MORI SEIKI
THE MACHINE TOOL COMPANY

Fiscal Year 2006

Semi-Annual Settlement of Accounts

Explanatory Material

October 31, 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

- **Semi-annual results ：Dramatic improvements in revenue and profit**

  Sales 78.43 billion yen (18.8% up from the previous year)
  Operating profit 10.03 billion yen (79.8% up from the previous year)

- **Thorough cash flow (CF) management**

  Increased cash flow from operations： 11.72 billion yen
  Increased cash flow resulting from the sales of Technical Centers and unused land ： 4.62 billion yen

- **Favorable M&A in Europe：DIXI MACHINES in Switzerland**
- **Sound financing：Early payment of the syndicate loan**

  Paid the syndicate loan of 10 billion yen early
  Shareholders' equity ratio 70.0%→75.8%

- **Return to our stockholders：Distribution of interim dividend**

  Dividend per share Interim dividend：20 yen
  Annual dividend：40 yen

Acquisition of DIXI MACHINES

■ **Concluded a preliminary acquisition contract with DIXI MACHINES in Switzerland**

1. Mori Seiki's first overseas production site

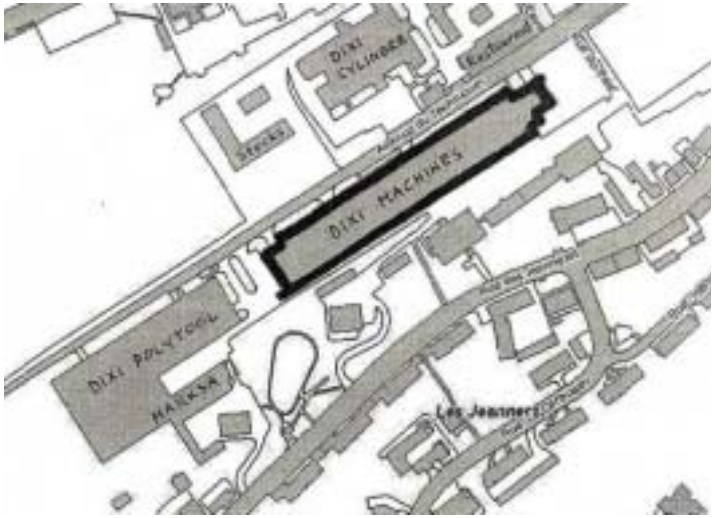
2. Acquisition of DIXI's brand name, production and distribution rights

3. Expanding share in the European market

Company ：DIXI MACHINES S.A.
Location : Le Locle, Neuchatel Canton, Switzerland
Foundation：1904
Representative：Mr. Paul Castella
Products ：Jig machines, machining centers
Annual turnover：approx. 1.6 billion yen (FY 2005)
Employees：80

DIXI MACHINES

Jig machine



Map of factory surrounds

Early Payment of Syndicate Loan

■ Out of the syndicate loan of 20 billion yen borrowed in September 2003, we paid back the outstanding principal of 10 billion yen on September 12.

1. Removed interest-rate risks and reduced interest costs

- Reduced interest costs: 65 million yen

2. Improved asset effectiveness

- ROA improved by 0.18**%**

※Change in cash deposits from FY 2005
31.58 billion yen→30.76 billion yen

3. Strengthened financial structure

- Shareholders' equity ratio improved by 4.7%

※Change from the 1st quarter 70.0%→75.8%

Completion of the Sales/Transfer of Unused Land and TCs

■ Completed the sale of TCs on September 27, 2006.
The 26 new TCs started their operation on September 18.

1. Secured mobility

- Change to the business model which had office buildings as our bases

2. Reduced running costs

- Annual running costs 302 million yen⇒292 million yen (expected)

3. Improved cash flow

- Cash in of 4.62 billion yen resulting from the sales of assets
- Tax relief of 5.41 billion yen resulted from the loss on realization

⇒Improved cash flow of 10.03 billion yen in total

Completed elimination of doubtful assets acquired during the bubble economy

Corporate Governance, Compliance

Preparation for Japan's equivalent of Sarbanes-Oxley Act, will be achieved one year in advance

1. Documentation of job processes

- Documentation of job processes for the head office was completed during the first half of FY2006.
  It will be implemented throughout the company by the end of March.

2. Improvements of flaws/Implementation of walk-through

Measures to prevent export risks

1. Thorough compliance with the export control programs

2. Prevention of illegal machine relocations by installing a shock detection sensor.

Market/Business Cycles and Mori Seiki's Strategies

	Trends up to present	Forecast
Machine tool market environment	• The Japanese/Asian markets are doing well • Steady increase in all industries (especially in automobile, energy, etc)	• The sales in Japan will remain high, and the sales in Europe are increasing (stagnant in Asia) • The sales in the general machinery, energy, aerospace-related industries are increasing.
Our market/product strategies	• Expanded market share in Japan, strengthened our sales force in the European market • Promoted the N Series and introduced the NT and the Dura Series	• Strengthened sales force in Europe will start contributing. • The sales of the NT and the DURA will start contributing.
Strategies for investment in plant and equipment	• Out of 22 billion yen allotted for the medium-term management plan, 16.59 billion yen was used for concentrated investments	• Level investments in plant and equipment within depreciation
Effect on the corporate value	• Advance investment in plant and equipment, advance investment in sales expansion, promoted improving financial situation	• Capital recovery period • Restructuring capital for the next period's business expansion

P/L：Continued Dramatic Improvements in Revenue and Profit

※Consolidated base

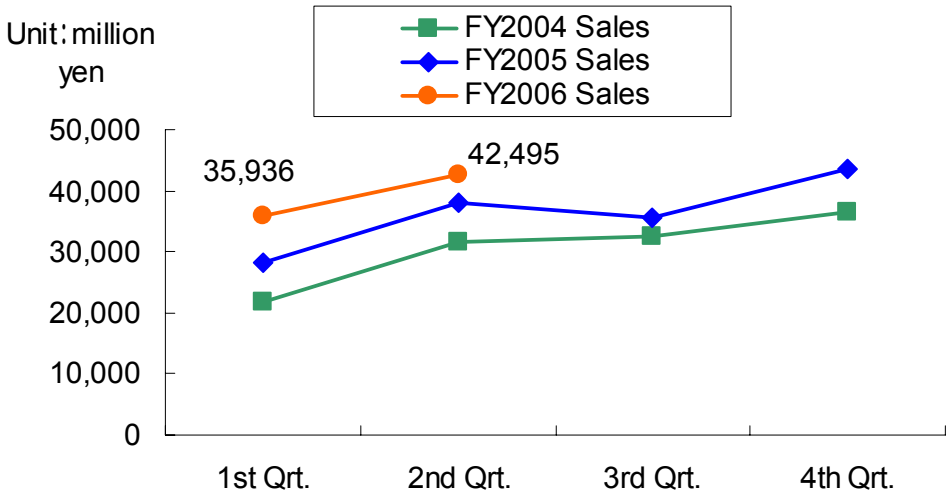
(Million yen)	FY 2005 Semi-annual Results	FY 2006 Semi-annual Results	Difference	Ratio
Sales	66,042	78,431	12,389	18.8 % up
Operating profit	5,577	10,029	4,452	79.8 % up
(Operating profit margin)	8.4%	12.8%	4.4%	—
Ordinary profit	5,307	10,037	4,730	89.1 % up
(Ordinary profit margin)	8.0%	12.8%	4.8%	—
Pretax net income (loss)	5,033	5,032	-1	0.0 % up
Net income for the period (loss)	4,536	4,585	49	1.1 % up
(conversion rate 1US$=)	(110.36)	(114.98)		
(1EURO=)	(135.72)	(136.15)		

