



# Financial Results for FY2004

(April 1, 2004-March 31, 2005)

April 2005

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II . Forecast for FY2005

# I . Financial Results for FY2004

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# Summary of FY2004 Consolidated Results of Operations (1)

( Billion Yen)

	FY03	<b>FY04</b>	Change
Orders received	2,662.8	2,722.8	60.0
Net sales	2,373.4	2,590.7	217.2
Operating income	66.6	14.7	-51.8
Ordinary income	29.7	12.5	-17.2
Extraordinary income	20.3	3.8	-16.4
Income before income taxes	50.1	16.3	-33.7
Net income	21.7	4.0	-17.7

# Summary of FY2004 Consolidated Results of Operations (2)

## **Orders received** ⇒ Up ¥60.0 billion year on year (¥2,662.8 billion to ¥2,722.8 billion)

- Machinery & Steel Structures received large orders for exported chemical plants; orders were also up in Mass and Medium-Lot Manufactured Machinery, Power Systems and Aerospace
- Shipbuilding & Ocean Development orders were down compared with FY2003 when a number of large orders were received; however, orders remain strong due to favorable market conditions

## **Net sales** ⇒ Up ¥217.2 billion year on year (¥2,373.4 billion to ¥2,590.7 billion)

- Due to rising orders since FY2002, sales were up year on year in Power Systems, Shipbuilding & Ocean Development, Mass and Medium-Lot Manufactured Machinery, and Aerospace.
- Machinery & Steel Structures sales were down because of a decline in deliveries of bridges, chemical plants and other projects.
- Reflecting the upturn in orders received, net sales hit bottom in FY2003 and returned to a growth curve in FY2004.

## **Net income** ⇒ Down ¥17.7 billion year on year (¥21.7 billion to ¥4.0 billion)

Initiatives were taken to reinforce the operating framework and raise profitability, such as by enhancing product quality and reliability and enacting reforms to boost manufacturing efficiency. However, ordinary income was down ¥17.2 billion to ¥12.5 billion and net income fell ¥17.7 billion to ¥4.0 billion for the following reasons.

- \*Completions during FY2004 of many ships that were ordered in FY2002 and the first half of FY2003 when the yen was weak.
- \*The large number of products where it is difficult to incorporate the recent sharp rise in materials costs in prices because of the long time between order receipt and delivery.
- \*Large investments made in product sectors that will support future growth and an associated increase in R&D expenditures.

# Orders Received

Up ¥60.0 billion year on year

(¥2,662.8 billion to ¥2,722.8 billion)

( Billion Yen )

	FY03	FY04	Change	
Shipbuilding & Ocean Development	329.9	299.3	-30.5	
Power Systems	670.7	691.4	20.6	
Machinery & Steel Structures	422.7	455.5	32.7	
Aerospace	407.5	411.0	3.5	
Mass and Medium-Lot Manufactured Machinery	General Machinery & Special Vehicles	316.6	347.4	30.8
	Air Conditioning Systems	189.1	180.5	-8.5
	Industrial Machinery	221.3	219.8	-1.4
	Total	727.1	747.9	20.8
Others	104.6	117.4	12.8	
Total	2,662.8	2,722.8	60.0	

## • Shipbuilding & Ocean Development (Down ¥30.5 billion)

Orders remained high, but were lower than in FY2003 when many large orders were received.

\*Orders received for 23 vessels—LNG carriers: 8 LPG carriers: 2 Car carriers: 6 Containerships: 4 Others: 3; order backlog of 60 vessels (including 12 LNG carriers) [Orders for 38 vessels received in FY2003; order backlog 65 vessels (including 5 LNG carriers)]

## • Power Systems (Up ¥20.6 billion)

Domestic market for capturing new orders remained challenging, but MHI captured order for a new thermal power plant and other projects; competitive engines for dispersed power supply systems also performed well.

In exports, sales activities were conducted worldwide, including in China, SE Asia, Latin America and elsewhere; received many orders for gas turbine combined-cycle power facilities and for a replacement steam generator at a U.S. nuclear power plant.

\*Received orders for 23 gas turbines, order backlog for 71 gas turbines [FY2003 gas turbine orders for 18 units and backlog of 54 units]

## • Machinery & Steel Structures (Up ¥32.7 billion)

Orders down in Japan due to difficult market conditions as public-works spending continued to fall.

Total export orders were up year on year, driven by orders for a chemical plant (large fertilizer plant in Oman), transportation systems, LNG tanks and other projects.

## • Aerospace (Up ¥3.5 billion)

In the military sector, orders for the F-2 support fighter decreased, but total orders were up because of higher orders associated with ballistic missile defense.

In the aerospace sector, there was a decline in H-IIA orders, but total orders were up because of growth in private-sector orders, including new orders involving the B787.

## • Mass and Medium-Lot Manufactured Machinery (Up ¥20.8 billion)

General Machinery & Special Vehicles orders increased because of strong orders for small and midsize engines and forklifts.

Air Conditioning Systems orders decreased due to lower orders for car air conditioners.

Industrial Machinery orders were generally flat. Orders in Japan for machine tools and printing presses climbed, but orders for paper machinery, extrusion machinery, injection molding machines and plastic film manufacturing machines declined.

