

2006 Medium-Term Business Plan

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Forecasts regarding future performance in these materials are based on judgment made in accordance with information available at the time this presentation was prepared. As such, those projection simply risks and insecurity. For this reason, investors are recommended not to depend solely on these projections for making investment decision. It is possible that actual results may change significantly from these projections for a number of factors. Such factors include, but are not limited to, economic trends affecting the Company's operating environment, currency movement of the yen value to the U.S. dollar and other foreign currencies, and trends of stock markets in Japan.

1. Target & Road Map to Achievement

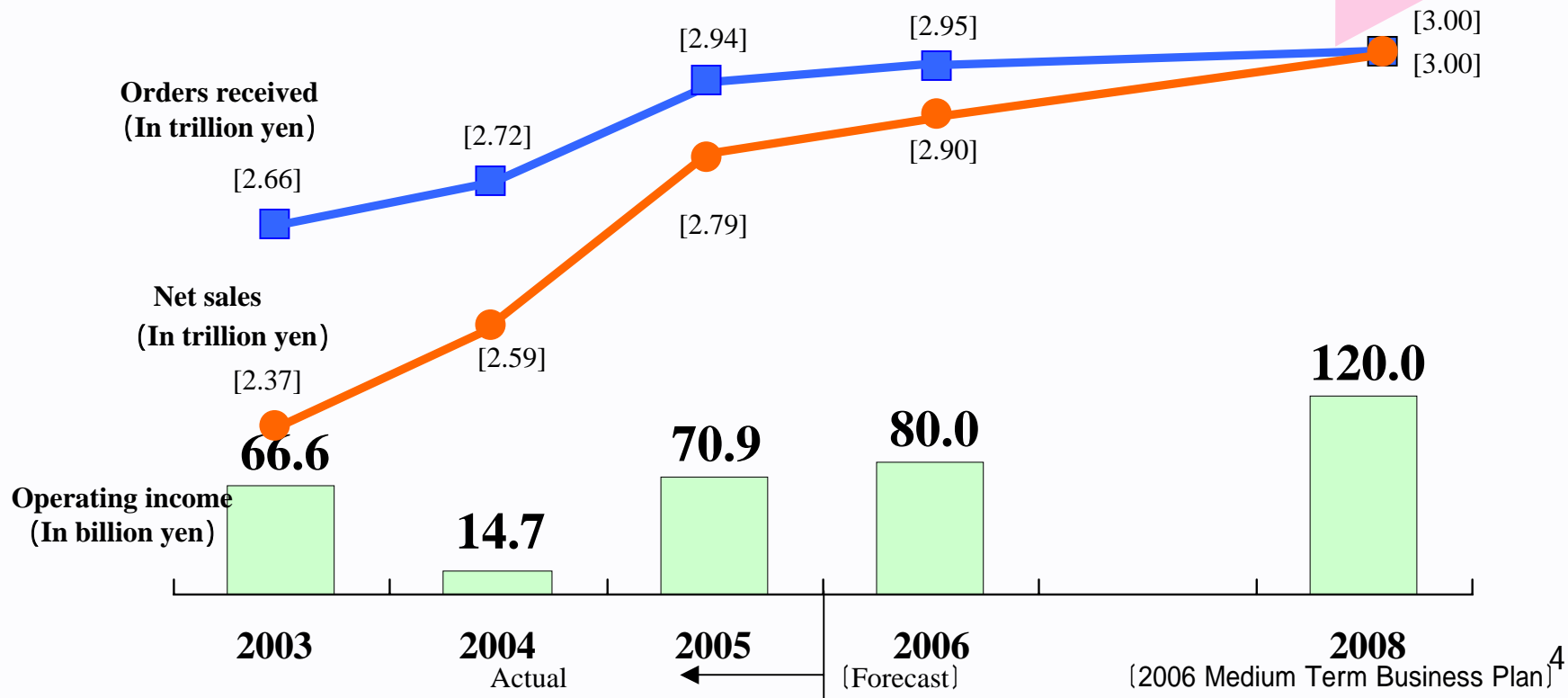
Target & Road Map to Achievement

STEP1 Action 05(Improvement in a base of profitability)