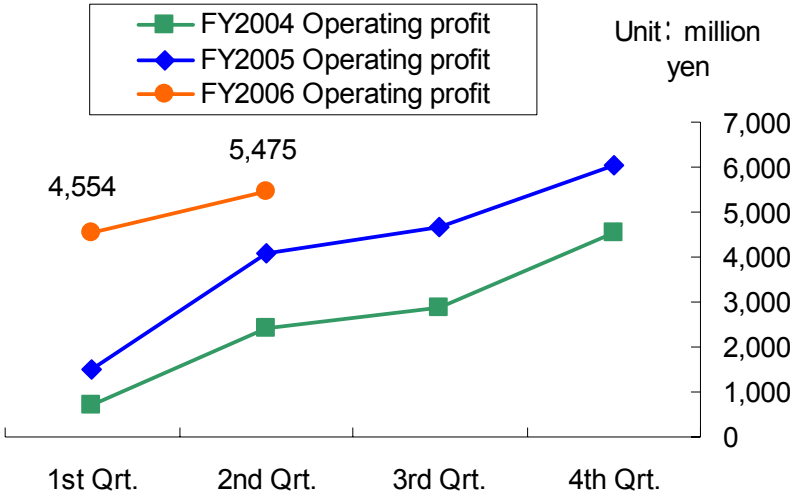
※For the exchange rate, we used the market rate for FY 2005 mid-year, and the receipt rate for FY 2006 mid-year

Trends in Sales and Operating Profit for All Quarters

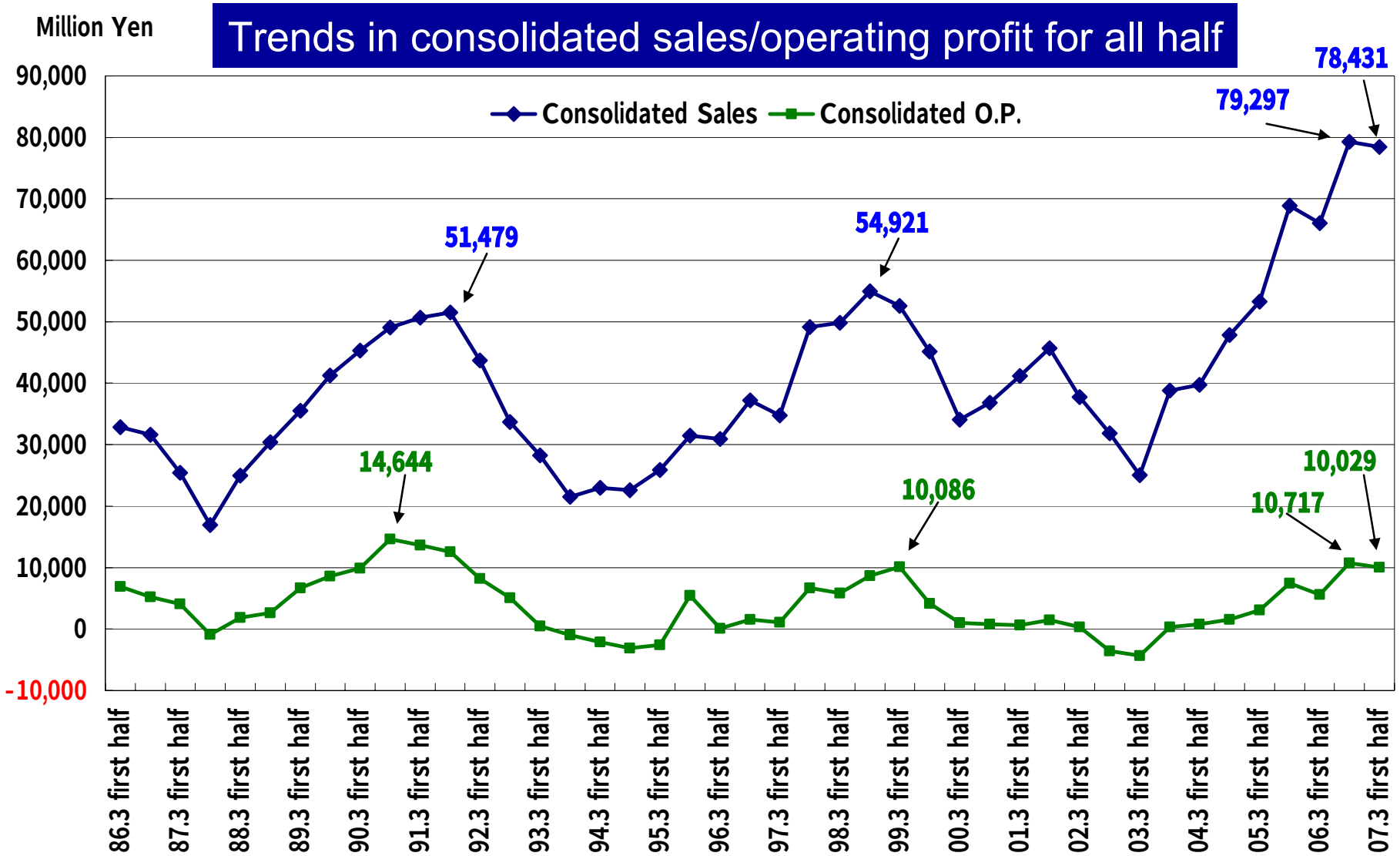
※Consolidated base

(Million yen)	1st Qrt.	2nd Qrt.	3rd Qrt.	4th Qrt.
FY2004 Sales	21,790	31,521	32,415	36,440
FY2005 Sales	28,122	37,920	35,699	43,598
FY2006 Sales	35,936	42,495		
FY2004 Operating profit	704	2,397	2,885	4,531
FY2005 Operating profit	1,505	4,072	4,655	6,062
FY2006 Operating profit	4,554	5,475		





