990	118	—	—
Total	$ 259,710	$ 118	$ —	$ —

Note 4: Scheduled redemptions of short-term bank loans subsequent to 31st March, 2010 are as follows:

	Millions of yen					
	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years
Short-term bank loans	¥ 18,550	¥ —	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars					
	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years within 4 years	Over 4 years within 5 years	Over 5 years
Short-term bank loans	$ 199,355	$ —	$ —	$ —	$ —	$ —

7. Securities

Marketable securities classified as other securities at 31st March, 2010 and 2009 are summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2010			2009			2010		
	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	**¥8,601**	**¥10,893**	**¥2,292**	¥4,017	¥5,559	¥1,542	$92,434	$117,066	$24,632
Subtotal	**8,601**	**10,893**	**2,292**	4,017	5,559	1,542	92,434	117,066	24,632
(2) Securities whose carrying value does not exceed their acquisition cost:									
Equity securities	**486**	**412**	**(74)**	1,166	1,008	(158)	5,223	4,428	(795)
Subtotal	**486**	**412**	**(74)**	1,166	1,008	(158)	5,223	4,428	(795)
Total	**¥9,087**	**¥11,305**	**¥2,218**	¥5,183	¥6,567	¥1,384	$97,657	$121,494	$23,837

The Company recorded an impairment loss of ¥32 million ($344 thousand) and ¥1,211 million on marketable equity securities classified as other securities for the years ended 31st March, 2010 and 2009, respectively.
An impairment loss is recorded when the market value of a security falls by 30% or more from its acquisition cost.

The carrying value of principal investments in non-marketable securities at 31st March, 2009 was as follows:

	Millions of yen
	2009
Investments in unconsolidated subsidiaries	¥ 573
Investments in affiliates	840
Investments in unlisted stocks	595
Investments in limited liability partnership	97
Total	¥ 2,105

The sales of other securities for the year ended 31st March, 2010 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Sales of equity securities	**¥ 2,366**	$ 25,427
Aggregate gain	**¥ 1,007**	$ 10,822

There were no sales of other securities recorded for the year ended 31st March, 2009.

8. 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.

Loss on impairment of fixed assets recorded for the year ended 31st March, 2010 related to the following assets and asset groups:

Use	Classification	Location	Millions of yen	Thousands of U.S. dollars
			2010	2010
Head office of Mori Seiki U.S.A., INC.	Land Buildings Machinery and equipment	Illinois, U.S.A.	¥ 80	$ 860
TOBLER S.A.S.	Goodwill	—	149	1,601
Storage for parts at Taiyo Koki Co., Ltd.	Land Buildings and others	Nagaoka City, Niigata Prefecture, Japan	5	54
Total			¥ 234	$ 2,515

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 sales prices of these assets during the year ended 31st March, 2010, and recognized the difference between sales prices and corresponding carrying value at the previous year end as a loss on impairment of these assets. Recoverable amounts on land, buildings and machinery and equipment are measured at sales prices.

② TOBLER S.A.S. recognized a loss on impairment of goodwill as outlined in the above table since the profitability arising from its operating activities had been deteriorated. TOBLER S.A.S. believed that the estimate of the recoverable amount was nil.
Recoverable amounts on goodwill are measured at estimates of their cash flows in the future, using their value in use.

③ Taiyo Koki Co., Ltd. recognized a loss on impairment of land and building and others as outlined in the above table which was originally acquired as parts storage but become idle assets as they were not expected to be used in the future. Recoverable amounts on land and buildings and others are measured at appraisal value based on the real estate appraisal standards.

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
			2009
Head office of Mori Seiki U.S.A., INC.	Land Buildings Machinery and equipment	Illinois, U.S.A.	¥ 28
Mori Seiki International SA (DIXI)	Goodwill	—	101
Total			¥ 129

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. Recoverable amounts on land, buildings and machinery and equipment are measured at sales prices.

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. Recoverable amounts on goodwill are measured at estimates of their cash flows in the future, using their value in use.

