



# ***MORI SEIKI***

## **THE MACHINE TOOL COMPANY**

# **Fiscal Year 2005 Settlement of Accounts Explanatory Material**

**10 May 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.



# Dramatic Increase in Sales/Profits

## Summary of Settlement of Accounts

- **Sales 145.3 billion yen Up 19.0% from last year.**  
Up 4.3 billion yen from February revised forecast (highest sales ever).
- **Operating profit 16.3 billion yen Up 54.9% from last year.**  
Up 1.8 billion yen from February revised forecast.
- **Orders are stable at a high level.**
- **Reached 1<sup>st</sup> year targets for Mori-568PLAN.**



# Effect of Change in Sales Standards

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

	From FY 2005	Until FY 2004
Revenue recognition standards	<u>Acceptance Standards</u>	<u>Delivery Standards</u>
Results based on each sales standard	Sales: 145.339 billion yen Operating profit: 16.294 billion yen	Sales: 147.137 billion yen Operating profit: 16.848 billion yen

- Effect on sales: one factor in the 1.798 billion yen decrease.
- Effect on operating profit: one factor in the 554 million yen decrease.
- 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.

**We have reduced the time from shipment to acceptance from 19 days to 12.**

# Big Increase in Revenue and Profits

## Income Statement (Consolidated)

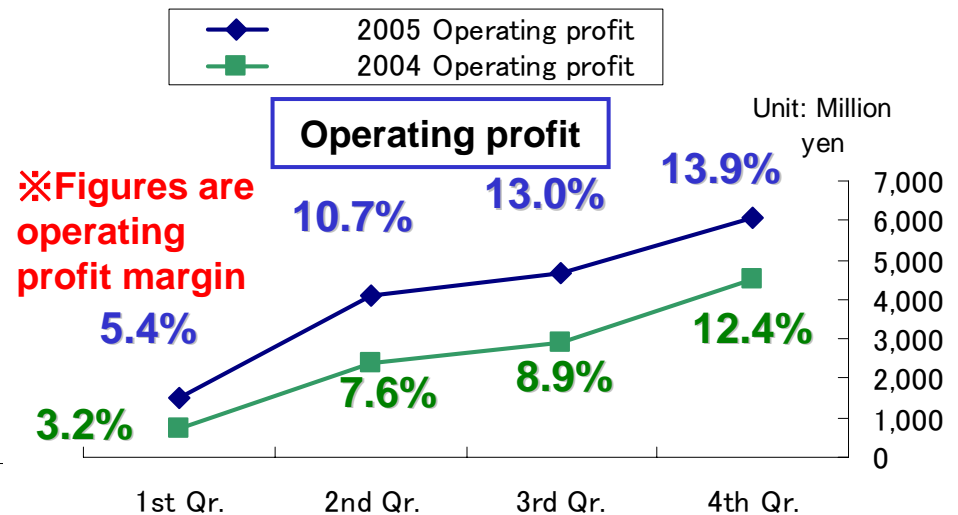
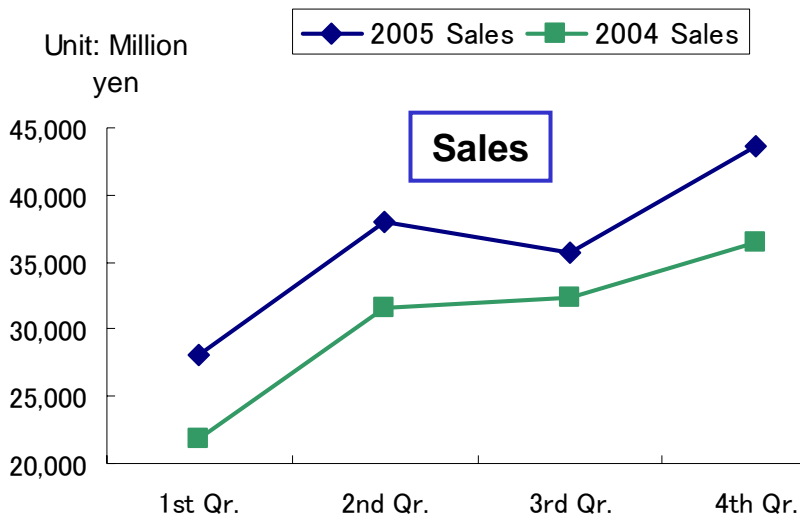
(Million yen)	FY 2004	FY 2005						
	Former policy	New Accounting Policy			Former accounting policy			
	Results	Yearly estimate (initial)	Results	Increase	YOY	Results	Increase	YOY
Sales	122,166	132,000	145,339	23,173	119.0%	147,137	24,971	120.4%
Operating profit	10,517	12,000	16,294	5,777	154.9%	16,848	6,331	160.2%
(Operating profit margin)	8.6%	9.1%	11.2%	2.6%	-	11.5%	2.9%	-
Ordinary profit	10,504	11,850	15,902	5,397	151.4%	16,456	5,952	156.7%
(Ordinary profit margin)	8.6%	9.0%	10.9%	2.3%	-	11.2%	2.6%	-
Pretax net earnings	10,004	10,390	15,154	5,149	151.5%	15,708	5,704	157.0%
Net income for the period	9,381	9,600	13,801	4,420	147.1%	-	-	-
Conv. rate 1US\$=	(107.58)	(107.00)	(113.93)			(113.93)		
1EURO =	(135.68)	(128.00)	(138.12)			(138.12)		



# Exceeded Last Year for all 4 Quarters

## Sales/Operating Profit Quarterly Trends

(Million yen)	1st Qr.	2nd Qr.	3rd Qr.	4th Qr.
<b>2005 Sales</b>	<b>28,122</b>	<b>37,920</b>	<b>35,699</b>	<b>43,598</b>
<b>2004 Sales</b>	<b>21,790</b>	<b>31,521</b>	<b>32,415</b>	<b>36,440</b>
<b>2005 Operating profit</b>	<b>1,505</b>	<b>4,072</b>	<b>4,655</b>	<b>6,062</b>
<b>2004 Operating profit</b>	<b>704</b>	<b>2,397</b>	<b>2,885</b>	<b>4,531</b>





