



MORI SEIKI

THE MACHINE TOOL COMPANY

FY2005

Semi-Annual

Settlement of Accounts

October 31st, 2005

This document includes future projections and other forward-looking statements on business performance, plans, and other related information. The information is based on certain assumptions and judgment on the economic environment, business policies, and other factors at the time each document was prepared. In view of the element of uncertainty inherent in various factors, the actual results and performance may be different from the projections and forward-looking statements in this material.



Summary of Semi-Annual Settlement of Accounts

High Demand, Results Exceeding Expectations

- **Sales up 23.8% from last year**
- **Operating profit up 79.8% from last year**
- **Steady order environment**
- **Semi-annual results significantly higher than initial expectations**
- **Progress on Mori-568PLAN also exceeds expectations**
- **Prospects are good for the second half of the year**



Effect of Change in Sales Standards Also Reduced

From the beginning of FY 2005, we are changing the **sales standards for machines within Japan** from the old **delivery standards** to **acceptance standards**.

	New Accounting Policy From FY2005	Old Accounting Policy
Sales Standards	<u>Acceptance Standards</u>	<u>Delivery Standards</u>
Semi-annual Results based on each standards	Sales ; 66.042 billion yen Operating Profit: 5.577 billion yen Inventory ; 25.877 billion yen	Sales ; 68.738 billion yen Operating Profit; 6.372 billion yen Inventory ; 24.043 billion yen

Effect on Sales: 2.696 billion yen decrease

(Compared with 3.401 billion as of end of June 2005, the effect is reduced)

Effect on Operating Profit: 795 million yen decrease

Effect on Inventory Assets: 1.834 billion yen increase

Reason for Change: By changing the sales standards to acceptance standards, which offer greater objectivity and reliability, we aim to manage the process from delivery to acceptance more strictly and to further improve quality.



Even Greater Performance than Last Year's Boom

Income Statement (consolidated)

(Millions of yen)	FY2004 1H	FY2005 1H						
	Old Accounting Policy	New Accounting Policy			Old Accounting Policy			
	Semi-Annual Result	Semi-Annual Forecast (At the beginning of the year)	Semi-Annual Result	Increase	Year on Year	Semi-Annual Result	Increase	Year on Year
Sales	53,311	64,000	66,042	12,731	+23.8%	68,738	15,427	+28.9%
Operating Profit	3,101	4,700	5,577	2,476	+79.8%	6,373	3,272	2.05times
(Operating Margin)	5.8%	7.3%	8.4%	2.6%		9.2%		
Ordinary Profit	3,165	4,600	5,307	2,142	+67.6%	6,102	2,937	+92.7%
(Ordinary Margin)	5.9%	7.1%	8.0%	2.1%		8.8%		
Profit Before Tax	2,730	-	5,033	2,303	+84.3%	5,828	3,098	2.13times
Net Profit	2,574	3,300	4,536	1,962	+76.2%	-	-	-
(Conversion Rate)	1US\$= 1EURO=	(JPY110.30) (JPY133.63)	(JPY107.00) (JPY128.00)	(JPY110.36) (JPY135.72)		(JPY110.36) (JPY135.72)		



