

ANNUAL REPORT

Fiscal Year Ended 31st March, 2000

— FINANCIAL SECTION —

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MORI SEIKI
THE MACHINE TOOL COMPANY

A MESSAGE FROM THE PRESIDENT

During the fiscal year just completed, the machine tool industry has seen continued strong demand for mid-size machines for export to the USA and Europe, but in general the market has been sluggish, without any strengthening hope. In Europe, conditions for profitability remain harsh, particularly as the fall of the Euro has led to price competition with German manufacturers. In the Japanese domestic market, no clear economic trends have yet been identified, but investment in information and communication sectors has picked up and there is hope for a return to previous levels of orders. In this business climate, we are actively promoting a more thorough approach to sales. The company is also working hard to develop new machines that match clients' requirements and to reduce production costs.

For reasons stated above, the total turnover was lower than last year's figure, and we also incurred foreign exchange losses due to the continued depreciation of the yen. Net sales for the fiscal year totaled 70,878 million yen (a 27.5% decrease in comparison with the previous year). We sustained operating loss of 788 million yen and net loss of 2,436 million yen over the fiscal year.

Looking ahead, if the current social and economic conditions in the USA are sustained, it is anticipated that orders for automobiles, semiconductors, and information/communications products will be firm. The situation in Europe has stabilized, particularly in Southern European countries such as Italy and Spain, and we are continuing to receive many orders from these countries. However, profits are very slim due to the sharp rise of the Yen and fall of the Euro. In Japan and the rest of Asia, demand for semiconductors and information/communications related goods continues, and we are seeing some recovery in orders of automobile parts, but a true recovery is expected only when the automobile makers themselves make a recovery.

In order to improve business results under these conditions, Mori Seiki is reinforcing and consolidating three areas: production, research and development, and sales. As to production, our goal is to achieve comprehensive quality control and to improve productivity in an optimum production environment. With regard to research and development, we have introduced 3-dimensional CAD into all development departments in order to shorten lead times and cut costs; we are promoting the common use of unit parts, and decreasing the number of parts used; and we have aggressively launched new models such as the MT series multi-axis CNC lathes, the ZT series of CNC lathes, the HVM series of linear motor machining centers, and other machines, and are achieving positive results. Looking at sales, the Nagoya Building that was completed as a new center for domestic sales and engineering is now playing an important role as a base for disseminating information in the heartland of the automobile manufacturing industry, and has improved our ties with this industry. Overseas, the New Jersey Technical Center which was being built by our US subsidiary was completed in April this year: as a result, we now have a more thorough sales and service infrastructure.

This summarizes Mori Seiki's current status as it attempts to expand business while actively tackling a variety of problems. We ask for the continued support and guidance of our shareholders in the coming year.

July, 2000



Masahiko Mori
President & Representative Director

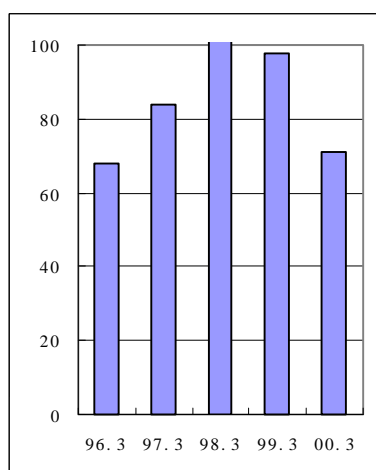
CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended 31st March, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
For the year				
Net sales	Y70,878	Y97,754	\$667,715	\$920,904
Net (loss) income	(2,436)	7,446	(22,949)	70,146
Per share (in Yen and U.S. dollars)				
Net (loss) income:				
Basic	(Y25.32)	Y77.39	(\$0.24)	\$0.73
Diluted	-	74.87	-	0.71
Cash dividends	6.00	10.00	0.06	0.09
At the year end				
Total assets	Y150,071	Y173,918	\$1,413,764	\$1,638,416
Shareholders' equity	131,467	134,802	1,238,502	1,269,920

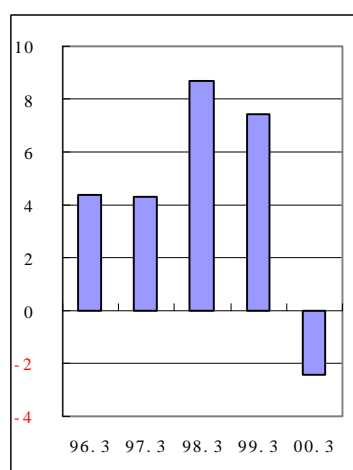
<Sales>

(Billions of yen)



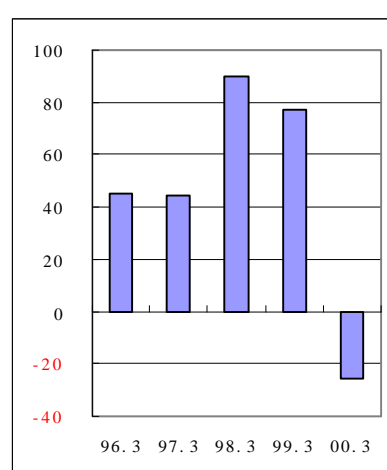
<Net income (loss)>

(Billions of yen)



<Net income (loss) per share>

(Yen)



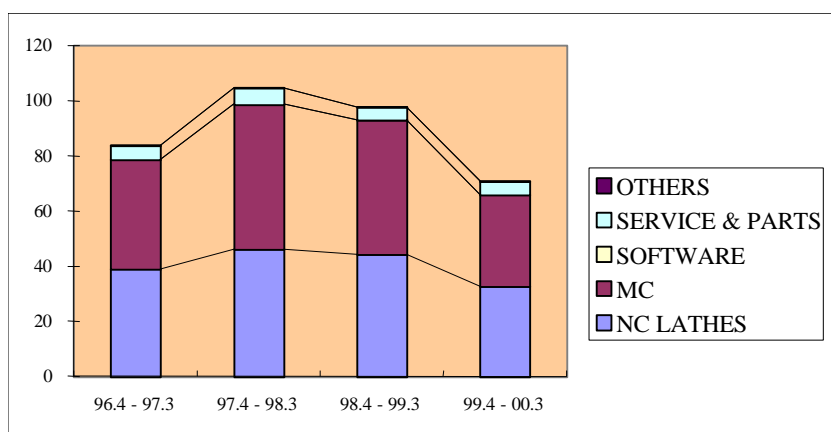
The accompanying U.S. dollar amounts have been translated from yen, solely for convenience, as a matter of arithmetic computation only, at the rate of Yen106.15 = U.S.\$1.00, the exchange rate prevailing on 31st March, 2000.