- Activity to improve profit : increase in sales, comprehensive cost reduction
- Strengthen product business : investments in growth businesses, countermeasures against unprofitable businesses

STEP2 2006 Medium Term Business Plan(Establish firm profitability)

- Build a solid earnings structure
- Strengthen the production technology base
- Establish society and customer trust



Target (Consolidated)

(In billion yen)

	2004 Actual	2005 Actual	2006 Forecast	2008 Target
Orders received	2,722.8	2,942.0	2,950.0	3,000.0
Net sales	2,590.7	2,792.1	2,900.0	3,000.0
Operating income	14.7	70.9	80.0	120.0
Ordinary income	12.5	50.3	63.0	100.0
ROE	0.3%	2.2%	3.0%	4.5%
Interest-bearing debt	1,172.8	1,198.6	1,250.0	1,500.0
Number of employees (Consolidated)	59,200	62,200	63,500	63,500
Export ration (Orders received, Non-consolidated)	44%	49%	50%	52%

2. Basic Strategies & Concentrated Measures

2006 Medium Term Business Plan

Basic Strategies

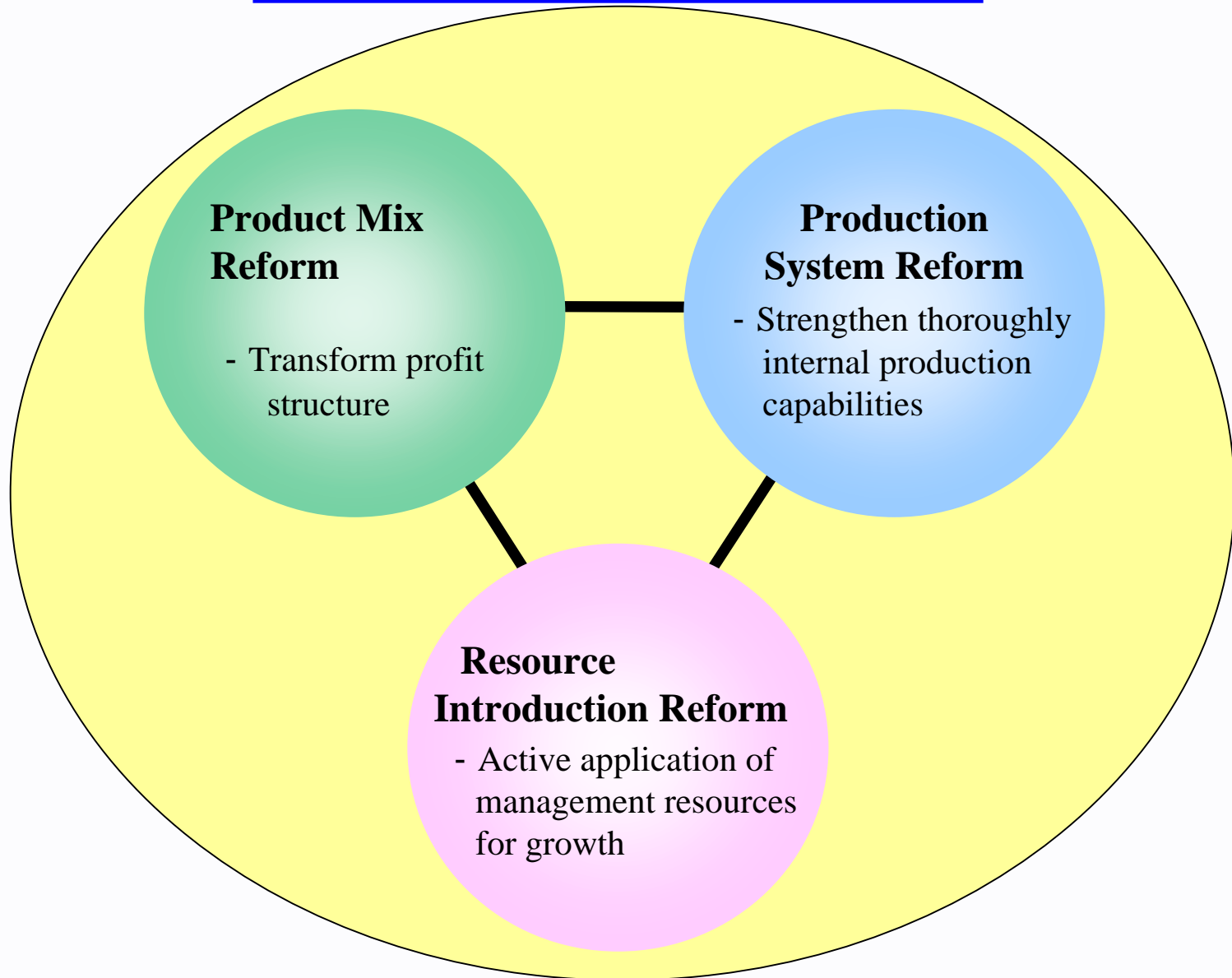
Build a solid earnings structure

Strengthen the production

technology base

Establish society and customer trust

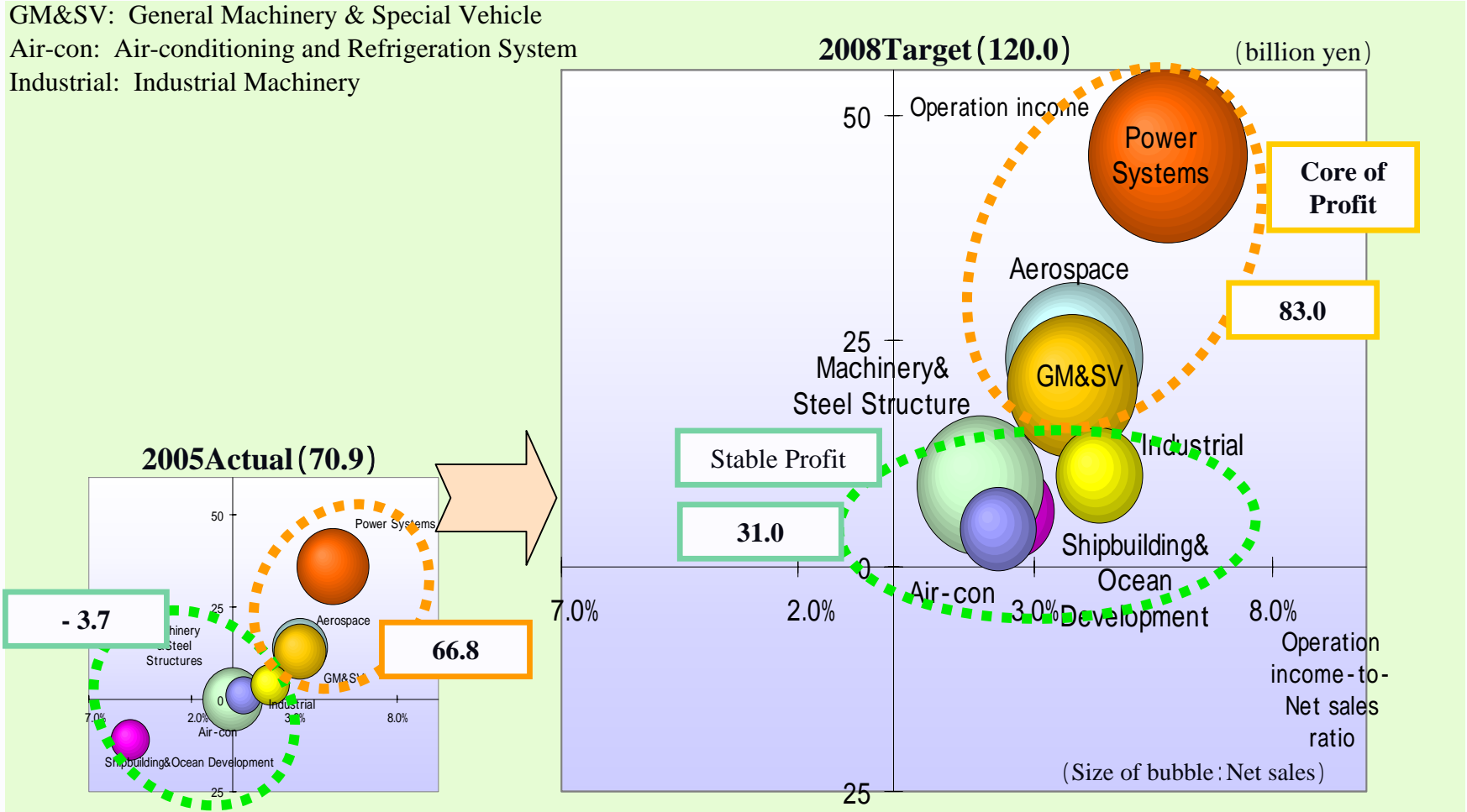
Three Reforms



Product Mix Reform

- Transform Profit Structure -

GM&SV: General Machinery & Special Vehicle
 Air-con: Air-conditioning and Refrigeration System
 Industrial: Industrial Machinery



Product Mix Reform

- Net sales · Earnings by Segment -

