2006 Medium-Term Business Plan

April 28, 2006

Kazuo Tsukuda, President
Contents in Brief

1. Target & Road Map to Achievement  
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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

STEP 1 Action 05 (Improvement in a base of profitability)
- Activity to improve profitability 
- Increase in sales, comprehensive cost reduction
- Strengthen product business, investments in growth businesses, countermeasures against unprofitable businesses

STEP 2 2006 Medium Term Business Plan (Establish firm profitability)
- Build a solid earnings structure
- Strengthen the production technology base
- Establish society and customer trust

<table>
<thead>
<tr>
<th>Year</th>
<th>Orders received (in trillion yen)</th>
<th>Net sales (in trillion yen)</th>
<th>Operating income (in billion yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>[2.66]</td>
<td>[2.37]</td>
<td>66.6</td>
</tr>
<tr>
<td>2004</td>
<td>[2.72]</td>
<td>[2.59]</td>
<td>14.7</td>
</tr>
<tr>
<td>2005</td>
<td>[2.79]</td>
<td>[2.90]</td>
<td>70.9</td>
</tr>
<tr>
<td>2006</td>
<td>[2.94]</td>
<td>[2.95]</td>
<td>80.0</td>
</tr>
<tr>
<td>2008</td>
<td>[3.00]</td>
<td>[3.00]</td>
<td>120.0</td>
</tr>
</tbody>
</table>

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

**Production System Reform**
- Strengthen thoroughly internal production capabilities

**Resource Introduction Reform**
- Active application of management resources for growth
Product Mix Reform
- Transform Profit Structure -

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

2005Actual (¥0.9)
- 3.7
66.8

2008Target (¥20.0)
Core of Profit
¥83.0

(¥ billion yen)

(Size of bubble: Net sales)

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

- Net sales • Earnings by Segment -

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Core of Profit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power Systems</td>
<td>710.9</td>
<td>880.0</td>
<td>38.3</td>
<td>50.0</td>
</tr>
<tr>
<td>Aerospace</td>
<td>445.9</td>
<td>480.0</td>
<td>16.5</td>
<td>18.0</td>
</tr>
<tr>
<td>GM&amp;SV</td>
<td>393.2</td>
<td>420.0</td>
<td>12.0</td>
<td>15.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,550.0</td>
<td>1,780.0</td>
<td>66.8</td>
<td>83.0</td>
</tr>
<tr>
<td><strong>Industrial</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>219.7</td>
<td>230.0</td>
<td>4.4</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>Low Profit</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Air-Con</td>
<td>192.1</td>
<td>180.0</td>
<td>0.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Shipbuilding &amp; Ocean Development</td>
<td>222.6</td>
<td>240.0</td>
<td>□ 0.6</td>
<td>6.0</td>
</tr>
<tr>
<td>Machinery &amp; Steel Structures</td>
<td>538.7</td>
<td>490.0</td>
<td>2.3</td>
<td>12.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,173.1</td>
<td>1,140.0</td>
<td>□ 0.7</td>
<td>31.0</td>
</tr>
<tr>
<td>Others</td>
<td>68.7</td>
<td>80.0</td>
<td>7.5</td>
<td>6.0</td>
</tr>
<tr>
<td>Grand Total</td>
<td>2,792.1</td>
<td>3,000.0</td>
<td>70.9</td>
<td>120.0</td>
</tr>
</tbody>
</table>

*(in billion yen)*
Product Mix Reform

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

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 Microcrystallite) in Europe

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

APWR (Advanced Pressurized Water Reactor) PBMR (Pebble Bed Modular Reactor, developed by South Africa)
PBMR IGCC (Integrated Coal Gasification Combined Cycle)
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 -

- 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

EMS (Energy Management Service)
Product Mix Reform

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

▱ 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

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

▱ 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 -

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

☑ 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

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

CAC (Car air conditioner)  RAC (Room air conditioner)  PAC (Package air conditioner)
Product Mix Reform

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

- 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
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 -

<table>
<thead>
<tr>
<th><strong>Restructure Order-Based Production System</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Integrated management of the power system business (February 2006)</td>
</tr>
<tr>
<td>□ Consolidate Machinery and Steel Structures Headquarters (May 2006)</td>
</tr>
<tr>
<td>• Enhance exports and growing private sector businesses, restructure public sector businesses</td>
</tr>
<tr>
<td>• Structure regional domestic sales organization</td>
</tr>
<tr>
<td>• Accelerate business reconstruction through incorporation of the business (Bridgeworks, sewage treatment, multistory parking)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Strengthen global operations</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Strengthen overseas production infrastructure (gas turbine, turbochargers, engines, sheet feed equipment, etc.)</td>
</tr>
<tr>
<td>□ Expand oversea marketing bases (from 25 to 30)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Strengthen the capabilities of the technology headquarters</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>□ Expand activities to strengthen competitiveness of entire value chain from technology development to products</td>
</tr>
<tr>
<td>□ Expand activities to strengthen competitiveness of entire value chain from technology development to products</td>
</tr>
<tr>
<td>□ New Business, Product Creation Extending to Business Headquarters</td>
</tr>
</tbody>
</table>
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
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)