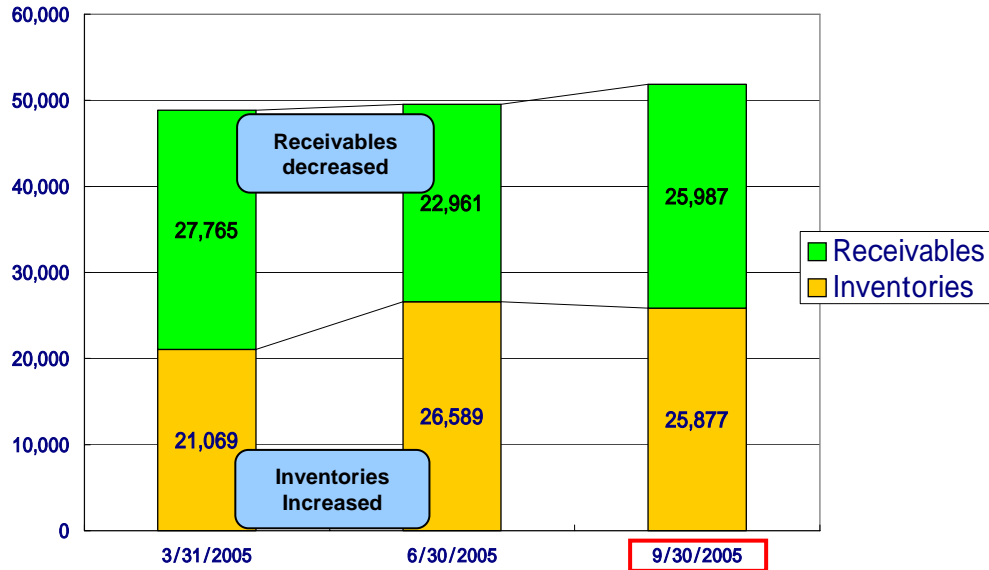
Strong Financial Structure

(Consolidated) Major Changes in Balance Sheet

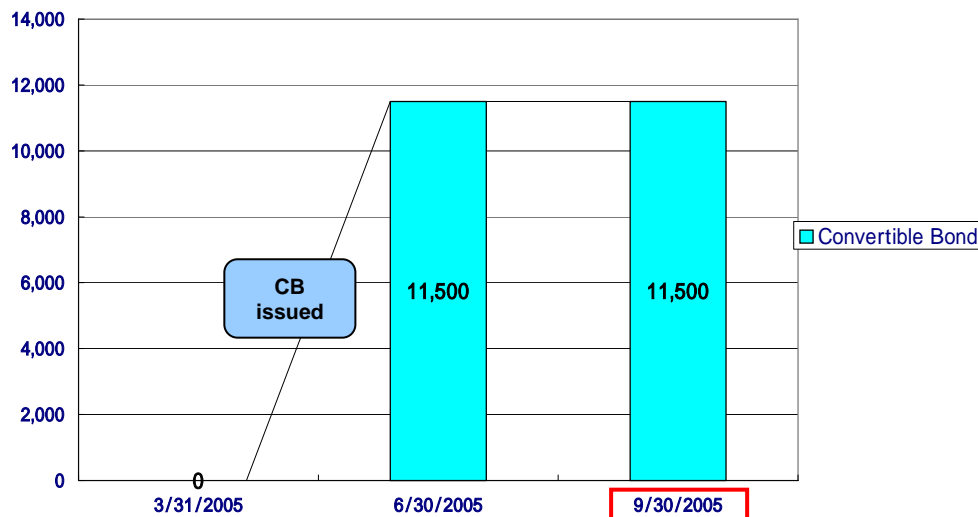
(Millions of yen)	9/30/2004	9/30/2005		(Millions of yen)	9/30/2004	9/30/2005	
	Results	Results	Difference		Results	Results	Difference
Assets				Liabilities			
Current Assets	58,108	80,151	22,043	Current Liabilities	18,232	22,645	4,413
Cash & Deposits	10,933	25,955	15,022	Trade Payable	7,675	8,650	975
Receivables	23,042	25,987	2,945	Short Term Bank Loans	0	1,320	1,320
Inventories	21,916	25,877	3,961	Current Portion of LT Debts	5,084	5,084	0
Other	2,217	2,332	115	Other	5,473	7,591	2,118
Fixed Assets	67,705	69,575	1,870	Long-term Liabilities	18,258	26,059	7,801
Buildings	26,698	25,553	-1,145	Convertible Bonds	0	11,500	11,500
Equipment	6,545	5,984	-561	Long-term Debts	15,250	10,166	-5,084
Land	21,156	20,921	-235	Other	3,008	4,393	1,385
Intangible Assets	3,096	2,200	-896	Minority Interests	74	201	127
Other	10,210	14,917	4,707	Shareholders' Equity	89,248	100,821	11,573
Total Assets	125,813	149,727	23,914	Total Liabilities & Equity	125,813	149,727	23,914
(Conversion 1US\$= Rate) 1EURO=	(JPY111.05) (JPY137.02)	(JPY113.21) (JPY136.15)		(Conversion 1US\$= Rate) 1EURO=	(JPY111.05) (JPY137.02)	(JPY113.21) (JPY136.15)	



BS Points



Receivables have declined and inventories have increased, because of the change in accounting policy from April 1.



CB issued in June 2005. Raised funds of 11.5 billion yen.



Improving Efficiency of Assets

Turnover period/changes in equity ratio (consolidated)

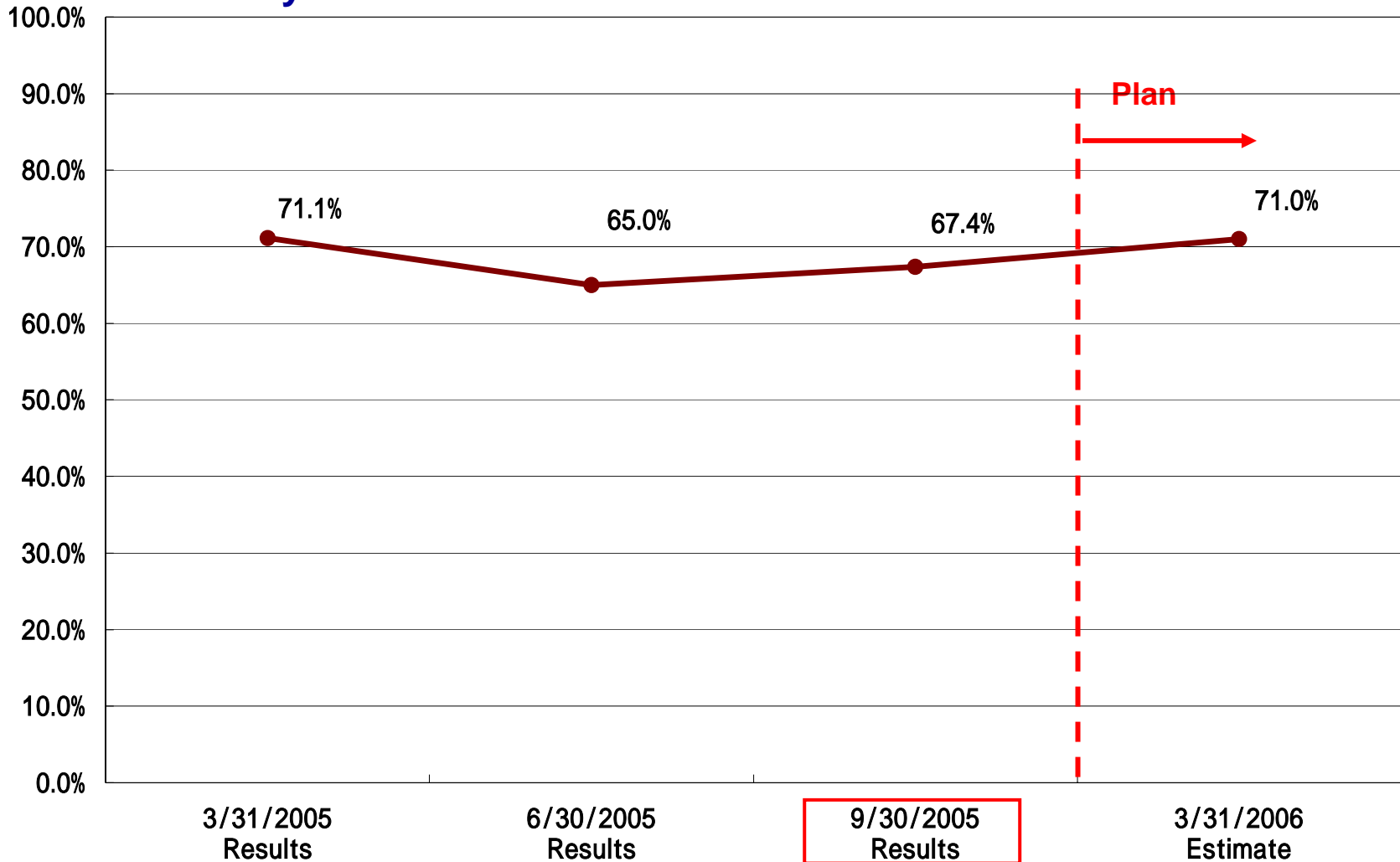
(Months)	FY2004 1st Half	FY2005 1st Half	
	Results	Results	Difference
Receivables	2.59 month	2.36 month	-0.23 month
Inventories	2.47 month	2.35 month	-0.12 month
Payables	0.86 month	0.79 month	-0.07 month
Fixed Assets	6.51 month	5.07 month	-1.44 month
Equity Ratio	70.9%	67.4%	-3.5%

Compared with last year's semi-annual results, there is a dramatic improvement.
 The decline in shareholders' equity ratio is mainly the effect of the CB issue.



Prospects for Change in Shareholders' Equity Ratio

By end of March 2006 we should recover to 70%



We have achieved the target of 67.0% for the end of the first half year.