9. Retirement Benefits

The Company and six domestic consolidated subsidiaries have established an employees' defined contribution pension plan.
In addition to the above, two 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 and other. 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 portion of pension assets belonging to a domestic consolidated subsidiary could not be reasonably calculated. The multi-employer pension plan's pension assets calculated based on the proportion of contributions to the pension plan made by the subsidiary amounted to ¥432 million ($4,643 thousand) and ¥428 million as of 31st March, 2010 and 2009, respectively.
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, 2010 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 sheets at 31st March, 2010 and 2009 for the defined benefit pension plans of certain consolidated subsidiaries:

	Millions of yen		Thousands of U.S. dollars
	2010	**2009**	**2010**
(1) Retirement benefit obligation	**¥ (1,104)**	¥ (2,394)	$ (11,865)
(2) Plan assets at fair value	**735**	1,635	7,899
(3) Unfunded retirement benefit obligation (1) + (2)	**(369)**	(759)	(3,966)
(4) Unrecognized actuarial loss	**57**	117	613
(5) Accrued retirement benefits (3) + (4)	**¥ (312)**	¥ (642)	$ (3,353)

As the retirement benefit obligation and the plan assets related to a defined benefit plan of an overseas consolidated subsidiary have been sold, retirement benefit obligation, plan assets at fair value and accrued retirement benefits have decreased.

The retirement benefit expenses for the years ended 31st March, 2010 and 2009 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2009**	**2010**
Service cost	**¥ 83**	¥ 80	$ 892
Interest cost	**102**	159	1,096
Expected return on plan assets	**(61)**	(138)	(656)
Amortization of actuarial loss	**113**	258	1,214
Contributions to the pension plan	**887**	1,047	9,533
Contributions to a small- and medium-sized enterprise mutual aid plan	**13**	11	140
Contributions to the multi-employer pension plan	**36**	39	387
Contributions to a mutual aid plan defined by the Order for Enforcement of the Income Tax Act	**13**	—	140
Total	**¥ 1,186**	¥ 1,456	$ 12,746

In addition to retirement benefit expenses in the above table, employees' retirement benefits in the amount of ¥6,178 million ($66,394 thousand) associated with the implementation of early retirement programs of the Company and a domestic consolidated subsidiary and loss on sales of the retirement benefit obligation and the plan assets related to a defined benefit plan of an overseas consolidated subsidiary in the amount of ¥548 million ($5,889 thousand) were recognized as a component of business restructuring expenses for the year ended 31st March, 2010. (Refer to Note 20.)

The assumptions used in accounting for the retirement benefit obligation for the years ended 31st March, 2010 and 2009 are outlined as follows:

	2010	**2009**
(1) Discount rates	**3.00—5.55%**	3.00—6.35%
(2) Expected rates of return on plan assets	**4.00—6.39%**	4.00—6.22%
(3) Allocation method of estimated benefits	**Straight-line method**	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)**	1 to 10 years (Period within the average remaining years of service of eligible employees)

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

The weighted-average interest rates on short-term bank loans were 0.45% and 0.81% at 31st March, 2010 and 2009, respectively.

For effective financing purposes, the Company and two domestic subsidiaries concluded bank overdraft agreements with two banks at 31st March, 2010, and the Company concluded bank overdraft agreements with three banks at 31st March, 2009. The status of these agreements at 31st March, 2010 and 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2009**	**2010**
Lines of credit of bank overdrafts	**¥ 46,300**	¥ 45,000	$ 497,582
Bank overdrafts utilized	(**6,100**)	(9,800)	(65,556)
Available credit	**¥ 40,200**	¥ 35,200	$ 432,026

For effective financing purposes, the Company and a domestic subsidiary concluded committed line-of-credit agreements with 22 banks and 24 banks at 31st March, 2010 and 2009, respectively. The status of such agreements at 31st March, 2010 and 2009 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2009**	**2010**
Committed lines of credit	**¥ 51,200**	¥ 31,200	$ 550,242
Short-term loans utilized	(**12,450**)	(498)	(133,799)
Available credit	**¥ 38,750**	¥ 30,702	$ 416,443