# Ample Cash Equivalents, Strong Financial Structure

## (Consolidated) Major Changes in Balance Sheet

(Million yen)	FY 2004		FY 2005		(Million yen)	FY 2004		FY 2005	
	31 Mar. 2005		31 Mar. 2006	Difference		31 Mar. 2005		31 Mar. 2006	Difference
<b>Assets</b>					<b>Liabilities/capital</b>				
<b>Current assets</b>	<b>63,699</b>	<b>89,365</b>	<b>25,666</b>		<b>Current liabilities</b>	<b>22,742</b>	<b>26,032</b>	<b>3,290</b>	
Cash & Deposits	12,775	31,582	18,807		Trade payable	8,199	9,697	1,498	
Receivables	27,765	29,961	2,196		Short-term loans	1,370	1,320	-50	
Inventories	21,069	25,063	3,994		Current portion of long-term debt	5,084	5,084	0	
Other	2,090	2,759	669		Other	8,089	9,931	1,842	
<b>Fixed Assets</b>	<b>71,931</b>	<b>73,413</b>	<b>1,482</b>		<b>Fixed liabilities</b>	<b>16,290</b>	<b>19,972</b>	<b>3,682</b>	
Buildings	26,972	25,100	-1,872		Warrant bonds		9,333	9,333	
Equipment	7,633	5,814	-1,819		Long-term loans	12,708	5,124	-7,584	
Land	21,672	21,016	-656		Other	3,582	5,515	1,933	
Intangibles	2,704	2,952	248		<b>Minority equity</b>	<b>156</b>	<b>425</b>	<b>269</b>	
Other	12,950	18,531	5,581		<b>Total capital</b>	<b>96,442</b>	<b>116,347</b>	<b>19,905</b>	
<b>Total Assets</b>	<b>135,631</b>	<b>162,778</b>	<b>27,147</b>		<b>Total liabilities/capital</b>	<b>135,631</b>	<b>162,778</b>	<b>27,147</b>	
Convers. Rate: 1US\$ =	(107.32)	(117.48)			Conv. Rate: 1US\$	(107.32)	(117.48)		
1 Euro =	(138.75)	(142.80)			1 Euro	(138.75)	(142.80)		



# Improvement in Major Indicators

## Quarterly Trends in Major Indicators for 2005

### ① Improvement in Shareholders' Equity Ratio

(Jun. 30)	(Sep. 30)	(Dec. 31)	(Mar. 30)
<b>65.0%</b>	<b>67.4%</b>	<b>68.6%</b>	<b>71.5%</b>
⇒	⇒	⇒	

(Increased profits, paid back bank loans of 7.5 billion yen)

### ② Decrease in Sales to Administrative Costs Ratio

(Apr.-Jun.)	(Apr.- Sep.)	(Apr.- Dec.)	(Apr.- Mar)
<b>32.6%</b>	<b>29.1%</b>	<b>28.1%</b>	<b>26.9%</b>
⇒	⇒	⇒	

(Sales increased, transport costs decreased)

### ③ Decrease in Cost of Sales Ratio

(Apr.-Jun.)	(Apr.- Sep.)	(Apr.- Dec.)	(Apr.- Mar)
<b>62.0%</b>	<b>62.5%</b>	<b>61.8%</b>	<b>61.9%</b>
⇒	⇒	⇒	

(Reduction in price of goods is an effect of the exchange rate)



# Increased Asset Effectiveness, Shareholders' Equity Ratio Over 70%

## Consolidated Trends in Turnover Period/Equity Ratio

	FY 2004	FY 2005	
	Results	Results	Difference
Receivables turnover period	2.73	2.47	-0.26 Mths.
Inventories turnover period	2.07	2.07	-0.00 Mths.
Payables turnover period	0.81	0.80	-0.01 Mths.
Fixed asset turnover period (tangible)	5.88	4.60	-1.28 Mths.
Loan turnover period (incl. bonds)	1.88	1.72	-0.16 Mths.
Shareholders' equity ratio	71.1%	71.5%	0.4 %



# Closing Balance 2.5 Times Greater, Strong Cash Flow

## Cash Flow Statement (Consolidated)

(Unit: Million yen)	FY 2004	FY 2005
	Apr. 2004~ Mar. 2005	Apr. 2005~ Mar. 2006
Cash flow (operating activity)	6,853	17,128
Cash flow (investment activity)	-7,014	-3,001
Cash flow (financial activity)	-2,436	4,524
Increase in cash and cash equivalents	-2,708	18,810
Cash and cash equivalents opening balance	15,965	12,772
Cash and cash equivalents closing balance	12,772	31,582

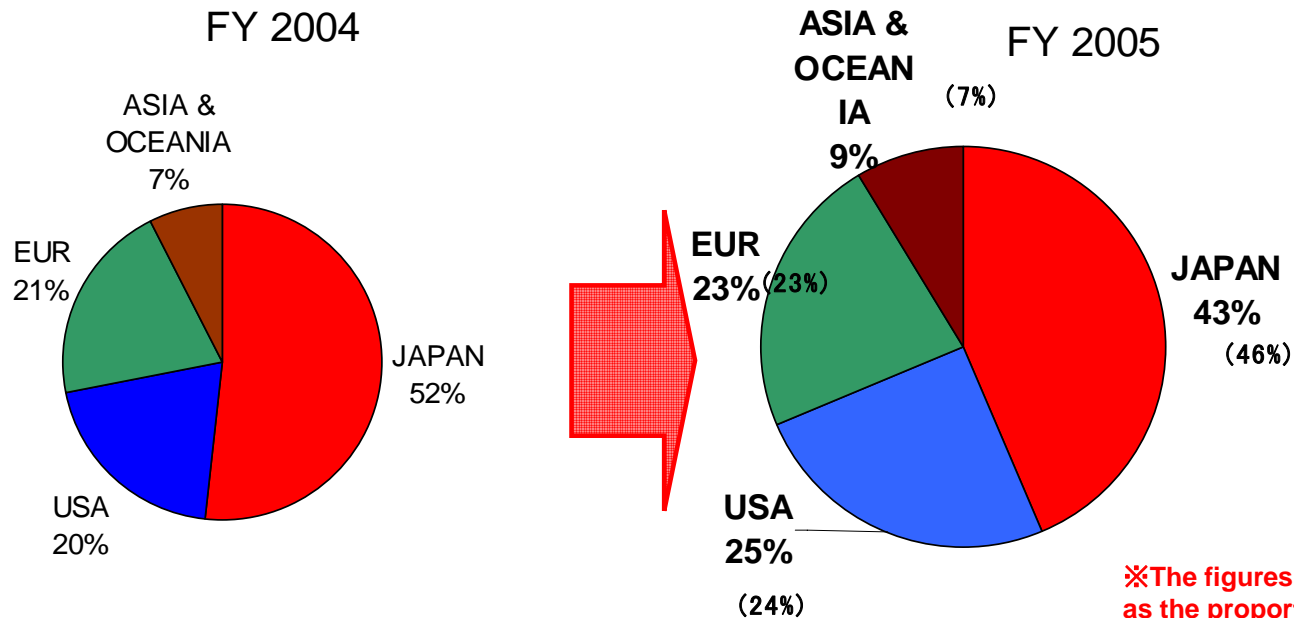


# Dramatic Overseas Sales Expansion

## Sales Ratio by Region

(Million yen)		JAPAN	USA	EUR	ASIA & OCEANIA	Total
Sales	FY 2005	63,218	36,421	33,303	12,397	145,339
	FY 2004	63,021	25,034	25,108	9,003	122,166
Rate of increase		100.3%	145.5%	132.6%	137.7%	119.0%

