



MORI SEIKI

THE MACHINE TOOL COMPANY

Fiscal Year 2006

1st Quarter

Settlement of Accounts

Explanatory Material

August 7, 2006

Projected future results and details of business plans are included in this material.

All material is based on certain assumptions about the economic climate, business policies, etc at the time of writing.

Therefore, please be aware that there is a risk or uncertainty that the actual results will be different from these projected results, depending on various factors.



Outline of Settlement of Accounts

- **Settlement of accounts for the first quarter of FY 2006**
 - **Steady improvement: Order results reach a new high**
 - **Sales were 35.9 billion yen (28% up from the previous year)**
Operating profit was 4.55 billion yen (3 times as great as the previous year)
 - **As a result of the sale of some Technical Centers, a loss of 4.2 billion yen was recorded**
 - **The method for recording the amount set aside for product guarantees has been changed**
- **Interim and year-end forecasts**
 - **No change of interim results and FY 2006 year-end forecast**
 - **From this fiscal year, we will issue interim dividends**



Effect of Sale of TCs

1. Secured flexibility

- Changed to a business model which makes an office building a sales base

2. Reduced running costs

- **302 million yen** **292 million yen** annually (projected)

3. Improved cash flow

- **4.62 billion yen cash in** from the sales of assets
- **Tax relief of 5.41 billion yen** achieved by realization of loss

Total cash flow improved by **10.03 billion yen**

4.2 billion yen loss on the P/L



Change in Method of Recording the Amount Set Aside for Product Guarantees

Expenses for cost-free repairs used to be recorded when the repair was actually done, but from this fiscal year, we will include it in advance as a reserve fund in the settlement of accounts.

(The amount recorded will be calculated by multiplying the sales figure by a fixed ratio)

Amount set aside for product guarantees
・・・645 million yen

As a transitional measure, a special loss of 657 million yen was recorded, and sales & general administrative costs decreased by 12 million yen. In future, both of these will be recorded as sales & general administrative costs.