Semi-Annual Sales and Operating Profit Reach a New High



B/S：Even Stronger Financial Structure

※Consolidated base

(Million yen)	FY2005 2005/3/31	FY2006 2006/9/30	FY2006 Difference
Assets			
Current assets	**89,365**	**88,824**	**-541**
Cash & deposits	31,582	30,757	-825
Receivables	29,961	28,006	-1,955
Inventories	25,063	27,116	2,053
Other	2,759	2,945	186
Fixed assets	**73,413**	**64,481**	**-8,932**
Buildings	25,100	22,859	-2,241
Equipment	5,814	6,452	638
Land	21,016	15,364	-5,652
Intangibles	2,952	2,699	-253
Other	18,531	17,107	-1,424
Total assets	**162,778**	**153,306**	**-9,472**
(conversion rate 1US$=	(117.48)	(117.90)	
(1EURO=)	(142.80)	(149.82)	

(Million yen)	FY2005 2005/3/31	FY2006 2006/9/30	FY2006 Difference
Liabilities/capital			
Current liabilities	**26,032**	**22,755**	**-3,277**
Trade payable	9,697	10,265	568
Short-term loans	1,320	1,500	180
Current portion of long-term debt	5,084	0	-5,084
Other	9,931	10,990	1,059
Fixed liabilities	**19,972**	**13,880**	**-6,092**
Warrant bonds	9,333	9,331	-2
Long-term loans	5,124	0	-5,124
Other	5,515	4,549	-966
Total capital	**116,347**	**116,670**	**323**
Minority equity	425	498	73
Total liabilities/ capital	**162,778**	**153,306**	**-9,472**
(conversion rate 1US$=)	(117.48)	(117.90)	
(1EURO=)	(142.80)	(149.82)	

Shareholders' Equity Ratio Improved, Sales and General Administrative Expense Remains at the Same Level

※Consolidated base

		1st Quarter	Semi-annual	3rd Quarter	Full year
Shareholders' equity ratio (Capital:million yen)	FY2005	65.0% 96,174	67.4% 100,821	68.6% 108,555	71.5% 116,347
	FY2006	70.0% 111,090	75.8% 116,171		

		Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.
Cost of sales ratio (Cost of sales: million yen)	FY2005	62.0% 17,449	62.8% 23,826	60.5% 21,587	62.2% 27,122
	FY2006	59.3% 21,324	62.5% 26,571		

Sales to administrative costs ratio (Sales & General Admin. Costs)	FY2005	32.6% 9,167	26.4% 10,021	26.5% 9,458	23.9% 10,414
	FY2006	28.0% 10,057	24.6% 10,450		

Continued Improvements in All Turnover Periods

※Consolidated base

	FY2005 Semi-annual	FY2006 Semi-annual	
	Results	Results	Difference
Receivables turnover period	2.36 Mths	2.14 Mths	-0.22 Mths
Inventories turnover period	2.35 Mths	2.07 Mths	-0.28 Mths
Payables turnover period	0.79 Mths	0.79 Mths	0.00 Mths
Fixed assets turnover period (tangible)	5.07 Mths	3.73 Mths	-1.34 Mths
Loan turnover period (incl. bonds)	2.55 Mths	0.83 Mths	-1.72 Mths

CF Table：Thorough Cash Flow Management

※Consolidated base

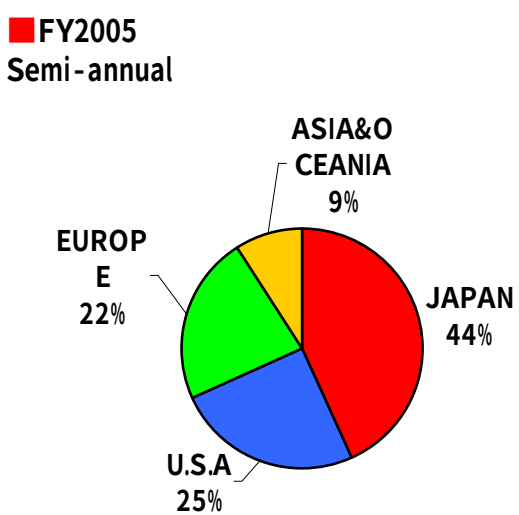
(Units：Million yen)	FY2005 Semi-annual	FY2006 Semi-annual
	Apr. 2005～ Sep.2005	Apr. 2006～ Sep. 2006
Cash flow (operating activity)	4,951	11,724
Cash flow (investment activity)	776	538
Cash flow (financial activity)	7,435	-12,992
Increase in cash and cash equivalents	13,180	-825
Cash and cash equivalents opening balance	12,772	31,582
Cash and cash equivalents closing balance	25,952	30,757

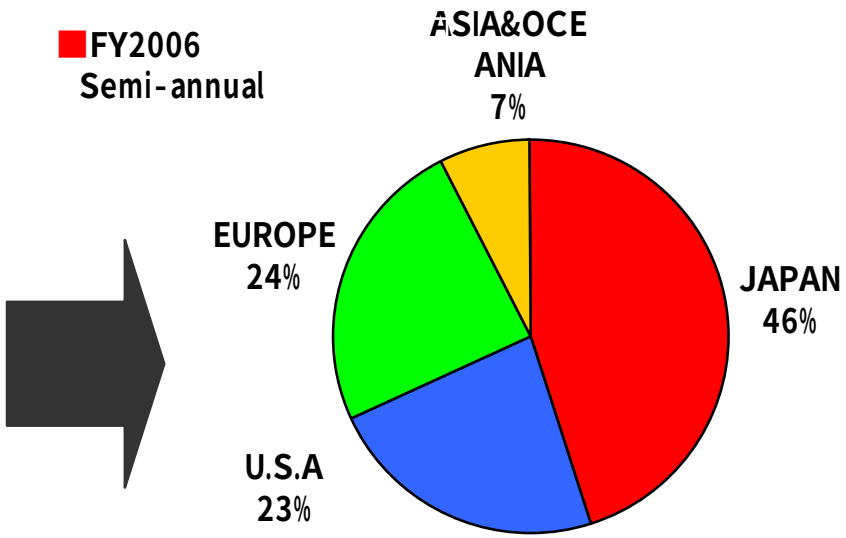
※CF (investment activity)：paid off long-term loans of 10.208 billion yen

Sales by Region Have Been Good in 3 Poles; Japan, Americas and Europe

※Consolidated base

	FY2005 Semi-annual		FY2006 Semi-annual		
	Sales	Local currency	Sales	(Difference)	Local currency
JAPAN	28,355		35,214	24.2%	
U.S.A	16,781	152 M$	18,206	8.5%	158 M$
EUROPE	14,789	109 M€	19,159	29.5%	131 M€
ASIA&OCEANIA	6,117		5,852	-4.3%	
TOTAL	66,042		78,431	18.8%	