(In billion yen)

		Net sales		Operating income	
		2005actual	2008target	2005actual	2008target
Core of Profit	Power Systems	710.9	880.0	38.3	50.0
	Aerospace	445.9	480.0	16.5	18.0
	GM&SV	393.2	420.0	12.0	15.0
	Total	1,550.0	1,780.0	66.8	83.0
Low Profit	Industrial	219.7	230.0	4.4	10.0
	Air-Con	192.1	180.0	0.2	3.0
	Shipbuilding & Ocean Development	222.6	240.0	10.6	6.0
	Machinery & Steel Structures	538.7	490.0	2.3	12.0
	Total	1,173.1	1,140.0	3.7	31.0
	Others	68.7	80.0	7.5	6.0
	Grand Total	2,792.1	3,000.0	70.9	120.0

Product Mix Reform

- Surge Forward Globally as a Full Line Supplier of
Generator Plants -

Strengthen and
expand growth
product

Gas Turbine Combined Cycle (GTCC) Plant

- Capture Asian and China markets, expand market share
- Build a global production network

Nuclear Power

- Become a world-class integrated leading company in nuclear power
- Accelerate development of global strategy reactor
(next generation APWR · PBMR)
- Expand marketing of preventive maintenance construction to prolong
plant life

Natural Energy

- Wind turbine: Expand sales and production capacity in the U.S.
- Solar power generation: Expand sales of new product (Tandem Micro
crystallite) in Europe

IGCC: Complete construction of demonstration equipment (2007) :
Complete verification testing (2009)

Products to
support next
generation
businesses

Product Mix Reform

- Establish Global Position in New Development Projects -

Strengthen and expand growth product

Accelerated, Full-Scale Development of The Next Period's Main B787 Model

- Establish the world's composite material main wing center
(Construction of composite material main wing center to begin in September 2006)
- Promotion and smooth transition to mass production of composite material main wing and engine development

Establish expanded capacity in existing main businesses (B777, others)

Begin licensed domestic production of the PAC-3 missile, the core of BMD

Products to support next generation businesses

Promote joint Japan US development of next generation BMD

Participation in business for F-4 successors and establish integrated management

Promote H-II A privatization and development of H-II B

Product Mix Reform

- Develop Environmental and Energy Conservation Technologies and Accelerate Global Business Development -

Strengthen and expand growth product

Engines :

Expand global business opportunities through development of exhaust gas restriction-compliant engines

Turbochargers :

Expand business centering on small turbochargers for passenger cars
Introduce new highly efficient, exhaust gas restriction-compatible products
Overseas production expansion in response to increasing unit production

Forklifts:

Developing a new business model
(Proposal-based business, after sales business, etc.)