Sales

(Millions of yen)

Fiscal Year	NC LATHES	MC	SOFTWARE	SERVICE & PARTS	OTHERS	TOTAL
1996.4.1	38,855	39,815	-	5,088	114	83,872
1997.3.31	46.3%	47.5%	-%	6.1%	0.1%	100.0%
1997.4.1	46,151	52,613	19	5,887	87	104,757
1998.3.31	44.1%	50.2%	0.0%	5.6%	0.1%	100.0%
1998.4.1	44,334	48,718	53	4,550	99	97,754
1999.3.31	45.4%	49.8%	0.0%	4.7%	0.1%	100.0%
1999.4.1	32,747	33,065	43	4,937	86	70,878
2000.3.31	46.2%	46.6%	0.1%	7.0%	0.1%	100.0%

(Billions of yen)



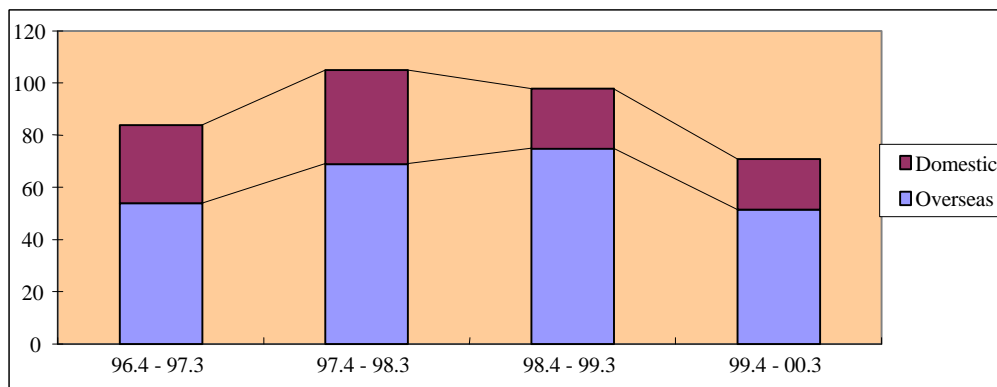
Overseas Sales

(Millions of yen)

Fiscal Year	TOTAL
1996.4.1	53,907
1997.3.31	64.3%
1997.4.1	68,979
1998.3.31	65.8%
1998.4.1	74,860
1999.3.31	76.6%
1999.4.1	51,425
2000.3.31	72.6%

- Each amount is contained in net sales.
- Each percentage is calculated according to the net sales for each fiscal year.

(Billions of yen)



Depreciation and Investments in Plant and Equipment

(Millions of yen)

Fiscal Year	Depreciation	Net income (loss)	Investments
1995.4 - 1996.3	4,545	4,365	3,904
1996.4 - 1997.3	4,696	4,312	7,017
1997.4 - 1998.3	4,868	8,677	6,986
1998.4 - 1999.3	5,405	7,446	10,309
1999.4 - 2000.3	5,694	(2,436)	6,158

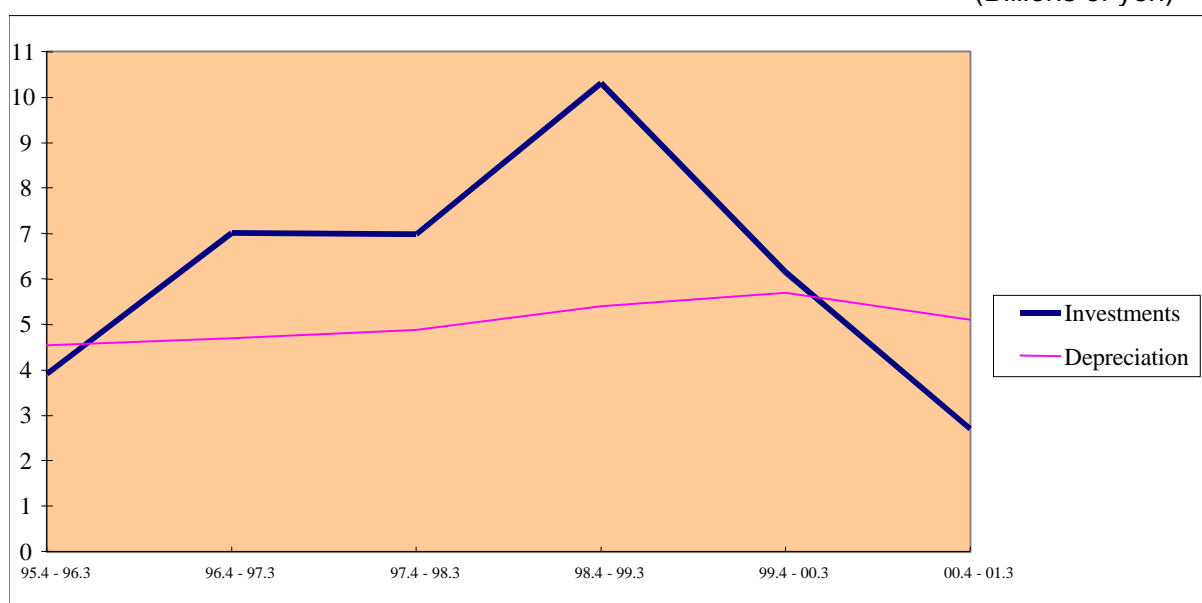
Estimate

(Millions of yen)

2000.4 - 2001.3	5,100	1,000	2,700
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- Mori Seiki Co., Ltd.'s investments in fixed assets over the past five years total almost Yen 34,374 million.

(Billions of yen)



Five-Year Summary

Fiscal Year	1999.4 - 2000.3	1998.4 - 1999.3	1997.4 - 1998.3	1996.4 - 1997.3	1995.4 - 1996.3
Net sales	Yen 70,878	97,754	104,757	83,872	68,073
	\$ 667,715	920,904	986,877	790,127	641,291
Net (loss) income	Yen (2,436)	7,446	8,677	4,312	4,365
	\$ (22,949)	70,146	81,743	40,622	41,121
Ratio to sales	(3.4%)	7.6%	8.3%	5.1%	6.4%
Cash dividends paid	Yen 577	962	962	729	583
	\$ 5,436	9,063	9,063	6,868	5,492
Total assets	Yen 150,071	173,918	176,465	176,519	178,589
	\$ 1,413,764	1,638,416	1,662,412	1,662,920	1,682,421
Shareholders' equity	Yen 131,467	134,802	128,371	122,039	118,314
	\$ 1,238,502	1,269,920	1,209,336	1,149,684	1,114,593
Plant & equipment, net	Yen 75,038	75,723	71,273	70,432	67,965
	\$ 706,905	713,358	671,437	663,514	640,273
Working capital	Yen 47,941	48,354	74,298	71,594	58,623
	\$ 451,634	455,526	699,934	674,461	552,266
Per share data	Yen (25.32)	77.39	89.83	44.35	44.90
Net (loss) income	\$ (0.24)	0.73	0.85	0.42	0.42
Cash dividends	Yen 6.00	10.00	10.00	7.50	6.00
	\$ 0.06	0.09	0.09	0.07	0.06

The Japanese yen and U.S. dollar amounts are in millions of yen and thousands of dollars respectively (except for per share data and cash dividends which are stated in yen and dollars).

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 Yen106.15 = U.S.\$1.00, the exchange rate prevailing on 31st March, 2000.

CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	31st March,		31st March,	
	2000	1999	2000	1999
ASSETS				
Current assets:				
Cash and cash equivalents	Y9,090	Y29,883	\$85,634	\$281,517
Notes and accounts receivable:				
Unconsolidated subsidiaries	-	2	-	19
Trade	14,686	16,162	138,351	152,256
Allowance for doubtful receivables	(102)	(137)	(961)	(1,291)
Notes and accounts receivable, net	14,584	16,027	137,390	150,984
Inventories (Note 3)	32,469	30,701	305,878	289,223
Deferred income taxes (Note 6)	1,015	1,867	9,562	17,588
Other current assets	1,781	1,473	16,778	13,877
Total current assets	58,939	79,951	555,242	753,189
Property, plant and equipment, at cost:				
Land	31,266	31,757	294,545	299,171
Buildings and structures	57,913	56,088	545,577	528,384
Machinery and equipment	39,706	35,631	374,056	335,667
Construction in progress	885	3,291	8,337	31,003
	129,770	126,767	1,222,515	1,194,225
Accumulated depreciation	(54,732)	(51,044)	(515,610)	(480,867)
Property, plant and equipment, net	75,038	75,723	706,905	713,358
Investments and other assets:				
Investments in securities:				
Unconsolidated subsidiaries and an affiliate	101	133	952	1,253
Other (Note 4)	12,518	14,535	117,927	136,929
Total investments in securities	12,619	14,668	118,879	138,182
Deferred income taxes (Note 6)	93	-	876	-
Other assets	759	1,727	7,150	16,269
Allowance for doubtful receivables	-	(281)	-	(2,647)
Total investments and other assets	13,471	16,114	126,905	151,804
Deferred asset:				
Notes discounted	-	398	-	3,749
Translation adjustments:	2,623	1,732	24,712	16,316
	Y150,071	Y173,918	\$1,413,764	\$1,638,416

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	31st March,		31st March,	
	2000	1999	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	Y6,182	Y5,072	\$58,238	47,781
Current portion of long-term debt	-	15,907	-	149,854
Accrued income taxes	758	3,656	7,141	34,442
Accrued expenses	1,496	2,533	14,093	23,862
Pre-emptive rights	-	2,124	-	20,009
Deferred income taxes (Note 6)	26	-	245	-
Other current liabilities	2,536	2,305	23,891	21,715
Total current liabilities	<u>10,998</u>	<u>31,597</u>	<u>103,608</u>	<u>297,663</u>
Long-term liabilities:				
Long-term debt (Note 5)	7,155	7,155	67,405	67,405
Deferred income taxes (Note 6)	14	-	132	-
Other long-term liabilities	396	364	3,730	3,428
Total long-term liabilities	<u>7,565</u>	<u>7,519</u>	<u>71,267</u>	<u>70,833</u>
Minority interest	41	-	387	-
Shareholders' equity:				
Common stock, Yen50 par value:				
Authorized 31st March, 2000 - 159,000,000 shares				
Issued 31st March, 2000 and 1999 - 96,225,427 shares	28,191	28,191	265,577	265,577
Additional paid-in capital	40,931	40,931	385,596	385,596
Retained earnings (Note 10)	62,372	65,681	587,583	618,756
Treasury stock, at cost	(27)	(1)	(254)	(9)
Total shareholders' equity	<u>131,467</u>	<u>134,802</u>	<u>1,238,502</u>	<u>1,269,920</u>
	<u>Y150,071</u>	<u>Y173,918</u>	<u>\$1,413,764</u>	<u>\$1,638,416</u>

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF OPEATIONS

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Year ended 31st March,		Year ended 31st March,	
	2000	1999	2000	1999
Net sales (Note 9)	Y70,878	Y97,754	\$667,715	\$920,904
Cost of sales (Note 9)	51,805	65,463	488,036	616,703
Gross profit	19,073	32,291	179,679	304,201
Selling, general and administrative expenses (Notes 7, 8 and 9)	17,260	18,024	162,600	169,797
Operating income	1,813	14,267	17,079	134,404
Other income (expenses):				
Interest and dividend income	354	612	3,335	5,765
Interest expense	(42)	(146)	(395)	(1,375)
Loss on devaluation of listed equity securities	(546)	(548)	(5,143)	(5,163)
Gain on sales of investments in securities	219	47	2,063	443
Foreign exchange loss	(4,238)	(1,752)	(39,925)	(16,505)
Equity in earnings of an affiliate	-	(12)	-	(113)
Gain on reversal of pre-emptive rights	2,124	-	20,009	-
Other, net	(490)	(826)	(4,616)	(7,781)
(Loss)Income before income taxes and minority interests	(806)	11,642	(7,593)	109,675
Income taxes (Note6):				
Current	652	5,600	6,142	52,756
Deferred	981	(1,404)	9,242	(13,227)
Minority interests in loss of a consolidated subsidiary	3	-	28	-
Net (loss) income	(Y2,436)	Y7,446	(\$22,949)	\$70,146
		Yen	U.S. dollars	
			(Note1)	
Amounts per share:				
Net (loss) income:				
Basic	(Y25.32)	Y77.39	(\$0.24)	\$0.73
Diluted	-	74.87	-	0.71
Cash dividends	6.00	10.00	0.06	0.09

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of shares of common stock	Millions of yen			
		Common Stock	Additional Paid-in Capital	Retained earnings	Treasury stock
Balance at 31st March, 1998	96,225,427	Y28,191	Y40,931	Y59,254	Y(4)
Net income	-	-	-	7,446	-
Cash dividends	-	-	-	(962)	-
Bonuses to directors and statutory auditors	-	-	-	(57)	-
Treasury stock – acquired	-	-	-	-	(93)
Treasury stock - sold	-	-	-	-	96
Balance at 31st March, 1999	96,225,427	28,191	40,931	Y65,681	(1)
Prior year deferred income taxes adjustment	-	-	-	161	-
Net loss	-	-	-	(2,436)	-
Decrease in retained earning resulting from Addition of consolidated subsidiaries	-	-	-	(19)	-
Cash dividends	-	-	-	(962)	-
Bonuses to directors and statutory auditors	-	-	-	(53)	-
Treasury stock – acquired	-	-	-	-	(100)
Treasury stock - sold	-	-	-	-	74
Balance at 31st March, 2000	<u>96,225,427</u>	<u>Y28,191</u>	<u>Y40,931</u>	<u>Y62,372</u>	<u>Y(27)</u>

	Thousands of U.S. dollars (Note 1)			
	Common stock	Additional Paid-in Capital	Retained earnings	Treasury stock
Balance at 31st March, 1998	\$265,577	\$385,596	\$558,210	\$(37)
Net income	-	-	70,146	-
Cash dividends	-	-	(9,063)	-
Bonuses to directors and statutory auditors	-	-	(537)	-
Treasury stock – acquired	-	-	-	(876)
Treasury stock - sold	-	-	-	904
Balance at 31st March, 1999	265,577	385,596	618,756	(9)
Prior year deferred income taxes adjustment	-	-	1,517	-
Net loss	-	-	(22,949)	-
Decrease in retained earning resulting from Addition of consolidated subsidiaries	-	-	(179)	-
Cash dividends	-	-	(9,063)	-
Bonuses to directors and statutory auditors	-	-	(499)	-
Treasury stock - acquired	-	-	-	(942)
Treasury stock - sold	-	-	-	697
Balance at 31st March, 2000	<u>\$265,577</u>	<u>\$385,596</u>	<u>\$587,583</u>	<u>\$(254)</u>