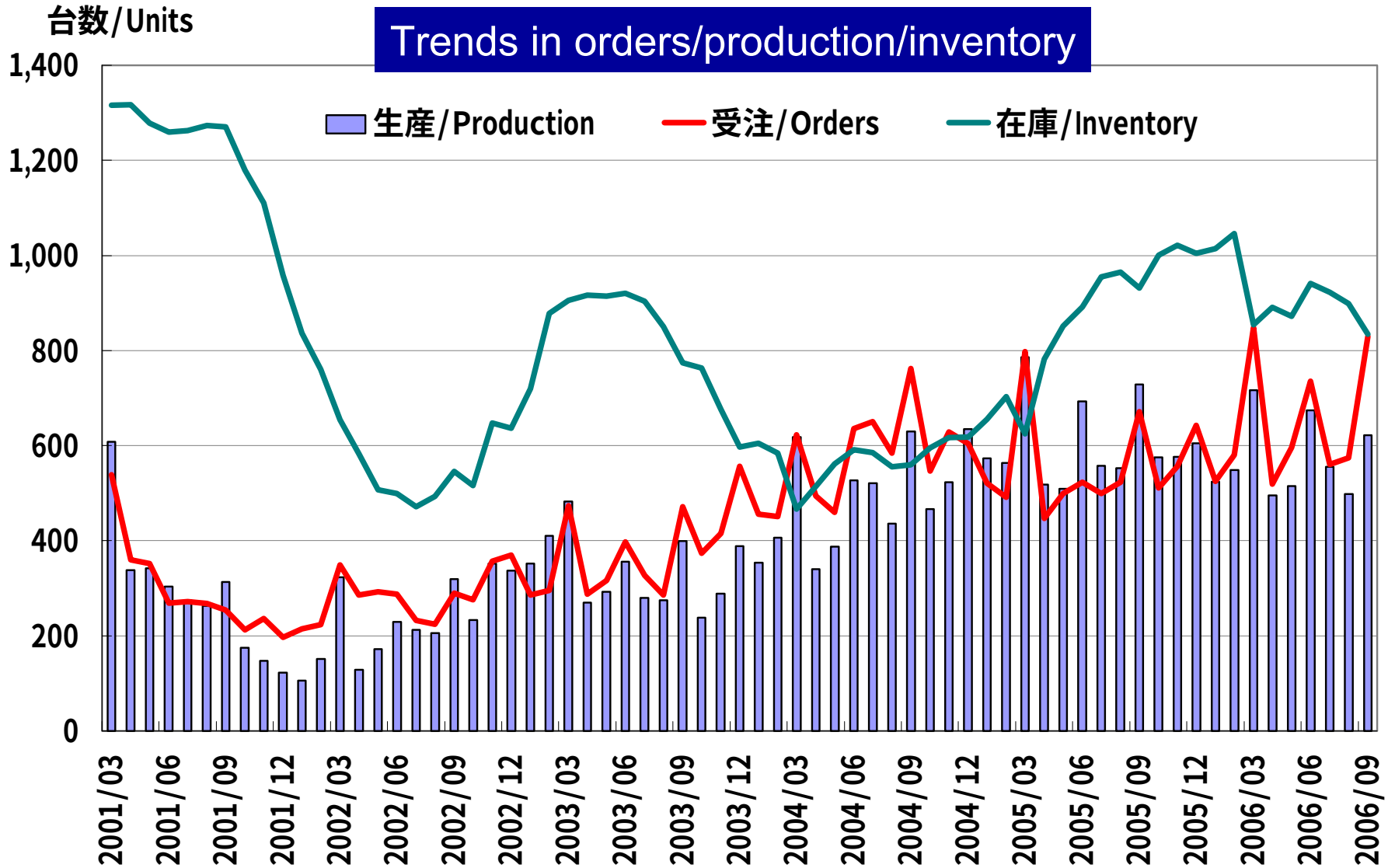


Sales/Cost of Sales Ratio Achieved the Targets for the Mori-568PLAN

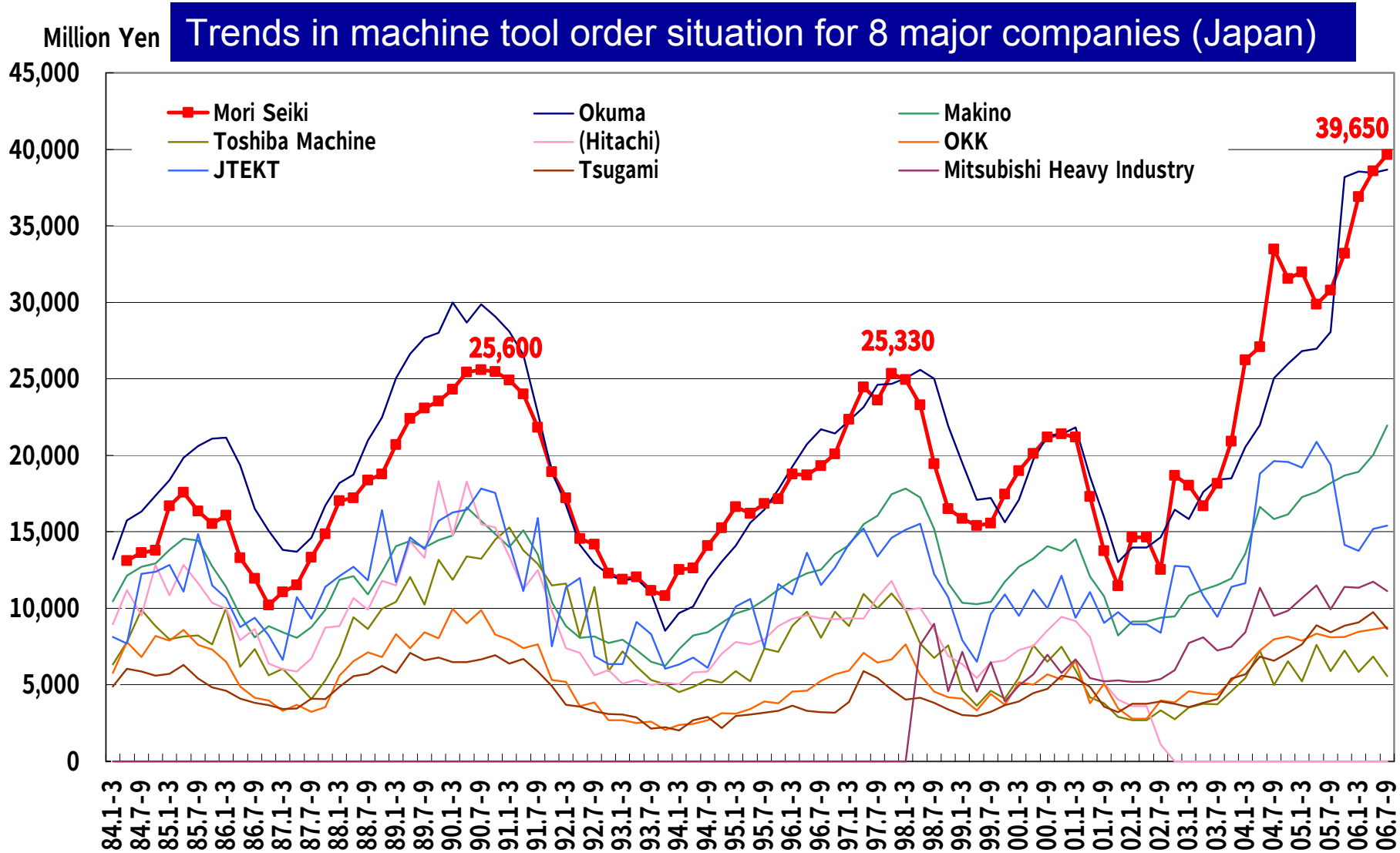
※Consolidated base

	FY2004	FY2005			FY2006 Semi-annual			FY2007
	Results	Targets	Results		Targets	Results		Targets
Mori-5								
・Sales (100 million yen/mth)	102	118	121	○	131	131	○	146
・Global share	3.4%	4.0%	4.2%	○	4.5%	4.5%	○	5.0%
Mori-6								
・Cost of sales ratio	66%	64%	61.9%	○	62.0%	61.1%	○	60%
Mori-8								
・Production (units/mth)	600	608	592 (March 717 units)	○	644	560	×	800