Long-term debt at 31st March, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	**2009**	**2010**
Bonds:			
Zero coupon yen convertible bonds with stock acquisition rights due 2013	**¥ 2,583**	¥ 2,583	$ 27,759
Finance lease obligations:			
Finance lease agreements	**4,513**	98	48,501
	7,096	2,681	76,260
Less current portion	(**271**)	(16)	(2,912)
Net long-term debt	**¥ 6,825**	¥ 2,665	$ 73,348

The aggregate annual maturities of long-term debt subsequent to 31st March, 2010 are summarized as follows:

Year ending 31st March,	Millions of yen	Thousands of U.S. dollars
2011	**¥ 271**	$ 2,912
2012	**263**	2,827
2013	**2,855**	30,682
2014	**276**	2,966
2015	**264**	2,837
2016 and thereafter	**3,167**	34,036
Total	**¥ 7,096**	$ 76,260

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

Type of shares to which stock acquisition rights apply	Common stock of the Company
Issue price of stock acquisition rights	Nil
Exercise price of stock acquisition rights	¥1,312.3
Principal amount of bonds in the aggregate	¥11,615 million
Total amount of the shares issued upon exercise of stock acquisition rights	¥9,006 million
Exercisable period	27th June, 2005 to 29th May, 2012

Exercise of stock acquisition rights shall be deemed as payment by the bondholder of the full amount required to be paid upon exercise of the stock acquisition rights, rather than as redemption of the bond at its face value.
The price of exercising stock acquisition rights was adjusted from ¥1,366.3 ($14.68) to ¥1,312.3 ($14.10), because of the issuance of common stock through public offering on 9th December, 2009, and issuance of new stocks through allocation on 28th December, 2009.

11. 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, 2010 and 2009. 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 rate for the year ended 31st March, 2009 as a percentage of income before income taxes and minority interests was as follows:

A reconciliation of differences between the statutory tax rate and the effective tax rate for the year ended 31st March, 2010 was not disclosed, since the Company and its consolidated subsidiaries recorded a loss before income taxes and minority interests for the year.

	2009
Statutory tax rate	40.49%
Increase (decrease) in income taxes resulting from:	
Reversal of valuation allowance	186.49
Permanent non-deductible expenses	28.29
Permanently non-taxable income	(3.29)
Per capita portion of inhabitants' taxes	5.11
Temporary differences relating to investments in subsidiaries	(6.15)
Other	(4.72)
Effective tax rate	246.22%

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at 31st March, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2009**	**2010**
Current			
Deferred tax assets (reflected in current assets):			
Inventories	**¥ 941**	¥ 705	$ 10,113
Elimination of unrealized gain and loss on inventories	**317**	609	3,407
Allowance for doubtful receivables	**2**	2	22
Accrued enterprise taxes	**38**	25	408
Other	**798**	657	8,576
Deferred tax assets, subtotal	**2,096**	1,998	22,526
Less: valuation allowance	**(1,562)**	(64)	(16,787)
Deferred tax assets, total	**¥ 534**	¥ 1,934	$ 5,739
Offset of deferred tax liabilities	**—**	(220)	—
Deferred tax assets, net	**¥ 534**	¥ 1,714	$ 5,739
Deferred tax liabilities (reflected in current liabilities):			
Enterprise taxes receivable	**¥ —**	¥ (217)	$ —
Other	**(36)**	(117)	(387)
Deferred tax liabilities, total	**(36)**	(334)	(387)
Offset of deferred tax assets	**—**	220	—
Deferred tax liabilities, net	**¥ (36)**	¥ (114)	$ (387)
Non-current			
Deferred tax assets (reflected in investments and other assets):			
Inventories	**¥ 401**	¥ 402	$ 4,310
Loss on devaluation of listed equity securities	**726**	1,255	7,802
Depreciation	**905**	681	9,726
One-time write-off applied to assets	**28**	77	301
Allowance for doubtful receivables	**18**	18	193
Tax loss carry forwards	**13,805**	1,739	148,361
Other	**2,244**	401	24,116
Deferred tax assets, subtotal	**18,127**	4,573	194,809
Less: valuation allowance	**(16,546)**	(3,718)	(177,818)
Deferred tax assets, total	**¥ 1,581**	¥ 855	$ 16,991
Offset of deferred tax liabilities	**(12)**	(571)	(129)
Deferred tax assets, net	**¥ 1,569**	¥ 284	$ 16,862
Deferred tax liabilities (reflected in long-term liabilities):			
Unrealized gain on derivative instruments	**¥ (642)**	¥ (818)	$ (6,900)
Reserve for depreciation for tax purposes	**(105)**	(109)	(1,128)
Unrealized holding gain on securities	**(387)**	(182)	(4,159)
Other	**(106)**	(401)	(1,139)
Deferred tax liabilities, total	**(1,240)**	(1,510)	(13,326)
Offset of deferred tax assets	**12**	571	129
Deferred tax liabilities, net	**¥ (1,228)**	¥ (939)	$ (13,197)
Deferred tax liabilities on land revaluation reserve (reflected in long-term liabilities):			
Deferred tax liabilities on land revaluation reserve	**¥ (1,699)**	¥ (1,699)	$ (18,259)