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, 2000	Year ended 31st March, 2000
Operating activities:		
Net loss before income taxes and minority interests	(Y806)	(\$7,593)
Adjustments to reconcile net loss before income taxes And minority interests to net cash used in operating activities:		
Depreciation and amortization	6,092	57,390
Loss on sales or disposal of property, plant and equipment	22	207
Gain on sales of property, plant and equipment	(94)	(886)
Loss on devaluation of listed equity securities	546	5,143
Gain on sales of investments in securities	(219)	(2,063)
Decrease of allowance for doubtful receivable	(296)	(2,789)
Decrease of accrued bonus	(208)	(1,959)
Interest and dividend income	(354)	(3,335)
Interest expense	42	395
Unrealized exchange loss	663	6,246
Gain on reversal of pre-emptive rights	(2,124)	(20,009)
Changes in operating assets and liabilities:		
Notes and accounts receivable	1,477	13,914
Inventories	(2,351)	(22,148)
Accounts payable	1,110	10,457
Bonuses to directors and statutory auditors	(53)	(499)
Other net	(759)	(7,149)
Subtotal	2,688	25,322
Interest and dividend income received	381	3,589
Interest paid	(42)	(395)
Income tax paid	(3,596)	(33,877)
Net cash used in operating activities	(569)	(5,361)
Investing activities		
Purchases of property, plant and equipment	(7,289)	(68,667)
Proceeds from sales of property, plant and equipment	1,185	11,163
Proceeds from sales of marketable securities and investments in Securities	1,689	15,911
Other, net	1,313	12,369
Net cash used in investing activities	(3,102)	(29,224)
Financing activities		
Repayment of long-term debt	(15,907)	(149,854)
Cash dividends	(962)	(9,063)
Other, net	(28)	(264)
Net cash used in financing activities	(16,897)	(159,181)
Effect of exchange rate changes on cash and cash equivalents	(247)	(2,324)
Decrease in cash and cash equivalents	(20,815)	(196,090)
Cash and cash equivalents at beginning of Year	29,883	281,517
Increase in cash and cash equivalents of initial consolidation of Subsidiaries	22	207
Cash and cash equivalents at end of year	Y9,090	\$85,634

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31st March, 2000 and 1999

1. Basis of presentation

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

The accompanying consolidated financial statements have been prepared from the accounts maintained by Mori Seiki Co., Ltd. in accordance with the provisions set forth in the Commercial Code of Japan and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Minister of Finance 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 Yen106.15 = U.S.\$1.00, the exchange rate prevailing on 31st March, 2000. The translations should not be construed as representations 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 financial statements include the accounts of Mori Seiki Co., Ltd. (the "Company") and twelve and ten significant foreign subsidiaries (together, the "Companies") for the years ended 31st March, 2000 and 1999, respectively.

Due to a revision to the accounting standards for consolidated financial statements, which became effective 1st April, 1999, the Company is required to consolidate all entities effectively controlled by the Company unless such control is considered temporary. The effect of the application of this new accounting standard for consolidated financial statements was immaterial. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has applied the equity method to its investment in one affiliate for the year ended 31st March, 1999.

(2) Foreign currency translation

The financial statements of foreign subsidiaries are translated into yen on the basis of the year-end rate for the balance sheet accounts except for shareholders' equity, and at historical rates for the components of shareholders' equity. Translation differences are presented as "translation adjustments" in the accompanying consolidated financial statements. Income and expenses arising from transactions determined in a foreign country are translated at the average rates for the year.

(3) Investments in unconsolidated subsidiaries

Investments in unconsolidated subsidiaries are stated at cost.

(4) Inventories

Inventories are stated by the following methods.

Finished products and work-in-process

Parent company

Cost determined by the weighted-average method.

Foreign subsidiaries

Lower of cost (First in first out method) or market.

Raw materials

Cost determined by the moving-average method.

(5) Marketable Securities and Investments in Securities

Marketable securities and investments in securities listed on stock exchanges are stated at the lower of cost or market, and cost is determined by the moving average method. Investments in unlisted securities are stated at cost determined by the moving average method.

(6) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company other than buildings acquired on or subsequent to 1st April, 1998 of the Company, are computed by the declining-balance method over the useful lives of the respective assets as prescribed by the Corporation Tax Law of Japan. Depreciation of buildings of the Company acquired on or subsequent to 1st April, 1998 is computed by the straight-line method in accordance with the Corporation Tax Law of Japan.

Depreciation of property, plant and equipment of the foreign subsidiaries is computed by the straight-line method.

Tangible fixed assets are stated at cost. Depreciation of tangible fixed assets is computed by the straight-line method.

(7) Allowance for doubtful receivables

The Company has provided an allowance for doubtful receivables at the estimated amount of probable bad debts plus the maximum amount permitted to be charged to income under the Corporation Tax Law of Japan.

The foreign subsidiaries have provided an allowance for doubtful receivables at the estimated amount of probable bad debts.

(8) Leases

Non-cancelable lease transactions of the Company are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases, except that lease agreements which stipulate the transfer of ownership of the leased property to the Company are accounted for as finance leases.

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

(9) Retirement allowances

The Company has a funded pension plan for all qualified employees. The pension fund assets amounted to Yen13,559 million (\$127,734 thousand) and Yen12,318 million (\$116,043 thousand) as of 31st March, 2000 and 1999, respectively.

(10) Consolidated Statement of Cash Flows

The Company has initially adopted "Accounting Standards for Consolidated Statements of Cash Flows," issued by the Business Accounting Deliberation Council of Japan, which requires the preparation and disclosure of a consolidated statement of cash flows as part of the basic financial statements effective the year ended 31st March, 2000. For the purpose of the consolidated statement of cash flows for the year ended 31st March, 2000, cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturity of three months or less when purchased.

(11) Income Taxes

Income taxes are calculated on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. Effective 1st April, 1999, the Company has adopted "Financial Accounting Standards on Accounting for Effects on Income Taxes" which was issued by Business Accounting Deliberation Council of Japan and has recognized the tax effect of temporary differences in its consolidated financial statements. The cumulative effect of this adoption of tax-effect accounting through the beginning of the current year has been reported as prior year deferred income tax adjustment in the consolidated statements of shareholders' equity. As a result of this change in method of accounting, deferred tax assets(current assets) and deferred tax liabilities (long-term liabilities) at 31st March, 2000 increased by Yen1,015million (\$9,562 thousand) and Yen14million (\$132 thousand), respectively, deferred tax liabilities (current liabilities) at 31st March, 2000 decreased by Yen110million(\$1,036 thousand), net loss for the year ended 31st March, 2000 decreased by Yen949million (\$8,940 thousand) and retained earnings at 31st March, 2000 increased by Yen1,110million (\$10,457 thousand), from the amount which would have been recorded under the method applied in the previous year.

