

MORI SEIKI
THE MACHINE TOOL COMPANY

Annual Report

Fiscal Year Ended 31st March, 2002



MORI SEIKI THE MACHINE TOOL COMPANY Annual Report

Fiscal Year Ended
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FINANCIAL SECTION



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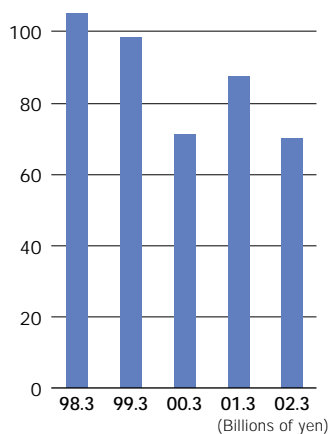
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Consolidated Financial Highlights

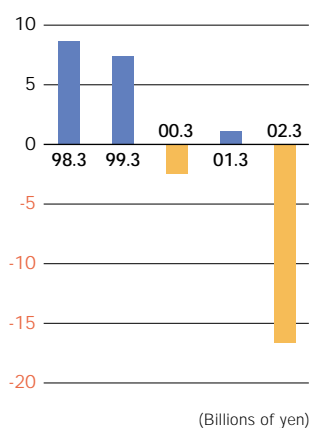
Years ended 31st March, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
For the year :			
Net sales	¥ 69,656	¥ 86,878	\$ 522,943
Net (loss) income	(16,607)	1,119	(124,677)
Per share (Yen and U.S. dollars) :			
Net (loss) income :			
Basic	¥ (178.93)	¥ 11.68	\$ (1.34)
Diluted	–	11.53	–
Net assets	1,039.22	1,320.76	7.80
Cash dividends	5.00	7.00	0.04
At the year end :			
Total assets	¥113,415	¥146,091	\$ 851,464
Shareholders' equity	93,551	125,171	702,335

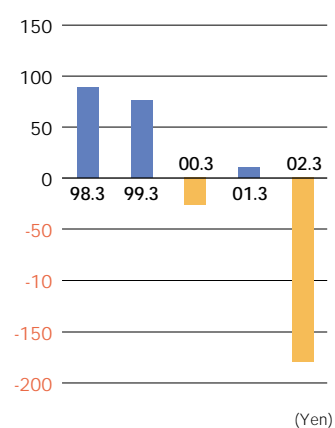
Sales



Net (loss) income



Net (loss) income per share



The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at the rate of ¥133.20=U.S.\$ 1.00, the exchange rate prevailing on 31st March, 2002.

A Message from The President

Masahiko Mori
President & Representative Director



Dear Shareholders,

We are pleased to report the outlook of business operations and various worksheets of our group on a consolidated basis, for the current term (from 1st April, 2001 through 31st March, 2002). The related documents are included.

Severe conditions that defy reliable forecasts for future business circumstances surrounding the machine tool industry in local and international markets exist at present and are likely to persist for some time because of the long-lasting sluggish economy in Japan, the recent recession in the U.S. economy, and various other factors.

Given this environment, we, meaning our entire group, significantly reorganized our existing organization and introduced a business unit (BU) system as of 1st October, 2001 to achieve the optimum efficient redistribution of management resources, a maximization of profit, and a more effective selection and concentration of operations. Under this new BU system, our entire group has been reorganized and integrated, resulting in the establishment of three headquarters: development/manufacturing, sales, and administration. By clearly defining the responsibilities and authority of each BU under each respective headquarters, the control over the revenues and budget of each BU will be intensified, asset efficiency will be improved, and the speed of our operations will be accelerated, thereby enhancing the overall efficiency and optimization of our group's operations.

In order to produce a composition that can achieve sales of 73,500 million yen with a profit on a consolidated basis, we plan to implement our "2-2-2 Project," under which the terms for raw material inventories, production periods, product inventories, and production schedules are to be reduced from 6 months to 2 months. Simultaneously, we intend to launch a cell production system. In addition, our "1/2 Project," designed to achieve a cost of materials-to-sales ratio of 50% by reducing the cost of materials has caused us to change our electrical cabinet and sheet metal parts production from external to in-house production.

Since last September, we have established in succession Mori Seiki Techno Co., Ltd. (specializing in the overhauling and retrofitting of used machine tools), Mori Seiki Precision Co., Ltd. (to handle the designing and manufacturing of peripheral equipment for machine tools), and certain other companies which are wholly owned by us in order to appropriately respond to the diversified needs of our customers. These specialty companies will contribute to the strategic development of businesses related to the peripheral equipment of machine tools.

We are also scheduled to review the local characteristics and basic functions of our technical centers located at 31 locations throughout the country in order to strengthen our domestic sales and service systems and to reduce the number of locations to approximately 25 in the future. Any items which could become idle assets as a result of the integration or closure of the technical centers will be sold in order to appropriate sufficient revenues to improve our cash flows.

Regarding the dividend appropriation for the current term, we have resolved to pay a cash dividend of ¥5 per share starting from 28th June, 2002, after consideration of our operational performance and the current Japanese economy.

We have also changed the number of shares in a unit of our common stock from 1,000 to 100 effective 1st April, 2002 in order to revitalize our share floatation and to broaden the range of shareholders who invest in our stock.

We would appreciate it very much if you, the shareholders, would extend your further support and encouragement to us in the coming year.

July, 2002



Masahiko Mori
President & Representative Director

Outlook of Business

Managing policy

We have been conducting operations consistently under the following management policy: "Supply users with strong and trouble-free machines with the highest level of accuracy and best service." This is based on the three principles for meeting customer needs: quality, price, and delivery. We have taken as a guiding principle, at the same time, behavior to quickly adapt ourselves to rapidly changing management conditions in order to secure the trust of all stakeholders, including shareholders, customers, employees, and others.

As a mid- to long-term management strategy, our aim in the area of production is to thoroughly practice quality control and enhance productivity by providing the optimum production environment. Last May we acquired a 40% share and became participants in the management of Taiyo Koki Co., Ltd. (Nagaoka City, Niigata, Japan), a manufacturer of grinding machines, to strengthen our foundation as an overall manufacturer of machine tools. Last April we also started a project to return control panel assembly within Mori Seiki, and this project is now on the right track and contributing significantly to reducing the cost of products. We also built a line dedicated to sheet metal production in the space left after removing the rack warehouse at the Iga No. 1 Plant.

In the field of research and development, projects to redesign many component parts are now being promoted in all development departments. Redesign will allow us to use these parts for more than one

purpose in order to reduce the number of parts and to reduce the lead time and cost. To take the example of the NV5000 vertical machining center, which was put onto the market in March, we reviewed the machine design concept completely from the very beginning of development in order to simultaneously achieve the two conflicting conditions of high-level functions and low price. We are pleased that this model has been highly appreciated by many customers both in the local and overseas markets.

In the field of sales, last June for the first time in the industry we jointly started the "lease with maintenance service" under a business tie-up contract with SMBC Leasing Co., Ltd. to cultivate demand in the local machine tool market, which has been heavily hit by the sluggish economy. Looking outside the country, our Shanghai Technical Center started full-scale sales and service activities from last June. Considered together with the existing Hong Kong Technical Center, this means that we have completed provisioning the infrastructure necessary to step into the Chinese market. This February, we established a 100% owned local corporation, Mori Seiki Korea Co., Ltd., which is now operating as the strongpoint of sales and services in South Korea. Turning to Europe, a new service strongpoint was founded in Sweden to reinforce the service system by providing speedy service to customers in northern European countries. A site for a technical center was acquired this February close to Charles de Gaulle Airport, which sits at the geographical center of Europe. The new technical center to be constructed here is designed to become

the center of our European operations.

As seen from the above, our group is determined to continue investments positively in order to expand business opportunities and maximize the profits of the entire group in both domestic and overseas markets throughout all business activities including development, production, sales and service in the future.

Concerning profit distribution, our basic policy is to provide stable dividends. We plan to produce dividends corresponding to the net profit, resource for internal retention and cash flow while strengthening the financial condition at the same time, so as to meet the expectations of our shareholders.

Managerial performance

In the machine tool industry in the current term, the level of incoming orders shifted relatively steadily in Europe, while both sales and profits failed to maintain their levels in the previous year in the U.S. and Asia due to the influence of the recession. In Japan, we have been confronted by very tough conditions in terms of orders received, which made a complete change from the previous term. It was due to the influence of reduced investments by our customers who were not confident about the prospects for the economy. We, as a whole group, have consequently been obliged to record reduced sales and profits.