Ability to Generate Strong Cash Flow

Cash flow statement (consolidated)

(Millions of yen)	FY2005 Semi-Annual Results
	April to September 2005
Cash Flow (Operating Activities)	4,951
Cash Flow (Investing Activities)	776
Cash Flow (Financing Activities)	7,435
Increase in Cash and Cash Equivalents	13,180
Cash and Cash Equivalents at Beginning of the term	12,772
Cash and Cash Equivalents at End of the term	25,952



Overseas Increase/ Improved Balance by Region

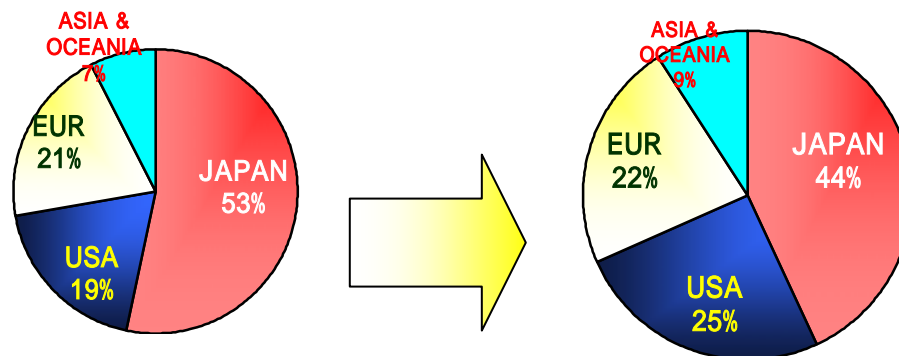
Sales and ratio by region

(Millions of yen)		JAPAN	USA	EUR	ASIA & OCEANIA	Total
Sales	Semi-annual Results FY2005	28,355	16,781	14,789	6,117	66,042
	Semi-annual Results FY2004	28,464	9,980	10,935	3,932	53,311
Year on Year		0.4%	+68.1%	+35.2%	+55.5%	+23.8%

Segment : Overseas sales base

Semi-annual Results FY2004

Semi-annual Results FY2005



Japanese domestic sales experienced a drop in revenue of 4.913 billion yen, due to the change in sales standards written in , below. However, if we exclude this effect, revenue increased by 16.8% compared with last year.

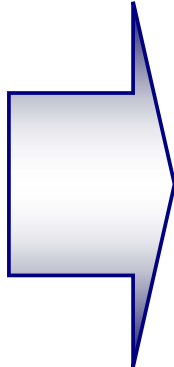
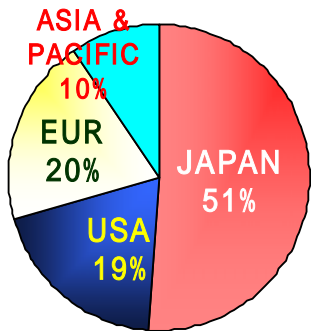
The effect of the change in sales standards from delivery to acceptance was 2.696 billion yen.

The effect of entering machines sold in Japan and installed overseas as overseas sales from this term was 2.217 billion yen.