# Net Sales

**Up ¥217.2 billion year on year**  
**(¥2,373.4 billion to ¥2,590.7 billion)**

( Billion Yen )

		FY03	FY04	Change
<b>Shipbuilding &amp; Ocean Development</b>		200.0	271.5	71.4
<b>Power Systems</b>		549.8	629.6	79.7
<b>Machinery &amp; Steel Structures</b>		471.5	459.3	-12.1
<b>Aerospace</b>		392.2	407.9	15.7
<b>Mass and Medium-Lot Manufactured Machinery</b>	General Machinery &	308.3	363.0	54.6
	Air Conditioning Systems	184.3	178.6	-5.6
	Industrial Machinery	194.9	216.1	21.2
	<b>Total</b>	<b>687.6</b>	<b>757.8</b>	<b>70.2</b>
<b>Others</b>		72.0	64.3	-7.7
<b>Total</b>		<b>2,373.4</b>	<b>2,590.7</b>	<b>217.2</b>

## • Shipbuilding & Ocean Development (Up ¥71.4 billion)

Sales were much higher because the number of vessels completed rose from 21 in FY2003 to 28 in FY2004.

\* 28 vessels completed—LNG carriers: 1 LPG carriers: 2 Car carriers: 9 VLCCs: 4 Containerships: 1 Ferries: 4 Others: 7

[21 vessels completed in FY2003—LNG carriers: 3 LPG carriers: 3 Containerships: 5 Ferries/RORO: 6 Others: 4]

## • Power Systems (Up ¥79.7 billion)

Sales rose because of order growth in FY2003.

Export sales rose mainly because of strength in gas turbine combined-cycle power facilities. Domestic sales rose mainly because of strength in industrial power generation facilities, mainly engines for dispersed power supply systems.

## • Machinery & Steel Structures (Down ¥12.1 billion)

Machinery sales were lower for chemical plants and environmental equipment, steel structure sales were down for bridges, underground tunneling & foundation machinery, material handling systems and other products. Although sales of steelmaking machinery and other products were higher, total sales declined.

## • Aerospace (Up ¥15.7 billion)

In the military sector, sales were down mainly due to a downturn in helicopter deliveries. However, total sales increased because of growth in sales of small and midsize civil aircraft and aerospace equipment.

## • Mass and Medium-Lot Manufactured Machinery (Up ¥70.2 billion)

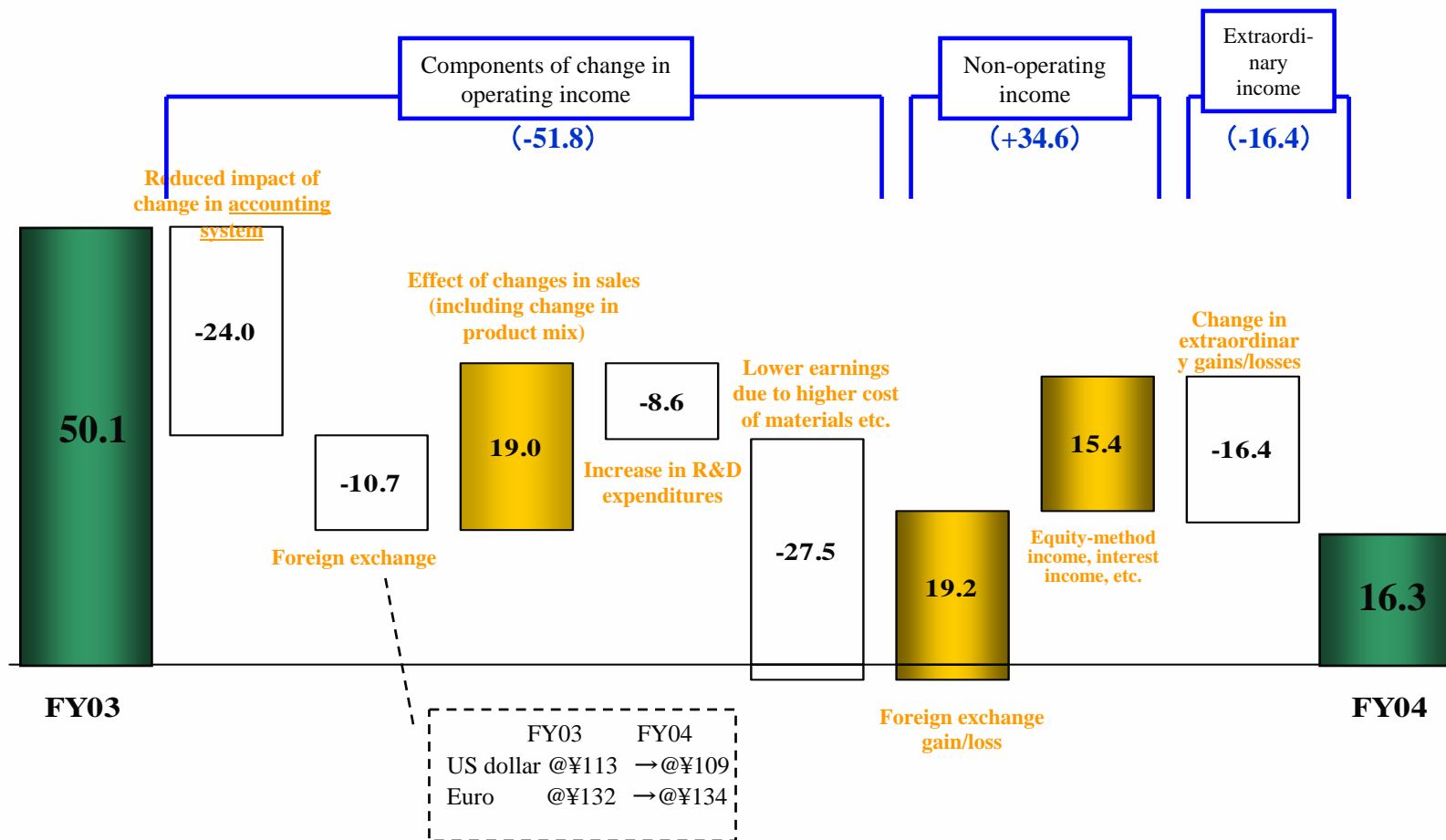
General Machinery & Special Vehicles sales were up sharply mainly because of strong sales of small and midsize engines and forklifts.