Under these circumstances, the whole group has promoted carefully thought out sales activities and positively tackled the development of new products that

can meet the customers' needs, and attempted to reduce production costs.

As a result, we have recorded - on the consolidated basis - sales of 69,656 million yen (19.8% decrease from the previous term), an operating loss of 3,200 million yen, a loss before income taxes and minority interests of 15,996 million yen and a net loss of 16,607 million yen.

It should be noted that we have integrated or discontinued production of some models in the current term to enhance the production efficiency as a part of our efforts toward managerial improvements, and recorded 5,574 million yen as a component of other expenses as a result of disposition and devaluation of inventories for these models. Moreover, we have applied the spoilage rule to all brands for which the current value has dropped 30% or more from the book value, and recorded the resulting loss on devaluation of investments in securities, amounting to 7,205 million yen, as an other expenses.

Financial condition

Cash and cash equivalents at the end of current fiscal year amounted to 13,512 million yen on a consolidated basis (compared with 8,444 million yen at the end of previous term).

Net cash provided by operating activities amounted to 13,836 million yen, which reflects increased revenue, and other factors, due to the reduced amount of inventories at 15,293 million yen and reduced amount

of sales credit at 7,630 million yen, reduced purchase debt at 4,423 million yen, etc.

On the other hand, net cash used in investing activities, amounted to 3,549 million yen, reflecting payments of 2,137 million yen for acquisition of tangible fixed assets, payments of 927 million yen for acquisition of investments in securities, and other payments.

Net cash used in financing activities amounted to 5,284 million yen, reflecting payments of 4,320 million yen for acquisition of treasury stock and other payments.

In order to correct discrepancies between the book and market value of land for operation owned by us in Japan, and for appropriate evaluation of assets, we have revalued the land for operational usage in accordance with laws on land revaluation, and recorded a loss of 13,617 million yen as a component of shareholders' equity, "Reserve for land revaluation."

Issues and scope in the coming term

We expect to continue receiving steady orders in Europe, but it looks as though a precarious condition will persist in the U.S. because we cannot expect a recovery of incoming orders from industries such as the automobile, semi-conductor and IT-related industries although there is some hint of recovery in the economy that has been hanging low after the simultaneous multiple terrorist attacks last September. In Japan and Asia, it is too early to expect any solid recovery in investments by major customers in the au-

tomobile, electrical equipment, semi-conductor, IT-related, and other industries. In order to build a corporate composition capable of securing stable profits for the mid- to long-term in the current situation in which we cannot expect a steady growth of the economy, we are determined to work positively on cost reductions for our products by establishing measures to improve the cost structure such as 1. developing new models that can realize a material cost to sales ratio not exceeding 50%, 2. reducing inventories of products, raw materials, etc., 3. reducing lead time for production and 4. increasing the ratio of in-house production of major component parts.

Based on the scope of the economy and provisions stated above, we project the following results for our operational performance in the next term: sales of 73,500 million yen, operating income of 2,600 million yen and net income of 1,000 million yen.

Departmental Activities

I ntegrated Digital Manufacturing



Mori Seiki is concentrating its efforts on the development of a highly efficient production environment and is pursuing an integrated production methodology. We have developed the NV5000, a new vertical machining center aimed at the highest level of quality, performance, and productivity in the global marketplace. The NV5000 supports not only our original "MAPPS" NC operation panel, but also other variable software products.



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

New Vertical Machining Center

A new standard for a new age **NV5000**

Development success story



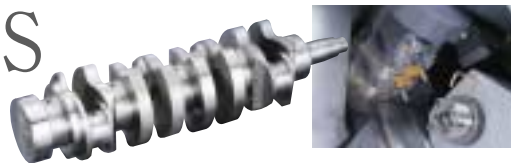
The development of the NV5000 was an efficient and successful collaboration between Mori Seiki in Japan and the Digital Technology Laboratory (DTL) division in the U.S.A. It was designed using 3-D CAD/CAM at the Iga plant. The engineers at DTL performed structural analysis using the Finite Element Method (FEM). This collaboration resulted in a highly rigid machine. The time difference between Japan and the U.S.A. made it possible to work 24-hours and improved the development efficiency. Due to this development style, we managed to complete this project with a speed of one third of the normal time. The high productivity we achieved with the NV5000 improves its profitability compared to other models. We expect great things from this investment. We are planning to introduce this methodology into the development of horizontal machining centers or lathes.



Multi-Axis Turning Center

Achieve intensive processing from materials to completion

MT SERIES



In recent years, production sites have needed intensive processing to meet the shorter life cycle, smaller job lots, and the faster delivery of their goods. A multi-axis turning center is an attraction to this viewpoint. We have designed the MT series from the basic structure and put the newest elements of our technology into the machine. The MT series are next generation multi-axis turning centers that have integrated lathe and machining center functions. Because a turning operation can be immediately followed by a real milling operation with one chucking, a changeover setup is not required, resulting in major improvements in intensive processing. We have obtained the trust of MT series users by providing them with significant benefits such as improved processing accuracy and reduced lead time.

Software

Mori Seiki's information technology offers rapid productivity boost

MAPPS

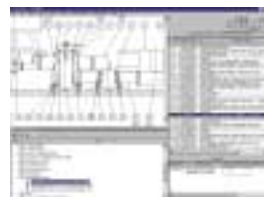


MAPPS is the integrated operation panel developed by Mori Seiki. It standardizes operation among the many different machine models in our product line. The need for ease of operation and high reliability has brought a dialog-based user-friendly interface to production floors.



CAPS-NET

CAPS-NET is the network software for collecting, storing, and managing information from multiple machines while providing machines and operators with production management information.



CSS-Net

CSS-Net is a system to search machine tool parts on the Internet. It stores various information, such as the number and types of the parts, stock data, article numbers, and shipping status.

Mori Seiki is developing software in five categories; network systems, operating systems, machining support, production support, and service support. By interconnecting all these categories, we offer valuable solutions to our users. The CAPS series meets the variety of needs of production sites. The lineup is variable, such as cell system control software, network software for the production management, and CAM software. These enable shorter delivery time and higher quality with less effort. We also have developed an operating system which supports machine networking and intelligence. Introducing Information Technology into the production site makes a great leap in productivity possible.

I ntegrated Research Technology

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

High Precision Machining R&D

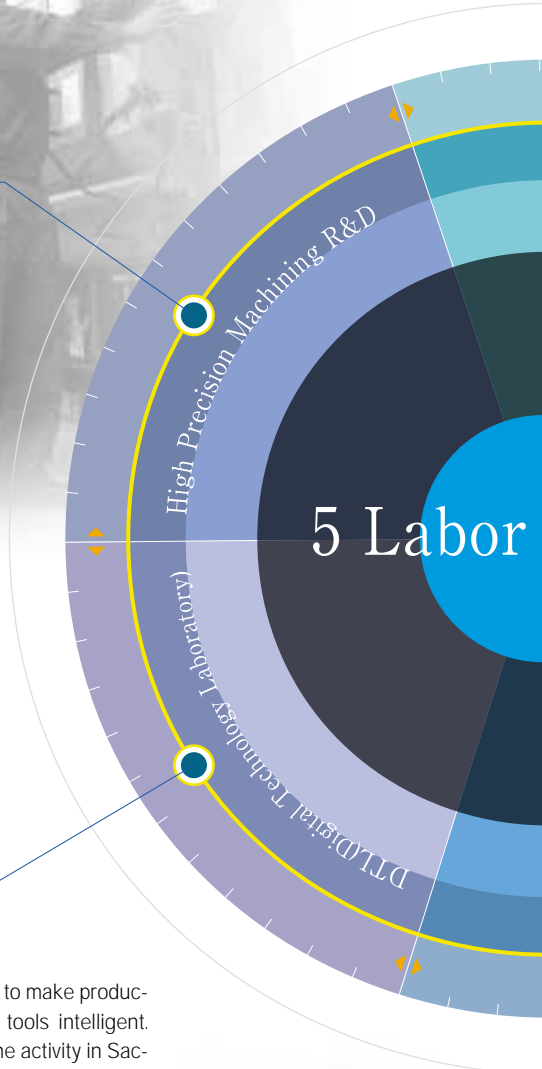


The High Precision Machining R&D simulates a user environment to allow us to improve our product quality from the point of view of the customer. By processing automobile parts using the same system specification that we actually delivered, we evaluate machine performance considering the highest priority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

DTL (Digital Technology Laboratory)



DTL was established to make production sites and machine tools intelligent. We made the focus of the activity in Sacramento California, U.S.A. and in Nara No.2 Plant. They mainly research, develop, and analyze for software, operating systems, and machine tool elements technology. Machine networking and MAPPS, which is our original integrated operation panel, are also developed here. DTL plays a vital role to improve Mori Seiki's Information Technology on the front line of the digital technology.