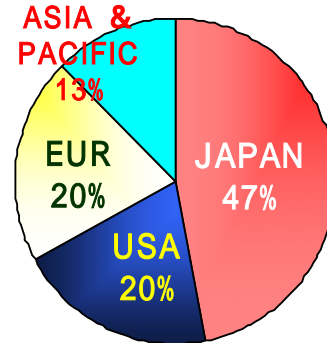


Among the 51% of Machines Sold in Japan, 3% are Installed in Asia, 1% in America

Machines sold by region



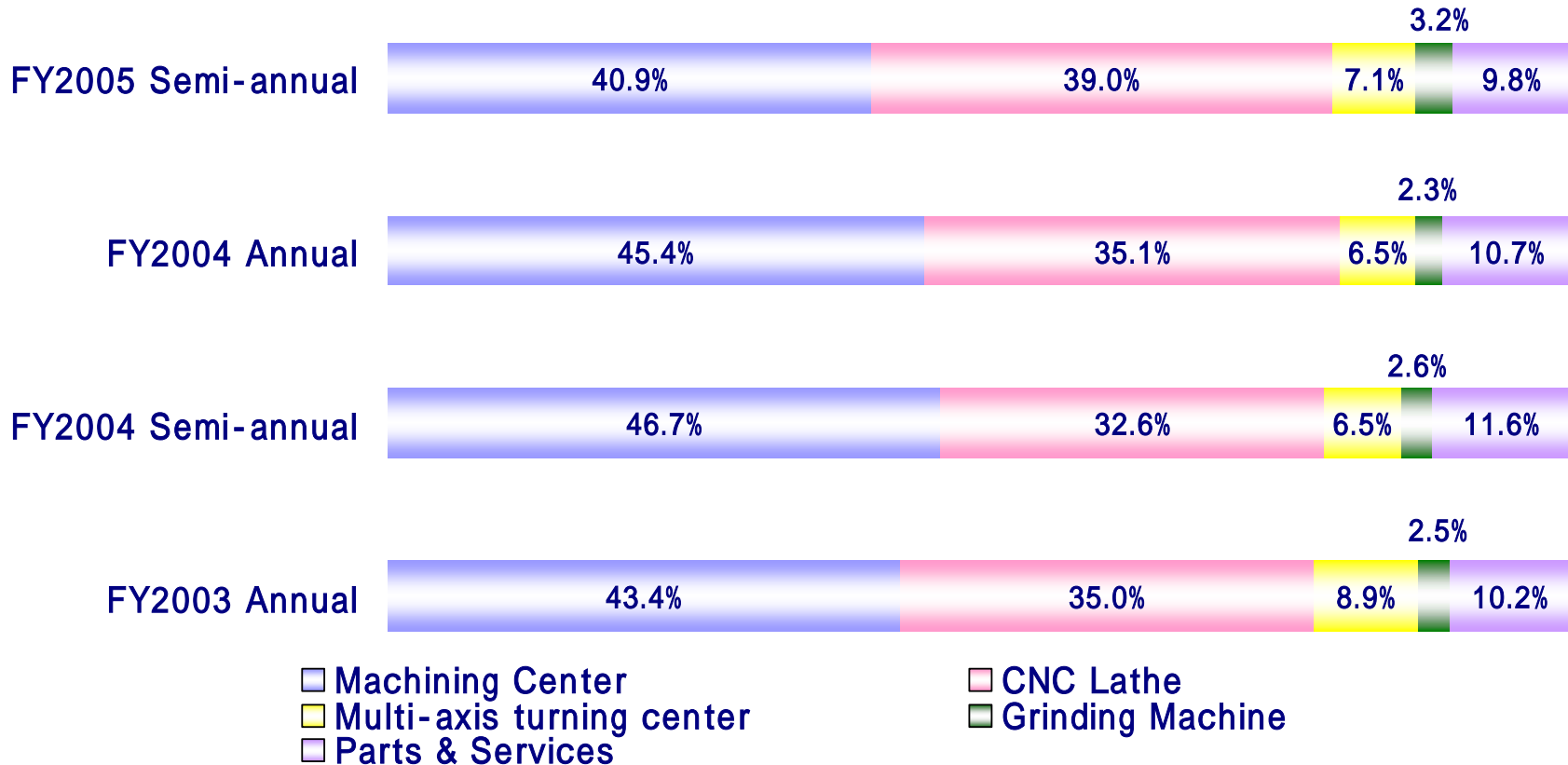
Machines installed by region





NL Series Sales Also Going Strong

Sales ratio (consolidated) by product



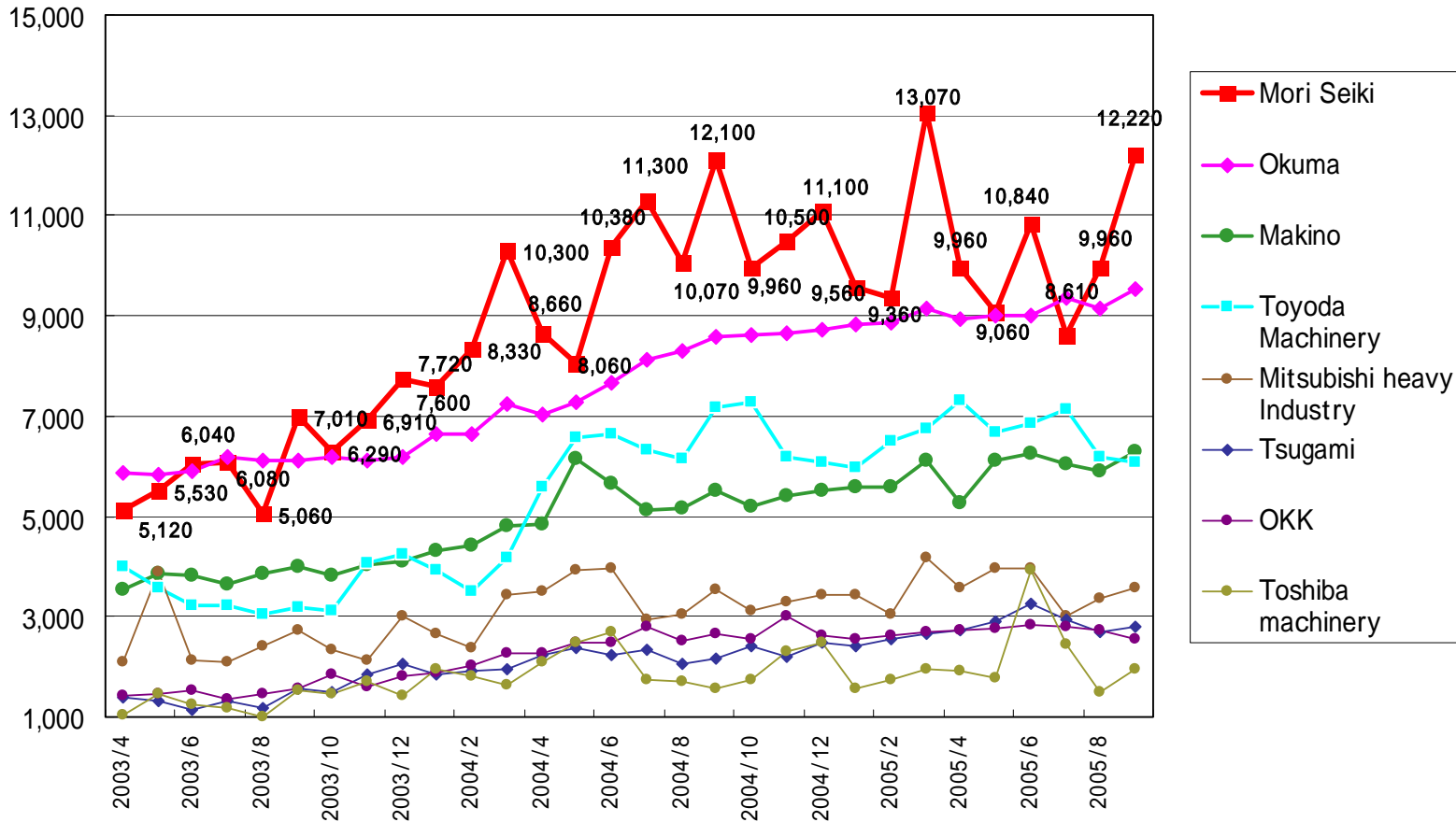
The NL Series has been classified as CNC lathes.



Strong Progress in Order Situation

Machine tool order situation for 8 major companies

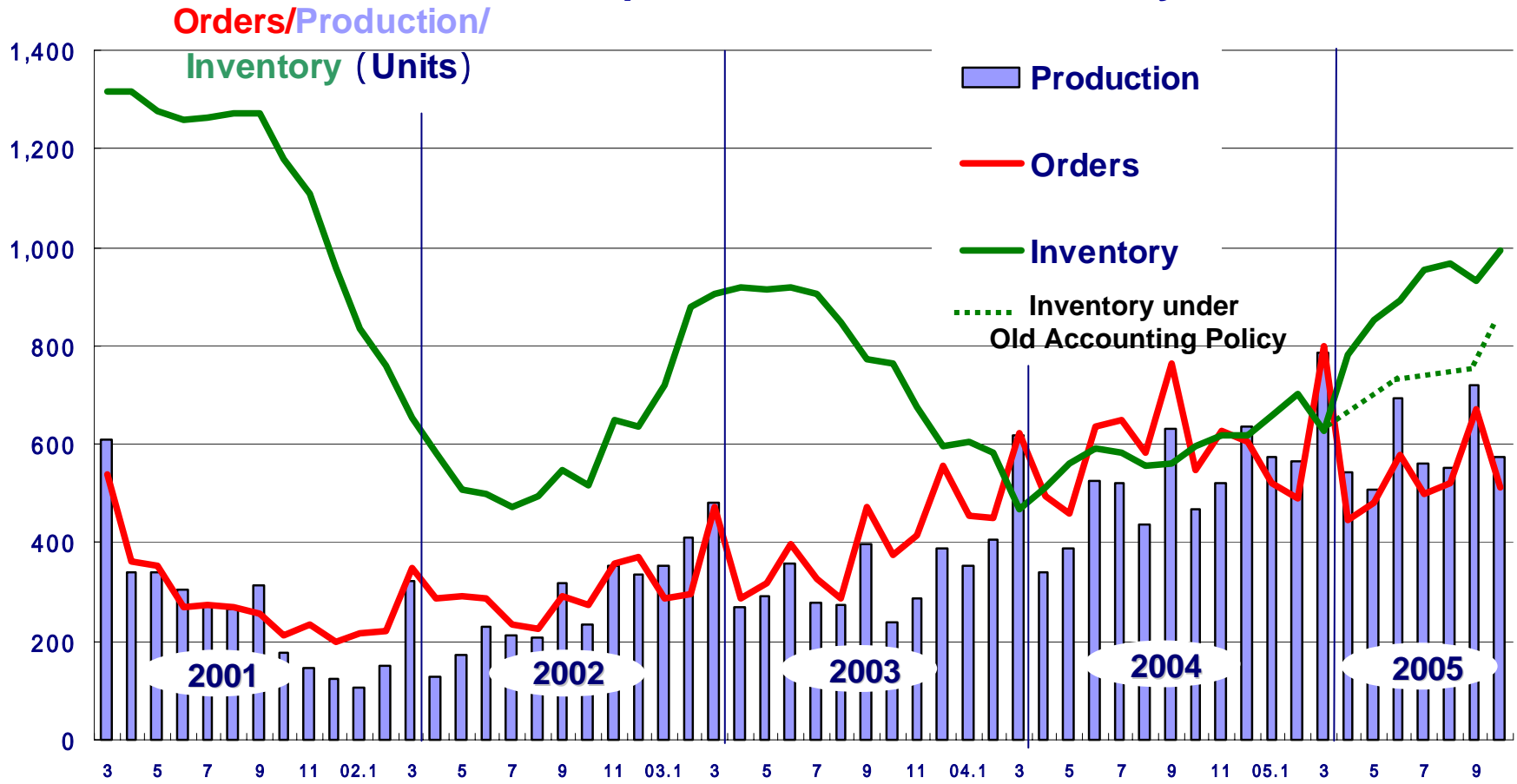
(Millions of yen)