※Segments: Overseas sales base



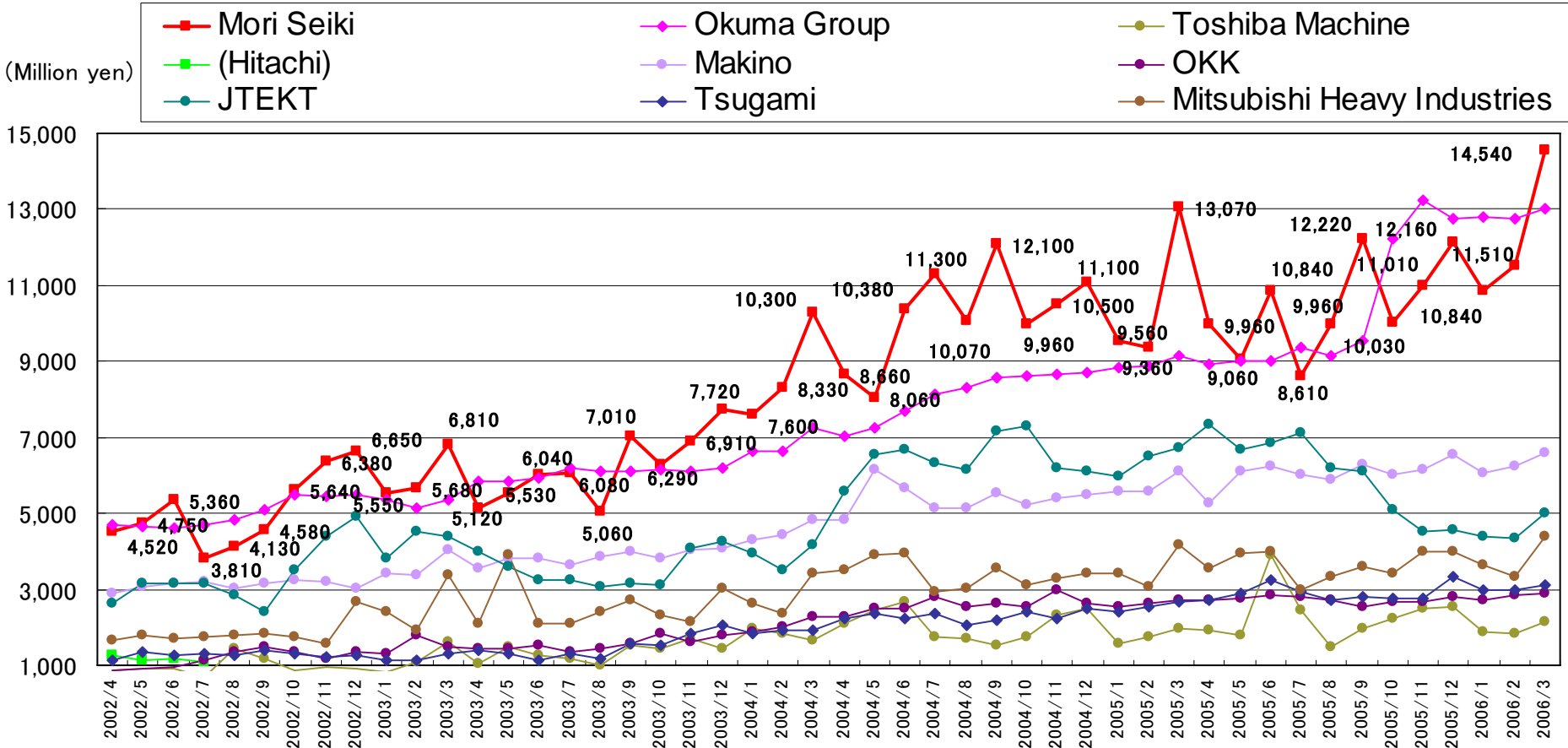
※The figures in ( ) are calculated as the proportion of sales against the conventional standard.

※ For FY 2005, machines sold in Japan and installed overseas are entered for each region: Americas: 984, Europe: 432, Asia: 2,569 (units: million yen).