12. 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 ($28,479 thousand) at 31st March, 2010 and 2009.

Common stock and treasury stock

Movements in common stock and treasury stock for the years ended 31st March, 2010 and 2009 are summarized as follows:

	Number of Shares			
	2010			
	31st March, 2009	Increase	Decrease	31st March, 2010
Common stock	96,475,312	22,000,000	—	118,475,312
Treasury stock	7,925,975	1,198	34,188	7,892,985

Stock acquisition rights

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

	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 option plans

The Company and two domestic consolidated subsidiaries 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 subsidiaries at 31st March, 2010 and 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	18th June, 2008	4,155,000	**From 1st July, 2010 up to and including 30th June, 2013**
The Company	17th June, 2009	2,250,000	**From 1st July, 2011 up to and including 30th June, 2014**
Taiyo Koki Co., Ltd.	20th June, 2008	50,400	**From 1st July, 2010 up to and including 30th June, 2013**
Taiyo Koki Co., Ltd.	19th June, 2009	59,900	**From 18th July, 2011 up to and including 17th July, 2014**
B.U.G., Inc.	6th December, 2004	14,000	**From 7th August, 2006 up to and including 31st August, 2009**
B.U.G., Inc.	13th December, 2007	42,110	**From 21st December, 2009 up to and including 21st December, 2013**
B.U.G., Inc.	28th March, 2008	18,340	**From 1st April, 2010 up to and including 1st April, 2014**
B.U.G., Inc.	11th December, 2008	710	**From 20th December, 2010 up to and including 20th December, 2014**

Movements in stock subscription rights and exercise price as of and for the year ended 31st March 2010 are summarized as follows:

Company	The Company	The Company	The Company	The Company	Taiyo Koki Co., Ltd.	Taiyo Koki Co., Ltd.
Date of approval	**25th June, 2004**	**29th June, 2005**	**18th June, 2008**	**17th June, 2009**	**20th June, 2008**	**19th June, 2009**
Stock subscription rights which have not been vested:						
Outstanding as of 31st March, 2009	—	—	4,094,500	—	46,800	—
Granted	—	—	—	2,250,000	—	59,900
Forfeited	—	—	69,000	—	46,800	4,800
Vested	—	—	—	—	—	—
Outstanding as of 31st March, 2010	—	—	4,025,500	2,250,000	—	55,100
Stock subscription rights which have been vested:						
Outstanding as of 31st March, 2009	170,900	1,291,900	—	—	—	—
Vested	—	—	—	—	—	—
Exercised	34,000	—	—	—	—	—
Forfeited	136,900	2,000	—	—	—	—
Outstanding as of 31st March, 2010	—	1,289,900	—	—	—	—
Exercise price (Yen)	¥ 957	¥ 1,210	¥ 1,502	¥ 1,061	¥ 1,806	¥ 643
Weighted average exercise price (Yen)	1,054	—	—	—	—	—
Weighted average fair value per stock at the granted date (Yen)	—	—	174	219	428	284
Exercise price (U.S. dollars)	$ 10.28	$ 13.00	$ 16.14	$ 11.40	$ 19.41	$ 6.91
Weighted average exercise price (U.S. dollars)	11.33	—	—	—	—	—
Weighted average fair value per stockat the granted date (U.S. dollars)	—	—	1.87	2.35	4.60	3.05