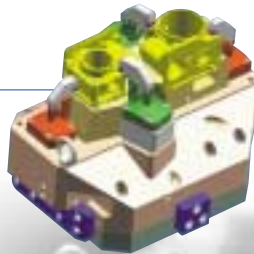


Technology R&D

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

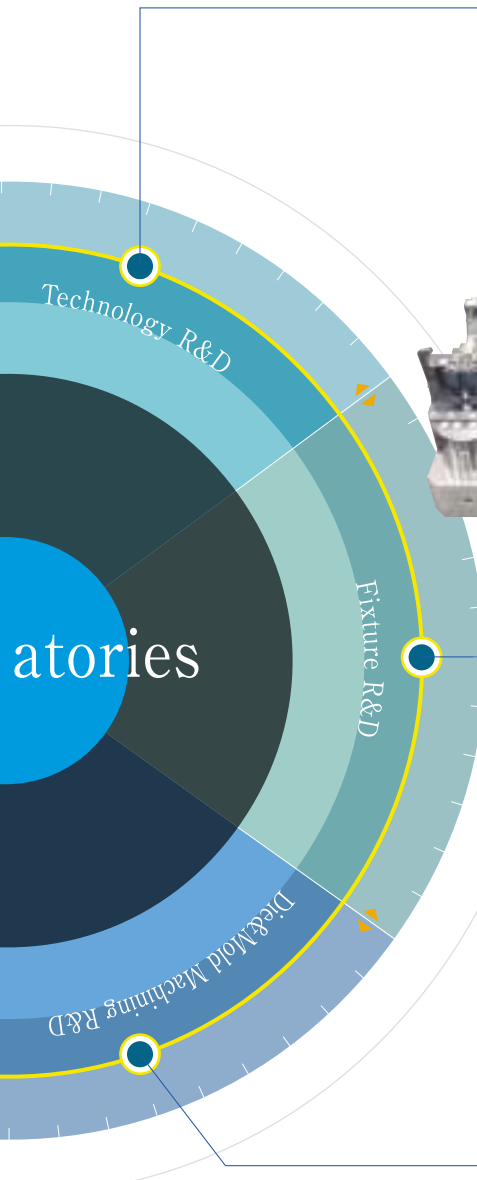
Fixture R&D

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



Die&Mold Machining R&D

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



Eco-Policy

Treat resources and energy with importance.

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

Manufacture products that are environmentally friendly.

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

Increase the awareness of employees of environment preservation.

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

Environmental goals will be set and appraised periodically.

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

Cooperate with environmental policies as a member of society.

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

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



President & Representative Director

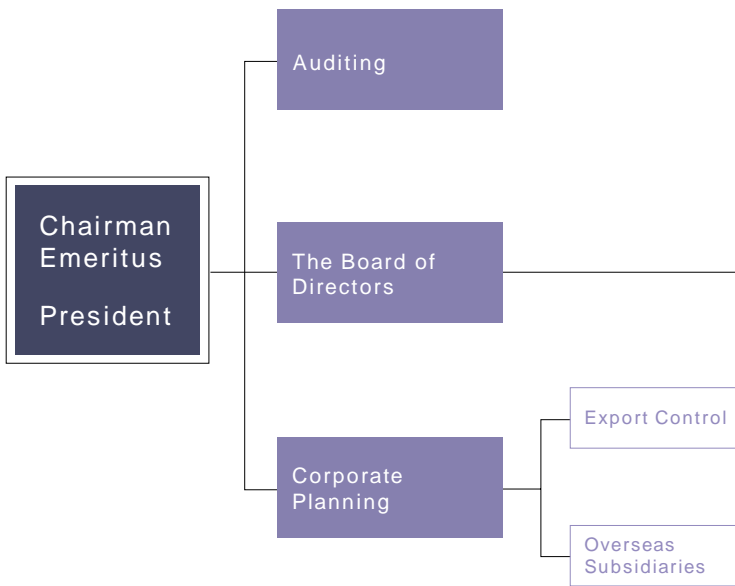


We are working together as a whole company to preserve environment.
MORISEIKI, Environmental Management Committee.

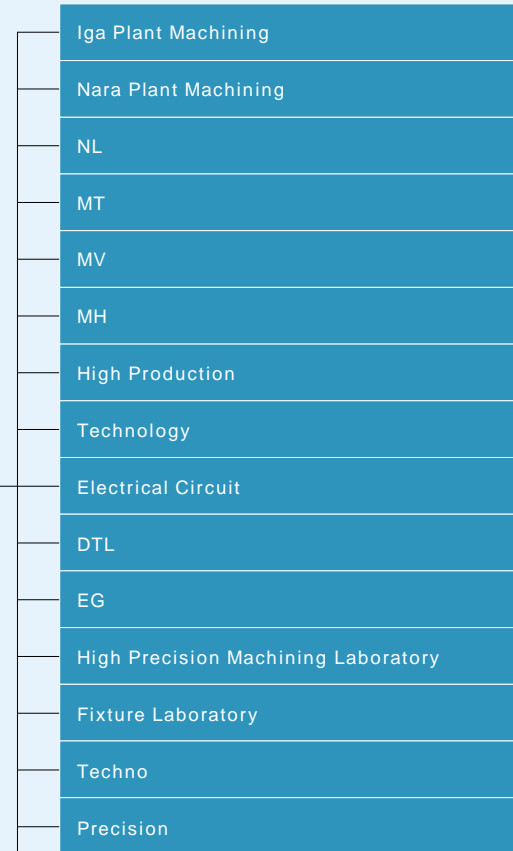
MORI SEIKI Organization Structure

Business unit

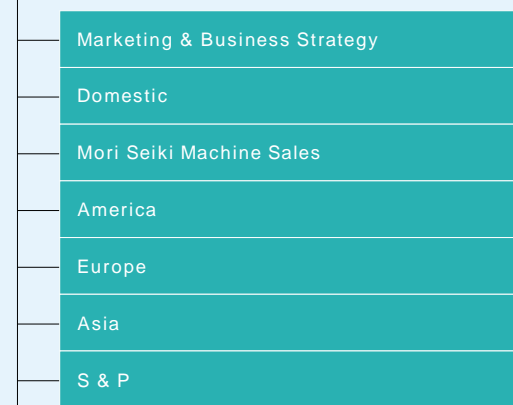
Mori Seiki has integrated our entire group into three major departments: Development & Manufacturing, Sales & Marketing, and Administrative Hq. We adapted the business unit system to provide clear responsibilities and rights for each business unit set up under each major department. With this system,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



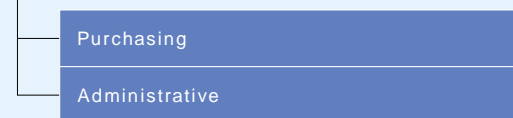
Development & Manufacturing Hq



Sales & Marketing Hq



Administrative Hq



Board of Directors

Masahiko Mori	President & Representative Director
Kyoji Umeoka	Managing Director
Takeshi Saito	Director
Tadashi Saito	Director
Yoshitsugu Shigeta	Director
Yoshinori Yamaguchi	Director
Koji Okura	Director
Hiraku Nakata	Director
Hiroshi Mizuguchi	Director
Hiroshi Yonetani	Director
Yasunori Hamabe	Director
Yoshimi Ota	Director
Hideaki Washimi	Director
Hideo Yoshikawa	Director
Yuzo Matsuyama	Standing Statutory Auditor
Takayuki Usui	Statutory Auditor
Shigeru Mori	Statutory Auditor
Rinpei Mori	Statutory Auditor

Information of Business Unit

NL BU

The manufacture of Medium • Large CNC lathe



SL2500Y

The NL Business Unit designs and assembles medium-to-large size NC lathes that have 6-inch to 24-inch chuck. About 40 models are produced including the SL series and ZL series as their primary products. Its main specialty is the multi-axis turning center with milling, Y-axis, and sub spindle. As our policy, "Offer accurate, tough, and trouble-free machines with the best service", we are aiming for the highest level in Quality / Cost / De-

livery. Especially aiming for accuracy, each designer has a personal target set by the numerical value. They design machines following the basic design, introducing technical breakthroughs and the newest technology. Using IT and network technology while saving energy, the NL business unit produces profitable machines for our users.