Establish on optimal procurement and production structure through a global supply chain

Products to support next generation businesses

Product Mix Reform

- Expand Revenues Through a Concentration of Management of Resources in Areas of Strength -

Strengthen and expand growth product

Machine Tools

- Strengthen gear machinery, large machine and specialty machine products mainly for the automobile industry
- Improve productivity and expand production capacity through active capital expenditures

Products to support next generation businesses

Printing Equipment

- Business expansion through new product introductions (Sheet feed equipment, etc.)
- Increase market share through local production overseas (China)

Accelerate countermeasure for mature and low profitability products

Injection Modeling, Food Packaging and Commercial Washing Machines

- Recover profitability through incorporation of the business

Product Mix Reform

- Ensure Stable Profits Through Expanded Overseas Production and High-End Product Introductions -

Strengthen and expand growth product

CAC

- Establish a supply structure to respond to automobile manufacturer globalization
- Development of new high end products (new compressor types) and market introduction

Products to support next generation businesses

RAC/PAC: Development, introduction of world standard equipment tailored to market characteristics

Large-size Freezers, Refrigerator Vehicles

- Maintain market share through introduction of energy saving and environmentally friendly models

Accelerate countermeasure for mature and low profitability products

PAC

- Expand overseas production (Thailand, China)
- Expand European and China marketing network

Product Mix Reform

- Strengthen Business Base With Production Process Reforms, Make Operations Profitable -

Accelerate
countermeasure
for mature and low
profitability
products

Specialize in the ship types that are our strength; maximize same type, lot effects and superior technology benefits

Covert design information into a 3D base

- Reform production methods to improve productivity

**Modernize Koyagi shipbuilding plant,
concentrate large scale investment**

- Introduce 1,200 ton gate-type cranes

Develop efficiency-promoting plant

Develop fuel efficient ship model

Products to
support next
generation
businesses

Product Mix Reform

- Improve Profitability of Four Core Businesses and Deal With Unprofitable Businesses -

Strengthen and
expand growth
product

Accelerate overseas development of traffic systems, strengthen core technologies (APM, etc.)

Chemical plants: Pursue areas of strength (petrochemical, gas)

Steel production equipment: Expand business in downstream production facilities areas

Fan: Start up new production capacity, expand the business of the gas areas

Products to
support next
generation
businesses

Environmental area: Commercialize CO2 recovery, biomass power generation

Automobile-related systems: ETC, servo motors

Medical, semiconductor are: Medical equipment, PCVD

Accelerate
countermeasure
for mature and
low profitability
products

Bridgeworks, making existing products environmentally friendly · Strengthen competitiveness through incorporation of the business

Accelerate countermeasures for unprofitable medium and small sized products

Product Mix Reform

- Develop Framework to Strengthen the Business -

Restructure Order-Based Production System

Integrated management of the power system business (February 2006)

Consolidate Machinery and Steel Structures Headquarters (May 2006)

- Enhance exports and growing private sector businesses, restructure public sector businesses
- Structure regional domestic sales organization
- Accelerate business reconstruction through incorporation of the business (Bridgeworks, sewage treatment, multistory parking)

Strengthen global operations

Strengthen overseas production infrastructure (gas turbine, turbochargers, engines, sheet feed equipment, etc.)

Expand oversea marketing bases (from 25 to 30)

Strengthen the capabilities of the technology headquarters

Expand activities to strengthen competitiveness of entire value chain from technology development to products

Expand activities to strengthen competitiveness of entire value chain from technology development to products

New Business, Product Creation Extending to Business Headquarters

Production System Reform

—Strengthen Thoroughly Internal Production Capabilities -

Adopt “Mass Production” system to “Ordered Products”

- **Improvement of accuracy of bill of quantity, resource and schedule by digital production system**

Strengthen supply chain management

- **Establishment of firm structure to cooperate with partners**

Educate and strengthen personnel resources for production system

- **To teach younger employees engineering and technique**

Build a structure to allow continuous reform production process

Production System Reform

Established the Production System Innovation Planning Department (April 2006)

Reports directly to the President, and will accelerate on site production reforms

Role ··· Lead production reforms, work across the whole organization

- Implement a firm-wide production reform action plan
- Promote capital expenditure
- Improve the firm-wide education system
- Promote in-house production of key parts and units
- Promote firm-wide production reform projects (QI-I, DE-I, Modular Design Project)

Resource Introduction Reform

- **Actively Apply Management Resources for Growth** -

1. Personnel Resources

Number of new recruits: 900/year 1,500/year

Number of employees (Consolidated) :

62,200 (March 2006) 63,500 (March 2009)