Air Conditioning Systems sales decreased due to lower orders for car air conditioners.

Industrial Machinery sales increased. Sales of extrusion machinery, injection molding machines and plastic film manufacturing machines decreased, in Japan for machine tools and printing presses climbed, but sales of machine tools and printing presses climbed.

# Components of Change in FY2004 Income Before Income Taxes

Down ¥33.7 billion (¥50.1 billion to ¥16.3 billion)



Note: Change in accounting system refers to the change in the time period to which one-time payments are applied.



# Ordinary Income and Extraordinary Income

## ▪ Ordinary Income (Down ¥17.2 billion (¥29.7 billion to ¥12.5 billion))

	FY03	FY04	Change
<b>Operating income</b>	<b>66.6</b>	<b>14.7</b>	<b>-51.8</b>
Foreign exchange gain/loss	-17.6	1.6	19.2
Net interest expenses	-6.3	-5.5	-0.7
Others	-12.9	1.8	14.6
<b>Non-operating expense</b>	<b>-36.8</b>	<b>-2.2</b>	<b>34.6</b>
<b>Ordinary income</b>	<b>29.7</b>	<b>12.5</b>	<b>-17.2</b>

The rapid appreciation of the yen that began in Sept. '04 caused a foreign exchange loss, but there was a foreign exchange gain for all of FY2004.

【reference】

	US dollar	Euro
March '04	@¥107.39	@¥138.87
March '03	@¥105.69	@¥128.88
March '02	@¥120.20	@¥129.83

Equity-method income +¥3.8 billion  
Smaller loss on disposal of property and equipment +¥2.1 billion, others

## ▪ Extraordinary Income (Down ¥16.4 billion (¥20.3 billion to ¥3.8 billion))

	FY03	FY04	Change
•Gain on sale of investment securities		15.7	15.7
•Gain on sale of property and equipment	5.7	10.3	4.6
•Expenses for past-service liabilities associated with revision in discount rate and other items concerning pension payments	35.8	0.0	-35.8
•Valuation losses on investment securities	-1.0		1.0
•Provision for reserve for product guarantees		-10.8	-10.8
•Special measures for business improvements and restructuring	-20.2	-1.7	18.4
•Impairment losses on property and equipment		-6.1	-6.1
•Losses from natural disasters	0.0	-3.4	-3.4
<b>Extraordinary income</b>	<b>20.3</b>	<b>3.8</b>	<b>-16.4</b>

Sold investment securities and property and equipment to increase asset productivity.

FY2003 revision in pension system resulted in a reduction in pension liabilities that was recorded as an extraordinary gain.

A product guarantee reserve system was adopted in FY2004. Reserves established for past years were recorded as an extraordinary loss.

# Balance Sheets

( Billion Yen )

	FY03	FY04	Change
<b>Assets</b>			
Trade receivables	995.3	1,048.8	53.5
Inventories	975.9	958.5	-17.4
Other current assets	431.7	458.2	26.5
Total current assets	2,402.9	2,465.6	62.6
Total fixed assets	1,312.3	1,365.4	53.1
Total assets	3,715.3	3,831.1	115.7
<b>Liabilities and Shareholders'Equity</b>			
Trade payables	630.9	649.1	18.1
Advances received	327.3	363.4	36.1
Other current liabilities	561.1	555.3	-5.8
Total current liabilities	1,519.4	1,567.9	48.5
Total long-term liabilities	857.1	937.9	80.7
Total liabilities	2,376.6	2,505.9	129.3
Minority interests	14.2	15.2	0.9
Shareholders' equity	1,324.4	1,309.9	-14.5
Total liabilities, minority interests and shareholders'	3,715.3	3,831.1	115.7
Equity ratio	35.6%	34.2%	-1.4pt

Investment securities :+¥76.2 billion  
(Mitsubishi Motors common stock and preferred stock—purchased ¥90.0 billion, disposed of ¥7.5 billion)

Short-term loans: -¥46.2 billion  
Bonds (current portion):+¥33.1 billion, others

Bonds: -¥33.5 billion  
Long-term loans: +¥118.3 billion

Retained earnings: -¥6.6 billion  
Treasury stock: -¥3.8 billion  
Unrealized gain/loss: -¥3.7 billion

# Cash Flows, Interest-Bearing Debt

## Cash Flows

(Billion Yen)

	FY03	FY04	Change
Operating cash flows	134.2	107.0	-27.1
Investing cash flows	-95.3	-163.3	-67.9
Free cash flows	38.8	-56.2	-95.1
Financing cash flows	-44.4	57.9	102.3

## FY2004 Overview

Operating cash flows were down ¥27.1 billion to ¥107.0 billion because of the lower income before income taxes, although changes in trade receivables and advances received provided more net cash than in FY2003.