Mitsuji MATSUMOTO
General Manager

MT BU

The manufacture of Multi-Axis Turning Center

The MT Business Unit mainly develops and assembles the MT series and ZT series of multi-axis turning centers. In the last several years, the MT business unit has been focusing on the lineup of the multi-axis turning centers which functions both as a lathe and a machining center. From the 6-inch class MT1500 to the MT4000 which covers 30-inch class, are all completely developed. Now 22 series in five models are ready to support a wide range of the market. The MT business unit continues to review its current products for expanding the sales. At the same time, we engage the development

of next generation multi-axis turning centers, offering outstanding cost / performance to make our customers greatly profitable.



Masamitsu NAKAMINAMI
General Manager



MT1500S



NV5000

MV BU The manufacture of Vertical Machining Center

The role of MV Business Unit is to design and produce vertical machining centers and to manufacture sheet metal. The prime products are NV5000 and MV-653. The MV business unit has adapted a "Cell Production System", which one worker takes charge of the whole process. Compared to the former system (in charge per process), lead time has been reduced. Now 15 cell production workers are under training. By using NV5000, assembly will be completed in five business days. We anticipate that orders we will be increasing, requiring even shorter delivery terms. The "Cell Production System"

makes it possible to ship in a short period. The MV business unit also aims to achieve prototype-less development using digital design and shorten the development period for the more timely release of our new products.



Hiroshi MIZUGUCHI
Executive Officer

MH BU

The manufacture of Horizontal Machining Center



NH5000

The MH Business Unit conducts development and production of horizontal machining centers. We have just developed the strategic new horizontal machining center, NH5000. It will be released in September. In the NH series, high speed and high accuracy are expected. We additionally pursued the operation rate of the machine to boost productivity and provide our customers with greater profitability. We especially focused on chip removal, which is the most important issue when considering the productivity. NH5000 is the ultimate machine from many viewpoints, such as range of peripheral

equipment and systems, compatibility with software, and jig support. We are confident that the NH5000 shows its competitive power in the global marketplace as the model standard for the 21 century.



Yoshiaki SUGIMOTO
General Manager

High Production BU

The manufacture of Small CNC lathe, and Small Machining Center

The HP (High Production) Business Unit designs and produces the NC lathe and machining center, which targets palm-size work piece processing. The primary products are the CL2000 series, RL-203, ACCUMILL4000, TV-300 and 400, the FM series, and ULTIMILL series. In the design stage, we repeatedly conduct analysis with 3-D CAD and Critical Design Review in planning to make the best Quality / Cost / Delivery prototype. We also strive to establish an environmentally friendly and safe system. Our next target is to design and product a mass production equip-



Tadashi SAITO
Executive Officer

ment machine, which can withstand coolant and chips, and thermal displacement is minimal. Meanwhile, HP business unit intends to develop a loader set NL lathe with excellent cost / performance.



CL2000



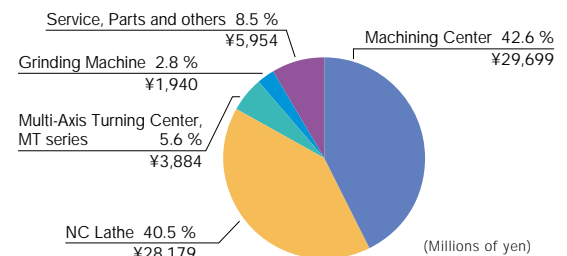
ACCUMILL 4000

Sales by The Section

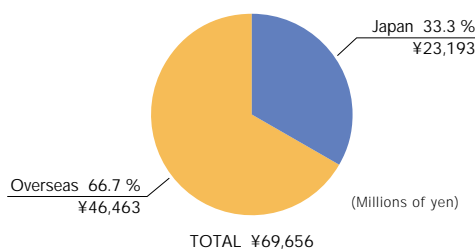
Sales by The BU

	Millions of yen	Rate
HP BU	17,554	25.2 %
MH BU	16,113	23.1 %
NL BU	11,898	17.1 %
MV BU	9,805	14.1 %
MT BU	5,865	8.4 %
S & P BU	5,156	7.4 %
Grinding Machine	1,940	2.8 %
Other	1,325	1.9 %
TOTAL	69,656	100.0 %

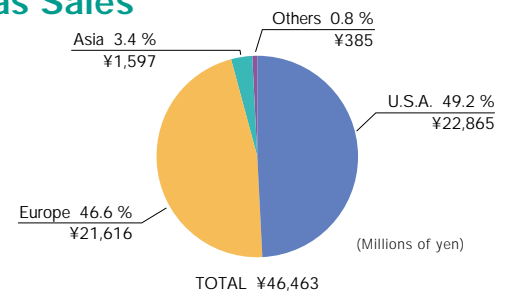
Sales by The Product



Sales of Domestic and Overseas



Overseas Sales



MORI SEIKI Group

Domestic consolidated subsidiaries

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

Domestic non-consolidated subsidiaries

MORI SEIKI KOSAN, LTD.

Affiliates

UNITED MANUFACTURING SOLUTIONS LTD.

Overseas

MORI SEIKI U.S.A., INC.
 MORI SEIKI G.m.b.H
 MORI SEIKI (UK) LTD.
 MORI SEIKI FRANCE S.A.
 MORI SEIKI ITALIANA S.R.L.
 MORI SEIKI ESPANA S.A.
 MORI SEIKI SINGAPORE PTE LTD.
 MORI SEIKI (TAIWAN) CO., LTD.
 MORI SEIKI BRASIL LTDA.
 MORI SEIKI HONG KONG LTD.
 MORI SEIKI MEXICO,S.A. DE C.V.
 MORI SEIKI (THAILAND) CO., LTD.
 MORI SEIKI (SHANGHAI) CO., LTD.
 MORI SEIKI KOREA CO., LTD.



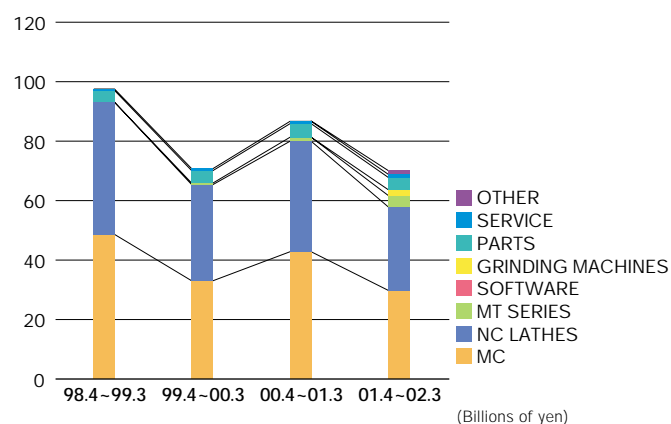
Financial Section

Consolidated Financial Highlights

Sales

Fiscal Year	MC	NC LATHES	MT SERIES	GRINDING MACHINES	SOFTWARE	PARTS	SERVICE	OTHER	TOTAL
1998.4.1~ 1999.3.31	48,718	44,259	75	—	53	3,947	603	99	97,754
	49.8 %	45.3 %	0.1 %	—	0.0 %	4.1 %	0.6 %	0.1 %	100.0 %
1999.4.1~ 2000.3.31	33,065	32,451	296	—	43	4,216	721	86	70,878
	46.6 %	45.8 %	0.4 %	—	0.1 %	6.0 %	1.0 %	0.1 %	100.0 %
2000.4.1~ 2001.3.31	42,820	37,066	1,489	—	61	4,397	933	112	86,878
	49.3 %	42.7 %	1.7 %	—	0.1 %	5.0 %	1.1 %	0.1 %	100.0 %
2001.4.1~ 2002.3.31	29,699	28,179	3,884	1,940	62	4,041	1,053	798	69,656
	42.6 %	40.5 %	5.6 %	2.8 %	0.1 %	5.8 %	1.5 %	1.1 %	100.0 %

(Millions of yen)