Company	B.U.G. Inc.,	B.U.G. Inc.,	B.U.G. Inc.,	B.U.G. Inc.,
Date of approval	**6th December, 2004**	**13th December, 2007**	**28th March, 2008**	**11th December, 2008**
Stock subscription rights which have not been vested:				
Outstanding as of 31st March, 2009	380	41,350	18,200	710
Granted	—	—	—	—
Forfeited	380	170	420	—
Vested	—	—	—	—
Outstanding as of 31st March, 2010	—	41,180	17,780	710
Stock subscription rights which have been vested:				
Outstanding as of 31st March, 2009	—	—	—	—
Vested	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding as of 31st March, 2010	—	—	—	—
Exercise price (Yen)	¥ 2,000	¥ 2,000	¥ 2,000	¥ 2,000
Weighted average exercise price (Yen)	—	—	—	—
Weighted average fair value per stock at the granted date (Yen)	—	(Note) —	(Note) —	(Note) —
Exercise price (U.S. dollars)	$ 21.49	$ 21.49	$ 21.49	$ 21.49
Weighted average exercise price (U.S. dollars)	—	—	—	—
Weighted average fair value per stock at the granted date (U.S. dollars)	—	(Note) —	(Note) —	(Note) —

The exercise prices above are subject to adjustment in the case of certain events including stock splits.
The exercise prices for the stock option plans approved at the shareholders' meetings on 29th June, 2005, 18th June, 2008, and 17th June, 2009 were adjusted because of the issuance of common stock through public offering on 9th December, 2009, and issuance of new stocks through allocation on 28th December, 2009.

A stock option plan of Taiyo Koki Co., Ltd. approved at the shareholders' meeting of the Company on 20th June, 2008 was retired based on a conference with the allotters. Since the retired stock option plan was assumed as a part of stock option plan granted at the shareholders' meeting of the Company on 19th June, 2009, the exercise price of the stock option plan was adjusted from ¥1,806 ($19.41) to ¥643 ($6.91).

(Note) B.U.G., Inc. is a private company and, therefore, the fair value of stock subscription rights is calculated based on the intrinsic value of the stock subscription rights. As the intrinsic value of stock subscription rights per share is zero, the fair value of stock subscription rights has been omitted.

Movements in stock subscription rights and exercise price as of and for the year ended 31st March, 2009 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

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

13. 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 stated as a component of long-term liabilities, "Deferred income taxes on land revaluation reserve." The fair value of the revalued land was less than its carrying value by ¥2,858 million ($30,715 thousand) and ¥2,605 million at 31st March, 2010 and 2009, respectively.

14. Contingent Liabilities

At 31st March, 2010, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Guarantees of lease payments by customers	**¥ 1,659**	$ 17,829

15. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended 31st March, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	**2009**	**2010**
Research and development costs	**¥ 5,632**	¥ 5,673	$ 60,527

16. Derivative Financial Instruments

The estimated fair value of the derivatives positions outstanding which do not qualify for deferral hedge accounting at 31st March, 2010 and 2009 is summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2010			**2009**			**2010**		
Forward foreign exchange contracts	Contract value (notional principal amount)	Estimated fair value	Unrealized gain (loss)	Contract value (notional principal amount)	Estimated fair value	Unrealized gain (loss)	Contract value (notional principal amount)	Estimated fair value	Unrealized gain (loss)
Selling:									
U.S. dollars	**¥ 320**	**¥ (5)**	**¥ (5)**	¥ 1,988	¥ 1,767	¥ 221	$ 3,439	$ (54)	$ (54)
Euro	**4,169**	**423**	**423**	6,645	6,110	535	44,804	4,546	4,546
Total	**¥ 4,489**	**¥ 418**	**¥ 418**	¥ 8,633	¥ 7,877	¥ 756	$48,243	$ 4,492	$ 4,492