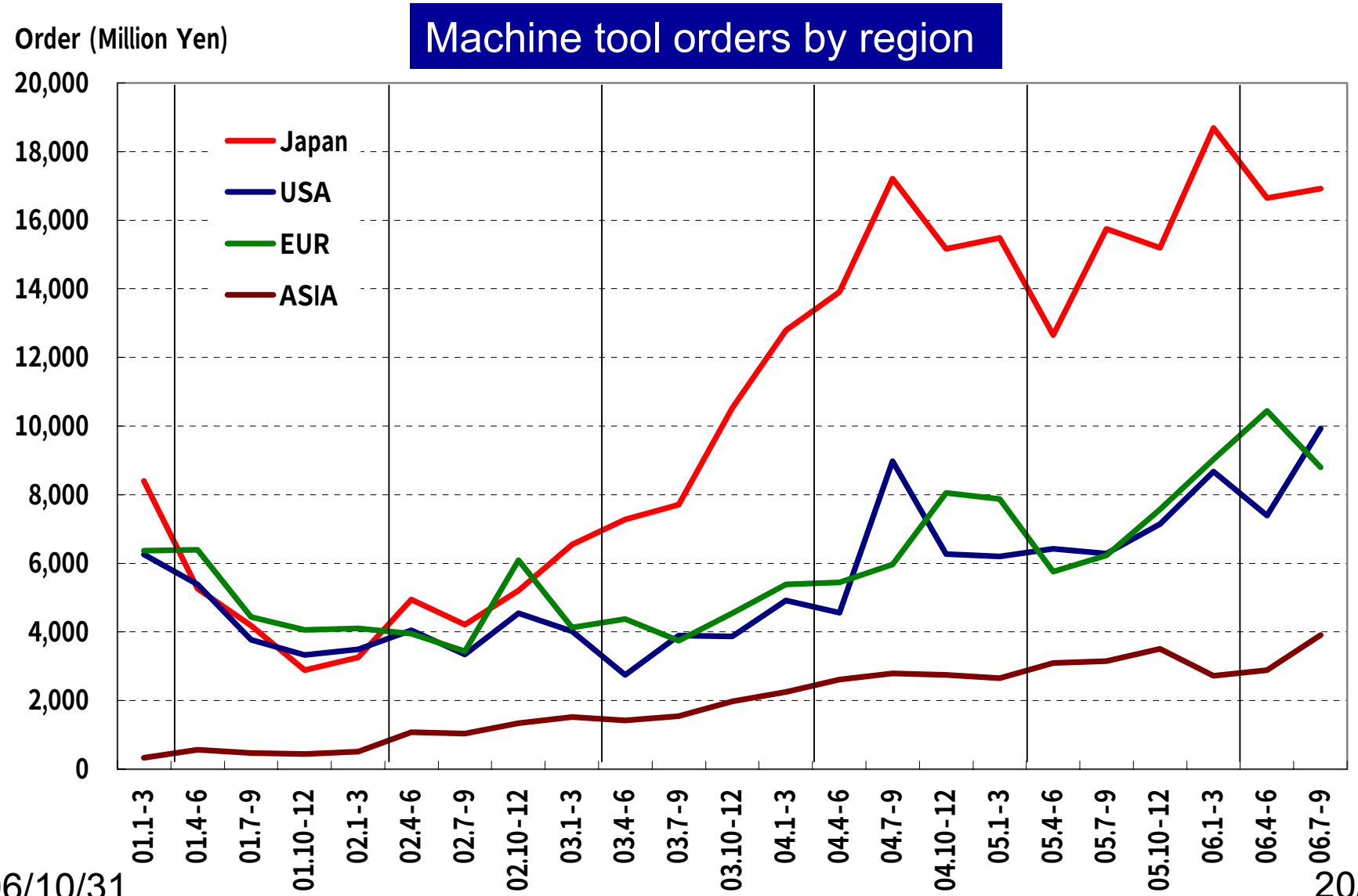
Increase in Order Amounts Exceeds Production