Cash used investing activities increased ¥67.9 billion to ¥163.3 billion mainly because of the purchase of Mitsubishi Motors stock.

The result was a ¥95.1 billion decline in free cash flows to negative ¥56.2 billion.

Interest-bearing debt increased ¥71.6 billion.

## Interest-bearing Debt

(Billion Yen)

	FY03	FY04	Change
Interest-bearing debt	1,101.2	1,172.8	71.6

## Summary of FY2004 Non-Consolidated Results of Operations

( Billion Yen )

	FY03	FY04	Change
Orders received	2,159.2	2,202.0	42.7
Net sales	1,940.1	2,097.9	157.7
Operating income	35.2	-9.7	-44.9
Ordinary income	7.5	-9.6	-17.1
Extraordinary income	16.1	9.9	-6.2
Income before income taxes	23.7	0.2	-23.4
Net income	5.2	-2.0	-7.2

# Supplementary Information (1)

## 1. Foreign Exchange Rates

(¥/US\$)

	FY00		FY01		FY02		FY03		FY04	
	1st Half	Year	1st Half	Year	1st Half	Year	1st Half	Year	1st Half	Year
Avg. rate for recording sales	114.3	114.1	119.7	122.3	122.5	122.4	119.1	113.0	110.7	108.7
(reference) Rate at end of period	108.0	123.9	119.4	133.3	122.6	120.2	111.3	105.7	111.1	107.4

## 2. Research and Development Expenses

(Billion Yen)

	FY00	FY01	FY02	FY03	FY04
Research and development expenses	116.2	118.5	109.4	99.5	124.0

## 3. Depreciation and Capital Expenditures

(Billion Yen)

	FY00	FY01	FY02	FY03	FY04
Depreciation	99.3	95.9	97.0	99.8	99.1
Capital expenditures	96.4	109.7	119.1	109.8	112.2

# Supplementary Information (2)

## 4. Workforce

(Persons)

		FY00	FY01	FY02	FY03	FY04
(Consolidated)	Shipbuilding & Ocean Development	6,208	5,946	5,796	5,707	5,531
	Power Systems	14,441	14,163	13,949	13,665	13,749
	Machinery & Steel Structures	8,785	8,445	8,136	8,121	7,839
	Aerospace	7,637	7,615	7,504	7,374	7,314
	Mass and Medium-Lot Manufactured Machinery	18,127	17,935	17,346	16,203	16,154
	Others	8,798	8,649	8,561	8,879	8,653
	Total	63,996	62,753	61,292	59,949	59,240
(Non-consolidated)	Total	37,934	36,692	35,530	34,396	33,500

## 5. Overseas Sales by Region

(Billion Yen)

		FY00	FY01	FY02	FY03	FY04
(Consolidated)	North America	289.2 (25%)	346.5 (34%)	271.2 (32%)	262.1 (29%)	265.5 (25%)
	Central and South America	104.4 (9%)	157.3 (15%)	68.4 (8%)	95.1 (11%)	147.1 (14%)
	Asia	417.8 (35%)	188.2 (19%)	212.7 (26%)	324.6 (36%)	416.8 (40%)
	Middle East	186.0 (16%)	121.0 (12%)	55.5 (7%)	40.8 (5%)	28.1 (3%)
	Europe	149.4 (13%)	171.0 (17%)	193.0 (23%)	119.6 (13%)	162.3 (15%)
	Others	26.0 (2%)	34.6 (3%)	36.8 (4%)	50.2 (6%)	29.3 (3%)
	Total	1,173.0 (100%)	1,018.7 (100%)	837.8 (100%)	892.6 (100%)	1,049.3 (100%)

\*Europe includes Russia and Eastern Europe beginning in FY2004.

## II . Forecast for FY2005

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Forecasts regarding future performance in these materials are based on judgments made in accordance with information available at the time this presentation was prepared. As such, those projections imply 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 market in Japan.

# Summary of FY2005 Consolidated Forecast

(Billion Yen)

	FY04 (actual)	FY05 (forecast)	Change
Orders received	2,722.8	2,730.0	+7.2
Net sales	2,590.7	2,800.0	+209.3
Operating income	14.7	57.0	+42.3
Ordinary income	12.5	36.0	+23.5
Income before income taxes	16.3	36.0	+19.7
Net income	4.0	18.0	+14.0

## 【orders received】

- Japan: Expect to hold orders level despite challenging market conditions.
- Exports: Expect to keep orders above ¥1,000 billion by following up on orders with good prospects.

## 【Net sales】

- Sales will rise due to rebound in orders that began in FY2002.

## 【Operating income】

- Earnings will benefit from higher sales and earnings improvement initiatives conducted as “company-wide emergency measures.”
- Earnings expected to rebound as these two benefits outweigh the negative effects of foreign exchange, higher materials costs and rising R&D expenses.