The estimated fair value of the derivatives positions outstanding which qualify for deferral hedge accounting at 31st March, 2010 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2010			**2010**		
Forward foreign exchange contracts for accounts receivable, trade	Contract value (notional principal amount)	Contract value (notional principal amount) over 1 year	Estimated fair value	Contract value (notional principal amount)	Contract value (notional principal amount) over 1 year	Estimated fair value
Selling:						
Euro	**¥ 15,713**	**¥ 9,937**	**¥ 1,586**	$ 168,866	$ 106,792	$ 17,045
Total	**¥ 15,713**	**¥ 9,937**	**¥ 1,586**	$ 168,866	$ 106,792	$ 17,045

Disclosure of corresponding information on derivatives which qualified for deferral hedge accounting at 31st March, 2009 is omitted.

17. Leases

(1) Finance leases

The Company and its consolidated subsidiaries lease plants (buildings and structures), offices (buildings and structures) and manufacturing facilities (machinery and equipment).

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, 2010 and 2009, 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		
	2010			2009			2010		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Category:									
Machinery, equipment and vehicles	**¥ 7,959**	**¥ 5,064**	**¥ 2,895**	¥ 8,024	¥ 3,792	¥ 4,232	$ 85,534	$ 54,422	$ 31,112

Lease payments of the Company and its domestic consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥1,437 million ($15,444 thousand) and ¥1,537 million for the years ended 31st March, 2010 and 2009, 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 ¥1,335 million ($14,347 thousand) and ¥1,430 million for the years ended 31st March, 2010 and 2009, respectively.

Interest expense for finance leases amounted to ¥90 million ($967 thousand) and ¥123 million for the years ended 31st March, 2010 and 2009, respectively under the principle method mentioned above.

Future minimum lease payments subsequent to 31st March, 2010 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,		
2011	**¥ 1,339**	$ 14,390
2012 and thereafter	**1,680**	18,055
Total	**¥ 3,019**	$ 32,445

(2) Operating leases:

Future minimum lease payments subsequent to 31st March, 2010 under operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending 31st March,		
2011	**¥ 2,175**	$ 23,375
2012 and thereafter	**10,372**	111,467
Total	**¥ 12,547**	$ 134,842

18. Supplemental Information on the Consolidated Statements of Cash Flows

(Non cash transaction)

The Company and its consolidated subsidiaries recorded leased assets and lease obligations related to new finance lease transactions in the amount of ¥4,451 million ($47,834 thousand) for the year ended 31st March, 2010.

(Purchase of a newly consolidated subsidiary)

During the year ended 31st March, 2010, the Company acquired all shares of Magnescale Co., Ltd. Assets acquired and liabilities assumed of this subsidiary at the date of commencement of consolidation and the related cost of the acquired shares and net cash expenditure for the acquisition of Magnescale Co., Ltd. are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Current assets	**¥ 4,490**	$ 48,254
Non-current assets	**2,355**	25,309
Goodwill	**1,667**	17,915
Current liabilities	(**2,149**)	(23,095)
Non-current liabilities	(**306**)	(3,289)
Cost of acquired shares of the subsidiary	**6,057**	65,094
Cash and cash equivalents acquired	**733**	7,878
Net cash expenditure for the acquisition of Magnescale Co., Ltd.	**¥ 5,324**	$ 57,216

19. Amounts per Share

Amounts per share at 31st March, 2010 and 2009 and for the years then ended were as follows:

	Yen		U.S. dollars
	2010	**2009**	**2010**
Amounts per share:			
Net assets	**¥ 870.57**	¥ 1,319.04	$ 9.36
Net loss:			
Basic	(**363.87**)	(23.59)	(3.91)
Cash dividends	**20.00**	40.00	0.21

Net assets per share was 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 years ended 31st March, 2010 and 2009 has not been presented because the Company and consolidated subsidiaries recorded a net loss for these years.

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

20. Business Restructuring Expenses

Business restructuring expenses include employees' retirement benefits associated with the implementation of early retirement programs and expenses associated with the closure and integration of offices.