2. Capital Expenditure

¥360 billion over the previous 3 years

¥465 billion over the next 3 years

3. R&D Investment

¥315 billion over the previous 3 years

¥360 billion over the next 3 years

Resource Introduction Reform

- Acquiring and Utilizing Personnel Resources -

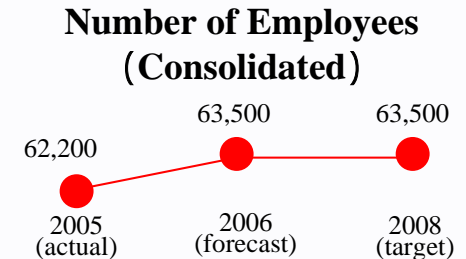
Stop the personnel declines. Hire 1,500 new employees/year

Employment increase +600 personnel/year(+65%)

- Expanding new graduate and mid-career hiring
- Development of new personnel resources (production engineer of university graduate, others)
- Active utilization of veterans through re-employment

Utilization personnel resources

- Shift personnel to growth businesses
(Increase personnel in Power Systems, Aerospace, General Machinery)
- Accelerate effective utilization of personnel resources for the entire group
- Strengthen New Graduate and Reassigned Employee Education
(Strengthen private technical school, technology training centers and enhance educational structure and programs)



Resource Introduction Reform

- Capital Expenditure -

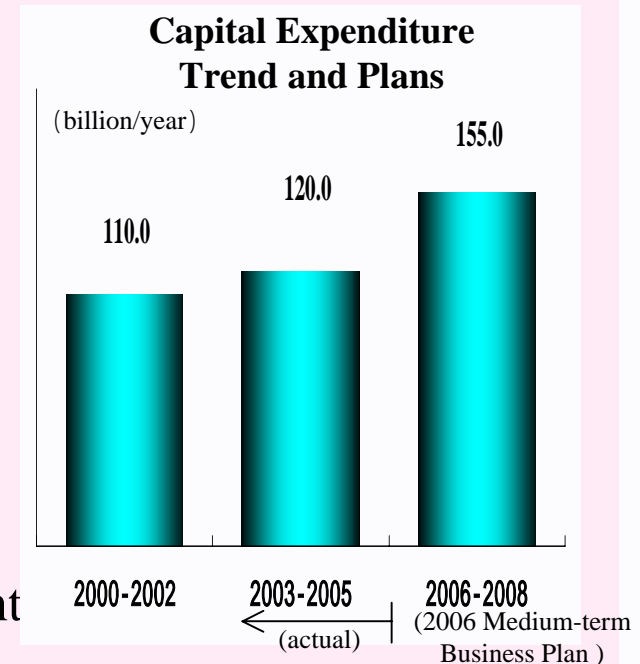
**Invest ¥465.0 billion over the next three years
(+¥105.0 billion vs the previous three years)**

Expansion of production capacity in growth businesses

- Gas turbines, wind power generation, solar power generation
- Commercial aircraft
- Engines, turbochargers, etc.

Strengthen internal production capabilities

- Production revolution, rationalization investment (Modernization of Koyagi shipbuilding plant, printing machines, compressors, etc.)
- Respond to environmental regulations



Resource Introduction Reform

- R&D Investment -

**Invest ¥360.0 billion over the next three years
(+¥45.0 billion vs the previous three years)**

Focused investment in growth businesses

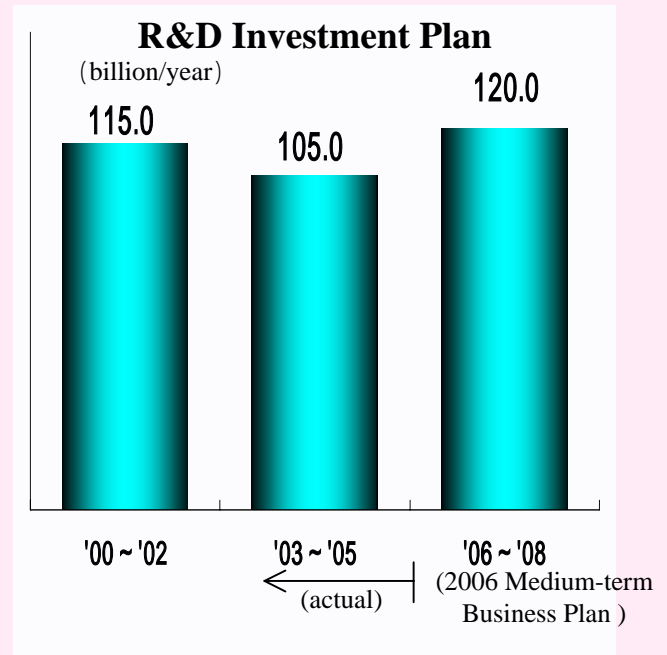
- Power Systems, Aerospace, General machinery