◇ Assumes foreign exchange rates of ¥105 to the U.S. dollar and ¥130 to the Euro (US\$3.8 billion, EUR0.4 billion undetermined)

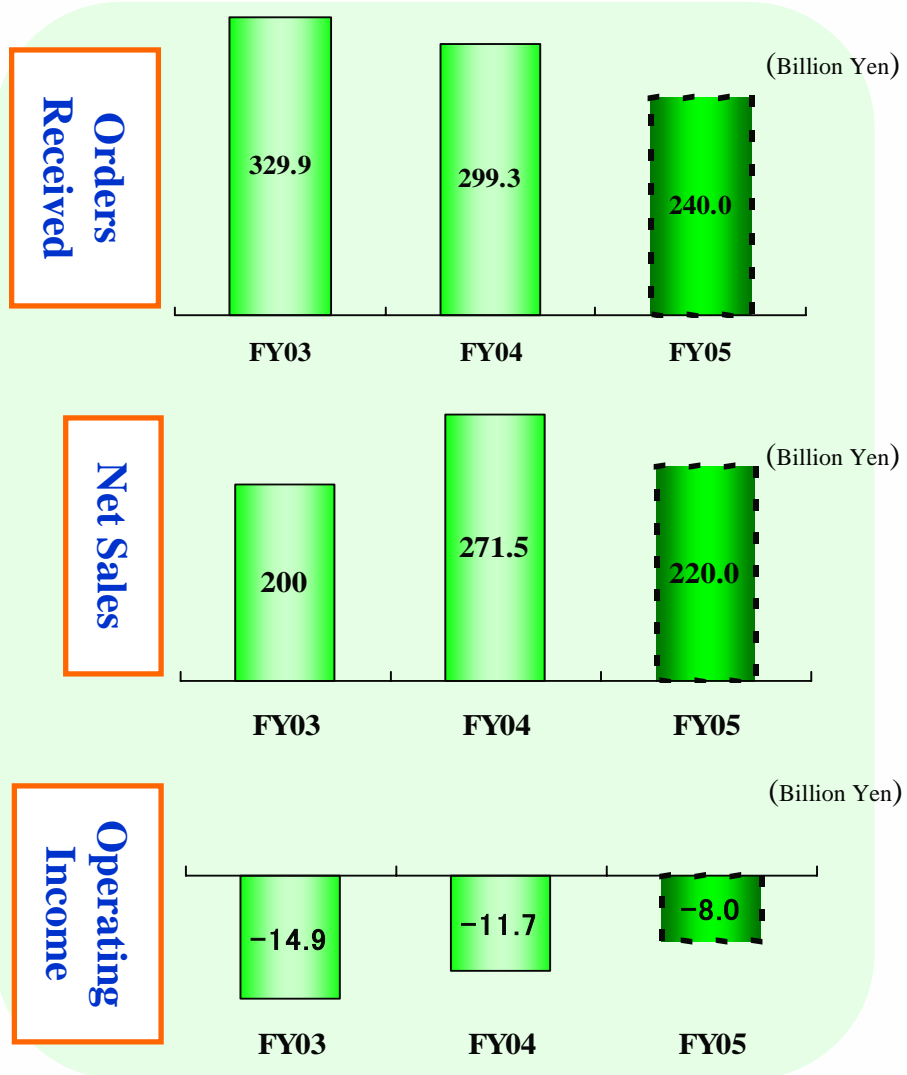


# Summary by Business Segment

(Billion Yen)

	Orders	Sales	Operating income	Operating margin
Shipbuilding & Ocean Development	240.0	220.0	-8.0	-3.6%
Power Systems	700.0	740.0	26.0	3.5%
Machinery & Steel Structures	470.0	520.0	8.0	1.5%
Aerospace	430.0	430.0	10.0	2.3%
Mass and Medium-Lot Manufactured Machinery	780.0	810.0	15.0	1.9%
Others	110.0	80.0	6.0	7.5%
Total	2,730.0	2,800.0	57.0	2.0%

# 〈Shipbuilding & Ocean Development〉



## Operating Environment

- Market conditions remain favorable due to strength in ocean transportation market.
- Shipyards have order backlogs covering almost the next three years.
- Impact of sharply higher cost of materials

## Major Initiatives/Comparison with FY2004

### 【Orders received】

- Focusing on vessels with high degree of added value (LNG carriers, large containerhips, etc.)
- Concentrating on taking orders at prices that reflect the much higher cost of materials