Active Order Situation Continues

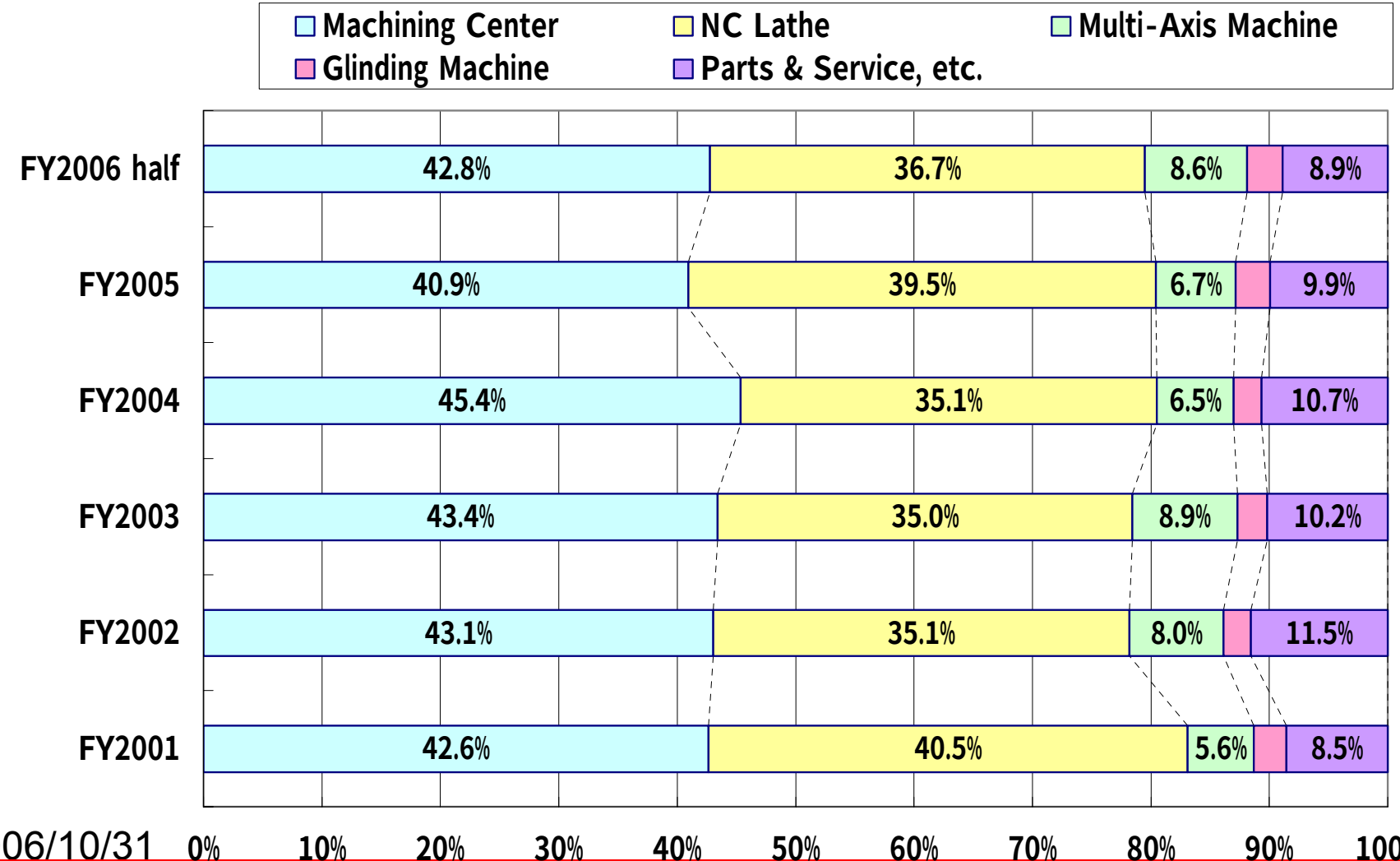


Orders Remain High in Japan, Americas and Europe

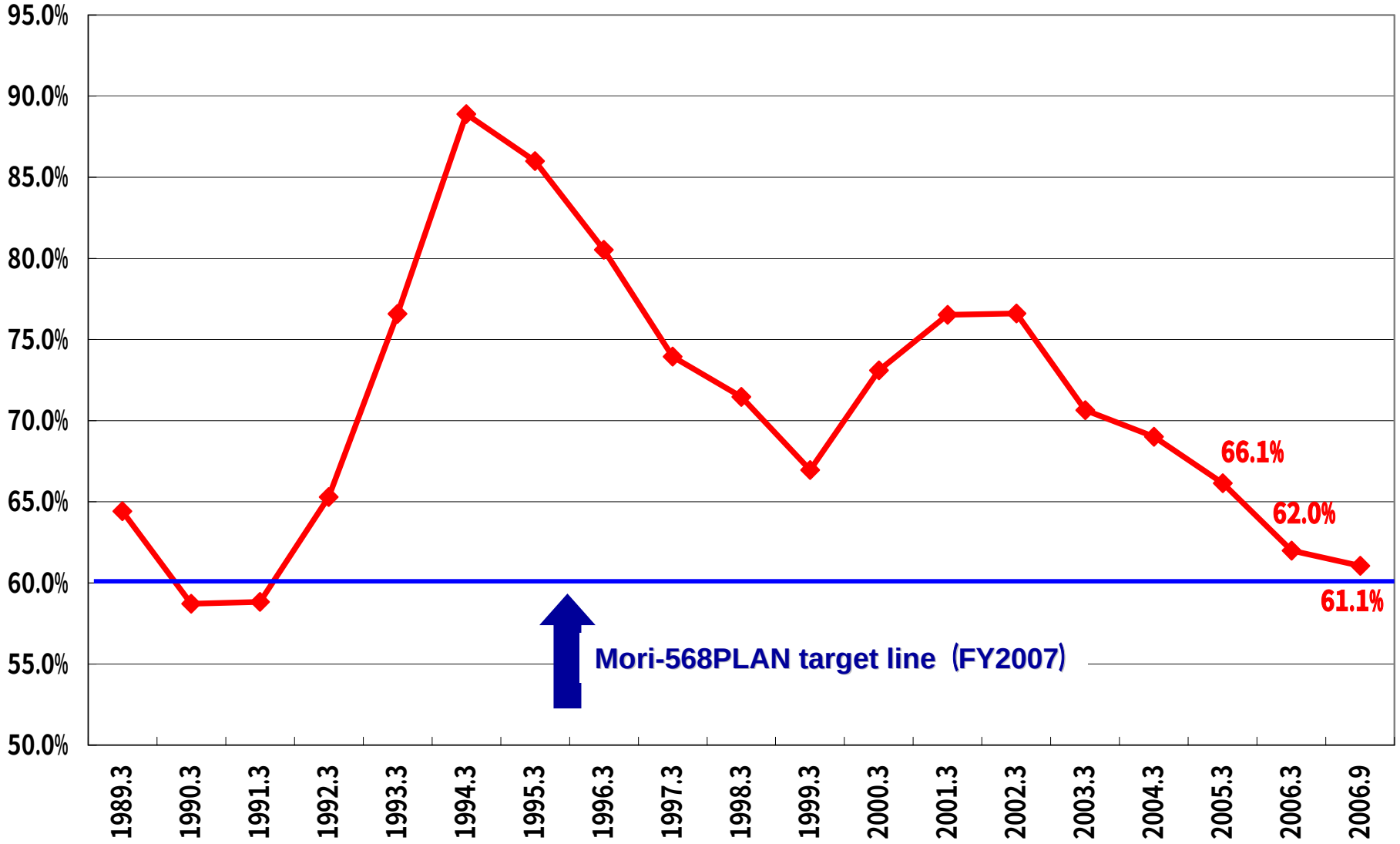


Number of MCs and Multi-Axis Machines Increases

Sales amount by model



Continuing Trend for Decreasing Cost of Sales Ratio



For the Second Half of FY2006

- **Orders have been steadily increasing, and the forecast for the second half is also good.**
- **Full-year upward adjustment, the sales target has been changed to 162 billion yen**
- **Completion of new factories**
  - Spindle, Sheet Metal, Casting, Chiba Machining
- **JIMTOF2006 is held from November 1**
  - Display 25 models (incl. the NZ2000, the NM, the NT, and the Dura, etc)
- **For even greater revenue and profit**
  - Cost reduction
  - Strengthened production