Through the fiscal year ended 31st March, 1999, the Company did not adopt tax effect accounting. The consolidated subsidiaries in the United States, the United Kingdom and Italy, however, all adopted accounting for deferred tax. In addition, deferred income taxes pertaining to timing differences were recognized by the Company insofar as they relate to items arising from consolidation, such as the elimination of intercompany profits.

(12) Derivative financial instruments

Derivative financial instruments are mainly utilized by the Company to reduce interest rate and foreign exchange rate risks. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of activities related to derivative financial instruments.

The Company does not hold or issue derivative financial instruments for trading purposes.

(13) Research and development costs

Research and development costs are charged to income as incurred.

Effective 1st April, 1999, the Company changed its method of accounting for research and development costs from manufacturing costs to selling, general and administrative expenses due to review research and development costs in accordance with the adoption of "Accounting Standards for Research and Development costs, etc" which was issued by the Business Accounting Deliberation Council of Japan.

The effect of this change was to increase selling, general and administrative expenses for the year ended 31st March, 2000 by Yen1,995 million (\$18,794 thousand) and loss before income taxes and minority interests by Yen236 million(\$2,223 thousand), respectively.

(14) Amounts per share.

The computation of basic net loss 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 weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the conversion of convertible bonds and upon the exercise of warrants. No diluted amounts in share are presented for 2000 as a net loss recorded for the year.

Cash dividends per share represent the cash dividends as applicable to the respective year.

3. Inventories

Inventories at 31st March, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
	Y18,511	Y18,773	\$174,385	\$176,854
Finished products	6,589	6,013	62,072	56,646
Work in process	7,369	5,915	69,421	55,723
Raw materials and supplies	Y32,469	Y30,701	\$305,878	\$289,223

4. Investment in securities – other

Investment in securities other consisted of securities which had quoted market values at 31st March, 2000 and 1999. A comparison of their book value and market value is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Book value	Y12,513	Y14,529	\$117,880	\$136,872
Market value	13,281	15,727	125,115	148,158

5. Long-term debt

Long-term debt at 31st March, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
1.8 percent Yen convertible bonds due 2003	743	743	7,000	7,000
0.45 percent Yen convertible bonds due 2003	6,412	6,412	60,405	60,405
	Y7,155	Y7,155	\$67,405	\$67,405

The 1.8 percent. yen convertible bonds due 2003 (convertible at Yen2,430 per share subject to adjustment under the terms of the bonds) can be repurchased at any time.

The 0.45 percent. yen convertible bonds due 2003 (convertible at Yen2,409 per share subject to adjustment under the terms of the bonds) can be repurchased at any time.

6. Income Taxes

Income taxes applicable to the Company consist of corporation inhabitants' and enterprise taxes. The statutory tax rates in Japan for the years ended March 31, 2000 and 1999 were, in the aggregate, approximately 42% and 47%, respectively.

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of the Companies' deferred tax assets and liabilities at 31st March, 2000 are summarized as follows

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Deferred tax assets:		
Tax loss carryforward	Y1,099	\$10,353
Accrued employees bonuses	160	1,507
Foreign tax credit	193	1,818
Special contribution to pension fund	159	1,498
Other	276	2,600
Total deferred tax assets	1887	17,776
Deferred tax liabilities:		
Deferred capital gains on property	(149)	(1,404)
Reserve for depreciation for tax deduction Purpose	(226)	(2,129)
Other	(444)	(4,182)
Total deferred tax liabilities	(819)	(7,715)
Net deferred tax assets	Y1,068	\$10,061

7. Research and development cost

Research and development costs for the year ended 31st March, 2000 and 1999 were as follows:

Millions of yen		Thousands of U.S. dollars	
2000	1999	2000	1999
Y2,054	Y2,247	\$19,350	\$21,168

8. Leases

(1) Finance leases

The following pro forma amounts present the acquisition costs, accumulated depreciation and net book value of property leased to the Companies as of 31st March, 2000, which would have been reflected in the balance sheet if finance leases other than those which transfer the ownership of the leased property to the Companies (which are currently accounted for as operating leases) were capitalized:

Category of property:	Millions of yen					
	2000			1999		
	Acquisition costs	Accumulated Depreciation	Net book value	Acquisition Costs	Accumulated Depreciation	Net book Value
Machinery and equipment	Y1,808	Y1,806	Y2	Y1,927	Y1,574	Y353
Tools, furniture and other	647	582	65	642	474	168
Total	Y2,455	Y2,388	Y67	Y2,569	Y2,048	Y521

	Thousands of U.S. Dollars					
	2000			1999		
	Acquisition costs	Accumulated Depreciation	Net book value	Acquisition Costs	Accumulated Depreciation	Net book Value
	\$17,033	\$17,014	\$19	\$18,154	\$14,828	\$3,325
	6,095	5,483	612	6,048	4,465	1,583
	\$23,128	\$22,497	\$631	\$24,202	\$19,293	\$4,908

Lease payments of the Companies relating to finance lease transactions accounted for as operating leases amounted to Yen444 million (\$4,183 thousand) and Yen459 million (\$4,324 thousand) for the years ended 31st March, 2000 and 1999, respectively.

Depreciation expenses of the Companies related to leased assets computed by the straight-line method over the lease terms for the years ended 31st March, 2000 and 1999 amounted to Yen444 million (\$4,183 thousand) and Yen459 million (\$4,324 thousand), respectively.

Future minimum payments (including the interest portion thereon) subsequent to 31st March, 2000 under finance leases other than those which transfer the ownership of the leased property to the Companies are summarized as follows:

Year ending 31st March,	2000	
	Millions of yen	Thousands of U.S. dollars
2001	Y48	\$452
2002 and thereafter	19	179
	Y67	\$631

(2) Operating leases:

Future minimum payments Year ending 31st March,	2000	
	Millions of yen	Thousands of U.S. dollars
2001	Y78	\$735
2002 and thereafter	236	\$2,223
	Y314	\$2,958

9. Segment information

The Companies 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 Companies for the years ended 31st March, 2000 and 1999 is outlined as follows:

	2000						Consolidated
	Japan	USA	Europe	Asia	Total	Eliminations	
	Millions of yen						
Sales to third parties	Y23,729	Y25,917	Y20,721	Y511	Y70,878	Y-	Y70,878
Inter-group sales	43,090	714	647	125	Y44,576	(44,576)	-
Total sales	66,819	26,631	21,368	636	115,454	(44,576)	70,878
Operating expenses	66,714	26,310	22,415	747	Y116,186	(47,121)	69,065
Operating income	105	321	(1,047)	(111)	(732)	2,545	1,813
Assets	Y121,893	Y20,832	Y16,520	Y1,654	Y160,899	(Y10,828)	Y150,071

	1999						Consolidated
	Japan	USA	Europe	Asia	Total	Eliminations	
	Millions of yen						
Sales to third parties	Y32,067	Y38,558	Y26,569	Y560	Y97,754	Y-	Y97,754
Inter-group sales	61,201	1,151	877	168	Y63,397	(63,397)	-
Total sales	93,268	39,709	27,446	728	161,151	(63,397)	97,754
Operating expenses	83,942	35,350	24,966	822	Y145,080	(61,593)	83,487
Operating income	9,326	4,359	2,480	(94)	16,071	(1,804)	14,267
Assets	Y122,070	Y21,304	Y18,736	Y1,674	Y163,784	Y10,134	Y173,918