### 【Net sales/Operating income】

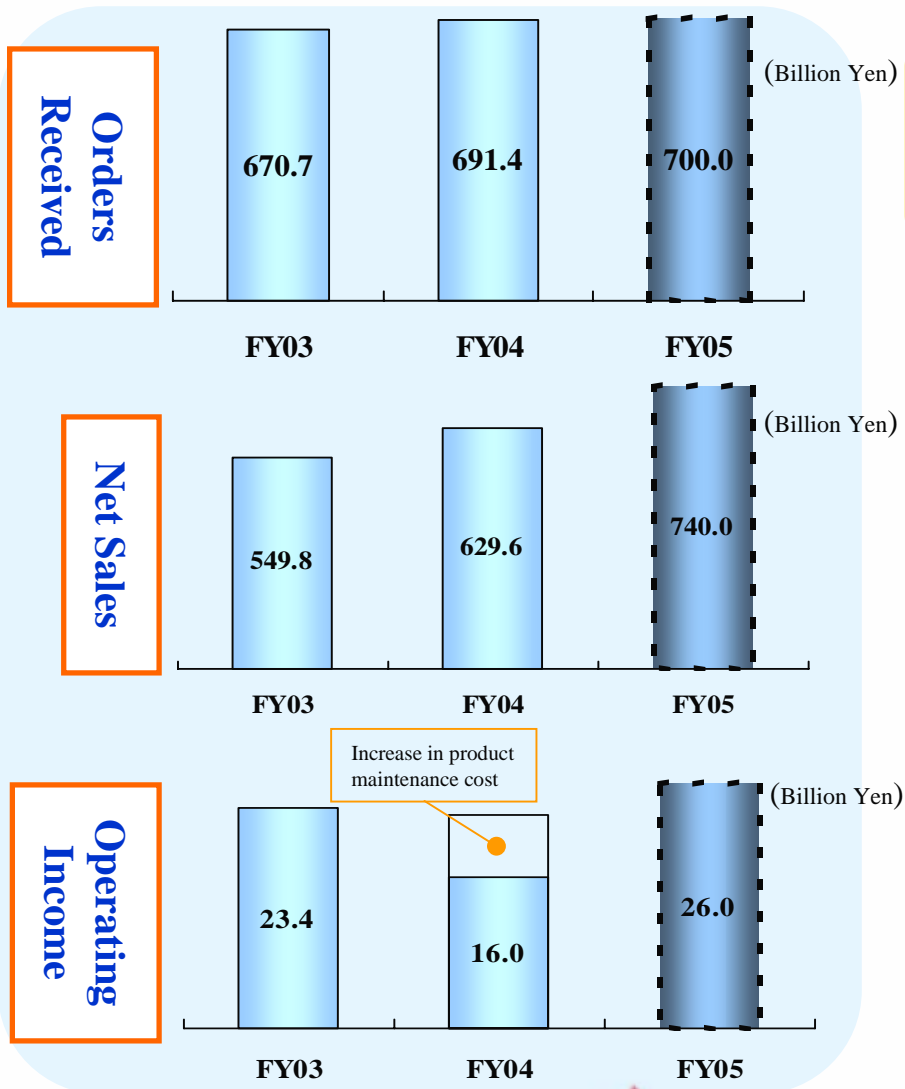
#### FY03-FY04

- Lower loss because of shift in composition of vessel types
- Much higher cost of materials and increase in process recovery expenses

#### FY04-FY05

- Lower loss because of shift in composition of vessel types
- Absorbed higher cost of materials through cost reductions
- (Unified best-practice campaign for all four locations, other initiatives)

# 〈Power Systems〉



## Operating Environment

- In Japan, electric utilities continued to hold back on capital expenditures.
- Overseas demand is strong, mainly for gas turbine combined-cycle projects
- (Many orders from electric IPPs and for power plants used by steel makers)

## Major Initiatives/Comparison with FY2004

### 【Orders received】

- Orders will remain strong, mainly for gas turbine combined-cycle projects
- Will expand after-sales-service construction through consulting sales activities
- (offer customers higher efficiency, better maintenance and lower environmental impact)