# Continuing Trend for Increasing Orders

## Machine Tool Order Situation for 8 Major Companies

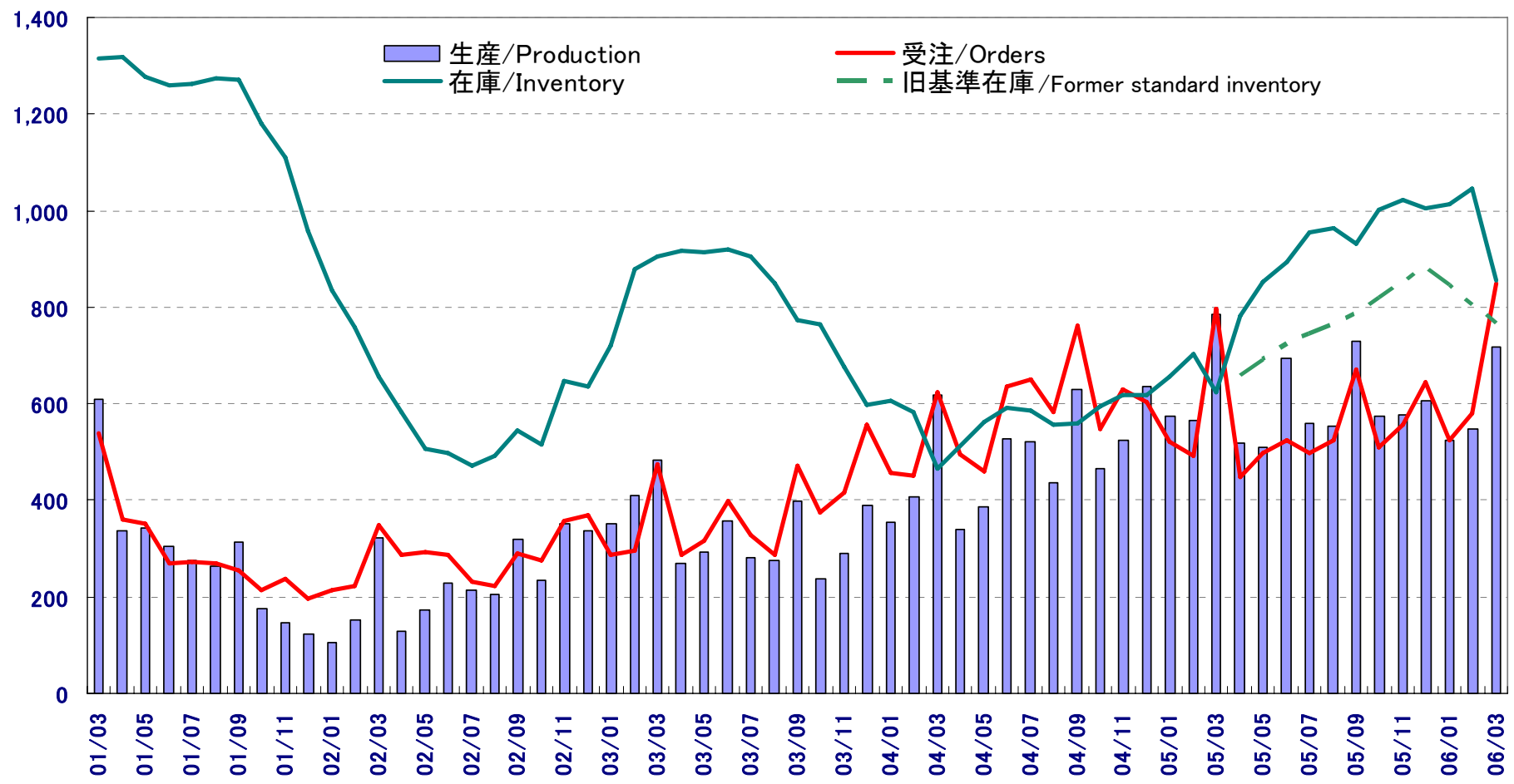




# Increase in Production/Orders, Decrease in Inventory

## Trends in production/orders/inventory

台数/Units





# Achieved Mori-568PLAN Targets

## Medium-Term Management Plan 1<sup>st</sup> Year Results

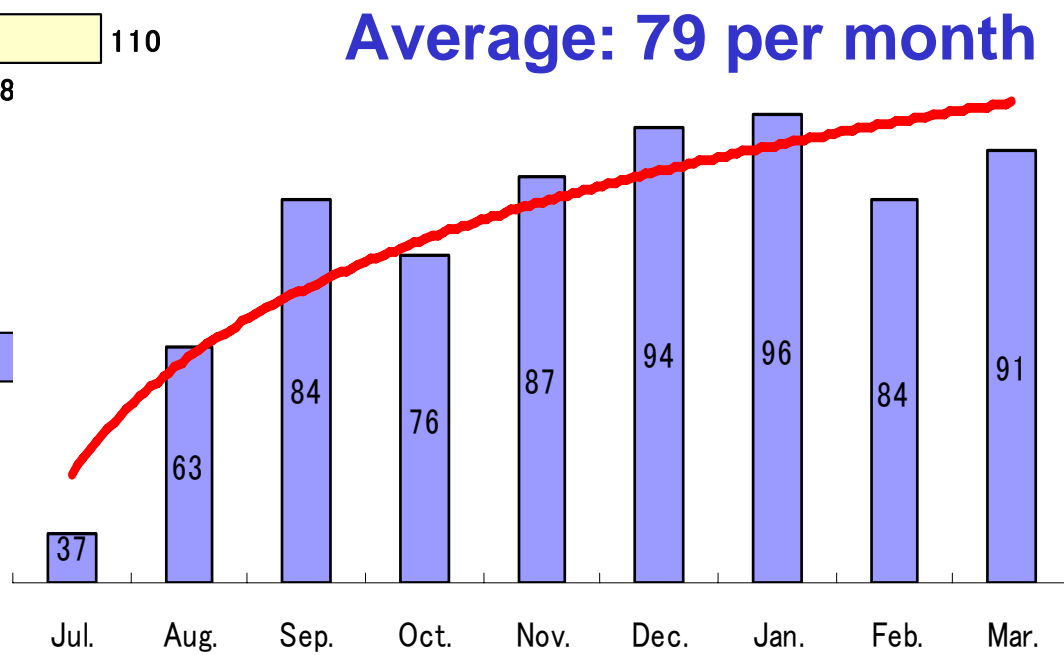
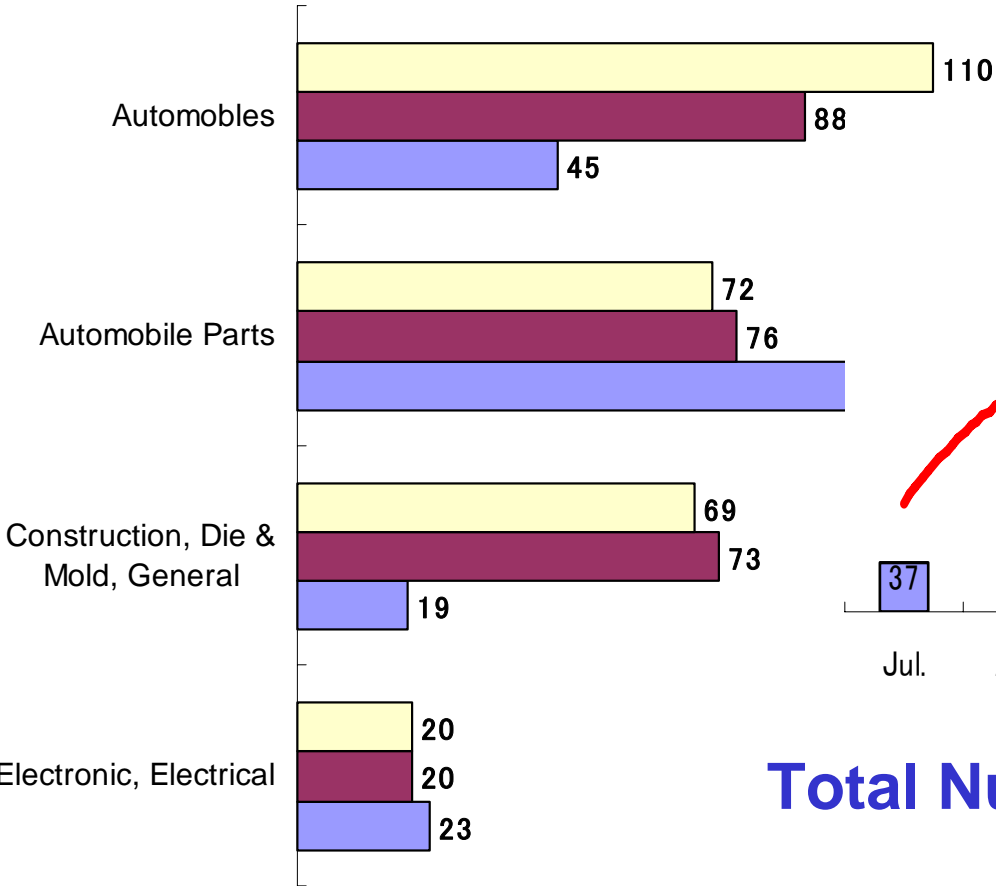
<b>FY2005 Results</b>			
<b>Mori-5</b>	<b>Target</b>	<b>Result</b>	
· Sales	141 billion yen	<b>145.3 billion yen</b>	○
(Global share	4.0%	<b>4.2%</b>	○
<b>Mori-6</b>	<b>Target</b>	<b>Result</b>	
· Consolidated cost of sales ratio	64%	<b>61.9%</b>	○
<b>Mori-8</b>	<b>Target</b>	<b>Result</b>	
· Monthly production	608 units	<b>592 units (yearly average)</b>	
		<b>March 717 units</b>	○



# Mori-5 Results Cultivation of Major Companies

## Results of Strategic/Large Account Section's Activities

2nd Qr.    3rd Qr.    4th Qr.