Operating Profit 3 Times as High as Previous Year

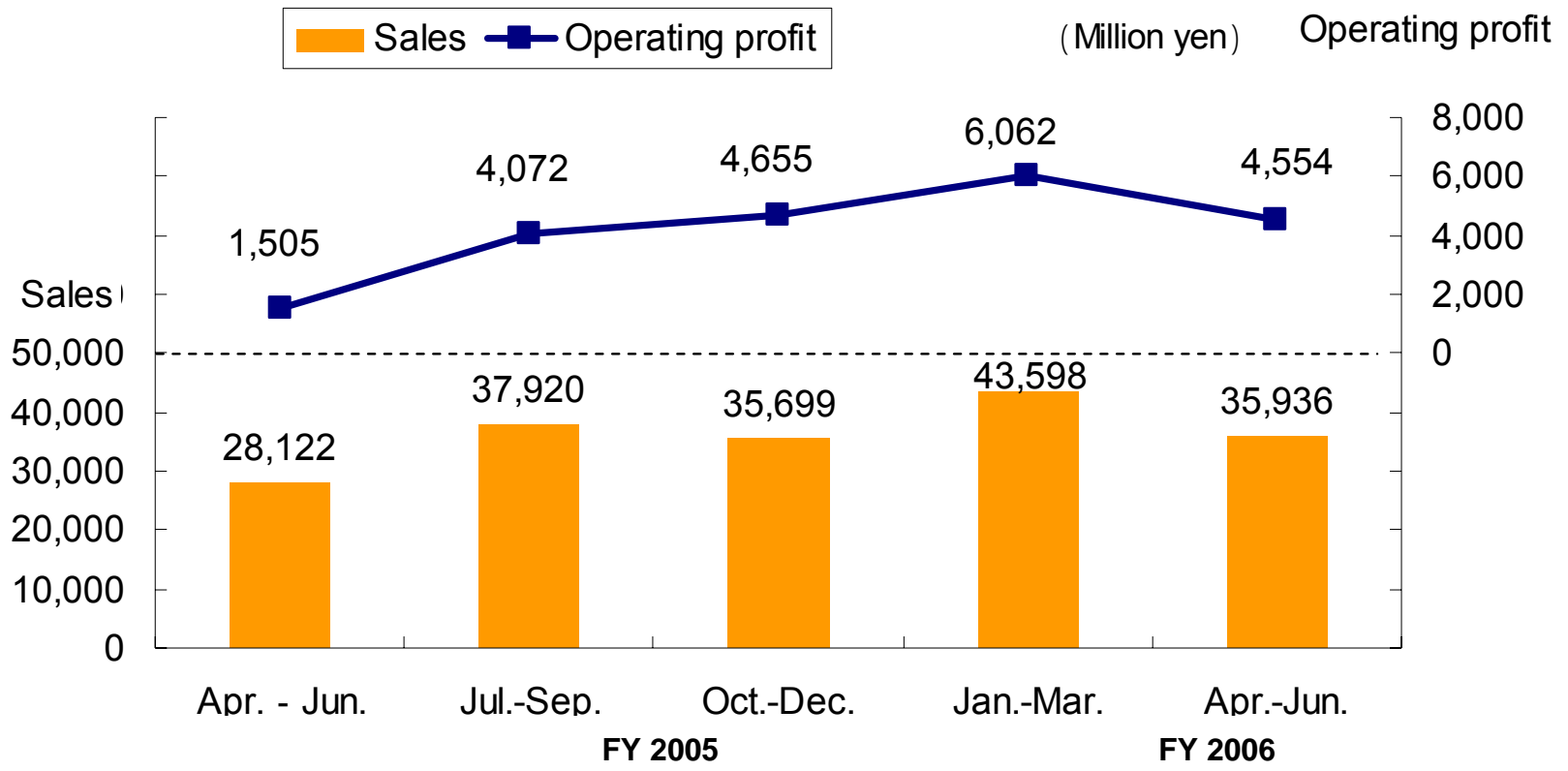
(Million yen)	FY 2005 1st Quarter	FY 2006 1st Quarter		
	Results	Results	Difference	Ratio
Sales	28,122	35,936	7,814	1.28 times
Operating profit	1,505	4,554	3,049	3.03 times
(Operating profit margin)	5.4%	12.7%	7.3%	—
Ordinary profit	1,517	4,736	3,219	3.12 times
(Ordinary profit margin)	5.4%	13.2%	7.8%	—
Pretax net income (loss)	1,545	-108	-1,653	-0.07 times
Net income for the period (loss)	1,372	-144	-1,516	-0.10 times
(conversion rate 1US\$=)	(108.37)	(113.96)		
(1 EURO=)	(135.23)	(144.53)		

The loss in this term resulted from the recorded loss from the sales of TCs, and is only temporary.



Trends in Sales and Operating Profit for All Quarters

(Million yen)	FY 2005				FY 2006
	Apr. - Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.	Apr.-Jun.
Sales	28,122	37,920	35,699	43,598	35,936
Operating profit (Operating profit ratio)	1,505 5.4%	4,072 10.7%	4,655 13.0%	6,062 13.9%	4,554 12.7%



Continued Reduction in Fixed Assets

(Million yen)	FY 2005			FY 2006			
	31 Mar. 2005	3 Mar. 2006	Difference	(Million yen)	31 Mar. 2005	30 Jun. 2006	Difference
Assets				Liabilities/capital			
Current assets	89,365	91,089	1,724	Current liabilities	26,032	28,096	2,064
Cash & Deposits	31,582	35,106	3,524	Trade payable	9,697	10,006	309
Receivables	29,961	24,443	-5,518	Short-term loans	1,320	1,320	0
Inventories	25,063	27,919	2,856	Current portion of long-term debt	5,084	5,084	0
Other	2,759	3,621	862	Other	9,931	11,686	1,755
Fixed assets	73,413	67,580	-5,833	Fixed liabilities	19,972	19,010	-962
Buildings	25,100	23,431	-1,669	Warrant bonds	9,333	9,331	-2
Equipment	5,814	6,209	395	Long-term loans	5,124	5,103	-21
Land	21,016	18,254	-2,762	Other	5,515	4,576	-939
Intangibles	2,952	2,918	-34	Total capital	116,347	111,563	-4,784
Other	18,531	16,768	-1,763	Minority equity	425	473	48
Total assets	162,778	158,670	-4,108	Total liabilities/capital	162,778	158,670	-4,108
(Convers.rate1US\$=)	(117.48)	(115.18)		(Conv, rate 1US\$=)	(117.48)	(115.18)	
(1EURO=)	(142.80)	(145.93)		(1EURO=)	(142.80)	(145.93)	