### 【Net sales/Operating income】

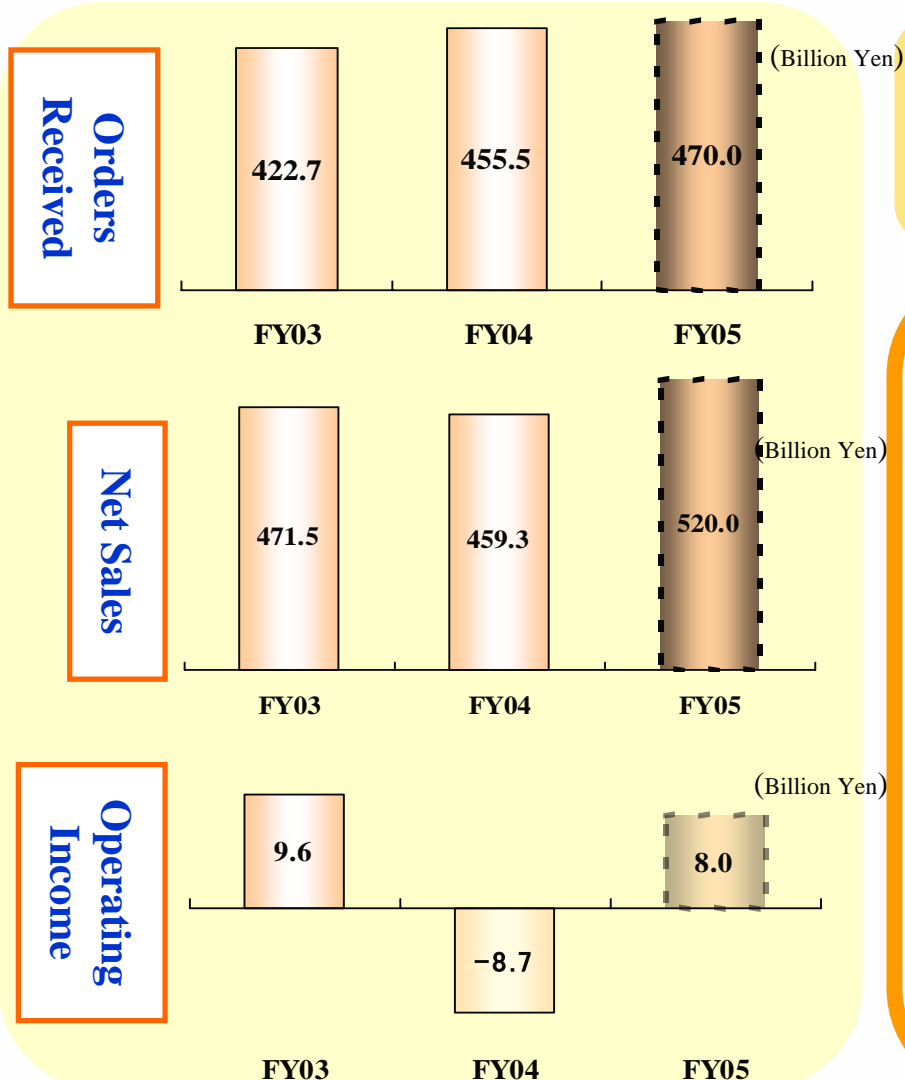
#### FY03-FY04

- Higher cost of maintaining product reliability

#### FY04-FY05

- Reduced maintenance expenses through measures to improve product reliability.
- Used thoroughly integrated operation of Nagasaki/Takasago works to strengthen gas turbine operations and speed cost improvements.
- (more effective use of personnel and production facilities, horizontal implementation of best-practice campaign)

# 〈Machinery & Steel Structures〉



## Operating Environment

- Japan: Market conditions remain challenging due to limitations on public-works spending.
- Overseas: Planned export projects, mainly in Asia and the Middle East, are expected to become firm orders. (chemical plants, transportation systems, LNG tanks, etc.)

## Major Initiatives/Comparison with FY2004

### 【Orders received】

- Chemical plants: Concentrating on methanol and ammonia plants, fields where MHI has much experience.
- Transportation systems: Orders are increasing, mainly from Asia, the Middle East and U.S.

### 【Net sales/Operating income】

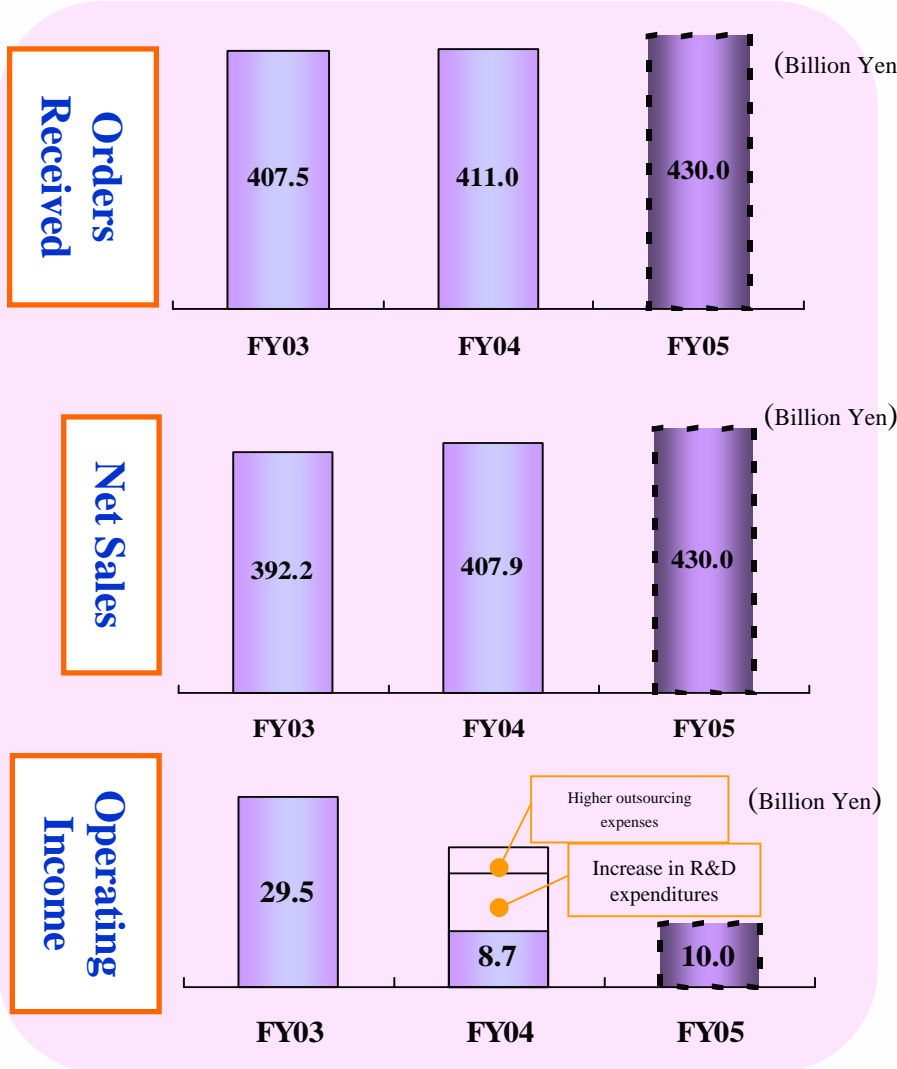
#### FY03-FY04

- Lower earnings from core products
- Earnings impacted by unprofitable construction projects

#### FY04-FY05

- Smaller losses from unprofitable construction projects
- Back-to-basics cost reduction drive
- Expand after-sales services
- Upgrade and rigorously apply skills involving construction steps at large plants and risk management

# 〈Aerospace〉



## Operating Environment

- In military sector, higher budget for ballistic missile defense, but declining orders for existing equipment
- Civil aircraft sector benefiting from recovery in passenger volume on commercial airlines
- Space exploration benefited from successful launch of more reliable H-IIA rocket in Feb. '05.