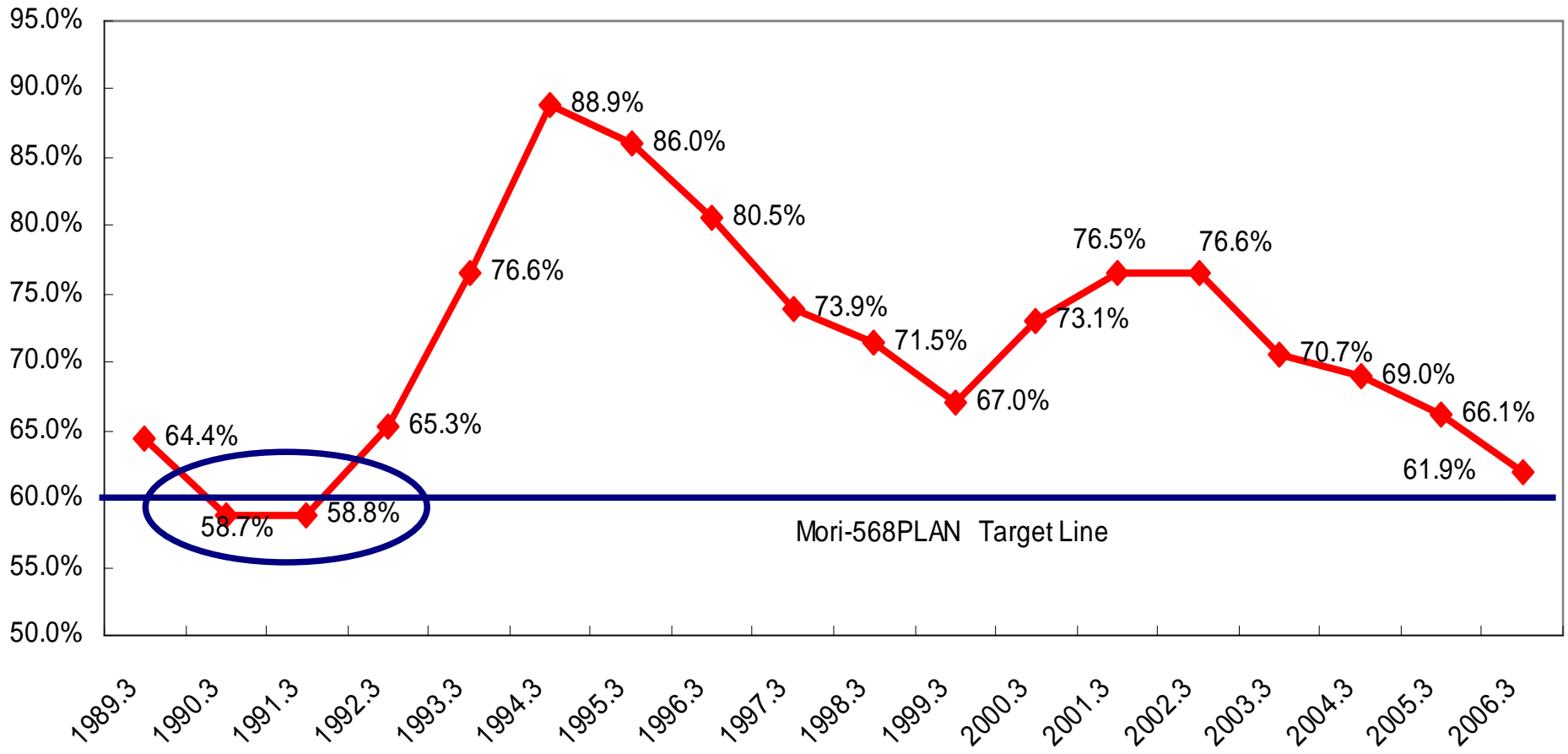
**Total Number of Visits: 712**

**Total Orders: 42 units, Order Amount: ¥1,021,008,219**



# Mori-6 Results Cost Ratio Decreasing Thanks to N Series

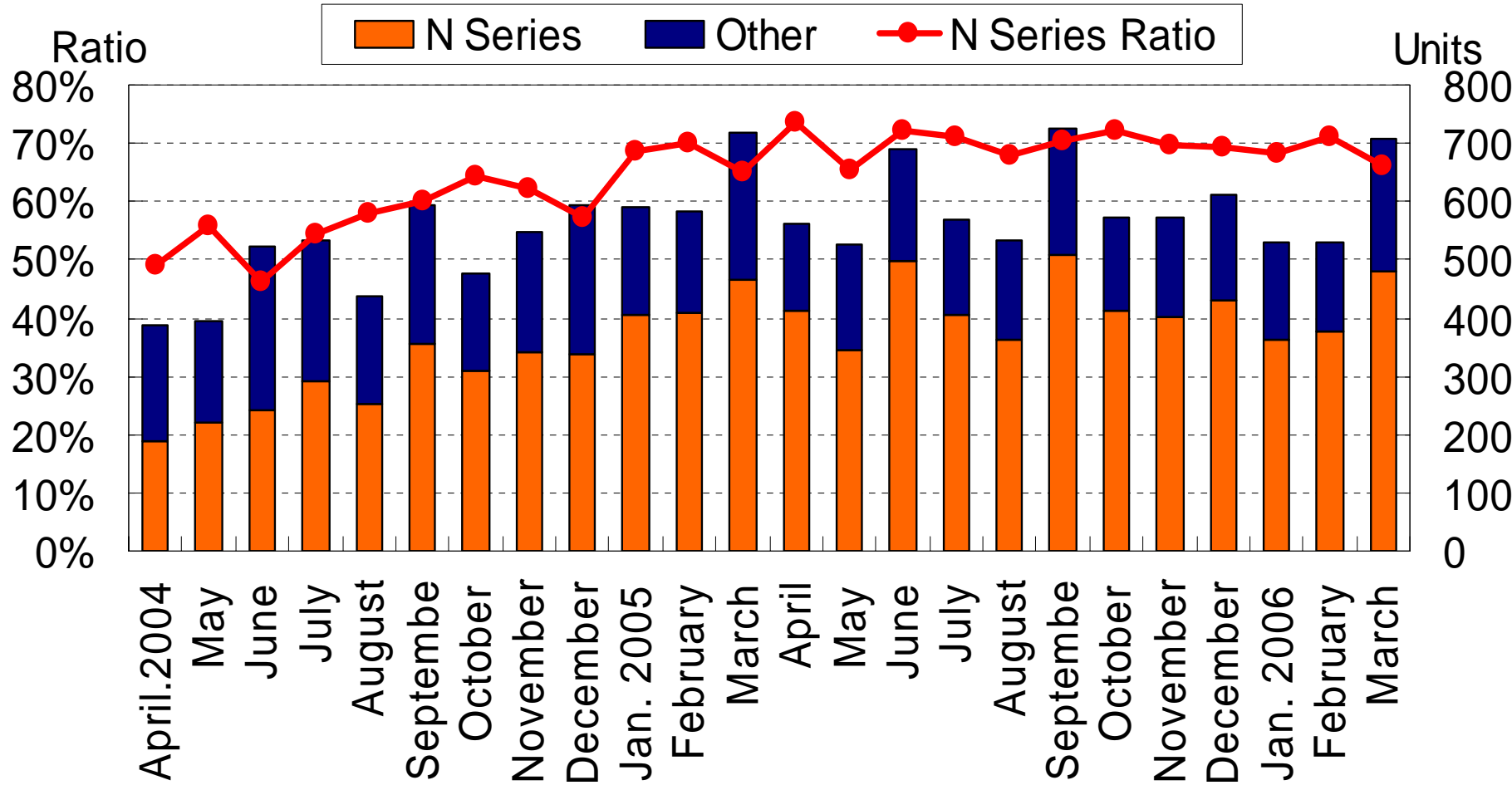
**Trends in Cost of Sales Ratio**





# N Series Shipment Ratio Increasing

Trends in Number of Units Shipped





# We Expect Even Better Development in Future

## Summary of FY 2006 Forecast

- **Sales 157.5 billion yen**  
Up 8.4% from last year.
- **Operating profit 20 billion yen**  
Up 22.7% from last year.
- **Good prospects for the 2<sup>nd</sup> year of the Mori-568PLAN.**
- **Expansion of product line-up with introduction of DURA.**
- **Full-scale production of the NT from June.**



# Aiming to Achieve Operating Profit of 20 Billion Yen

## FY2006 Full Year Projected Results (Consolidated)

(Million yen)	FY2005	FY2006 Projection			
	Full year results	Semi-annual	Full year	Difference	Ratio
Sales	145,339	74,000	157,500	12,161	108.4%
Operating profit	16,294	8,800	20,000	3,706	122.7%
(Operating profit margin)	11.2%	11.9%	12.7%	-	-
Ordinary profit	15,902	8,400	19,500	3,598	122.6%