Cash Flow Increased Dramatically by Sales Activities

(Units: Million yen)	FY 2005	FY 2006
	1st Quarter	1st Quarter
	April 2005 ~ June 2005	April 2006 ~ June 2006
Cash flow (operating activity)	2,518	7,540
Cash flow (investment activity)	1,203	-1,244
Cash flow (financial activity)	9,760	-2,633
Increase in cash and cash equivalents	13,177	3,523
Cash and cash equivalents opening balance	12,772	31,582
Cash and cash equivalents closing balance	25,950	35,106



Shareholders' Equity Ratio Kept at 70%, Cost Increases Controlled

(Million yen)	FY 2005 1st Quarter	FY 2005 Semi-annual	FY 2005 3rd Quarter	FY 2005 Full-year	FY 2006 1st Quarter
Shareholders' Equity Ratio	65.0%	67.4%	68.6%	71.5%	70.0%
(Capital)	96,174	100,821	108,555	116,347	111,090

(Million yen)	FY 2005 Apr.-Jun.	FY 2005 Jul.-Sep.	FY 2005 Oct.-Dec.	FY 2005 Jan.-Mar.	FY 2006 Apr.-Jun.
Cost of sales ratio	62.0%	62.8%	60.5%	62.2%	59.3%
(Cost of sales)	17,449	23,826	21,587	27,122	21,324

Sales to administrative costs ratio	32.6%	26.4%	26.5%	23.9%	28.0%
(Sales & General Admin. Costs)	9,167	10,021	9,458	10,414	10,057



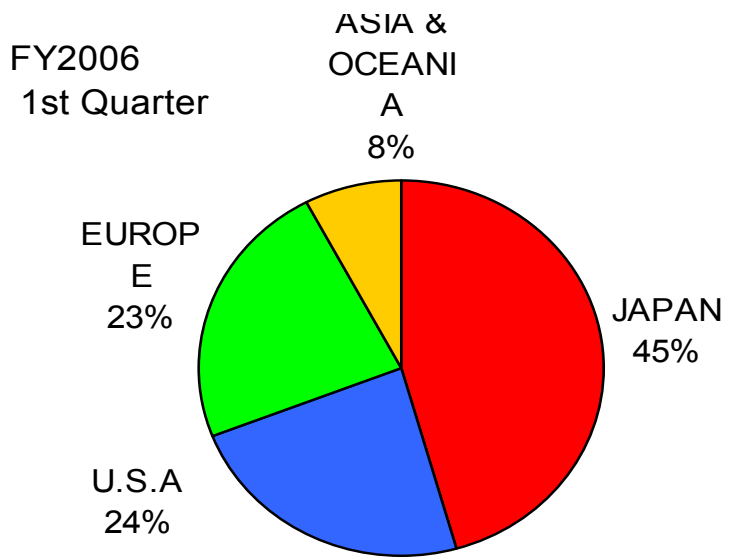
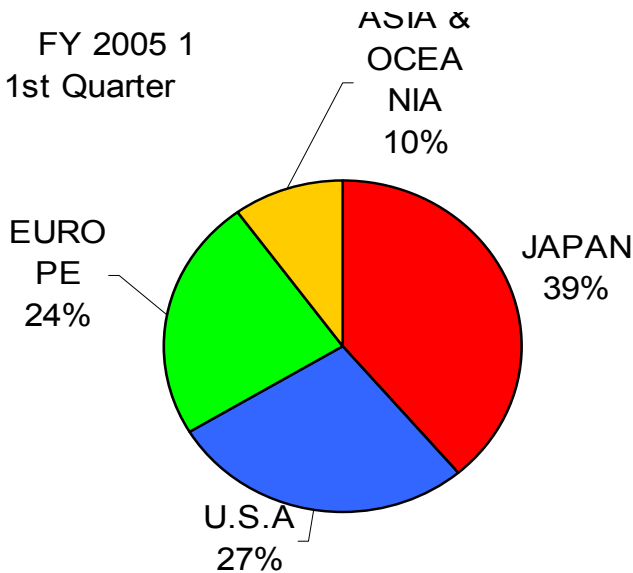
All Turnover Periods Have Been Improved