## Major Initiatives/Comparison with FY2004

### 【Orders received】

- Military sector will see growth in orders involving ballistic missile defense and integrated operations field; also orders for modernization of fighters, helicopters and other existing equipment.
- Will continue development of B787 composite wing and TRENT 1000 engine.
- Successive trouble-free launches of the H-IIA rocket

### 【Net sales/Operating income】

#### FY03-FY04

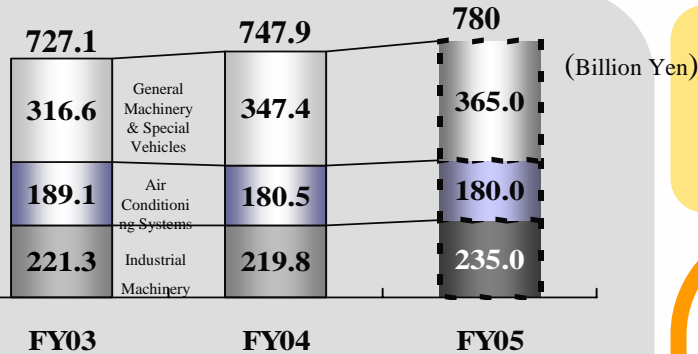
- Start of large development-related investments (B787 composite wing, TRENT 1000 engine) to drive future growth
- Higher outsourcing expenses to support rising production of small civil aircraft

#### FY04-FY05

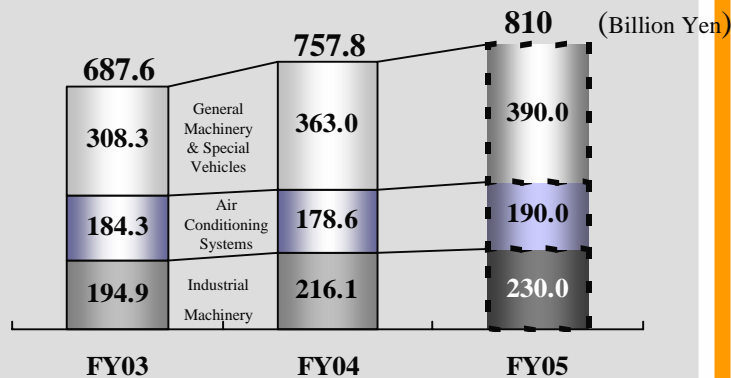
- Continue investments for B787 composite wing and TRENT 1000 engine
- Prepare and establish civil aircraft production system and speed up cost cutting

# 〈Mass and Medium-Lot Manufactured Machinery〉

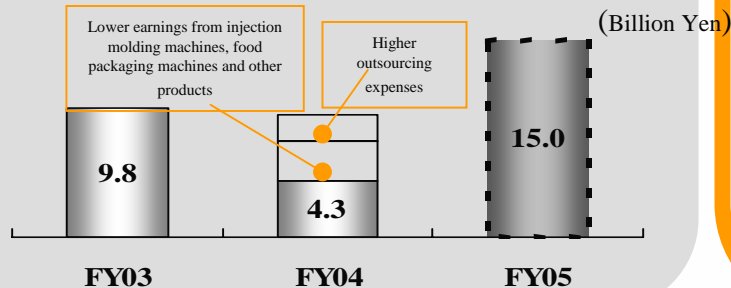
## Orders Received



## Net Sales



## Operating Income



## Operating Environment

- Engines and turbochargers: Solid demand in China and elsewhere in Asia
- Industrial machinery: Demand remains high for machinery used in the auto industry

## Major Initiatives/Comparison with FY2004

### 【Orders received】

- Growth in exports of engines, turbochargers, package ACs and other products
- Higher sales of machine tools to companies in the automobile industry

### 【Net sales/Operating income】

#### FY03-FY04

- Deteriorating profitability of injection molding machines, food packaging machines and other products
- Increase in outsourcing expenses (engines) due to rapid increase in output

#### FY04-FY05

- Improve profitability by establishing operating companies for injection molding machines, food packaging machines and industrial washing machines.
- Increase earnings by raising output capacity in line with order growth (engines, turbochargers, machine tools)
- Ensure that sales prices reflect the much higher cost of materials.
- Constantly conduct cost reduction activities.

# Summary of FY2005 Non-Consolidated Forecast

(Billion Yen)

	FY04 (actual)	FY05 (forecast)	Change
Orders received	2,202.0	2,200.0	-2.0
Net sales	2,097.9	2,220.0	+122.1
Operating income	-9.7	35.0	+44.7
Ordinary income	-9.6	25.0	+34.6
Income before income taxes	0.2	25.0	+24.8
Net income	-2.0	15.0	+17.0

◇ An annual dividend of ¥4 per share (no interim dividend) is planned.

# Emergency Measures to Improve Earnings

## Company-Wide Implementation of “Action 05”

◇ Execute emergency company-wide measures to achieve the earnings plans for FY2005 and FY2006.

◇ Items targeted for improvement

▪ **Reliability:** Rigorous implementation of QI-I (a program to improve product reliability), DE-I (achieves business process reforms through use of digital engineering) and other programs at all business sites

▪ **Omnidirectional cost cutting:** Return to the basics to cut the cost of materials, outsourcing, administrative tasks and all other items.

▪ Increase after-sales service construction, other measures

◇ Framework for executing “Action 05”

▪ Company-wide “Action 05” leader : Junichi Maezawa, Executive Vice President

⇒ Coordinates activities throughout MHI (guidance, follow-up and support)

▪ Task forces will be established to review action plans of each business site and monitor progress.