(Ordinary profit margin)	10.9%	11.4%	12.4%	-	-
Pretax net earnings	15,154	-	-	-	-
Net income for the period	13,801	4,700	11,200	-2,601	81.2%
Convers. Rate: 1US\$ =	(113.93)	(107.00)	(107.00)		
1 Euro =	(138.12)	(128.00)	(128.00)		



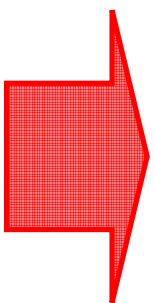
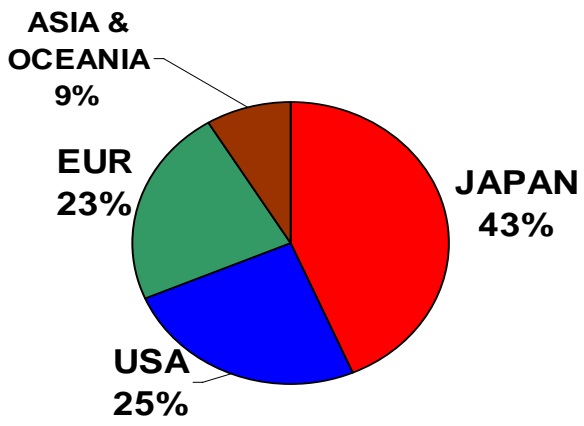
# Prospects for Sales Growth in Japan/Asia

## FY2006 Full Year Sales Targets by Region

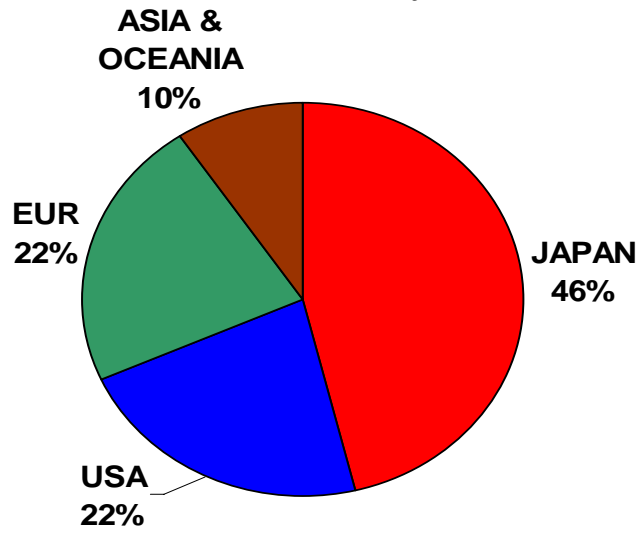
(Million yen)		JAPAN	USA	EUR	ASIA & OCEANIA	Total
Sales	FY2006 full year (local currency base)	72,500	35,000	35,000	15,000	157,500
	-	-	327 (million\$)	273 (millionEUR)	-	-
	FY2005 full year (local currency base)	63,218	36,421	33,303	12,397	145,339
	-	-	320 (million\$)	241 (millionEUR)	-	-
Difference (local currency base)		114.7%	96.1%	105.1%	121.0%	108.4%

※Segment: overseas sales base

FY2005 full year



FY2006 full year





# Towards Global One with the Second Year of the Mori-568PLAN

## Medium-Term Management Plan Second Year Targets

### Targets for **FY2006**

#### Mori-5

· Sales

FY2005

145.3 billion yen ⇒ **157.5 billion yen**  
(world share 4.5%)