Production System Innovation

- QI-I, DE-I, Modular Design Project

New businesses · New product development

- Create business of Hybrid, Energy, Environmental Solution, Others



3. Promotion of CSR

- Management with full commitment to its CSR -

- **No more bid-rigging; Adherence to compliance**
- **Contribution to society through business activities improving harmony between the global environment and economic activities**
- **Promotion of:**
 - **sending our information into society**
 - **communication with society**

4. Corporate Identity

Dramatic Technologies

Tomorrow created here

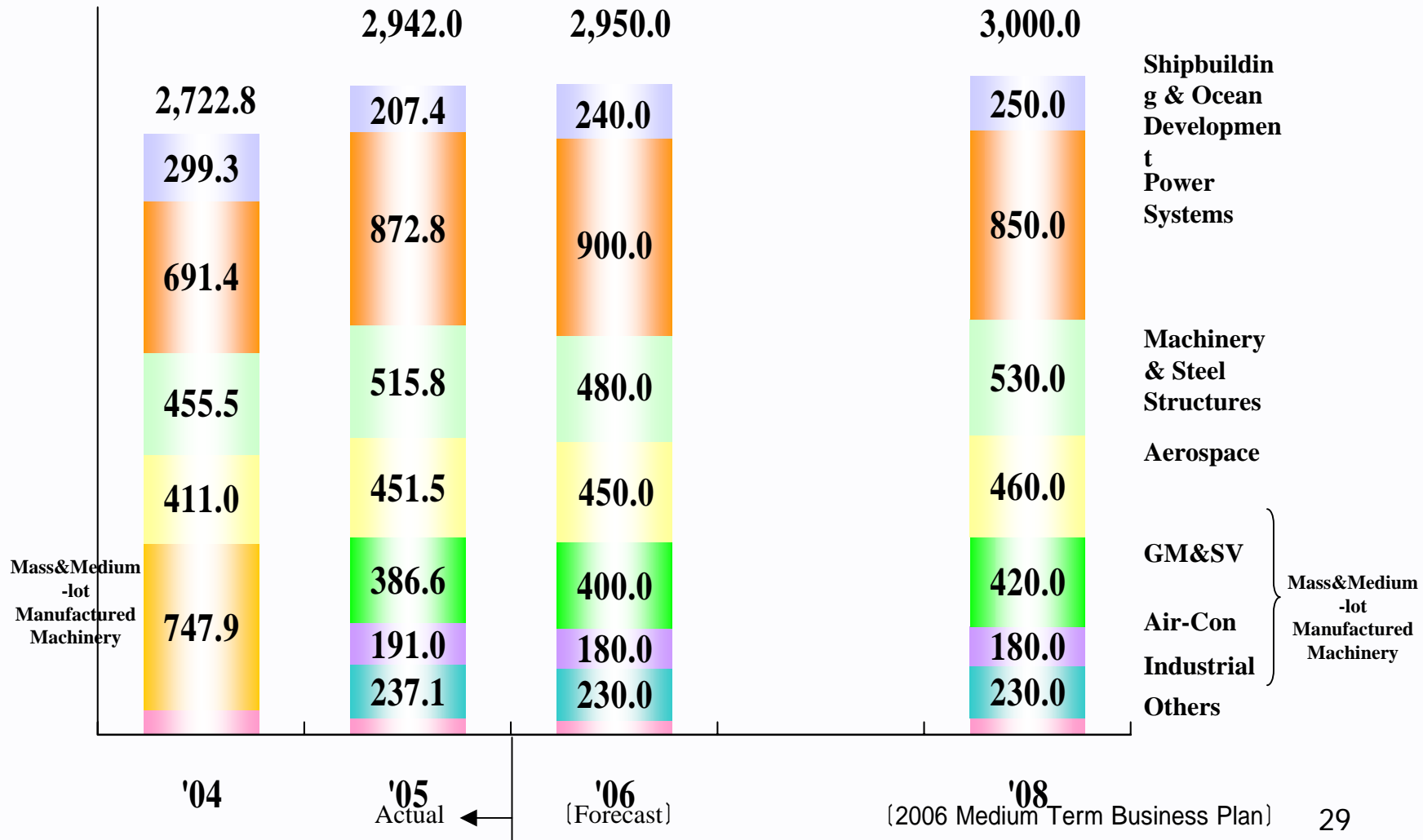


5. Supplementary Information

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- 2. Target of Sales and Earnings by Segment (Consolidated) Page 30**

Target of Orders received by segment (Consolidated)

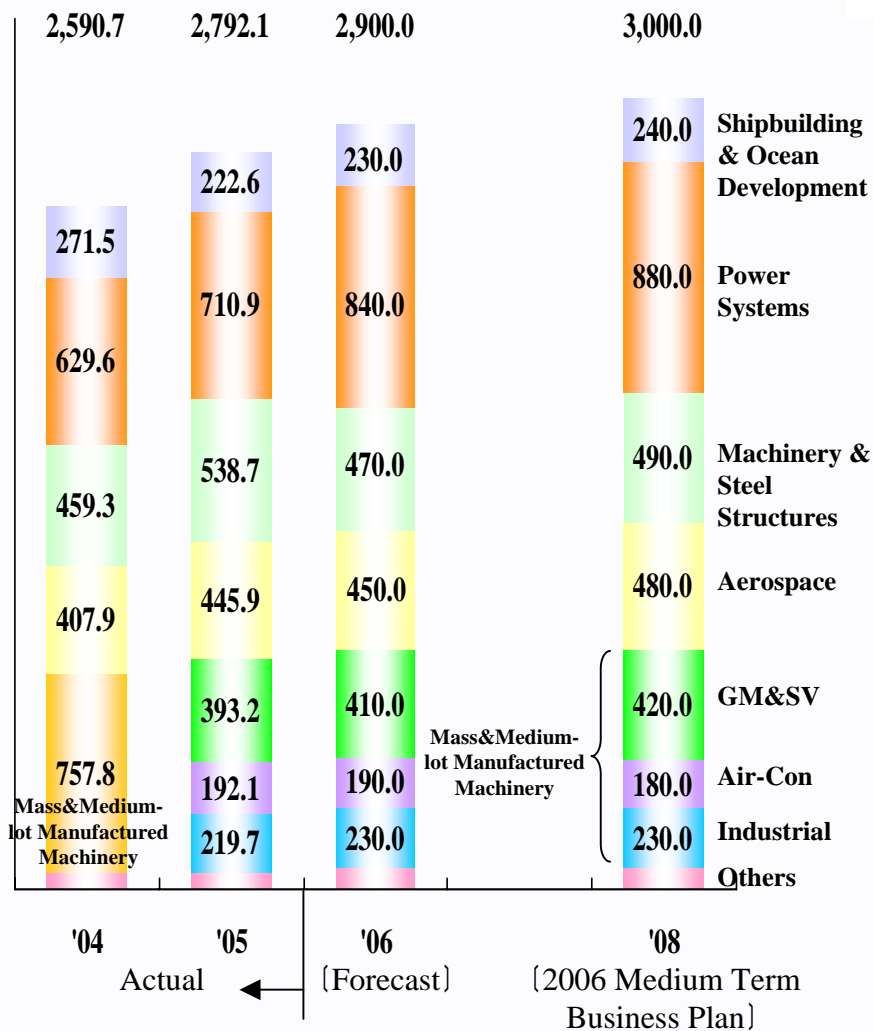
(In billion yen)



Target of Net sales · Earnings by segment (Consolidated)

(In billion yen)

【 Net sales 】



(In billion yen)

【 Operating income 】