	2000						Consolidated
	Japan	USA	Europe	Asia	Total	Eliminations	
	Thousands of U.S. dollars						
Sales to third parties	\$223,542	\$244,154	\$195,205	\$4,814	\$667,715	\$-	\$667,715
Inter-group sales	405,935	6,726	6,095	1,178	419,934	(419,934)	-
Total sales	629,477	250,880	201,300	5,992	1,087,649	(419,934)	667,715
Operating expenses	628,488	247,857	211,163	7,037	1,094,545	(443,909)	650,636
Operating income	989	3,023	(9,863)	(1,045)	(6,896)	23,975	17,079
Assets	\$1,148,307	\$196,251	\$155,629	\$15,582	\$1,515,769	(\$102,005)	\$1,413,764

	1999						Consolidated
	Japan	USA	Europe	Asia	Total	Eliminations	
	Thousands of U.S. dollars						
Sales to third parties	\$302,091	\$363,241	\$250,297	\$5,275	\$920,904	\$-	\$920,904
Inter-group sales	576,552	10,843	8,262	1,583	597,240	(597,240)	-
Total sales	878,643	374,084	258,559	6,858	1,518,144	(597,240)	920,904
Operating expenses	790,787	333,019	235,195	7,744	1,366,745	(580,245)	786,500
Operating income	87,856	41,065	23,364	(886)	151,399	(16,995)	134,404
Assets	\$1,149,976	\$200,697	\$176,505	\$15,770	\$1,542,948	\$95,468	\$1,638,416

Overseas sales, which include export sales of the Company and sales (other than exports to Japan) of the foreign consolidated subsidiaries, totaled Yen51,425 million (\$484,456 thousand) and Yen74,860 million (\$705,228 thousand), or 72.6% and 76.6% of the consolidated net sales for the years ended 31st March, 2000 and 1999, respectively.

10. Subsequent event

The following appropriations retained earnings of the Company, which have not been reflected in the accompanying financial statements for the year ended 31st March, 2000, were approved at the annual meeting of the shareholders of the company 29th June, 2000:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of Yen6.00(\$0.06) per share	Y577	\$5,436
Transfer to legal reserve	70	660
Bonuses to directors and statutory auditors	36	339

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors
Mori Seiki Co., Ltd.

We have audited the consolidated balance sheets of Mori Seiki Co., Ltd. and consolidated subsidiaries as of 31st March, 2000 and 1999, and the related consolidated statements of operations and shareholders' equity for the years then ended and the consolidated statement of cash flows for the year ended 31st March 2000, 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, 2000 and 1999, and the consolidated results of their operations for the years then ended and the consolidated result of their cash flows for the year ended 31st March, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2 to the consolidated financial statements, Mori Seiki Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for consolidation, research and development costs and tax-effect accounting in the preparation of their consolidated financial statements for the year ended 31st March, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31st March, 2000 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 to the consolidated financial statements.

Century Ota Showa & Co.

Century Ota Showa & Co.

Osaka, Japan
29th June, 2000

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

NON-CONSOLIDATED BALANCE SHEETS

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	31st March,		31st March,	
	2000	1999	2000	1999
ASSETS				
Current assets:				
Cash and cash equivalents	Y7,602	Y27,147	\$71,616	\$255,742
Notes and accounts receivable:				
Subsidiaries and an affiliate	19,615	20,004	184,785	188,450
Trade	5,076	5,242	47,819	49,383
Allowance for doubtful receivables	(122)	(162)	(1,149)	(1,526)
Notes and accounts receivable, net	24,569	25,084	231,455	236,307
Inventories (Note 3)	17,207	17,342	162,101	163,373
Deferred income taxes (Note 5)	1,377	-	12,972	-
Other current assets	848	1,034	7,989	9,741
Total current assets	51,603	70,607	486,133	665,163
Property, plant and equipment, at cost:				
Land	29,434	29,429	277,287	277,240
Buildings and structures	53,981	51,395	508,535	484,173
Machinery and equipment	36,401	32,494	342,920	306,114
Construction in progress	571	3,242	5,379	30,542
	120,387	116,560	1,134,121	1,098,069
Accumulated depreciation	(52,527)	(49,079)	(494,837)	(462,355)
Property, plant and equipment, net	67,860	67,481	639,284	635,714
Investments and other assets:				
Investments in securities:				
Subsidiaries and an affiliate	10,127	10,127	95,403	95,403
Other	12,518	14,535	117,927	136,928
Total investments in securities	22,645	24,662	213,330	232,331
Other assets	668	1,628	6,293	15,337
Allowance for doubtful receivables	-	(281)	-	(2,647)
Total investments and other assets	23,313	26,009	219,623	245,021
Deferred asset:				
Notes discounted	-	398	-	3,749
	Y142,776	Y164,495	\$1,345,040	\$1,549,647

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	31st March,		31st March,	
	2000	1999	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable:				
Subsidiaries and an affiliate	Y129	Y199	\$1,215	\$1,875
Trade	5,826	4,712	54,885	44,390
	<u>5,955</u>	<u>4,911</u>	<u>56,100</u>	<u>46,265</u>
Current portion of long-term debt	-	15,907	-	149,854
Accrued income taxes	210	2,859	1,978	26,934
Accrued expenses	1,496	1,702	14,093	16,034
Pre-emptive rights	-	2,124	-	20,009
Other current liabilities	1,614	2,045	15,205	19,265
Total current liabilities	<u>9,275</u>	<u>29,548</u>	<u>87,376</u>	<u>278,361</u>
Long-term liabilities:				
Long-term debt	7,155	7,155	67,405	67,405
Deferred income taxes (Note 5)	14	-	132	-
Other long-term liabilities	382	305	3,598	2,873
Total long-term liabilities	<u>7,551</u>	<u>7,460</u>	<u>71,135</u>	<u>70,278</u>
Shareholders' equity (Note 4):				
Common stock, Y50 par value:				
Authorized 31st March, 2000 - 159,000,000 shares				
Issued 31st March, 2000 and 1999 - 96,225,427 Shares	28,191	28,191	265,577	265,577
Additional paid-in capital	40,931	40,931	385,596	385,596
Legal reserve (Note 9)	2,500	2,390	23,552	22,515
Retained earnings (Note 9)	54,328	55,975	511,804	527,320
Total shareholders' equity	<u>125,950</u>	<u>127,487</u>	<u>1,186,529</u>	<u>1,201,008</u>
	<u>Y142,776</u>	<u>Y164,495</u>	<u>\$1,345,040</u>	<u>\$1,549,647</u>

See accompanying Notes to Non-Consolidated Financial Statements.