**FY2006**

#### Mori-6

· Consolidated cost of sales ratio

FY2005

61.9% ⇒ **62.0%**

**FY2006**

#### Mori-8

· Monthly production

FY2005

592 units ⇒ **644 units**

**FY2006**

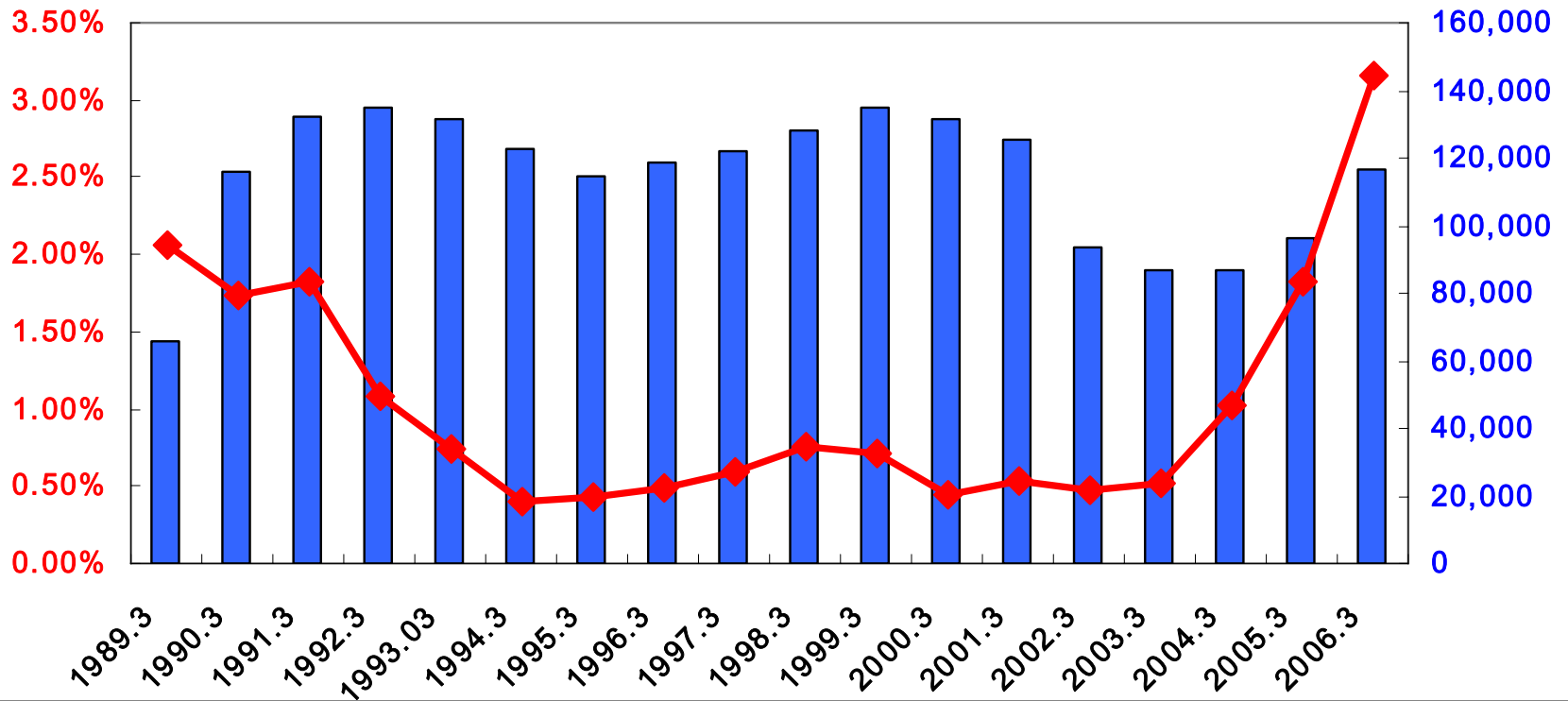


# Aiming for Return on Shareholders' Equity Ratio of 5%

## Trends in Return on Shareholders' Equity Ratio

■ Total capital 
 ◆ Dividend / Capital

Unit: million yen



**Return on shareholders' equity ratio =**  
**Dividend / Shareholders' capital**



# Mori-568PLAN 2<sup>nd</sup> year Towards Achieving Targets

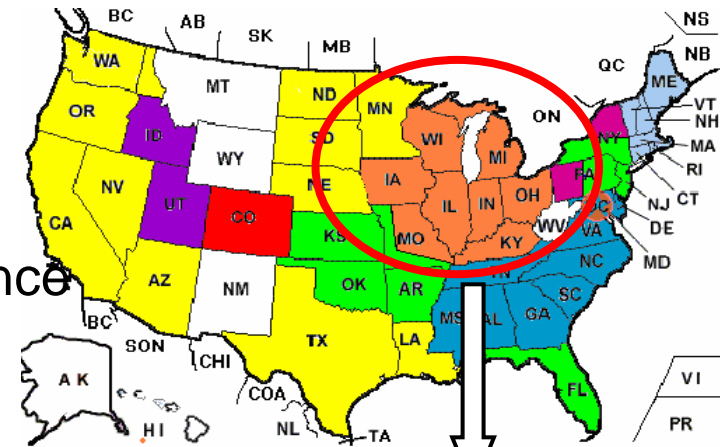


# Strategic Business Alliance with Ellison Technologies (USA)

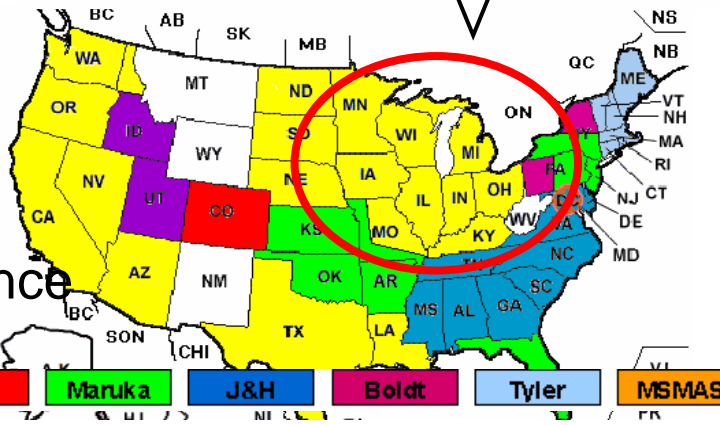
From April 1 2006



Before the alliance



After the alliance



**FY2005: MSMAS 350 units**



**FY2006 target: 600 units**

※Ellison's sales results in 11 other States: FY2005 approx. 300 units

# Expansion of Sales/Service Bases

## FY2005 New Technical Centers (Overseas)

- MS-Pollard (England)
- Prague Technical Center (Czech Republic)



**FY2006 TC scheduled to be built in Russia**  
**TC scheduled to be built in India**



# Expansion of Sales/Service Bases

## FY2005 New Technical Centers (Japan)

- Niigata Technical Center
- Amagasaki Technical Center
- Shiga Technical Center
- MF Project Center
- Tokyo Technical Center
- Shinagawa Technical Center

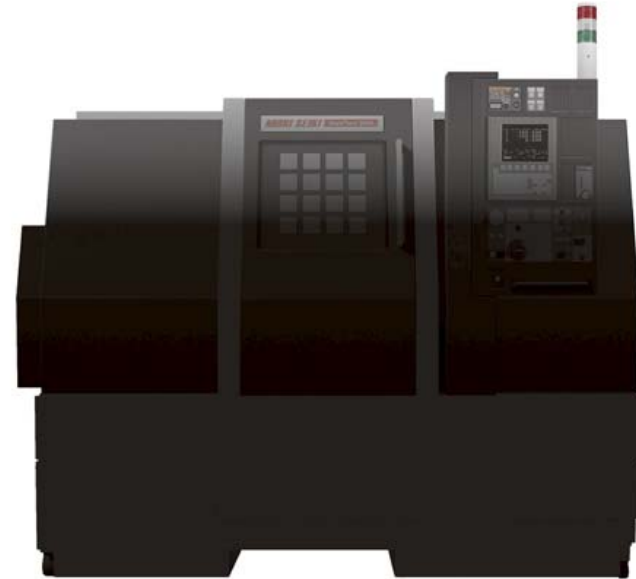




# Dura Series Sales Started



**DuraVertical**



**DuraTurn**



# DURA's Concept

**D**urable (can be used for a long time)  
**U**niversal (can be used any time, anywhere)  
**R**eliable (reliable/does not break down)  
**A**ffordable (reasonable price)  
**& Accurate** (high accuracy)