Improvement in Balance of Production/Orders/Inventory

Trends in production/orders/Inventory



We have achieved a reasonable stock inventory and a high level of orders, due to improved production capacity



Towards Global One With Mori-568PLAN

Progress towards the mid-term plan

		FY 2004 Annual Results	FY 2005 Targets	Average of the 1st Quarter	Average of the 2nd Quarter	Average of the 1st Half of the year	Final Target FY2007
Mori-5	Sales (JPY100Million)	101.80/month	112.50/month	93.74	126.40	110.07	145.83
	Share (VS JPY3,500Billion)	3.5%	4%	3.2%	4.3%	3.8%	5.0%
Mori-6	Consolidated cost of sales ratio (%)	66.1%	64.0%	62.0%	62.8%	62.5%	60.0%
Mori-8	Production (Units)	532.5	608	582	613	598	800

We have reached the Mori-6 target for this year. Even though we have not yet achieved Mori-5 or Mori-8, the second quarter was very satisfactory.



Financial Outlook for Second Half

Upward Corrections to Financial Outlook

- **Sales 135 billion yen**
(up 3 billion yen from initial estimate)
- **Operating profit 12.5 billion yen**
(up 500 million yen from initial estimate)
- **Continuing high level of demand**
- **September NT Series New Product Release**
- **We will gradually see the effects of the Mori-568PLAN in the second half of this year and next year.**