Full-Year Upward Adjustments and Forecasts

※Consolidated base

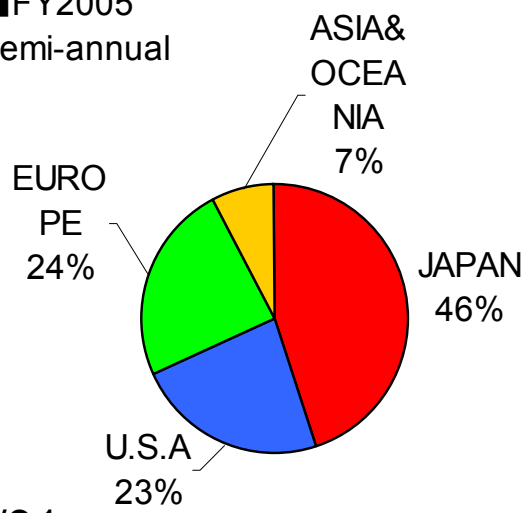
(Million yen)	FY2005 Semi-annual Results	FY2006 First forecast	FY2006 Revised forecast	FY2006 Difference	FY2006 First forecast
Sales	78,431	157,500	162,000	4,500	2.9 % up
Operating profit	10,029	20,000	21,000	1,000	5.0 % up
(Profit margin)		12.7%	13.0%	0.3%	—
Ordinary profit	10,037	19,500	20,800	1,300	6.7 % up
(Profit margin)		12.4%	12.8%	0.5%	—
Pre-tax profit	5,032	—	—	—	— % up
Net profit	4,585	11,200	14,000	2,800	25.0 % up
(conversion rate 1US$=)	(114.98)		(114.00)		
(1EURO=)	(136.15)		(142.00)		

Prospects for Sales Growth In Japan/Europe

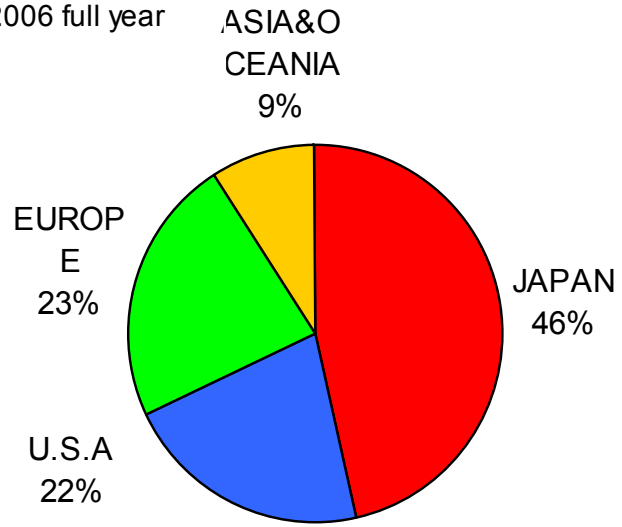
※ Consolidated base

	FY2005 Semi-annual	FY2006	
	Sales	Sales	Difference
JAPAN	35,214	75,000	2,500
U.S.A	18,206	35,000	0
EUROPE	19,159	37,000	2,000
ASIA&OCEANIA	5,852	15,000	0
Total	78,431	162,000	4,500

■FY2005 Semi-annual



■FY2006 full year



Measures/Results

Orders for the NT Have Been Steadily Increasing

Favorable Order Situation for the Dura

DuraVertical

DuraTurn

Launch of the NM Series 5-axis machines

NMV5000 DCG

NMH6300 DCG

Multi-Axis Machine for Mass Production NZ2000

Equipped with the world's first 3 Turrets with a built-in milling motor™ , offering machining ability 3 times larger than previous machines

NZ2000 T3Y3

Investment in Plant and Equipment Situation

**As of October 27, 2006,
out of the 22 billion yen allotted for investment in plant and equipment,
16.59 billion yen has been ordered.**

FY2006 semi-annual investment in plant and equipment
7.27 billion yen
(lease 2 billion yen)
FY2006 semi-annual Depreciation amount
2.27 billion yen
(+annual equipment leasing fee 750 million yen)