	FY 2005 1st Quarter		FY 2006 1st Quarter	
	Results		Results	Difference
Receivables turnover period	2.44		2.04	-0.40 Mths.
Inventories turnover period	2.83		2.33	-0.50 Mths.
Payables turnover period	0.91		0.84	-0.07 Mths.
Fixed asset turnover period (tangible)	6.10		4.34	-1.76 Mths.
Loan turnover period (incl. bonds)	3.26		1.74	-1.52 Mths.



Dramatic Increase in Sales in Japan, Steady Increase in Europe

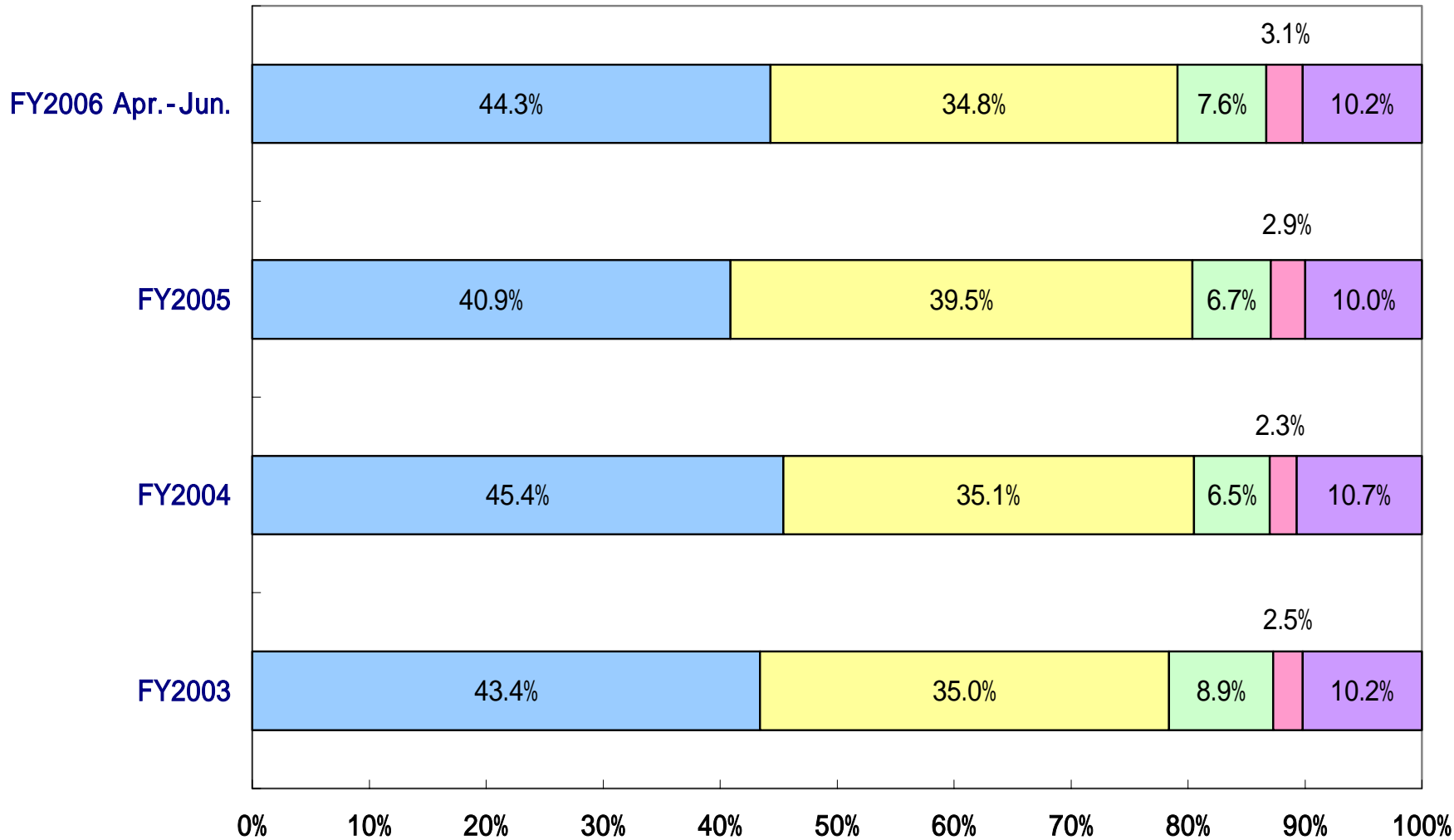
	FY 2005 1st Quarter	FY 2006 1st Quarter	
	Sales	Sales	(Difference)
JAPAN	10,974	16,364	49.1%
U.S.A	7,685	8,515	10.8%
EUROPE	6,627	8,239	24.3%
ASIA & OCEANIA	2,836	2,818	-0.6%
TOTAL	28,122	35,936	27.8%





