

**Financial Results for the First-half of FY2002**  
**(April 1 – Sept. 30, 2002)**

November 2002

- Outline of Consolidated Financial Results for the First Half of FY2002 → P3
- Consolidated Orders Received and Sales by Segment → P5
- Consolidated Balance Sheets → P7
- Debt with Interest and Free Cash Flows → P8
- R&D Expenses, Depreciation and Capital Investment → P9
- Outline of Non-Consolidated Financial Results for the First Half of FY2002 → P10
- Consolidated Results by Segment → P11
- Consolidated Forecast for FY2002 → P17
- Forecast for Orders → P18
- Forecast for Earnings → P19
- Measures to Improve Earnings in AC & Refrigeration Systems → P20
- Measures to Improve Earnings in Machine Tools → P21
- Forecast for Segment Consolidated Orders and Sales for FY2002 → P22
- Non-Consolidated Forecast for FY2002 → P23

## Outline of Consolidated Financial Results for the First Half of FY2002

(Billion yen)

	FY2002 1 <sup>st</sup> half	FY2001 1 <sup>st</sup> half	Change (amount)	Change (%)
Orders Received	810.5	973.2	-162.7	-16.7%
Net Sales	1,090.1	1252.6	-162.4	-13.0%
Operating Income	26.5	20.3	6.1	30.1%
Ordinary Income	2.5	2.7	-0.1	-6.2%
Extraordinary Income (Loss)	0.7	-13.1	13.9	-
Income (Loss) before Taxes	3.3	-10.3	13.7	-
Net Income (Loss)	0.6	-8.2	8.8	-

The extraordinary income (0.7 billion) is the net result of a ¥2.5 billion write-down in the value of investment securities and ¥3.2 billion in gains from sales of investment securities.

**Principal Factors Contributing to ¥6.1 billion Increase in Operating Income**  
(1st half of FY01 :20.3→ 1st half of FY02:26.5)

- ◆ Gross profit increase: + ¥5.9 billion
  - Effect of sales decrease: - ¥21.6 billion
  - Improvement of business contents: + ¥23.3 billion
  - Foreign exchange: + ¥4.2 billion  
(US dollar was ¥122 vs. ¥119 in 1st half of FY01)
- ◆ SGA expenses decrease + ¥0.2 billion
  - R&D expenses increase: - ¥1.1 billion  
(mainly for Power Systems, IT system upgrading etc. )
  - Selling expenses decrease + ¥1.3 billion

---

**Net Increase in Operating Income**  
**+ ¥6.1 billion**

**Principal Factors Contributing to ¥13.7 billion Increase in Income before Tax**  
(1st half of FY01 :-10.3→1st half of FY02:3.3)

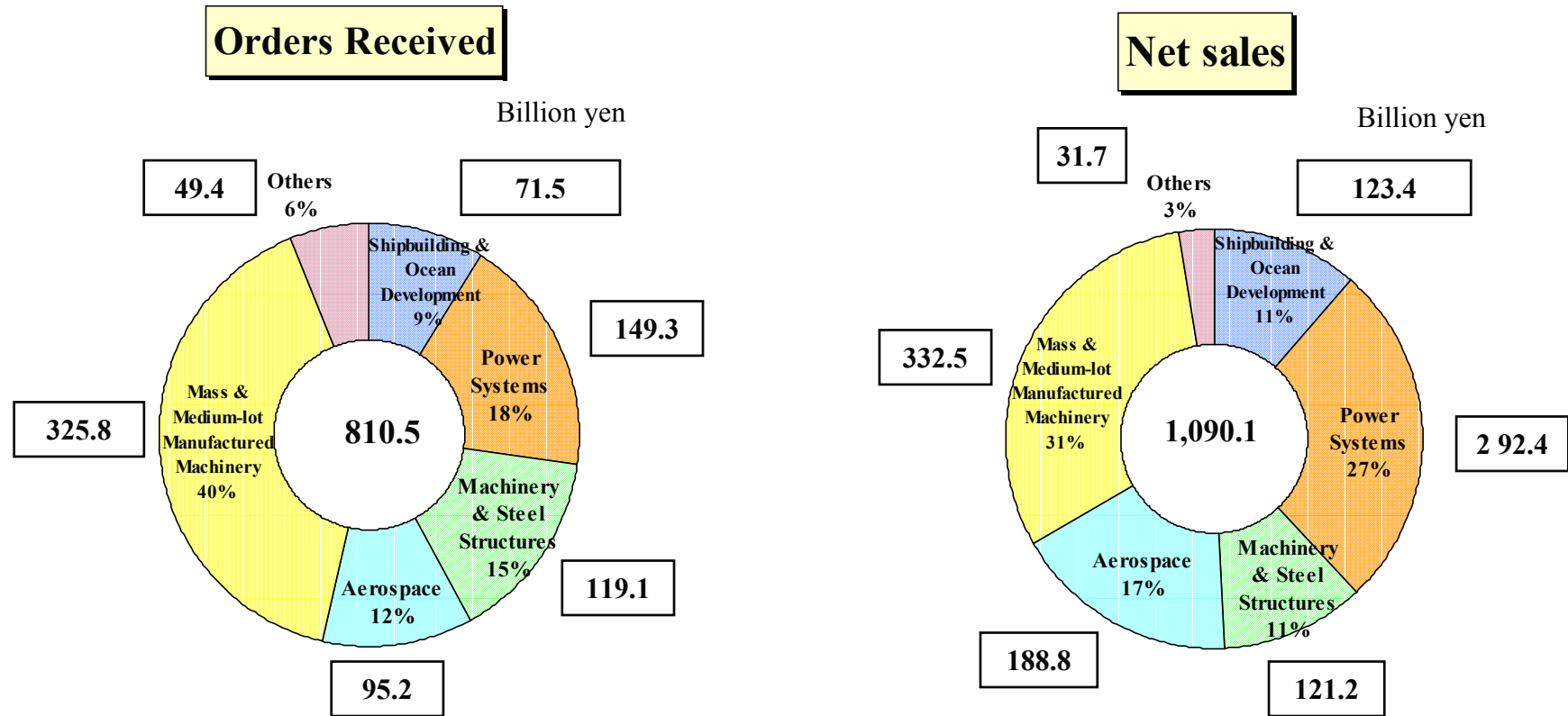
- ◆ Ordinary income decrease : - ¥0.1 billion  
(1st half of FY01:2.7→1st half of FY02:2.5)
  - Operating income increase + ¥6.1 billion
  - Non-operating income/loss - ¥6.3 billion  
(1st half of FY01:-17.6→1st half of FY02:-23.9)
    - Foreign exchange - ¥12.8 billion  
(US dollar was ¥133 (as of March 31, 2002) vs. ¥122 (as of Sept. 30, 2002))
    - Equity in earnings of unconsolidated subsidiaries and affiliates + ¥5.1 billion  
(Mitsubishi Motors Corp. excluded from the scope of companies accounted for under the equity method)
    - Others + ¥1.4 billion
- ◆ Extraordinary Profit/Loss + ¥13.9 billion  
(Decrease in write-down in the value of investment securities etc.)  
(1st half of FY01:-13.1→1st half of FY02:0.7)