Prospects for Continued Increased Revenue, Increased Profits

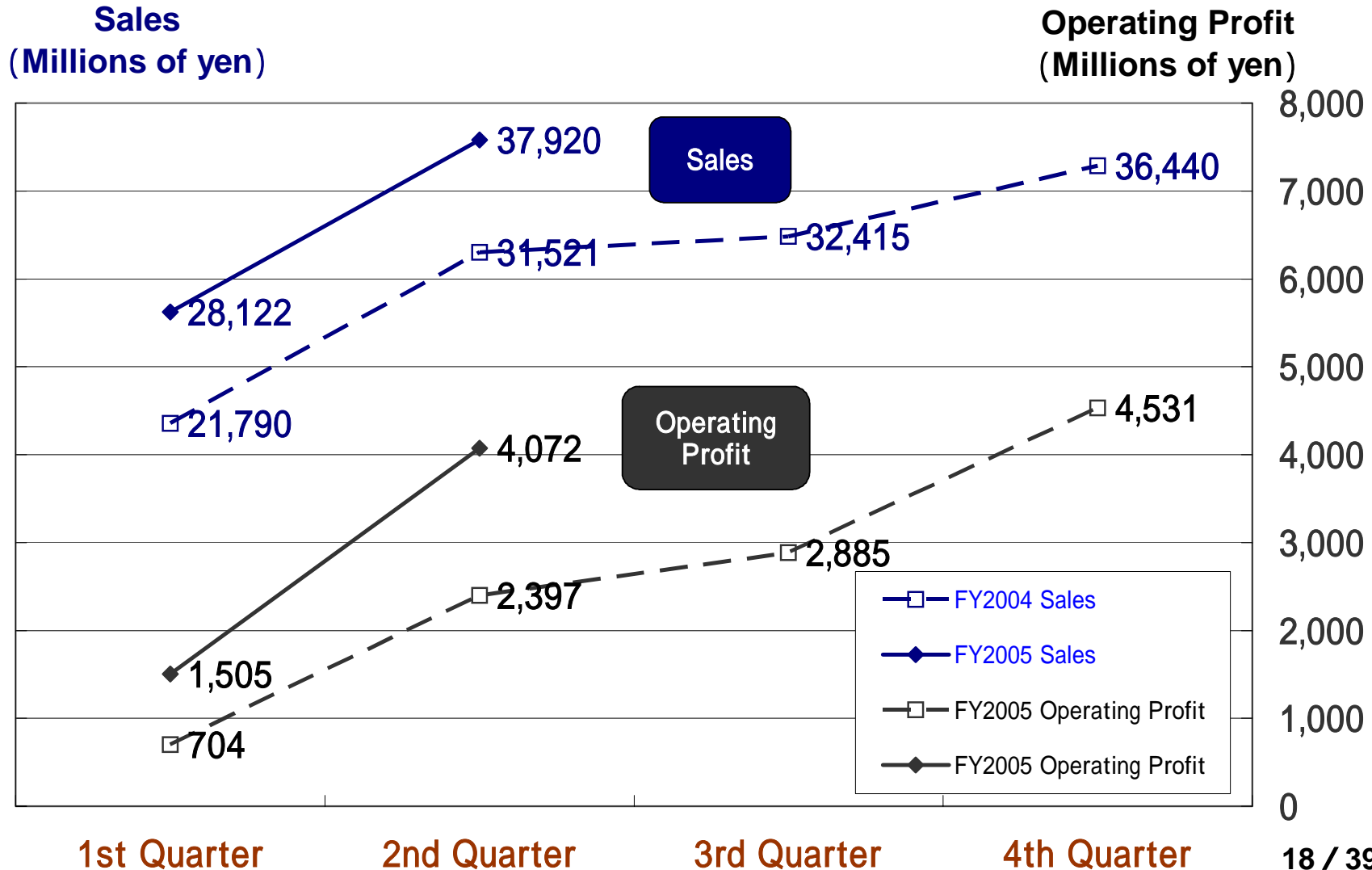
FY 2005 Consolidated results Forecasts

(Millions of yen)	FY2004	FY2005			
	Annual Result	Semi-Annual Forecast (At the beginning of the year)	Semi-Annual Result	Annual Forecast	
	Amount	Amount	Amount	Amount	YOY
Sales	122,166	64,000	66,042	135,000	10.5%
Operating Profit	10,517	4,700	5,577	12,500	18.9%
Ordinary Profit	10,504	4,600	5,307	12,000	14.2%
Profit Before Tax	10,004	-	5,033		
Net Profit	9,381	3,300	4,536	10,000	6.6%
(Conversion 1US\$= Rate) 1EURO=	(JPY107.58) (JPY135.68)	(JPY107.00) (JPY128.00)	(JPY110.36) (JPY135.72)	(JPY107.00) (JPY128.00)	



Performance Progress at a High Level

Consolidated Sales/ Operating Profit by Quarter



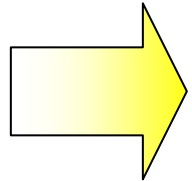
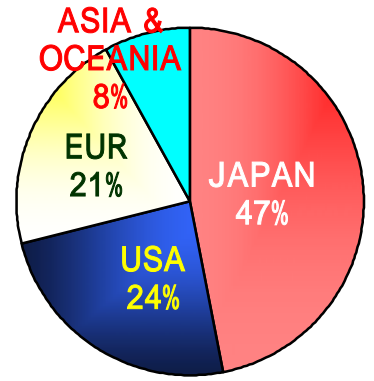


Sales Targets by Region

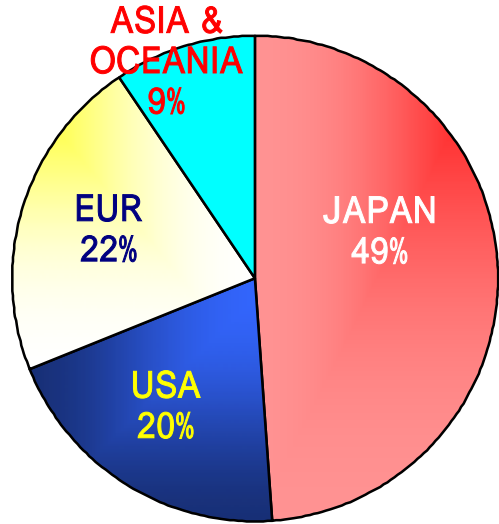
(Millions of yen)		JAPAN	USA	EUR	ASIA & OCEANIA	Total
FY2005 Annual Targets		66,000	27,100	29,100	12,800	135,000
Sales	FY2005 Semi-Annual Results	31,073	15,884	13,833	5,252	66,042
	Achievement Rate	47.1%	58.6%	47.5%	41.0%	48.9%

Segment : Technical Center in Charge

FY2005 Semi-Annual Results



FY2005 Annual Targets





Mori-568PLAN

Targets for March 2008

Mori-5: Attain a 5% share of the world market

Mori-6: Consolidated cost of sales ratio of 60%

Mori-8: Establish a system that produces a minimum of 800 machines per month



Mori-5

- **Strengthen sales in Europe and Asia.**
- **Expand sales and service network.**
- **Organize sales teams by industry, by customer
(Strategic/Large Account Section)**



MS Pollard

MORI SEIKI
THE MACHINE TOOL COMPANY

Pollard



1 October 2005
Establishment of MS Pollard
Head Office: Leicester, England



Future sales plan
Sales 5 billion yen (approx.)
Machines sold 120 per year

Expansion of the direct sales system in Europe.



Establishment of Overseas Technical Centers



June 2005
France TC (Paris)



June 2005
China Sales (Shanghai)

Establishment of Technical Centers in Japan



August 2005
MI Project Center

September 2005
Niigata TC



October 2005
Amagasaki TC, Shiga TC

We plan to gradually open new T/Cs in
Tokyo North and South, (New) Hamamatsu etc.

Sales/Service Network



38 Locations in Japan, **42** Overseas



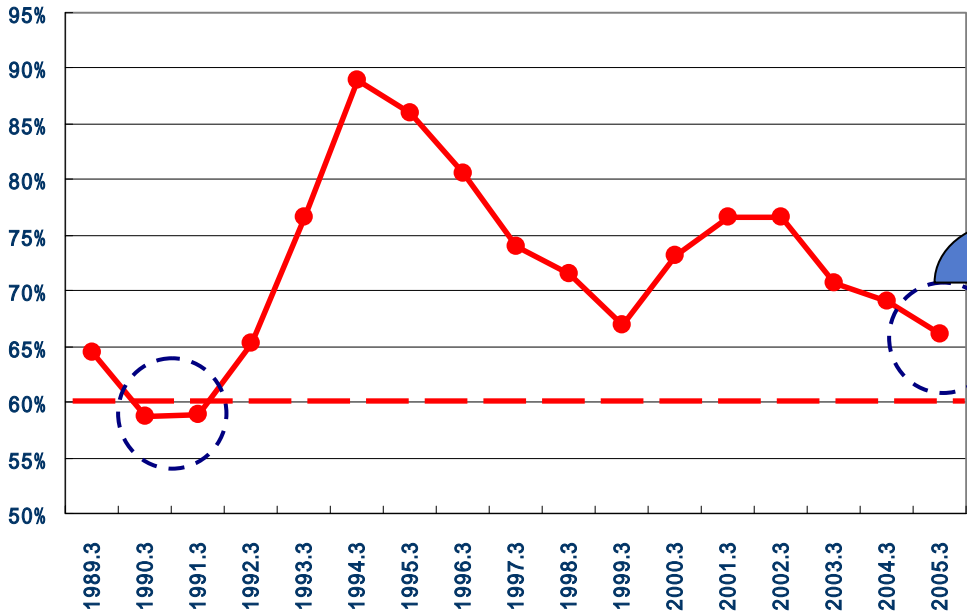
Mori-6

Gradual reduction in material costs.