Sales Amount by Model

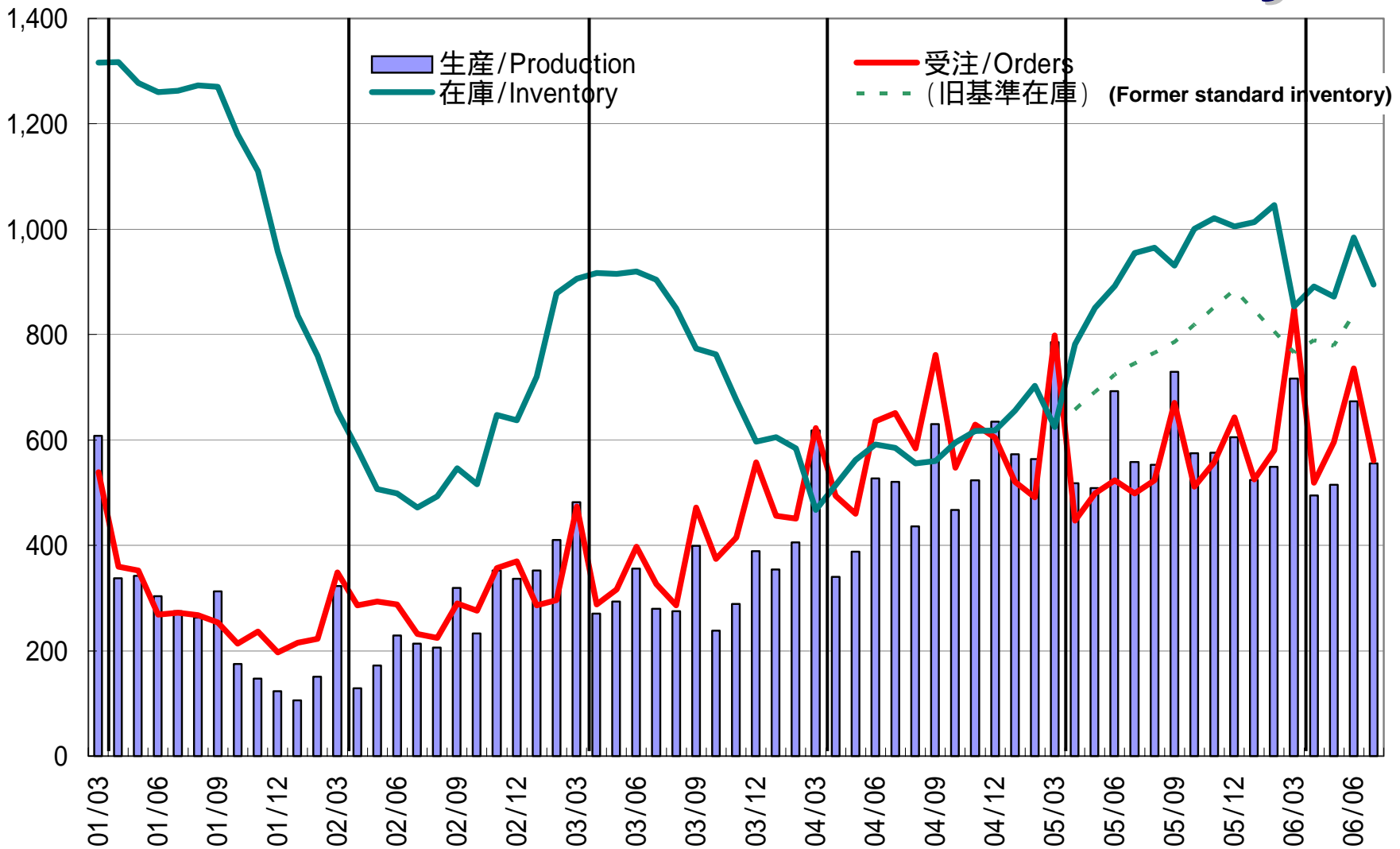
■ Machining Center
 ■ Lathe
 ■ Multi-axis machine
 ■ Grinding machine
 ■ Parts & Service, etc.