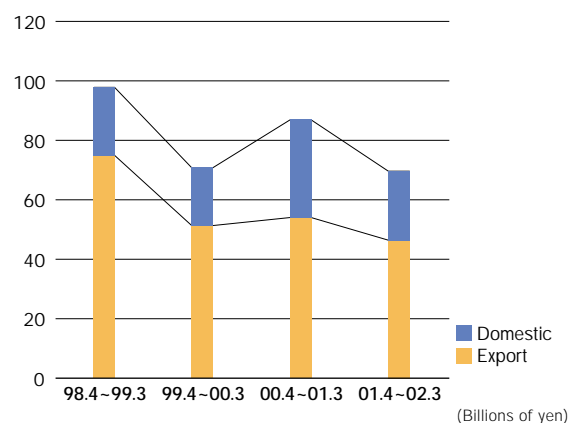


Overseas Sales

Fiscal Year	TOTAL
1998.4.1~1999.3.31	74,860
	76.6 %
1999.4.1~2000.3.31	51,425
	72.6 %
2000.4.1~2001.3.31	54,081
	62.2 %
2001.4.1~2002.3.31	46,463
	66.7 %

(Millions of yen)

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



Depreciation and Investments in Plant and Equipment

Fiscal Year	Depreciation	Net income (loss)	Investments
1997.4~1998.3	4,868	8,677	6,986
1998.4~1999.3	5,405	7,446	10,309
1999.4~2000.3	6,092	(2,436)	6,158
2000.4~2001.3	5,795	1,119	5,690
2001.4~2002.3	5,679	(16,607)	5,226

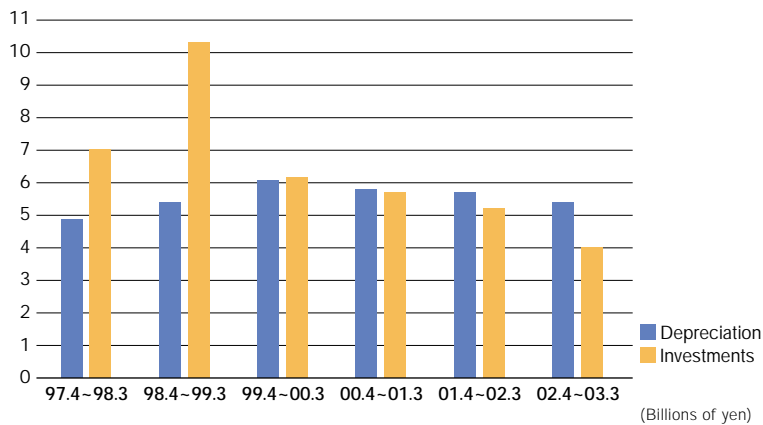
(Millions of yen)

Estimates

2002.4~2003.3	5,400	1,000	4,000
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(Millions of yen)

•Mori Seiki Co., Ltd.'s investments in fixed assets over the past five years totaled approximately ¥34,369 million.



(Billions of yen)

Five-Year Summary

Fiscal Year	Millions of yen					Thousands of U.S. dollars
	2001.4~2002.3	2000.4~2001.3	1999.4~2000.3	1998.4~1999.3	1997.4~1998.3	2001.4~2002.3
Net sales	¥ 69,656	¥ 86,878	¥ 70,878	¥ 97,754	¥104,757	\$522,943
Net (loss) income	(16,607)	1,119	(2,436)	7,446	8,677	(124,677)
Ratio of net (loss) income to sales	(23.8%)	1.3%	(3.4%)	7.6%	8.3%	(23.8%)
Selling, general and administrative expenses	19,492	18,247	17,260	18,024	15,377	146,336
Cash dividends	450	663	577	962	962	3,378
Total assets	113,415	146,091	150,071	173,918	176,465	851,464
Shareholders' equity	93,551	125,171	131,467	134,802	128,371	702,335
Property, plant and equipment, net	59,575	73,333	75,038	75,723	71,273	447,260
Working capital	¥ 36,728	¥ 49,255	¥ 47,941	¥ 48,354	¥ 74,298	\$275,735

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

Net (loss) income	¥(178.93)	¥11.68	¥(25.32)	¥77.39	¥89.83	\$(1.34)
Cash dividends	5.00	7.00	6.00	10.00	10.00	0.04

1. Net (loss) income per share is computed based upon the weighted average number of shares of common stock outstanding during each fiscal year as adjusted for free share distributions.
2. Cash dividends per share are those declared as applicable to each respective fiscal year and cash dividends charged to retained earnings are those actually paid.
3. The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at the rate of ¥133.20 = U.S.\$1.00, the exchange rate prevailing on 31st March, 2002.
4. We reorganized our existing organization and introduced a business unit (BU) system on 1st October, 2001 to achieve efficient and optimum redistribution of management resources, maximization of profits, and selection and concentration of operations. From this group integration, several development and production related departments were moved to auxiliary departments. As a result, the costs of these departments are regarded as "selling, general and administrative expenses" instead of "cost of sales" from the current term (from 1st April, 2001 through 31st March, 2002).

Consolidated Balance Sheets

Assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31st March,		31st March,
	2002	2001	2002
Current assets:			
Cash and deposits (Note 3)	¥ 13,515	¥ 8,444	\$101,464
Notes and accounts receivable:			
Unconsolidated subsidiaries and an affiliate	–	537	–
Trade	13,192	19,182	99,039
Allowance for doubtful receivables	(136)	(229)	(1,021)
Notes and accounts receivable, net	13,056	19,490	98,018
Inventories (Note 4)	16,426	30,373	123,318
Deferred income taxes (Note 8)	354	396	2,658
Other current assets	1,467	1,904	11,013
Total current assets	44,818	60,607	336,471
Property, plant and equipment:			
Land (Note 16)	20,619	31,450	154,797
Buildings and structures	59,466	58,621	446,442
Machinery and equipment	41,036	42,280	308,078
Construction in progress	128	7	961
	121,249	132,358	910,278
Accumulated depreciation	(61,674)	(59,025)	(463,018)
Property, plant and equipment, net	59,575	73,333	447,260
Investments and other assets:			
Investments in securities:			
Unconsolidated subsidiaries and an affiliates	230	253	1,727
Other (Note 5)	6,471	8,962	48,581
Total investments in securities	6,701	9,215	50,308
Deferred income taxes (Note 8)	675	2,035	5,068
Other assets:			
Other	2,307	901	17,320
Allowance for doubtful receivables	(661)	–	(4,963)
Other assets, net	1,646	901	12,357
Total investments and other assets	9,022	12,151	67,733
Total assets:	¥113,415	¥146,091	\$851,464

See accompanying Notes to Consolidated Financial Statements.

Liabilities, Minority Interests and Shareholders' Equity

	Millions of yen		Thousands of U.S. dollars (Note 1)
	31st March, 2002	31st March, 2001	31st March, 2002
Current liabilities:			
Current portion of long-term debt (Note 7)	¥ 84	¥ –	\$ 631
Notes and accounts payable	3,136	6,631	23,544
Accrued income taxes	393	547	2,950
Accrued expenses	1,333	1,536	10,008
Deferred income tax liabilities (Note 8)	115	138	863
Other current liabilities	3,029	2,500	22,740
Total current liabilities	8,090	11,352	60,736
Long-term liabilities:			
Long-term debt (Note 7)	7,345	7,155	55,143
Accrued retirement benefits (Note 6)	2,538	2,379	19,054
Deferred income taxes on reserve for land revaluation (Note 8)	1,866	–	14,009
Other long-term liabilities	1	–	7
Total long-term liabilities	11,750	9,534	88,213
Minority Interests	24	34	180
Contingent liabilities (Note 11)			
Shareholders' equity (Notes 9 and 17):			
Common stock:			
Authorized – 31st March, 2002 and 2001 – 157,550,000 shares			
Issued – 31st March, 2002 and 2001 – 94,775,427 shares	28,191	28,191	211,644
Additional paid-in capital	40,931	40,931	307,290
Reserve for land revaluation (Note 16)	(13,617)	–	(102,230)
Retained earnings	43,920	61,229	329,730
Net unrealized holding loss on securities (Note 5)	(15)	(2,234)	(113)
Translation adjustments	(1,546)	(2,942)	(11,606)
Treasury stock, at cost	(4,313)	(4)	(32,380)
Total shareholders' equity	93,551	125,171	702,335
Total liabilities, minority interests and shareholders' equity	¥113,415	¥146,091	\$851,464