21. Segment Information

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

As operations related to machine tools for the year ended 31st March, 2010 amounted to more than 90% of total revenue, operating income and total assets of all business segments, the disclosure of business segment information for the year ended 31st March, 2010 has been omitted.

As the Company and its consolidated subsidiaries manufactured and sold the same types and series of machine tools which used similar manufacturing methods and were sold in the same markets, the disclosure of business segment information for the year ended 31st March, 2009 has been omitted.

The geographical segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2010 and 2009 is outlined as follows:

	Millions of yen						
	2010						
	Japan	The Americas	Europe	Asia and Oceania	Total	Eliminations	Consolidated
Sales to third parties	**¥ 28,293**	**¥ 16,041**	**¥ 20,158**	**¥ 1,911**	**¥ 66,403**	**¥ —**	**¥ 66,403**
Inter-group sales	**22,302**	**1,917**	**797**	**742**	**25,758**	**(25,758)**	**—**
Net sales	**50,595**	**17,958**	**20,955**	**2,653**	**92,161**	**(25,758)**	**66,403**
Operating expenses	**73,211**	**17,277**	**26,344**	**3,440**	**120,272**	**(26,936)**	**93,336**
Operating income (loss)	**¥ (22,616)**	**¥ 681**	**¥ (5,389)**	**¥ (787)**	**¥ (28,111)**	**¥ 1,178**	**¥ (26,933)**
Total assets	**¥ 134,798**	**¥ 16,803**	**¥ 23,647**	**¥ 3,260**	**¥ 178,508**	**¥ (34,341)**	**¥ 144,167**

	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

	Thousands of U.S. dollars						
	2010						
	Japan	The Americas	Europe	Asia and Oceania	Total	Eliminations	Consolidated
Sales to third parties	$ 304,062	$ 172,391	$ 216,636	$ 20,538	$ 713,627	$ —	$ 713,627
Inter-group sales	239,678	20,602	8,565	7,974	276,819	(276,819)	—
Net sales	543,740	192,993	225,201	28,512	990,446	(276,819)	713,627
Operating expenses	786,792	185,674	283,116	36,970	1,292,552	(289,479)	1,003,073
Operating income (loss)	$ (243,052)	$ 7,319	$ (57,915)	$ (8,458)	$ (302,106)	$ 12,660	$ (289,446)
Total assets	$ 1,448,662	$ 180,580	$ 254,132	$ 35,035	$ 1,918,409	$ (369,059)	$ 1,549,350

(1) Change in classification of country or area
Effective the year ended 31st March, 2010, due to a revision to segment classification, sales for Turkey, that were included in the "Asia and Oceania" segment for the year ended 31st March 2009, have been included in the "Europe" segment.

(2) Change 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 adopted "Accounting Standard for Measurement of Inventories" (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.

(3) 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 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 Standard 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 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.

(4) 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 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(6), effective the year ended 31st March, 2009, based on the revision of the Corporation Tax Law, the Company and its one domestic consolidated subsidiary had 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 the "Japan" segment decreased by ¥117 million for the year ended 31st March, 2009. There was 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 ¥47,317 million ($508,512 thousand) and ¥101,998 million, or 71.3% and 64.9% of consolidated net sales for the years ended 31st March, 2010 and 2009, respectively.

22. Subsequent Events

(1) Appropriation of retained earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2010, was approved at the annual general meeting of the shareholders of the Company held on 18th June, 2010:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥10.00 (U.S.$0.11) per share	**¥ 1,106**	$ 11,886

(2) Reductions of additional paid-in capital and legal reserve

The Company's reductions of additional paid-in capital included in capital surplus and legal reserve included in retained earnings were approved at the annual general meeting of the shareholders of the Company held on 18th June, 2010, which have not been reflected in the accompanying consolidated financial statements for the year ended 31st March, 2010.

1. Purpose of the reduction of additional paid-in capital included in capital surplus and legal reserve included in retained earnings

These reductions were carried out in order to dissolve the accumulated deficit included in retained earnings carried forward as well as to ensure flexibility and agility in capital strategies.