Trends in Production/Orders/Inventory

台数/Units

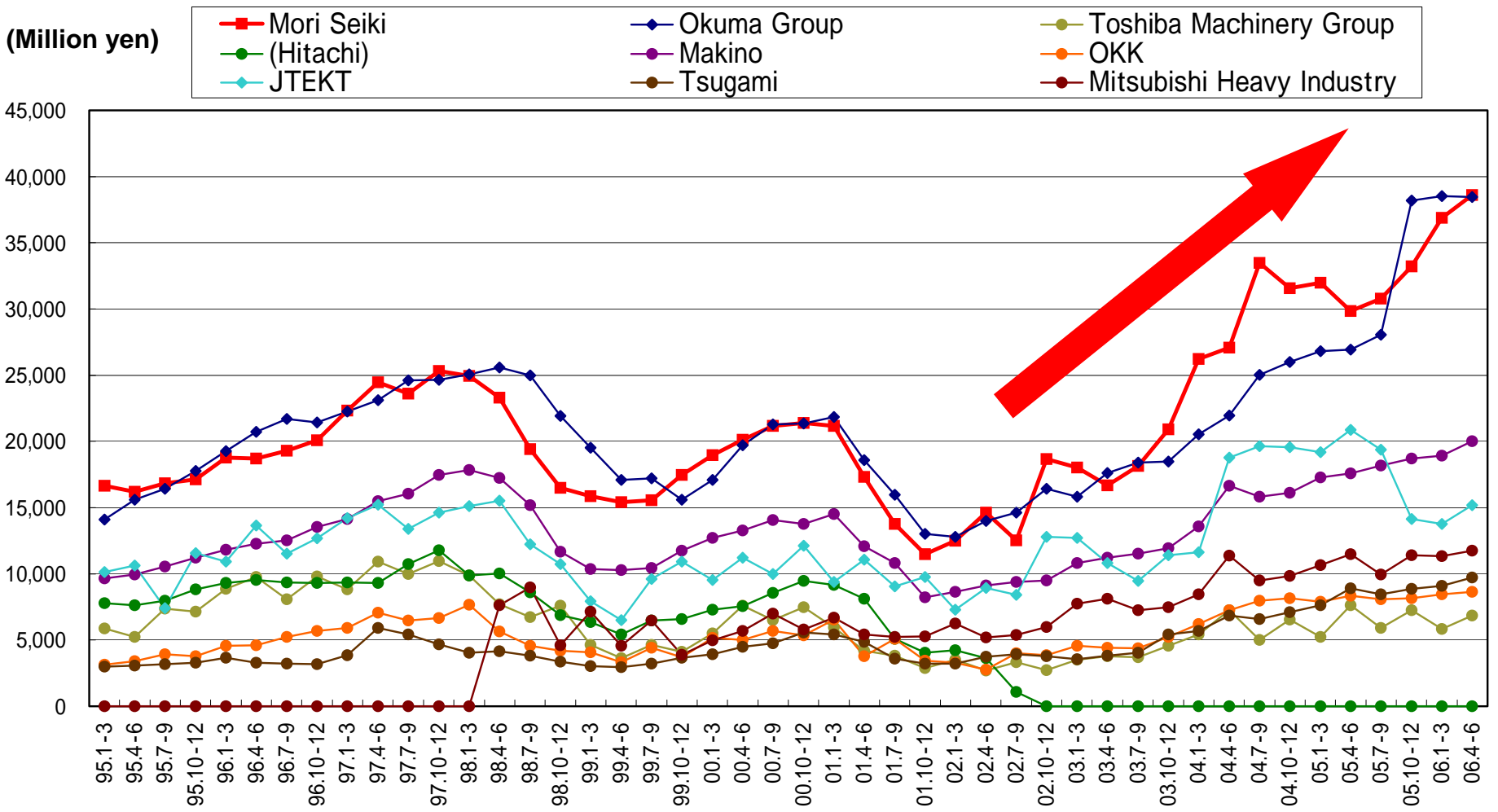


The figures for July are a flash report. 13/25



Order Results Reach a New High