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Year ended 31st March, 2002	2001	Year ended 31st March, 2002
Net sales	¥ 69,656	¥ 86,878	\$ 522,943
Cost of sales	53,364	66,490	400,631
Gross profit	16,292	20,388	122,312
Selling, general and administrative expenses (Note 10)	19,492	18,247	146,336
Operating (loss) income	(3,200)	2,141	(24,024)
Other income (expenses):			
Interest and dividend income	100	186	751
Interest expense	(69)	(42)	(518)
Loss on devaluation of investments in securities	(7,205)	–	(54,091)
Foreign exchange gain	44	1,058	330
Loss on disposition and valuation of inventories	(5,574)	–	(41,847)
Net retirement benefit obligation at transition (Note 6)	–	(1,594)	–
Other, net	(92)	108	(691)
(Loss) income before income taxes and minority interests	(15,996)	1,857	(120,090)
Income taxes (Note 8):			
Current	562	376	4,219
Deferred	59	365	443
Minority interests in loss of consolidated subsidiaries	10	3	75
Net (loss) income	¥(16,607)	¥ 1,119	\$(124,677)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

Millions of yen

	Number of shares of common stock	Common stock	Additional paid-in capital	Reserve for land revaluation (Note 16)	Retained earnings	Net unrealized holding loss on securities (Note 5)	Translation adjustments	Treasury stock
Balance at 31st March, 2000	96,225,427	¥28,191	¥40,931	¥ –	¥62,372	¥ –	¥ –	¥ (27)
Net income	–	–	–	–	1,119	–	–	–
Cash dividends	–	–	–	–	(577)	–	–	–
Retirement of treasury stock	(1,450,000)	–	–	–	(1,649)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	–	(36)	–	–	–
Net unrealized holding loss on securities	–	–	–	–	–	(2,234)	–	–
Translation adjustments	–	–	–	–	–	–	(2,942)	–
Treasury stock – acquired	–	–	–	–	–	–	–	(54)
Treasury stock – sold	–	–	–	–	–	–	–	77
Balance at 31st March, 2001	94,775,427	28,191	40,931	–	61,229	(2,234)	(2,942)	(4)
Net loss	–	–	–	–	(16,607)	–	–	–
Cash dividends	–	–	–	–	(663)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	–	(39)	–	–	–
Reserve for land revaluation	–	–	–	(13,617)	–	–	–	–
Net unrealized holding gain on securities	–	–	–	–	–	2,219	–	–
Translation adjustments	–	–	–	–	–	–	1,396	–
Treasury stock – acquired	–	–	–	–	–	–	–	(4,320)
Treasury stock – sold	–	–	–	–	–	–	–	11
Balance at 31st March, 2002	94,775,427	¥28,191	¥40,931	¥(13,617)	¥43,920	¥ (15)	¥(1,546)	¥(4,313)

Thousands of U.S. dollars (Note 1)

	Common stock	Additional paid-in capital	Reserve for land revaluation (Note 16)	Retained earnings	Net unrealized holding loss on securities (Note 5)	Translation adjustments	Treasury stock
Balance at 31st March, 2000	\$211,644	\$307,290	\$ –	\$468,258	\$ –	\$ –	\$ (203)
Net income	–	–	–	8,401	–	–	–
Cash dividends	–	–	–	(4,332)	–	–	–
Retirement of treasury stock	–	–	–	(12,380)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(270)	–	–	–
Net unrealized holding loss on securities	–	–	–	–	(16,772)	–	–
Translation adjustments	–	–	–	–	–	(22,087)	–
Treasury stock – acquired	–	–	–	–	–	–	(405)
Treasury stock – sold	–	–	–	–	–	–	578
Balance at 31st March, 2001	211,644	307,290	–	459,677	(16,772)	(22,087)	(30)
Net loss	–	–	–	(124,677)	–	–	–
Cash dividends	–	–	–	(4,977)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(293)	–	–	–
Reserve for land revaluation	–	–	(102,230)	–	–	–	–
Net unrealized holding gain on securities	–	–	–	–	16,659	–	–
Translation adjustments	–	–	–	–	–	10,481	–
Treasury stock – acquired	–	–	–	–	–	–	(32,432)
Treasury stock – sold	–	–	–	–	–	–	82
Balance at 31st March, 2002	\$211,644	\$307,290	\$(102,230)	\$329,730	\$ (113)	\$(11,606)	\$(32,380)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars (Note 1)
	Year ended 31st March, 2002	2001	Year ended 31st March, 2002
Operating activities:			
(Loss) income before income taxes and minority interests	¥(15,996)	¥ 1,857	\$(120,090)
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	5,679	5,795	42,635
Loss on devaluation of investments in securities	7,205	–	54,091
(Decrease) increase in allowance for doubtful receivables	(112)	119	(841)
Increase in retirement allowances	159	2,379	1,194
(Decrease) increase in accrued bonuses	(250)	23	(1,877)
Interest and dividend income	(100)	(186)	(751)
Interest expense	69	42	518
Unrealized exchange gain	(836)	(2,269)	(6,276)
Changes in operating assets and liabilities:			
Notes and accounts receivable	7,630	(3,907)	57,282
Inventories	15,293	3,074	114,813
Accounts payable	(4,423)	421	(33,206)
Bonuses to directors and statutory auditors	(39)	(36)	(293)
Other, net	159	(217)	1,194
Subtotal	14,438	7,095	108,393
Interest and dividend income received	100	187	751
Interest paid	(69)	(42)	(518)
Income taxes paid	(633)	(347)	(4,752)
Net cash provided by operating activities	13,836	6,893	103,874
Investing activities:			
Purchases of property, plant and equipment	(2,137)	(5,147)	(16,044)
Proceeds from sales of property, plant and equipment	20	85	150
Purchase of investments in securities	(927)	(256)	(6,959)
Purchase of investments in a subsidiary and affiliates	(17)	(153)	(127)
Purchases of other assets	(482)	–	(3,619)
Other, net	(6)	(205)	(45)
Net cash used in investing activities	(3,549)	(5,676)	(26,644)
Financing activities:			
Decrease in short-term bank loans	(174)	–	(1,307)
Proceeds from long-term debt	801	–	6,013
Repayment of long-term debt	(936)	–	(7,027)
Purchases of treasury stock	(4,320)	(1,648)	(32,432)
Cash dividends	(663)	(577)	(4,977)
Other, net	8	20	60
Net cash used in financing activities	(5,284)	(2,205)	(39,670)
Effect of exchange rate changes on cash and cash equivalents	(59)	342	(443)
Increase (decrease) in cash and cash equivalents	4,944	(646)	37,117
Cash and cash equivalents at beginning of year	8,444	9,090	63,393
Increase in cash and cash equivalents resulting from initial consolidation of subsidiaries	124	–	931
Cash and cash equivalents at end of year (Note 3)	¥ 13,512	¥ 8,444	\$ 101,441

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

31st March, 2002

1. Basis of presentation

㊦ Mori Seiki Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with accounting principles and practices generally accepted and applied in Japan. Its foreign consolidated subsidiaries maintain their accounts and records in conformity with the requirements of their countries of domicile.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted and applied in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and have been compiled from those prepared by the Company as required by the Securities and Exchange Law of Japan.

In preparing the accompanying financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the

notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan, but is presented herein as additional information.

The accompanying U.S. dollar financial statements have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at the rate of ¥133.20 = U.S.\$1.00, the exchange rate prevailing at 31st March, 2002. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

㊧ Certain reclassifications of previously reported amounts have been made to the consolidated financial statements for the year ended 31st March, 2001 to conform them to the 2002 presentation. These reclassifications had no effect on consolidated net income or shareholders' equity.

2. Summary of significant accounting policies

(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

The financial statements of one consolidated subsidiary whose fiscal year end is 31st December have been included in consolidation on the basis of a full fiscal year closing for the year ended 31st March for consolidation purposes.

All assets and liabilities of the subsidiaries are revaluated on acquisition, if applicable, and the excess of cost over the underlying net assets at each respective date of acquisition is amortized over a period of five years on a straight-line basis.

(2) Foreign currency translation

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

(3) Cash and cash equivalents

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

(4) Inventories

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

Raw materials are stated at cost determined by the moving average method. Supplies are stated at cost determined by the last purchase method.

(5) Property, plant and equipment

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

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

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

(6) Leases

Non-cancelable lease transactions of the Company and the domestic consolidated subsidiaries are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases, except that leases which stipulate the transfer of ownership of

the leased property to the lessee are accounted for as finance leases.