- **Expansion of in-house production
(Casting Test Plant,
Heat Treatment Plant)**
- **Rationalization by introducing new
models (N Series Ratio)**
- **Standardization of peripheral devices**

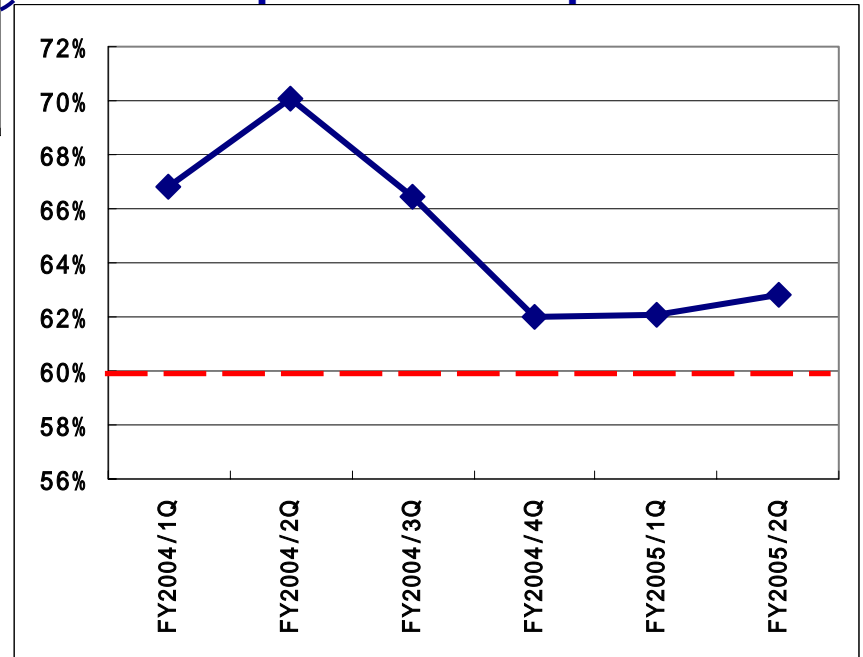


Reduction in Consolidated Cost of Sales Ratio



**Long-term changes in cost of sales ratio
(March 1989 – March 2005)**

Changes in cost of sales ratio for previous six quarters





Iga Campus Heat Treatment Plant



Completed September 2005

By doing many heat treatment processes in-house, instead of outsourcing as we used to, we can reduce lead time by 4-6 days.

Iga Campus Casting Test Plant



伊賀事業所 鋳物工場新築工事

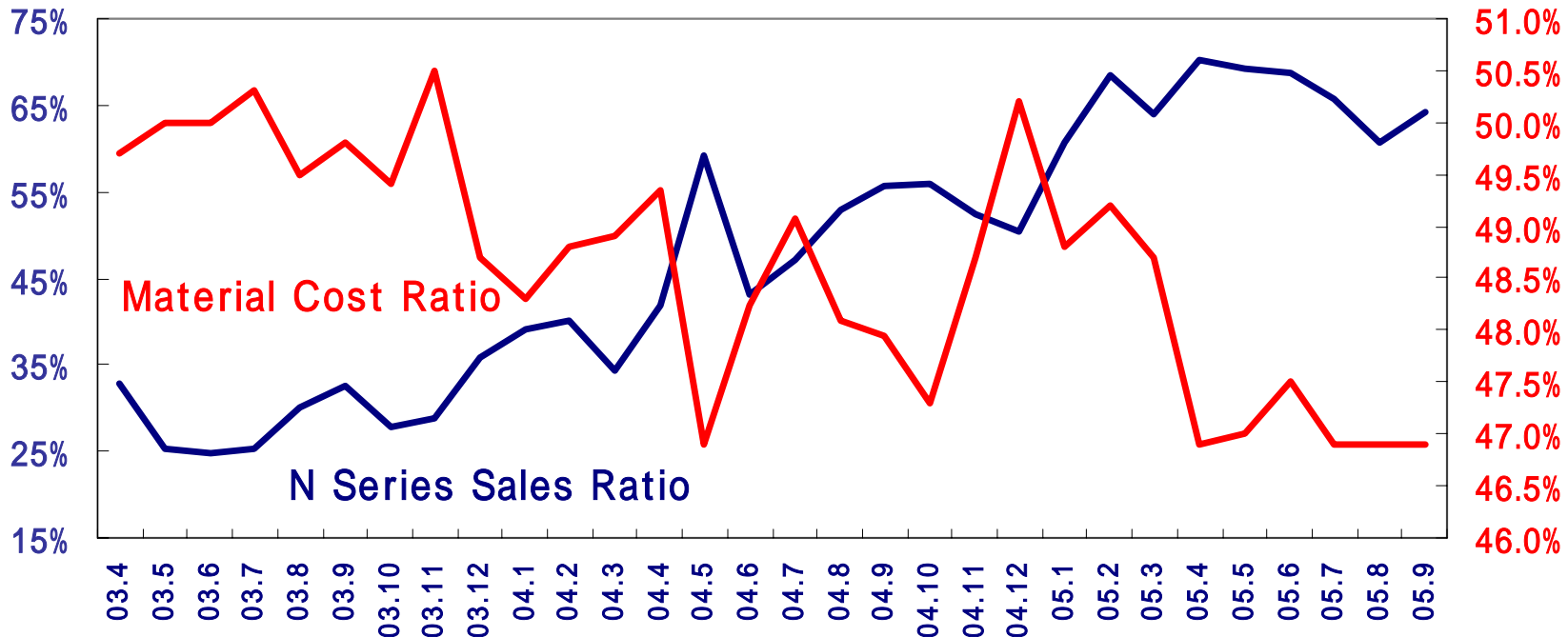
**Scheduled for completion in March 2006.
Cast metal for trial products was interfering with suppliers' production,
and with this plant we can produce it in-house.**



Reducing the Material Cost Ratio with the N Series

Blue line: N Series sales ratio as a proportion of total sales.

Red line: material cost to sales ratio



Figures for September are a flash report

Through expanded sales of the N Series, we are steadily reducing the material cost ratio. With the release of the new NT Series, we are aiming for an even greater reduction.

High-Precision, High-Efficiency Integrated Mill Turn Center NT Series



**The NT Series made its debut at the EMO Show
in Hannover, Germany in September.**



Mori-8

- **Improve productivity by strengthening the Chiba Plant.**
- **Raise machining capacity by strengthening plant and equipment.**

Chiba Campus Machining Plant

(Photo 19 October 2005)



A

Photo A

The exterior steel framework is completed, and the shape of the plant can be clearly seen. We are currently starting work on the interior.