Machine Tool Order Situation for 8 Major Companies (Total)

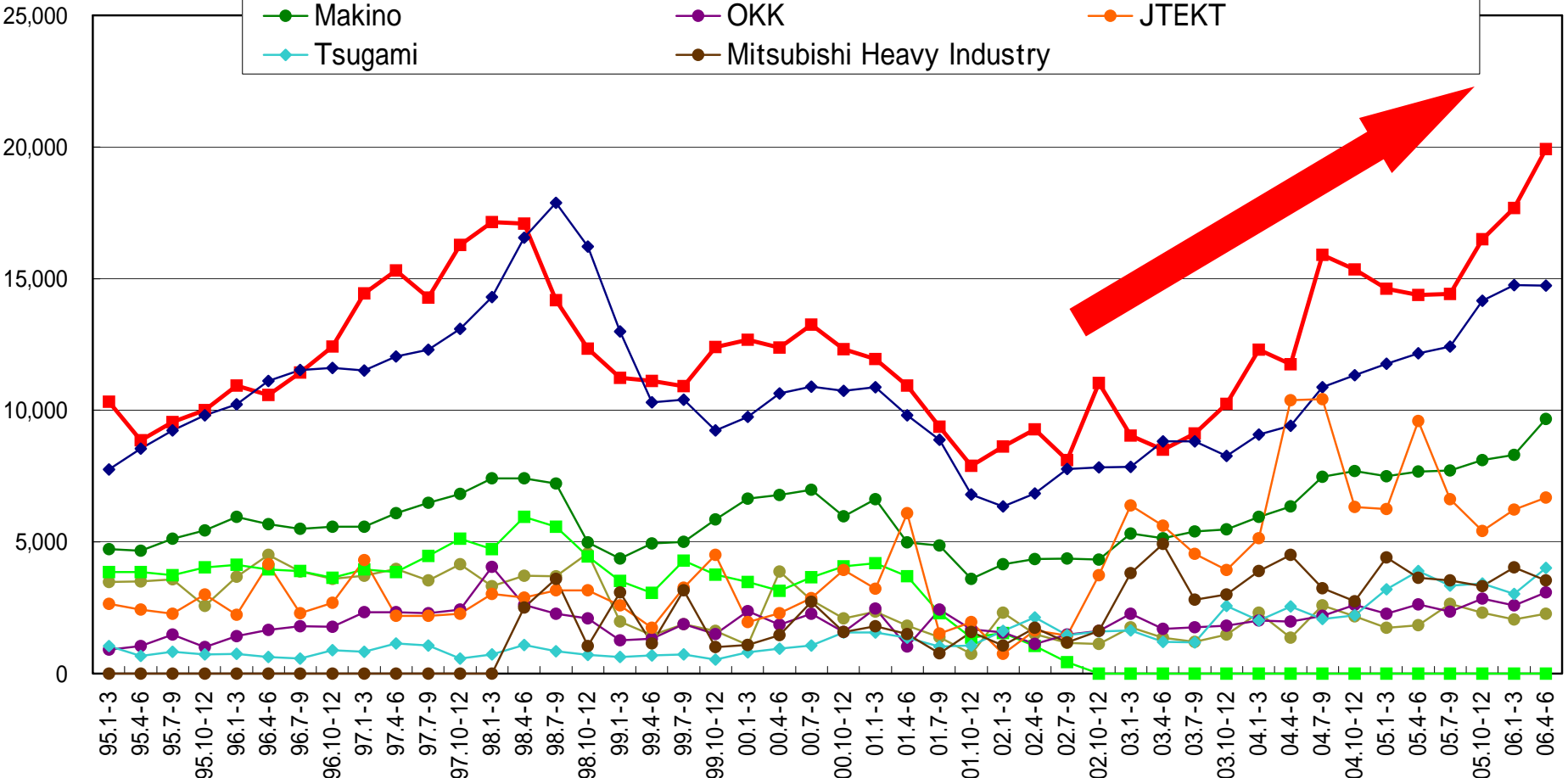
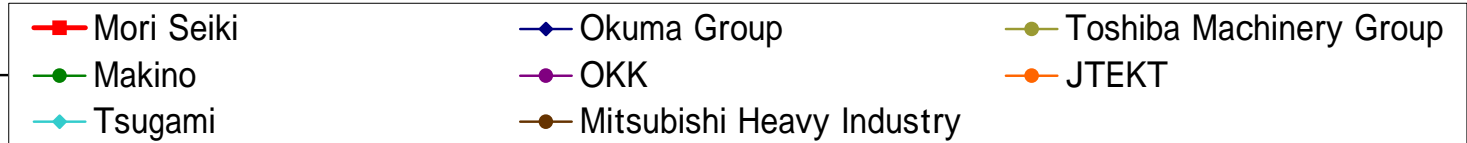