Lease other than operating leases of the foreign consolidated subsidiaries are accounted for as finance leases.

(7) Investments in unconsolidated subsidiaries and affiliates

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

(8) Investments in securities

Other securities with determinable market value are stated at market value. Unrealized holding gains or losses are accounted for as a component of shareholders' equity. Cost of securities sold is determined by the moving average method.

Other securities without determinable market value are stated at cost determined by the moving average method.

(9) Retirement benefits

To provide for the payment of retirement benefits and pension plan payments to employees, the Company records a reserve equivalent to the amount recognized as necessary at the end of the period under review based on the estimated retirement benefit obligation and the fair value of the pension plan assets at the fiscal year end.

Actual gain and loss are amortized in the years following the year in which the gain or loss is recognized by the straight-line method within a specific period (10 years) which falls within the average remaining years of service of the eligible employees.

(10) Income taxes

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

(11) Derivatives

Derivatives are stated at fair value.

(12) Hedge accounting

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

(13) Research and development costs and computer software

Research and development costs are charged to income when incurred. Expenditures relating to computer 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 are amortized by the straight-line method over their useful life, which is generally 5 years.

(14) New accounting standards

Effective 1st April, 2000, the Company adopted a new accounting standard for employees' retirement benefits and pension plans. The net retirement benefit obligation at transition of ¥1,594 million was fully charged to income

for the year ended 31st March, 2001. As a result, income before income taxes and minority interests for the year ended 31st March, 2001 decreased by ¥1,844 million.

Effective 1st April, 2000, the Company adopted a new accounting standard for financial instruments. As a result of this adoption, income before income taxes and minority interests for the year ended 31st March, 2001 increased by ¥4,142 million.

Effective 1st April, 2000, the Company adopted a revised accounting standard for foreign currency translations. The effect of this adoption on the consolidated financial statements was immaterial for the year ended 31st March, 2001.

Due to a change effective year ended 31st March, 2001 in the regulations relating to the presentation of translation adjustments, translation adjustments have been presented as a component of shareholders' equity and minority interests in consolidated subsidiaries (instead of as a component of assets or liabilities) in the accompanying consolidated financial statements for the years ended 31st March, 2002 and 2001.

3. Cash and cash equivalents

In the presentation of the consolidated statements of cash flows, the relationship between the items included in cash and cash equivalents and the corresponding amounts reflected in the balance sheets at 31st March, 2002 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Cash and deposits	¥13,515	¥8,444	\$101,464
Time deposits with an original maturity in excess of 3 months included in cash and deposits	(3)	—	(23)
Cash and cash equivalents at end of year	¥13,512	¥8,444	\$101,441

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 1,200	\$ 9,009
Noncurrent assets	552	4,144
Excess of cost over underlying net assets	443	3,326
Current liabilities	(1,792)	(13,454)
Long-term liabilities	(353)	(2,650)
Acquisition cost of shares	50	375
Cash and cash equivalents held by Taiyo Koki Co., Ltd.	(33)	(247)
The Company's expenditure to acquire shares	¥ 17	\$ 128

4. Inventories

Inventories at 31st March, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Merchandise	¥ 38	¥ 75	\$ 285
Finished goods	10,270	17,412	77,102
Work in process	3,289	4,669	24,692
Raw materials and supplies	2,829	8,217	21,239
Total	¥16,426	¥30,373	\$123,318

5. Securities

Marketable securities classified as other securities as of 31st March, 2002 and 2001 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2002			2002		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
(1) Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥ 167	¥ 177	¥ 10	\$ 1,254	\$ 1,329	\$ 75
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	167	177	10	1,254	1,329	75
(2) Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	6,306	6,270	(36)	47,342	47,072	(270)
Debt securities	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	6,306	6,270	(36)	47,342	47,072	(270)
Total	¥6,473	¥6,447	¥(26)	\$48,596	\$48,401	\$(195)

	Millions of yen		
	2001		
	Acquisition costs	Carrying value	Unrealized gain (loss)
(1) Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 519	¥ 692	¥ 173
Debt securities	—	—	—
Other	—	—	—
Subtotal	519	692	173
(2) Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	12,232	8,246	(3,986)
Debt securities	—	—	—
Other	—	—	—
Subtotal	12,232	8,246	(3,986)
Total	¥12,751	¥8,938	¥(3,813)

6. Retirement benefits

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at 31st March, 2002 and 2001 for the Company's defined benefit plan.

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Retirement benefit obligation	¥(18,280)	¥(17,137)	\$(137,237)
Plan assets at fair value	14,299	13,615	107,350
Benefit obligation in excess of plan assets	(3,981)	(3,522)	(29,887)
Unrecognized actuarial loss	1,443	1,143	10,833
Accrued retirement benefits	¥ (2,538)	¥ (2,379)	\$ (19,054)
Service cost	¥ 929	¥ 930	\$ 6,974
Interest cost	514	482	3,859
Expected return on plan assets	(204)	(552)	(1,531)
Net retirement benefit obligation at transition	–	1,594	–
Amortization of unrecognized actuarial loss	114	–	856
Net periodic benefit costs	¥1,353	¥2,454	\$10,158

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

- (1) Allocation method of estimated benefits Straight-line method
- (2) Discount rate 3.0%
- (3) Expected rates of return on plan assets 1.5% and 4.0% for 31st March, 2002 and 2001, respectively
- (4) Number of years over which the actuarial differences are expensed
10 years (determined by the straight-line method over a period which falls within the average remaining years of service of the employees participating in the plans and amortized commencing the year following the year in which the gain or loss is recognized)

7. Long-term debt

Long-term debt at 31st March, 2002 and 2001 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
1.8 per cent. yen convertible bonds due 2003	¥ 743	¥ 743	\$ 5,578
0.45 per cent. yen convertible bonds due 2003	6,143	6,412	46,119
Bank loans due through 2008 :			
Unsecured	543	–	4,077
	7,429	7,155	55,774
Less current portion	84	–	631
	¥7,345	¥7,155	\$55,143

The weighted average interest rate on long-term bank loans was 2.75% for the year ended 31st March, 2002.

The aggregate annual maturities of long-term debt subsequent to 31st March, 2002 are summarized as follows:

Years ending 31st March,	Millions of yen	Thousands of U.S. dollars
2003	¥ 84	\$ 631
2004	6,970	52,327
2005	84	631
2006	84	631
2007	84	631
2008 and thereafter	123	923
	¥7,429	\$55,774

The 1.8 per cent. yen convertible bonds due 2003 (convertible at ¥2,430 per share subject to adjustment under the terms of the bonds) can be repurchased at any time. The 0.45 per cent. yen convertible bonds due 2003 (convertible at ¥2,409 per share subject to adjustment under the terms of the bonds) can be repurchased at any time.

8. Income taxes

Income taxes applicable to the Company and its consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended 31st March, 2002 and 2001 was, in the aggregate, approximately 41%.

The significant components of deferred tax assets and liabilities of the Company and its consolidated subsidiaries at 31st March, 2002 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Current			
Deferred tax assets (reflected in current assets):			
Accrued bonuses	¥ 225	¥ 246	\$ 1,689
Inventories	269	–	2,020
Foreign tax credit	–	227	–
Other	174	74	1,306
	668	547	5,015
Offset of deferred tax liabilities	(314)	(151)	(2,357)
Deferred tax assets, net	¥ 354	¥ 396	\$ 2,658
Deferred tax liabilities (reflected in current liabilities):			
Undistributed earnings of foreign subsidiaries	¥ (314)	¥ (151)	\$ (2,357)
Other	(115)	(138)	(863)
	(429)	(289)	(3,220)
Offset of deferred tax assets	314	151	2,357
Deferred tax liabilities, net	¥ (115)	¥ (138)	\$ (863)
Non-Current			
Deferred tax assets (reflected in investments and other assets):			
Accrued retirement benefits	¥ 1,051	¥ 985	\$ 7,890
Allowance for doubtful receivables	59	–	443
Loss on devaluation of investments in securities	2,984	–	22,403
Tax loss carryforward	3,624	–	27,207
Net unrealized holding loss on securities	11	1,579	83
Other	10	87	75
	7,739	2,651	58,101
Less : valuation allowance	(6,496)	–	(48,769)
	¥ 1,243	¥ 2,651	\$ 9,332
Deferred tax liabilities:			
Deferred capital gains on property	¥ (144)	¥ (149)	\$ (1,081)
Reserve for depreciation for tax deduction purposes	(255)	(291)	(1,914)
Other	(169)	(176)	(1,269)
	(568)	(616)	(4,264)
Deferred tax assets, net	¥ 675	¥ 2,035	\$ 5,068
Deferred tax liabilities on land revaluation (reflected in long-term liabilities):			
Deferred tax liabilities on reserve for land revaluation	¥ (1,866)	¥ –	\$(14,009)

9. Shareholders' equity

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of cash dividends paid and bonuses to directors and statutory auditors, and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital and the legal reserve equals 25% of stated capital. The code also provides that neither additional paid-in capital nor the legal reserve is available for dividends but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to stated capital by resolution of the Board of Directors. The Company's legal reserve, which is included in retained earnings, amounted to ¥2,650 million (\$19,895 thousand) and ¥2,570 million at 31st March, 2002 and 2001, respectively.