NON-CONSOLIDATED STATEMENTS OF OPERATIONS

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Year ended 31st March,		Year ended 31st March,	
	2000	1999	2000	1999
Net sales (Note 7)	Y66,819	Y93,268	\$629,477	\$878,643
Cost of sales	54,135	70,187	509,986	661,205
Gross profit	12,684	23,081	119,491	217,438
Selling, general and administrative expenses (Note 6)	13,473	13,819	126,924	130,184
Operating income (loss)	(789)	9,262	(7,433)	87,254
Other income (expenses):				
Interest and dividend income (Note 7)	2,241	1,463	21,112	13,782
Interest expense	(42)	(146)	(396)	(1,375)
Loss on devaluation of listed equity securities	(546)	(548)	(5,144)	(5,163)
Gain on sales of investments in securities	219	47	2,063	443
Loss on sales of investments in securities	-	(1)	-	(9)
Foreign exchange loss	(4,283)	(2,051)	(40,349)	(19,322)
Gain on reversal of pre-emptive rights	2,123	-	20,000	-
Other, net (loss)	(574)	(828)	(5,407)	(7,800)
(Loss) income before income taxes	(1,651)	7,198	(15,554)	67,810
Income taxes (Note5):				
Current	234	3,301	2,204	31,098
Deferred	(898)	-	(8,460)	-
Net (loss) income	(Y987)	Y3,897	(\$9,298)	\$36,712
		Yen		U.S. dollars (Note 1)
Amounts per share:				
Net (loss) income:				
Basic	(Y10.25)	Y40.50	(\$0.10)	\$0.38
Diluted	-	40.06	-	0.38
Cash dividends	6.00	10.00	0.06	0.09

See accompanying Notes to Non-Consolidated Financial Statements.

NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Number of shares of common stock	Millions of yen			
		Common Stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at 31st March, 1998	96,225,427	Y28,191	Y40,931	Y2,280	Y53,207
Net income	-	-	-	-	3,897
Cash dividends	-	-	-	-	(962)
Transfer to legal reserve	-	-	-	110	(110)
Bonuses to directors and statutory auditors	-	-	-	-	(57)
Balance at 31st March, 1999	96,225,427	28,191	40,931	2,390	55,975
Prior year deferred income taxes adjustment	-	-	-	-	465
Net loss	-	-	-	-	(987)
Cash dividends	-	-	-	-	(962)
Transfer to legal reserve	-	-	-	110	(110)
Bonuses to directors and statutory auditors	-	-	-	-	(53)
Balance at 31st March, 2000	<u>96,225,427</u>	<u>Y28,191</u>	<u>Y40,931</u>	<u>Y2,500</u>	<u>Y54,328</u>

	Thousands of U.S. dollars (Note 1)			
	Common Stock	Additional paid-in capital	Legal reserve	Retained earnings
Balance at 31st March, 1998	\$265,577	\$385,596	\$21,479	\$501,244
Net income	-	-	-	36,712
Cash dividends	-	-	-	(9,063)
Transfer to legal reserve	-	-	1,036	(1,036)
Bonuses to directors and statutory auditors	-	-	-	(537)
Balance at 31st March, 1999	265,577	385,596	22,515	527,320
Prior year deferred income taxes adjustment	-	-	-	4,381
Net loss	-	-	-	(9,298)
Cash dividends	-	-	-	(9,063)
Transfer to legal reserve	-	-	1,037	(1,037)
Bonuses to directors and statutory auditors	-	-	-	(499)
Balance at 31st March, 2000	<u>\$265,577</u>	<u>\$385,596</u>	<u>\$23,552</u>	<u>\$511,804</u>

See accompanying Notes to Non-Consolidated Financial Statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS 31st March, 2000 and 1999

1. Basis of presentation

The accompanying financial statements have been prepared from the accounts maintained by Mori Seiki Co., Ltd., in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted and applied in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The accompanying financial statements have been compiled from the non-consolidated financial statements filed with the Ministry of Finance 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 non-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 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 Yen106.15 = U.S.\$1.00, the approximate exchange rate prevailing on 31st March, 2000. 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.

2. Summary of significant accounting policies

(1) Foreign currency translation

Current monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Gains or losses resulting from the translation are credited or charged to income.

(2) Marketable securities and investments in securities

Marketable securities and investments in securities listed on stock exchanges are stated at the lower of cost or market, cost being determined by the moving average method. Investments in unlisted securities are stated at cost determined by the moving average method.

(3) Inventories

Inventories are stated at cost determined by the following methods:

Finished products and work-in-process	Weighted average-method
Raw materials	Moving average method
Supplies	Most recent purchase price method

(4) Allowance for doubtful receivables

The Company has provided an allowance for doubtful receivables principally at the estimated amount of probable bad debts plus the maximum amount permitted to be charged to income under the Corporation Tax Law.

(5) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment other than buildings acquired on or subsequent to 1st April, 1998 is computed by the declining-balance method over the useful lives of the respective assets as prescribed by the Corporation Tax Law of Japan. Depreciation of buildings acquired on or subsequent to 1st April, 1998 is computed by the straight-line method in accordance with the Corporation Tax Law.

Tangible fixed assets are stated at cost. Depreciation of tangible fixed assets is computed by the straight-line method.

(6) Notes discounted and note issuance expenses

Notes discounted are deferred and amortized by the straight-line method through the maturity date of the notes.

Note issuance expenses are charged to income as incurred.

(7) Cash equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(8) Leases

Non-cancelable lease transactions are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases, except that lease agreements which stipulate the transfer of ownership of the leased property to the Company are accounted for as finance leases.

(9) Retirement allowances

The Company has a funded pension plan for all qualified regular employees. The pension fund assets amounted to Yen13,559 million (\$127,734 thousand) and Yen12,318 million (\$116,043 thousand) as of 31st March, 2000 and 1999, respectively.

(10) Income Taxes

Income taxes are calculated on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. Effective 1st April, 1999, the Company has adopted "Financial Accounting Standards on Accounting for Effects on Income Taxes" which was issued by the Business Accounting Deliberation Council of Japan and has recognized the tax effect of temporary differences in its non-consolidated financial statements. The cumulative effect of this adoption of tax-effect accounting through the beginning of the current year has been reported as prior-year deferred income tax adjustment in the non-consolidated statements of shareholders equity. As a result of this change in method of accounting, deferred tax assets of Yen1,377 million (\$12,927 thousand) and deferred tax liabilities of Yen14 million (\$132 thousand) at 31st March, 2000 were recognized, net loss for the year ended 31st March, 2000 decreased by Yen898 million (\$8,460 thousand) and retained earnings at 31st March, 2000 increased by Yen1,734million(\$16,335 thousand), in comparison with the amounts which would have been recorded under the method applied in the previous year.

(11) Derivative financial instruments

Derivative financial instruments are mainly utilized by the Company to reduce interest rate and foreign exchange rate risks. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of activities related to derivative financial instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

(12) Research and Development Costs

Research and development costs are charged to income as incurred. Effective 1st April, 1999, the Company changed its method of accounting for research and development costs from manufacturing costs to selling, general and administrative expenses due to review research and development costs in accordance with the adoption of "Accounting Standards for Research and Development costs, etc" which was issued by the Business Accounting Deliberation Council of Japan. The effect of this change was to increase selling, general and administrative expenses for the year ended 31st March, 2000 by Yen1,995 million (\$18,794 thousand) and loss before income taxes by Yen236 million (\$2,233 thousand).