Big Rise in Overseas Orders

Machine Tool Order Situation for 8 Major Companies (Export)

(Million yen)





Mori-568PLAN Targets, Results

FY 2006 1st Quarter Results

Mori-5

Target

Results

· Sales 13.13 bill. Yen/mth **11.98 bill. Yen/mth**
 (Global share 4.5% **4.1%**)

Mori-6

Target

Results

· Consolidated cost of sales ratio
 62.0% **59.3%**

Mori-8

Target

Results

· Monthly production 644 units **561 units**
(1st Qr. Average)



Interim Forecasts

(Million yen)	FY 2006 1st Qr.	FY 2006 Interim	
	Results	Forecast	YOY
Sales	35,936	74,000	112.0%
Operating profit	4,554	8,800	157.8%
(Profit margin)	12.7%	11.9%	—
Ordinary profit	4,736	8,400	158.3%
(Profit margin)	13.2%	—	—
Pre-tax profit	-108	—	—
Net profit	-144	4,700	103.6%
(Convers. rate 1 US\$=)	(113.96)	(107.00)	
(1 EURO=)	(144.53)	(128.00)	



Integrated Mill Turn Centers · 5-Axis Machines



NT Series



NMV5000 DCG



NMH6300 DCG

Launch of the Dura Series



DuraVertical



DuraTurn

A Constant Stream of Other New Models as well.



NV6000 DCG



NH5000 DCG



Ball Screw Plant Starts Operation



The Sheet Metal Plant will also start operation soon



Modification to Projected Interim Dividend

From now on, we will issue an **interim dividend**.
The projected dividends are **20 yen** (interim) and **20 yen** (year-end), for a total of **40 yen**.

Initial projection

Interim dividend	none
Year-end dividend	40 yen
<u>Total</u>	<u>40 yen</u>



Modified projection

Interim dividend	20 yen
Year-end dividend	20 yen
<u>Total</u>	<u>40 yen</u>



Exhibition Schedule

- **IMTS2006**: September 6 ~ 13
– Chicago (USA)
- **BIMU2006**: October 5 ~ 10
– Milan (Italy)
- **JIMTOF2006**: November 1 ~ 8
– Tokyo