10. Research and development costs

Research and development costs for the years ended 31st March, 2002 and 2001 were as follows:

Millions of yen		Thousands of U.S. dollars
2002	2001	2002
¥3,012	¥2,640	\$22,613

11. Contingent liabilities

At 31st March, 2002, the Company and its consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Notes receivable discounted with banks	¥291	\$2,185
Guarantees of lease payments by customers	338	2,538

12. Derivative financial instruments

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

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

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

The fair value of the derivatives positions outstanding at 31st March, 2002 and 2001 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2002			2002		
	Contract value (Notional principal amount)	Estimated fair value	Unrealized loss	Contract value (Notional principal amount)	Estimated fair value	Unrealized loss
Sell:						
U.S. dollars	¥3,679	¥3,869	¥(190)	\$27,620	\$29,046	\$(1,426)
Euro	660	694	(34)	4,955	5,210	(255)
Pounds sterling	333	338	(5)	2,500	2,538	(38)
Total	¥4,672	¥4,901	¥(229)	\$35,075	\$36,794	\$(1,719)

	Millions of yen		
	2001		
	Contract value (Notional principal amount)	Estimated fair value	Unrealized loss
Sell:			
U.S. dollars	¥ 8,038	¥ 8,558	¥(520)
Euro	3,025	3,032	(7)
Pounds sterling	926	943	(17)
Total	¥11,989	¥12,533	¥(544)

13. Leases

(1) Finance leases

The following pro forma amounts present the acquisition costs, accumulated depreciation and net book value of property leased to the Company and its consolidated subsidiaries as of 31st March, 2002 and 2001, which would have been reflected in the balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries (which are currently accounted for as operating leases) were capitalized:

	Millions of yen			Thousands of U.S. dollars		
	2002			2002		
Category:	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥785	¥ 59	¥726	\$5,893	\$ 443	\$5,450
Tools and furniture	133	108	25	998	810	188
Software	9	7	2	68	53	15
Total	¥927	¥174	¥753	\$6,959	\$1,306	\$5,653

	Millions of yen		
	2001		
Category:	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥ –	¥ –	¥ –
Tools and furniture	517	451	66
Software	–	–	–
Total	¥517	¥451	¥66

Lease payments of the Company and its consolidated subsidiaries relating to finance lease transactions accounted for as operating leases amounted to ¥54 million (\$405 thousand) and ¥62 million for the years ended 31st March, 2002 and 2001, respectively.

Depreciation related to leased property of the Company and its consolidated subsidiaries is recognized by the straight-line method over the lease terms and amounted to ¥54 million (\$405 thousand) and ¥62 million for the years ended 31st March, 2002 and 2001, respectively.

Future minimum payments (including the interest portion thereon) subsequent to 31st March, 2002 under finance leases other than those which transfer the ownership of the leased property to the Company and its consolidated subsidiaries are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2002	2002
Year ending 31st March, 2003	¥145	\$1,089
2004 and thereafter	608	4,564
Total	¥753	\$5,653

(2) Operating leases:

Future minimum payments subsequent to 31st March, 2002 under operating leases were as follows:

	Millions of yen	Thousands of U.S. dollars
	2002	2002
Year ending 31st March, 2003	¥189	\$1,419
2004 and thereafter	33	248
Total	¥222	\$1,667

14. Amounts per share

The computation of net loss and basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the weighed average number of shares of common stock outstanding each year after giving effect to the dilutive potential of the common shares issuable upon the conversion of convertible bonds and the exercise of warrants.

No diluted amounts per share were presented for the year ended 31st March, 2002 as a net loss before income taxes and minority interests was recorded for the year.

Net assets per share are based on the number of shares of common stock outstanding at the year end.

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

Amounts per share at 31st March, 2002 and 2001 and for the years then ended were as follows:

	Yen		U.S. dollars
	2002	2001	2002
Amounts per share:			
Net loss	¥ (178.93)	¥ –	\$(1.34)
Net income:			
Basic	–	11.68	–
Diluted	–	11.53	–
Net assets	1,039.22	1,320.76	7.80
Cash dividends	5.00	7.00	0.04

15. Segment information

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

The geographical segment information of the Company and its consolidated subsidiaries for the years ended 31st March, 2002 and 2001 is outlined as follows:

Millions of yen

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

Thousands of U.S. dollars

	2002						
	Japan	U.S.A.	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	\$211,839	\$164,858	\$141,839	\$ 4,407	\$522,943	\$ –	\$522,943
Inter-group sales	211,164	8,829	5,413	983	226,389	(226,389)	–
Total sales	423,003	173,687	147,252	5,390	749,332	(226,389)	522,943
Operating expenses	445,270	178,183	147,958	6,892	778,303	(231,336)	546,967
Operating loss	(22,267)	(4,496)	(706)	(1,502)	(28,971)	4,947	(24,024)
Assets	\$672,117	\$113,431	\$ 92,192	\$12,846	\$890,586	\$ (39,122)	\$851,464

Millions of yen

	2001						
	Japan	U.S.A.	Europe	Asia	Total	Eliminations	Consolidated
Sales to third parties	¥ 38,370	¥28,531	¥19,317	¥ 660	¥ 86,878	¥ –	¥ 86,878
Inter-group sales	41,013	679	506	187	42,385	(42,385)	–
Total sales	79,383	29,210	19,823	847	129,263	(42,385)	86,878
Operating expenses	77,312	29,316	19,978	946	127,552	(42,815)	84,737
Operating income (loss)	2,071	(106)	(155)	(99)	1,711	430	2,141
Assets	¥124,861	¥20,911	¥15,471	¥1,361	¥162,604	¥(16,513)	¥146,091

Overseas sales, which include export sales of the Company and sales (other than exports to Japan) of the foreign consolidated subsidiaries, totaled ¥46,463 million (\$348,821 thousand) and ¥54,081 million, or 66.7% and 62.2% of the consolidated net sales for the years ended 31st March, 2002 and 2001, respectively.

16. Land revaluation

Effective 31st March, 2002, the Company revalued its land for operational usage in accordance with the laws on land revaluation. The resulting revaluation difference, net of the applicable tax effect on revaluation gain, has been stated as a component of shareholders' equity under "Reserve for land revaluation." The applicable tax effect has been included in deferred tax liabilities non-current. The carrying value of the land before revaluation and after revaluation at 31st March, 2002 amounted to ¥29,839 million (\$224,017 thousand) and ¥18,088 million (\$135,796 thousand), respectively.

17. Subsequent event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying financial statements for the year ended 31st March, 2002, were approved at the annual meeting of the shareholders of the Company held on 27th June, 2002:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividend of ¥5.00 (\$0.04) per share	¥450	\$3,378

Independent Auditors' Report on The Consolidated Financial Statements

The Board of Directors and the Shareholders Mori Seiki Co., Ltd.

We have audited the consolidated balance sheets of Mori Seiki Co.,Ltd. and consolidated subsidiaries as of 31st March, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Mori Seiki Co., Ltd. and consolidated subsidiaries at 31st March, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2, Mori Seiki Co., Ltd. adopted new accounting standards for employees' retirement benefits, financial instruments and foreign currency translations effective the year ended 31st March, 2001 in the preparation of its consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2002 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.

Shin Nihon & Co.
Shin Nihon & Co.

Osaka, Japan
28th June, 2002

See Note 1 which explains the basis of preparation of the consolidated financial statements of Mori Seiki Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

MORI SEIKI
THE MACHINE TOOL COMPANY