QI-I (Product Reliability Enhancement Program)  DE-I (Operating Process Reforms Through Digital Engineering)
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
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
5. Supplementary Information

1. Target of Orders Received by Segment (Consolidated)  Page 29
2. Target of Sales and Earnings by Segment (Consolidated)  Page 30
Target of Orders received by segment (Consolidated)

(In billion yen)

<table>
<thead>
<tr>
<th></th>
<th>'04</th>
<th>'05</th>
<th>'06</th>
<th>'08</th>
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</thead>
<tbody>
<tr>
<td>Shipbuilding &amp; Ocean Development</td>
<td>2,722.8</td>
<td>2,942.0</td>
<td>2,950.0</td>
<td>3,000.0</td>
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<tr>
<td>Power Systems</td>
<td>299.3</td>
<td>207.4</td>
<td>240.0</td>
<td>250.0</td>
</tr>
<tr>
<td>Machinery &amp; Steel Structures</td>
<td>691.4</td>
<td>872.8</td>
<td>900.0</td>
<td>850.0</td>
</tr>
<tr>
<td>Aerospace</td>
<td>455.5</td>
<td>515.8</td>
<td>480.0</td>
<td>530.0</td>
</tr>
<tr>
<td>Air-Con</td>
<td>411.0</td>
<td>451.5</td>
<td>450.0</td>
<td>460.0</td>
</tr>
<tr>
<td>Industrial</td>
<td>747.9</td>
<td>386.6</td>
<td>400.0</td>
<td>420.0</td>
</tr>
<tr>
<td>Others</td>
<td>237.1</td>
<td>191.0</td>
<td>180.0</td>
<td>180.0</td>
</tr>
<tr>
<td>Others</td>
<td>230.0</td>
<td>230.0</td>
<td>230.0</td>
<td>230.0</td>
</tr>
<tr>
<td>Mass &amp; Medium-lot Manufactured Machinery</td>
<td>3,000.0</td>
<td>3,000.0</td>
<td>3,000.0</td>
<td>3,000.0</td>
</tr>
</tbody>
</table>

Actual vs. Forecast
Target of Net sales • Earnings by segment (Consolidated)

<table>
<thead>
<tr>
<th></th>
<th>2004 Actual</th>
<th>2005 Forecast</th>
<th>2006 Medium Term Business Plan</th>
<th>2008 '08 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In billion yen</td>
<td>2,590.7</td>
<td>2,792.1</td>
<td>2,900.0</td>
<td>3,000.0</td>
</tr>
<tr>
<td>Operating income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In billion yen</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Shipbuilding & Ocean Development
- Power Systems
- Machinery & Steel Structures
- Aerospace
- GM&SV
- Mass&Medium-lot Manufactured Machinery
- Air-Con
- Industrial Others

- Shipbuilding & Ocean Development
- Power Systems
- Machinery & Steel Structures
- Aerospace
- GM&SV
- Mass&Medium-lot Manufactured Machinery
- Air-Con
- Industrial Others

2004 Actual: 757.8
2005 Forecast: 407.9
2006 Forecast: 459.3
2008 Forecast: 629.6

2004 Actual: 219.7
2005 Forecast: 445.9
2006 Forecast: 538.7
2008 Forecast: 710.9

2004 Actual: 393.2
2005 Forecast: 450.0
2006 Forecast: 538.7
2008 Forecast: 710.9

2004 Actual: 19.2
2005 Forecast: 230.0
2006 Forecast: 271.5
2008 Forecast: 407.9

2004 Actual: 240.0
2005 Forecast: 880.0
2006 Forecast: 1,240.0
2008 Forecast: 1,620.0

2004 Actual: 420.0
2005 Forecast: 480.0
2006 Forecast: 490.0
2008 Forecast: 530.0

2004 Actual: 14.7
2005 Forecast: 16.0
2006 Forecast: 16.5
2008 Forecast: 17.0

2004 Actual: 1.7
2005 Forecast: 4.3
2006 Forecast: 8.7
2008 Forecast: 11.7

2004 Actual: 9.0
2005 Forecast: 10.0
2006 Forecast: 11.0
2008 Forecast: 12.0

2004 Actual: 15.0
2005 Forecast: 16.0
2006 Forecast: 17.0
2008 Forecast: 18.0

2004 Actual: 4.0
2005 Forecast: 4.4
2006 Forecast: 4.8
2008 Forecast: 5.2

2004 Actual: 2.0
2005 Forecast: 2.3
2006 Forecast: 2.6
2008 Forecast: 2.9

2004 Actual: 3.0
2005 Forecast: 4.0
2006 Forecast: 5.0
2008 Forecast: 6.0

2004 Actual: 10.0
2005 Forecast: 11.0
2006 Forecast: 12.0
2008 Forecast: 13.0

2004 Actual: 50.0
2005 Forecast: 120.0
2006 Forecast: 220.0
2008 Forecast: 300.0