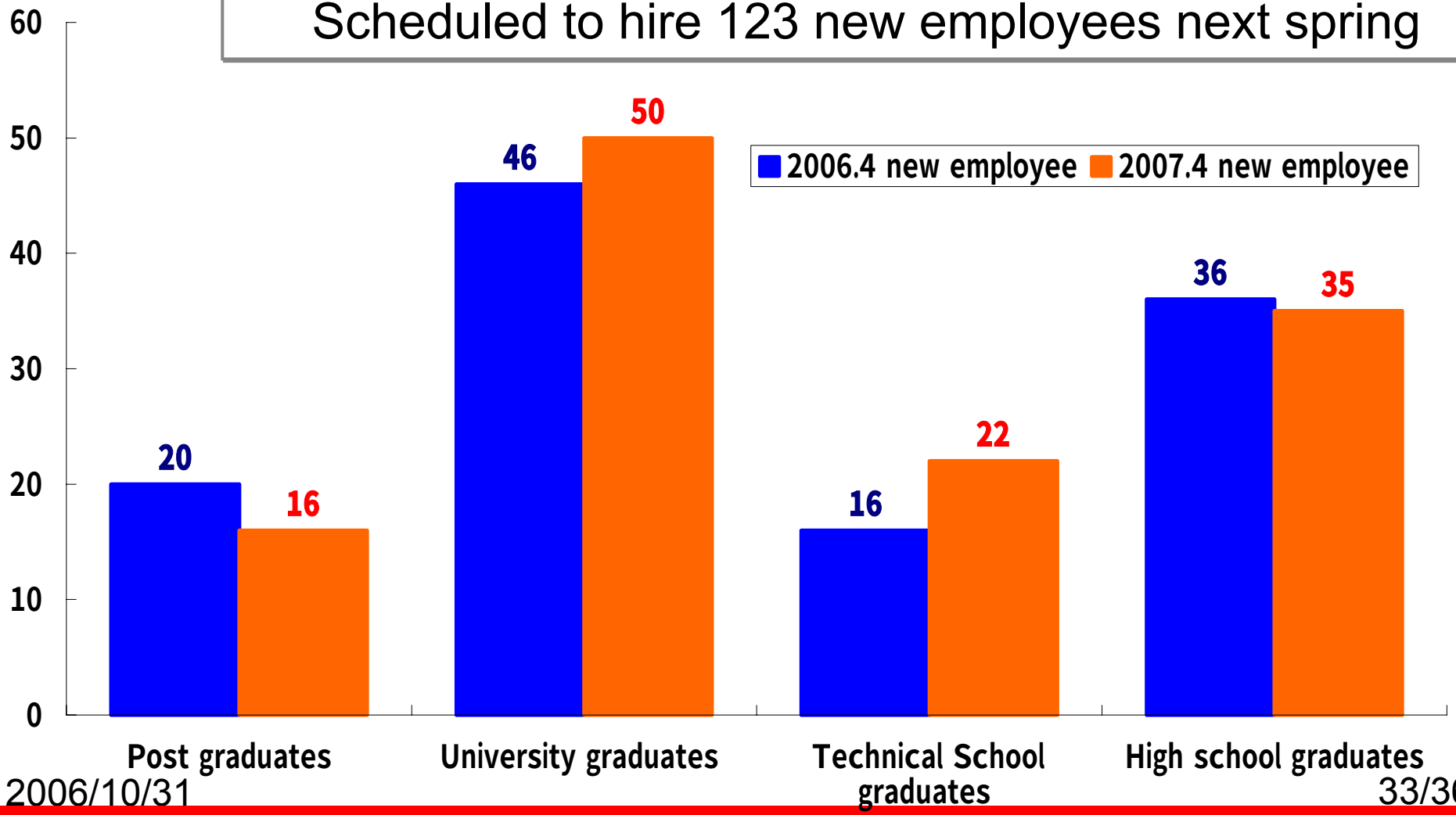
Completion of Sheet Metal Plant

Completed on October 16, 2006
Floor space 5,170 ㎡

FY2005→FY2007
In-house production ratio 5%→35%

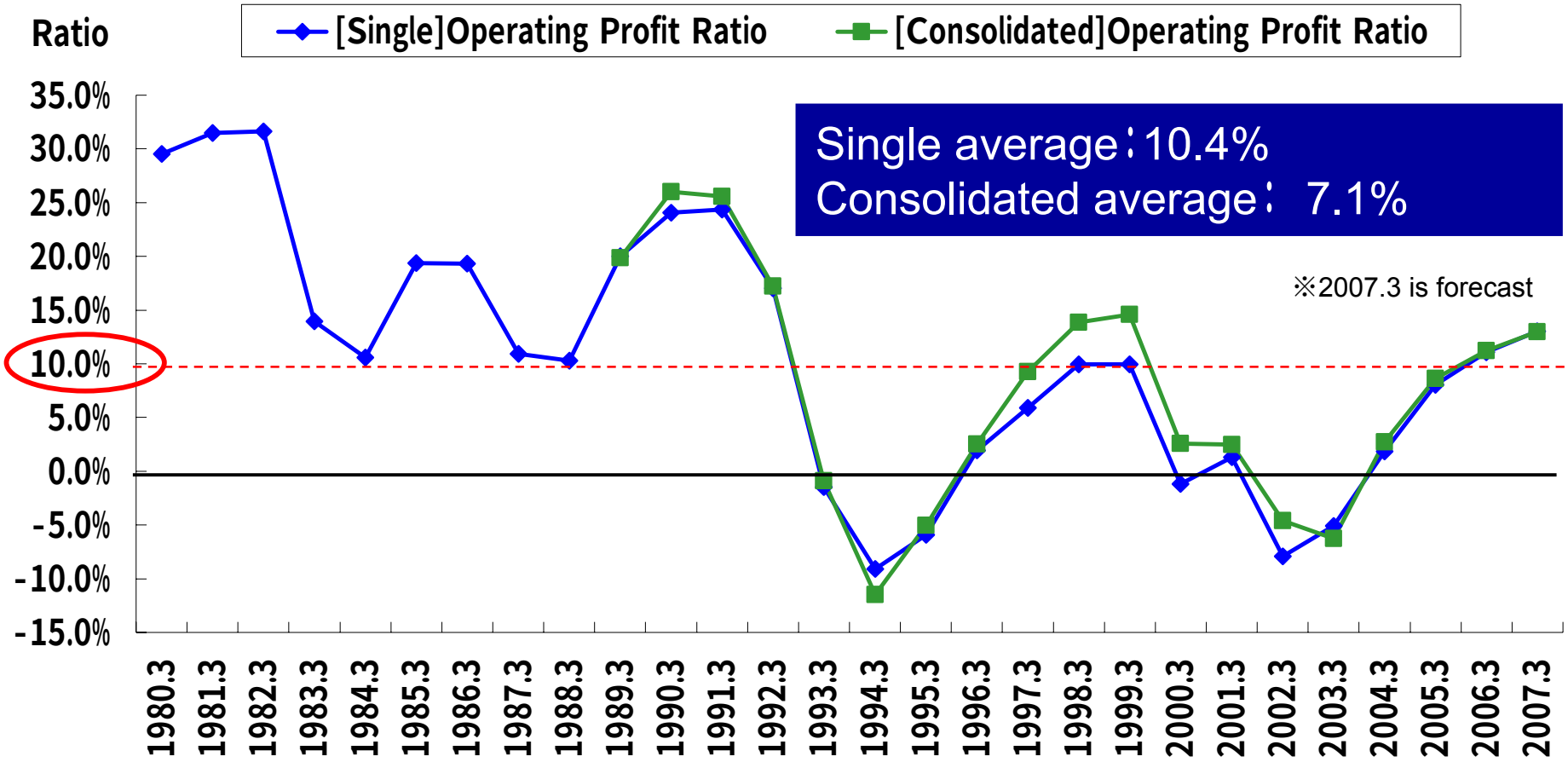
Recruiting New Employees

- Secure excellent human resources
  Scheduled to hire 123 new employees next spring



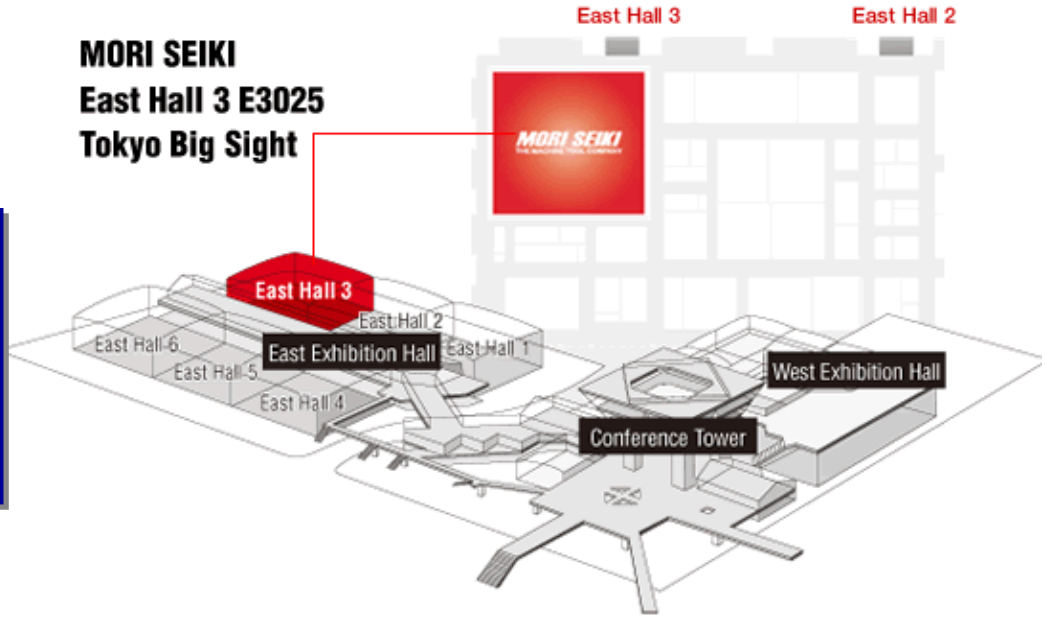
Aiming to Achieve the Average Operating Income Margin of 10%

Trends in operating profit ratio since stock listing



JIMTOF2006

Nov. 1 (Wed)
～Nov.8 (Wed)
at Tokyo Big Sight



MORI SEIKI

THE MACHINE TOOL COMPANY

GLOBAL

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ONE