# Integrated Mill Turn Center NT Series

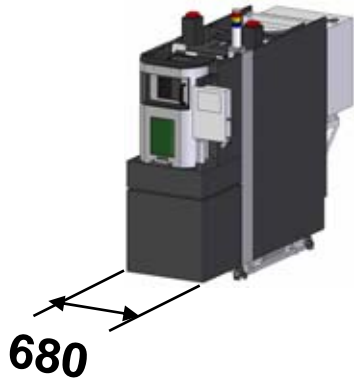
**Strengthened production capacity due to the completion of the Chiba No.2 Plant**



**Received the 2005 Nikkei Superior Products and Service Award  
/Nihon Keizai Shimbun Award for Excellence**



# MCs for Mass Production Parts Machining – The NX Series

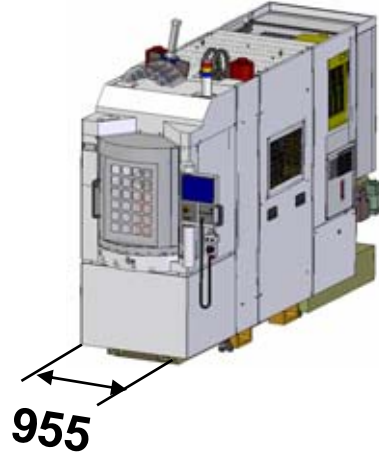


**NX2000**

**H·V·T**



$\phi 140 \times 100$

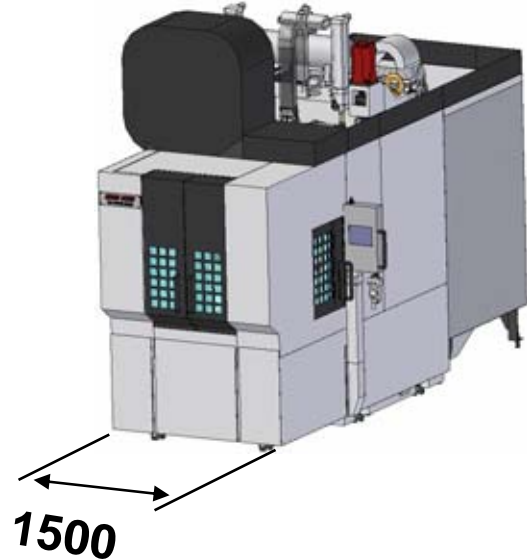


**NX3000**

**H·V**

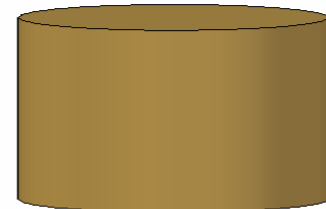


$\phi 400 \times 400$



**NX4000**

**H**



$\phi 700 \times 700$

Max. swing over table

# FY2005 New Plants and Buildings



- Taiyo Koki's new factory (June)
- Heat Treatment Plant (September)
- Co-generation Center (November)
- Chiba No. 2 Plant (February)
- Casting Plant (March)





# Effects of In-House Production (Heat Treatment)

Changes in lead time for heat treatment processes

	Outsourced	In-house
Carburizing	8.9 days	3 days
Ion-nitriding	7 days	3 days
High-frequency induction hardening	4.6 days	1 day



## In-house production ratio (unit base)

- Carburizing : 71 %
- Ion-nitriding : 38%
- High-frequency induction hardening : 91%



# Production Capacity Will be Strengthened by Plant Expansion During This Fiscal Year

## Plants Scheduled for Completion

- Iga Sheet Metal Plant (scheduled completion: August 2006)

In-house production (unit base) of

- Machines: **35%**
- Electrical cabinets: **50%**
- Building: 680 million yen

Equipment for machining: 600 million yen

- Iga High-Precision Spindle Plant (scheduled completion: August 2006)

- Establish a consistent spindle production plant within the High-Precision Facility to improve quality
- Plant refit (High-Precision Facility/Temperature-Controlled Room/No. 1 Plant): 390 million yen
- Transfer of equipment: 70 million yen
- Air-conditioning for No.1 Plant : 60 million yen





# Steady Progress on the Schedule for Investment in Plant and Equipment

## Investment in Plant and Equipment Situation

**As of May 10, 2006, Out of the 22 billion yen allotted for investment in plant and equipment, 13.55 billion yen has been ordered.**

### Major investments :

Establishment of the Chiba No.2 Plant	900 million yen
Establishment of Tateshina Seminar House	900 million yen
Establishment of the Iga Casting Plant	600 million yen
Purchasing of 7 Mitsui Seiki grinding machines	600 million yen
Purchasing 2 Komatsu Industries press centers	300 million yen
Purchasing 2 Mitutoyo large CNC 3-D measuring machines	200 million yen
Leasing 10 5-axis machines from Toshiba Machine Machinery Sheet Metal Plant	1.9 billion yen
Equipment for Sheet Metal Plant	700 million yen
	300 million yen

**FY2005 investment in plant and equipment 10.9 billion yen (leasing 3.7 billion yen)  
Depreciation: 5.3 billion yen (+ annual equipment leasing fee: 1.2 billion yen)**



# Knowledge Management

- **Efficient design system**
- **Efficient engineering system**

||

**Sophisticated knowledge  
management for designing**



# Aggressive Utilization of IT

- **Mori-NET operation starts in June**
  - Monitor customers' machines all the time
  - Quicker service, improved quality
- **Establishment of Information Technology HQ**
  - Assign personnel from the Development and Information Systems Departments
  - Operate with 100 people
- **Introduction of Global Accounting**
  - Early disclosure of settlement of accounts will be possible



# Internal Control-CP

- **Internal Control**
  - Establishment of Internal Control Office
  - Be ready for J-SOX one year early
- **CP (Compliance Program)**
  - Export control



# Employee Education

- **Mori Seiki University**
  - Establishment of Technical Training Center in the US.
- **Expansion of Education System**
  - Spend approx. 1% of total sales for employee education



# Exhibition Schedule

- **MACH2006**: May 15~May 19
  - Birmingham (England)
- **METAV** : June 20~June 24
  - Düsseldorf (Germany)
- **Summer Productivity Show** : June 22~June 24
  - Mori Seiki Iga Campus (Mie Prefecture)
- **IMTS2006** : September 6~September 13
  - Chicago (USA)
- **BIMU2006** : October 5~October 10
  - Milan (Italy)
- **JIMTOF2006** : November 1 ~November 8
  - Tokyo Big Site

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