(13) Amounts per share

The computation of 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 weighted average number of shares of common stock outstanding each year after giving effect to the dilute potential of common shares to be issued upon the conversion of convertible bonds and upon the exercise of warrants. No dilutive amounts per share are presented for 2000 as a net loss was recorded for the year.

Cash dividends per share represent the cash dividends declared as applicable to the respective years.

3. Inventories

Inventories at 31st March, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Finished products	Y3,249	Y5,414	\$30,608	\$51,004
Work in process	6,589	6,013	62,072	56,646
Raw materials and supplies	7,369	5,915	69,421	55,723
	<u>Y17,207</u>	<u>Y17,342</u>	<u>\$162,101</u>	<u>\$163,373</u>

4. Shareholders' equity

The Commercial Code of Japan provides that a portion of retained earnings equivalent to at least 10 per cent of amounts paid out by the Company as appropriations of retained earnings (including cash dividends paid and bonuses to directors and statutory auditors) with respect to each financial period shall be appropriated to the legal reserve until such reserve equals 25 per cent of stated capital. This reserve is not available for dividends, but may be transferred to stated capital by resolution of the Board of Directors or used to eliminate a deficit by resolution of the shareholders.

Under the Code, at least 50 per cent. of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as common stock. Proceeds in excess of the amount designated as common stock are credited to additional paid-in capital.

5. Income Taxes

Income taxes applicable to the Company consist of corporation inhabitants' and enterprise taxes. The statutory tax rates in Japan for the years ended 31st March, 2000 and 1999 were, in the aggregate, approximately 42% and 47%, respectively. Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of the Company's deferred tax assets and liabilities at 31st March, 2000 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	2000
Deferred tax assets:		
Tax loss carryforward	Y1,099	\$10,353
Accrued employees' bonuses	160	1,507
Foreign tax credit	193	1,818
Special contribution to pension fund	159	1,499
Other	185	1,742
Total deferred tax assets	1,796	16,919
Deferred tax liabilities:		
Deferred capital gains on property	(149)	(1,404)
Reserve for depreciation for tax		
Deduction purpose	(226)	(2,129)
Other	(58)	(546)
Total deferred tax liabilities	(433)	(4,079)
Net deferred tax assets	Y1,363	\$12,840

6. Research and development costs

Research and development costs for the year ended 31st March, 2000 and 1999 were as follows:

Millions of yen		Thousands of U.S. dollars	
2000	1999	2000	1999
Y2,054	Y2,247	\$19,350	\$21,168

7. Transactions with subsidiaries and an affiliate

Transactions with subsidiaries and an affiliate for the years ended 31st March, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2000	1999	2000	1999
Sales	Y43,090	Y61,206	\$405,935	\$576,599
Dividend income	1,980	999	18,653	9,411

8. 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 as of 31st March, 2000 and 1999, which would have been reflected in the balance sheet if finance leases other than those which transfer the ownership of the leased property to the Company (which are currently accounted for as operating leases) were capitalized:

Category of property:	Millions of yen					
	2000			1999		
	Acquisition costs	Accumulated depreciation	Net book Value	Acquisition costs	Accumulated depreciation	Net book Value
Machinery and Equipment	Y1,808	Y1,806	Y2	Y1,808	Y1,505	Y303
Tools, furniture and other	647	582	65	642	474	168
Total	Y2,455	Y2,388	Y67	Y2,450	Y1,979	Y471

Category of property:	Thousands of U.S. dollars					
	2000			1999		
	Acquisition Costs	Accumulated depreciation	Net book Value	Acquisition costs	Accumulated depreciation	Net book Value
Machinery and Equipment	\$17,033	\$17,014	\$19	\$17,033	\$14,178	\$2,855
Tools, furniture and other	6,095	5,483	612	6,048	4,465	1,583
Total	\$23,128	\$22,497	\$631	\$23,081	\$18,643	\$4,438

Lease payments of the Company relating to finance lease transactions accounted for as operating leases amounted to Yen413 million (\$3,891 thousand) and Yen429 million (\$4,041 thousand) for the years ended 31st March, 2000 and 1999, respectively.

Depreciation expenses of the Company related to leased assets computed by the straight-line method over the lease terms for the years ended 31st March, 2000 and 1999 amounted to Yen413 million (\$3,891 thousand) and Yen429 million (\$4,041 thousand), respectively.

Future minimum payments (including the interest portion thereon) subsequent to 31st March, 2000 under finance leases other than those which transfer the ownership of the leased property to the company are summarized as follows:

Year ending 31st March,	2000	
	Millions of yen	Thousands of U.S. dollars
2001	Y48	\$452
2002 and thereafter	19	179
	Y67	\$631

(2) Operating leases:

Future minimum payments Year ending 31st March,	2000	
	Millions of yen	Thousands of U.S. dollars
2001	Y63	\$593
2002 and thereafter	68	641
	Y131	\$1,234

9. Subsequent event

The following appropriations of retained earnings, which have not been reflected in the accompanying financial statements for the year ended 31st March, 2000, were approved at the annual meeting of the shareholders held on 29th June, 2000:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of Yen6.00 (\$0.06) per share	Y577	\$5,436
Transfer to legal reserve	70	660
Bonuses to directors and statutory auditors	36	339

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON THE NON-CONSOLIDATED FINANCIAL STATEMENTS

The Board of Directors
Mori Seiki Co., Ltd.

We have audited the non-consolidated balance sheets of Mori Seiki Co., Ltd. as of 31st March, 2000 and 1999, and the related non-consolidated statements of operations and shareholders' equity for the years then ended 31st March 2000, 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 non-consolidated financial statements, expressed in yen, present fairly the financial position of Mori Seiki Co., Ltd. at 31st March, 2000 and 1999, and the results of its operations for the years then ended 31st March, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2 to the non-consolidated financial statements, Mori Seiki Co., Ltd. has adopted new accounting standards for research and development costs and tax-effect accounting in the preparation of its non-consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying non-consolidated financial statements 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 to the non-consolidated financial statements.

Century Ota Showa & Co.
Century Ota Showa & Co.

Osaka, Japan
29th June, 2000

See Note 1 to non-consolidated financial statements which explains the basis of preparing the non-consolidated financial statements of Mori Seiki Co., Ltd. under Japanese accounting principles and practices.

BOARD OF DIRECTORS

Yukio Mori	Chairman & Representative Director
Masahiko Mori	President & Representative Director
Kyoji Umeoka	Managing Director
Toshikazu Motone	Director
Takeshi Saito	Director
Yoshinori Yamaguchi	Director
Hiraku Nakata	Director
Yoshitsugu Shigeta	Director
Masaru Sakuma	Director
Tomohiko Marutani	Director
Hideaki Washimi	Director
Tadashi Saito	Director
Hideo Yoshikawa	Director
Hiroshi Yonetani	Director
Toshio Yoshida	Standing Statutory Auditor
Takayuki Usui	Statutory Auditor
Shigeru Mori	Statutory Auditor
Rinpei Mori	Statutory Auditor

MORI SEIKI
THE MACHINE TOOL COMPANY