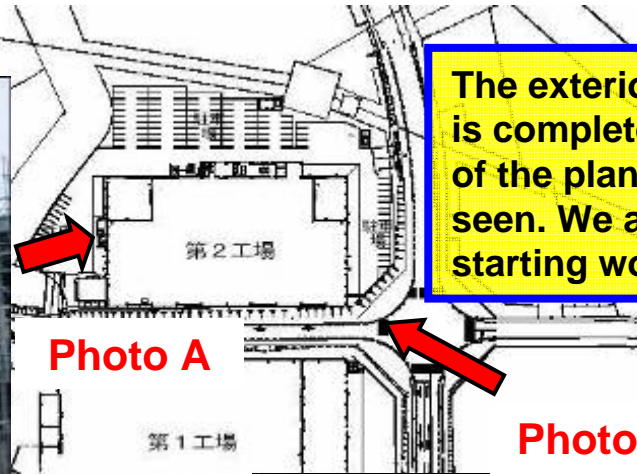


Photo B

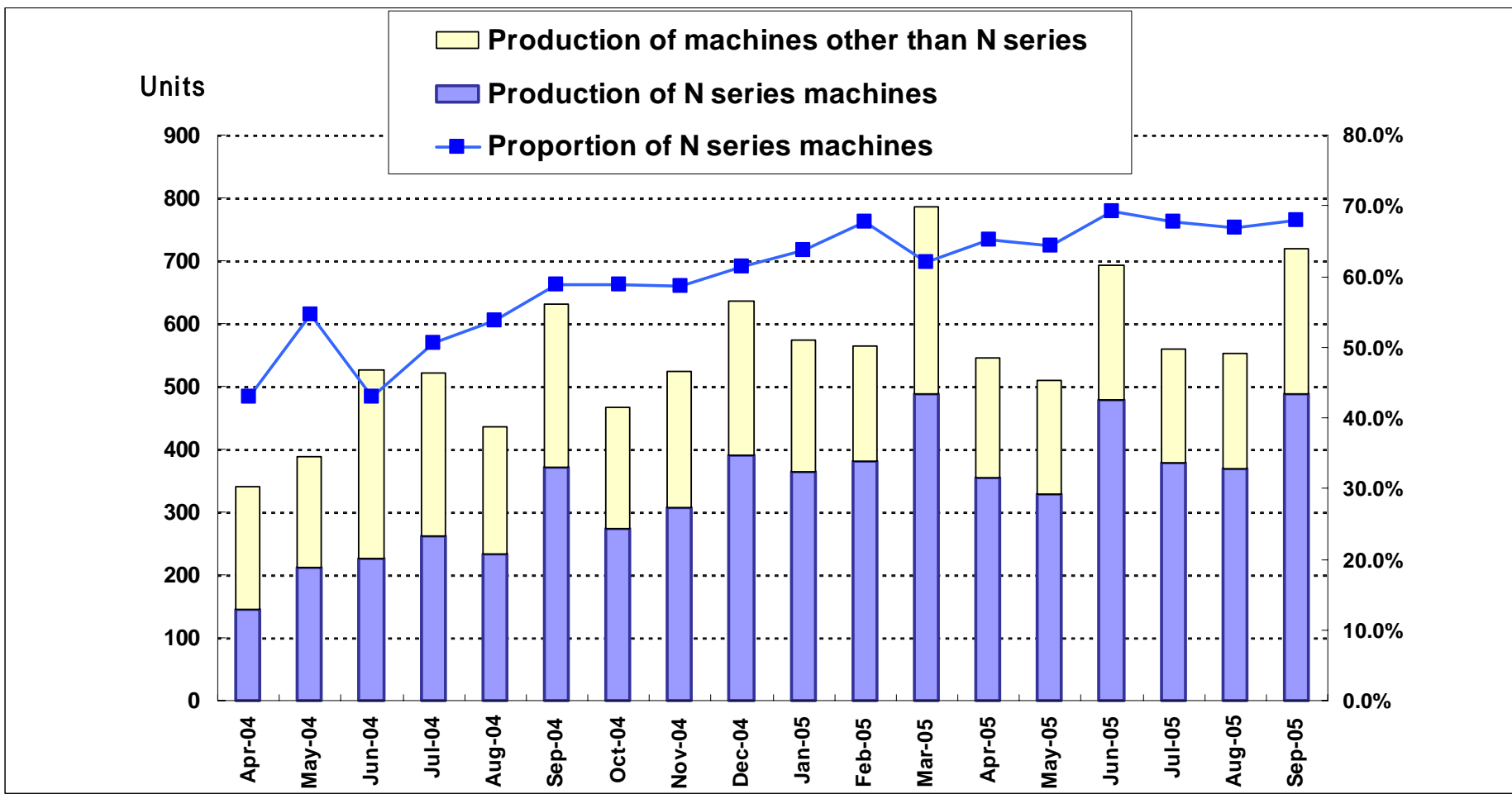


B

Scheduled for completion in January 2006. When this plant is finished, the mass production system for the Integrated Mill Turn Center NT Series will be ready.



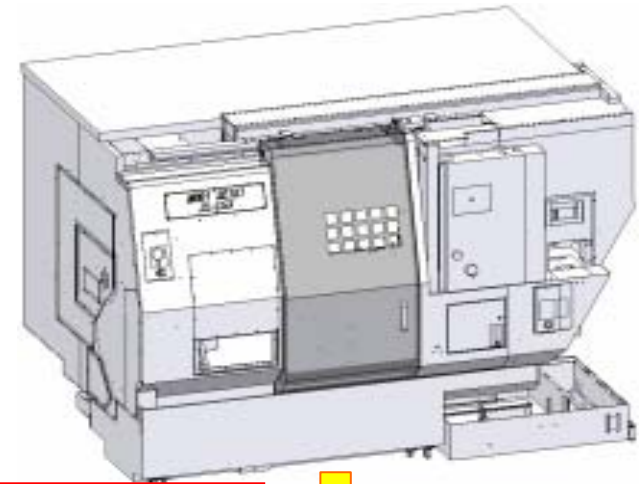
Trends in Machine Production





New Model **NZ-S1500**

2-Turret Shaft Lathe



**Comparative
size 34.8%**





Winning a Good Design Award

Awarded a Japan Industrial Design Promotion Organization “Good Design Award” (October 3)
NVD1500DCG





Start of First TV Commercial

October 7 – March 31

Every Friday

「News Station」

About 11 p.m., 30 seconds

- **ABC (Asahi Broadcasting Corporation)**
- **NBN (Nagoya Broadcasting Network)**



Also being shown on our website.



Recruitment of New Employees

April 2006 New Employees

University Graduates/

Post-graduates	71
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Technical College Graduates	16
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High School Graduates	35
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Total	122
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As of 30 October 2005

MORI SEIKI

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