2. Details of the reductions of additional paid-in capital and legal reserve

Amounts of the reductions of additional paid-in capital and legal reserve were as follows:

	Millions of yen	Thousands of U.S. Dollars
Additional paid-in capital	**¥ 12,000**	$ 128,963
Legal reserve	**¥ 2,650**	$ 28,479

Amounts of other capital surplus and retained earnings brought forward included in retained earnings increased as follows:

	Millions of yen	Thousands of U.S. Dollars
Other capital surplus	**¥ 12,000**	$ 128,963
Retained earnings brought forward	**¥ 2,650**	$ 28,479

Financial Section (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, 2010 and 2009, 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, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental information
As described in Note 22 (2), the Company's reductions of additional paid-in capital included in capital surplus and legal reserve included in retained earnings were approved at the annual general meeting of the shareholders of the Company held on 18th June, 2010.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2010 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

Ernst & Young ShinNihon LLC

Osaka, Japan
18th June, 2010

Stock Information (As of 31st March, 2010)

MORI SEIKI CO., LTD.

Foundation
26th October, 1948

Fiscal Year End
31st March

Number of Shares Issued
110,602,015 shares
(Excluding treasury stock of 7,873,297 shares)

Stock Exchange Listings
Tokyo and Osaka Stock Exchanges

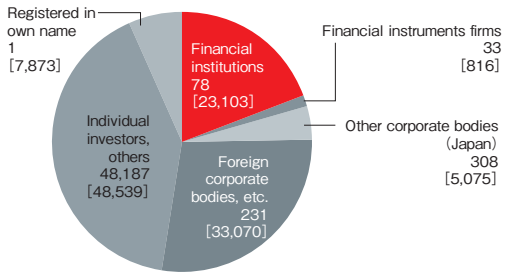
Number of Shares Outstanding
157,550,000 shares

Number of Shareholders
48,838

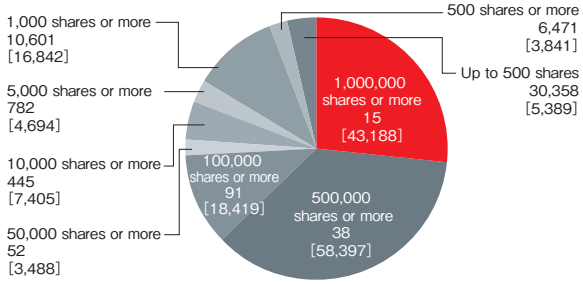
Major shareholders

Shareholder Name	Number of Shares Held (1,000 shares)	Voting Rights (%)
Japan Trustee Services Bank,Ltd. (Trust account)	5,079	4.59
Masahiko Mori	4,615	4.17
Gildemeister AG (Standing Proxy, Credit Suisse (hong Kong) Limited)	4,427	4.00
The Bank of New York -JASDEC Treaty Account (Standing Proxy, Mizuho Corporate Bank, Ltd. Settlement sales department)	4,052	3.66
The Master Trust Bank of Japan, Ltd. (Trust account)	3,316	3.00
JPMorgan Chase Bank, 3850 78 (Standing Proxy, Mizuho Corporate Bank, Ltd. Settlement sales department)	2,309	2.09
Chieko Mori	2,287	2.07
Masaru Mori	1,890	1.71
State Street Bank and Trust Company (Standing Proxy, Mizuho Corporate Bank, Ltd. Settlement sales department)	1,672	1.51
NCT Trust Banking Corporation (Investment trust)	1,236	1.11

Distribution by shareholders [Units: 1,000 shares]



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



Contact for investors

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Administration of register of shareholders

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Establishment of the Sponsored American Depositary Receipts (ADR) Program


MORI SEIKI
THE MACHINE TOOL COMPANY
THE BANK OF NEW YORK
AMERICAN DEPOSITARY RECEIPT
FOR ORDINARY SHARES OF
MORI SEIKI CO., LTD.
(INCORPORATED UNDER THE LAWS OF JAPAN)
NUMBER
BNY-0000
CUSIP 617578 10 0
SPECIMEN
THE BANK OF NEW YORK,

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 Mellon
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.

MORI SEIKI

THE MACHINE TOOL COMPANY

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