---

**Income(Loss) before Taxes Increase:**  
**+ ¥13.7 billion**

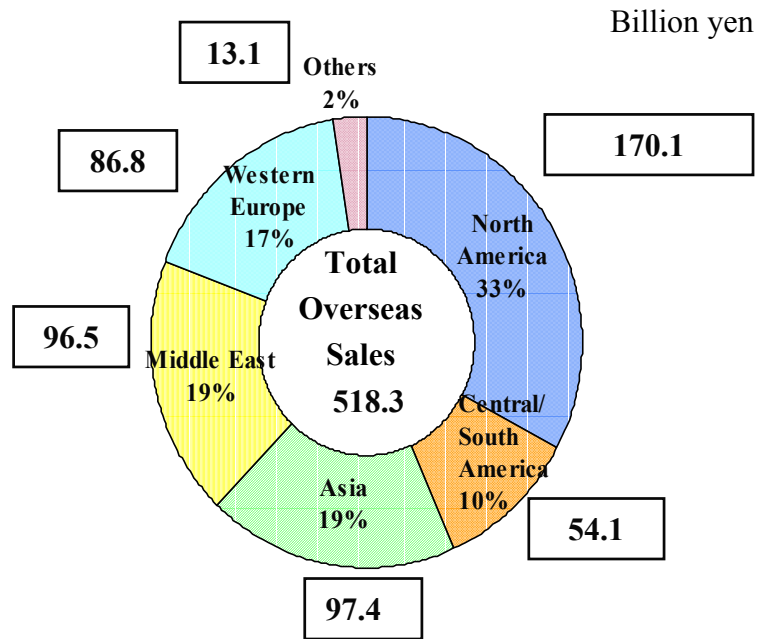
◆ **Net income: + ¥8.8 billion**  
(1st half of FY01:-8.2→1st half of FY02:0.6)

## Consolidated Financial Result by Segment (First half of FY2002)

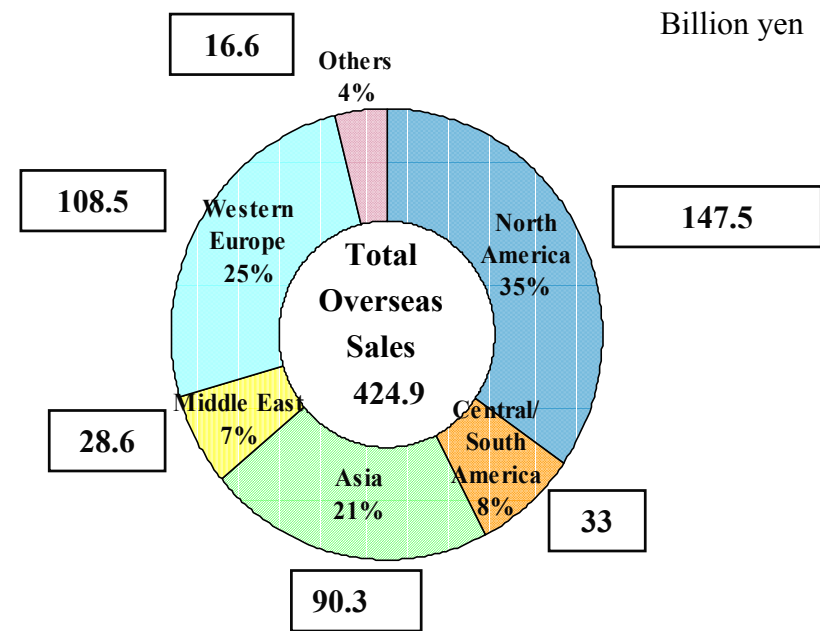


## Overseas Sales Consolidated Results by Region

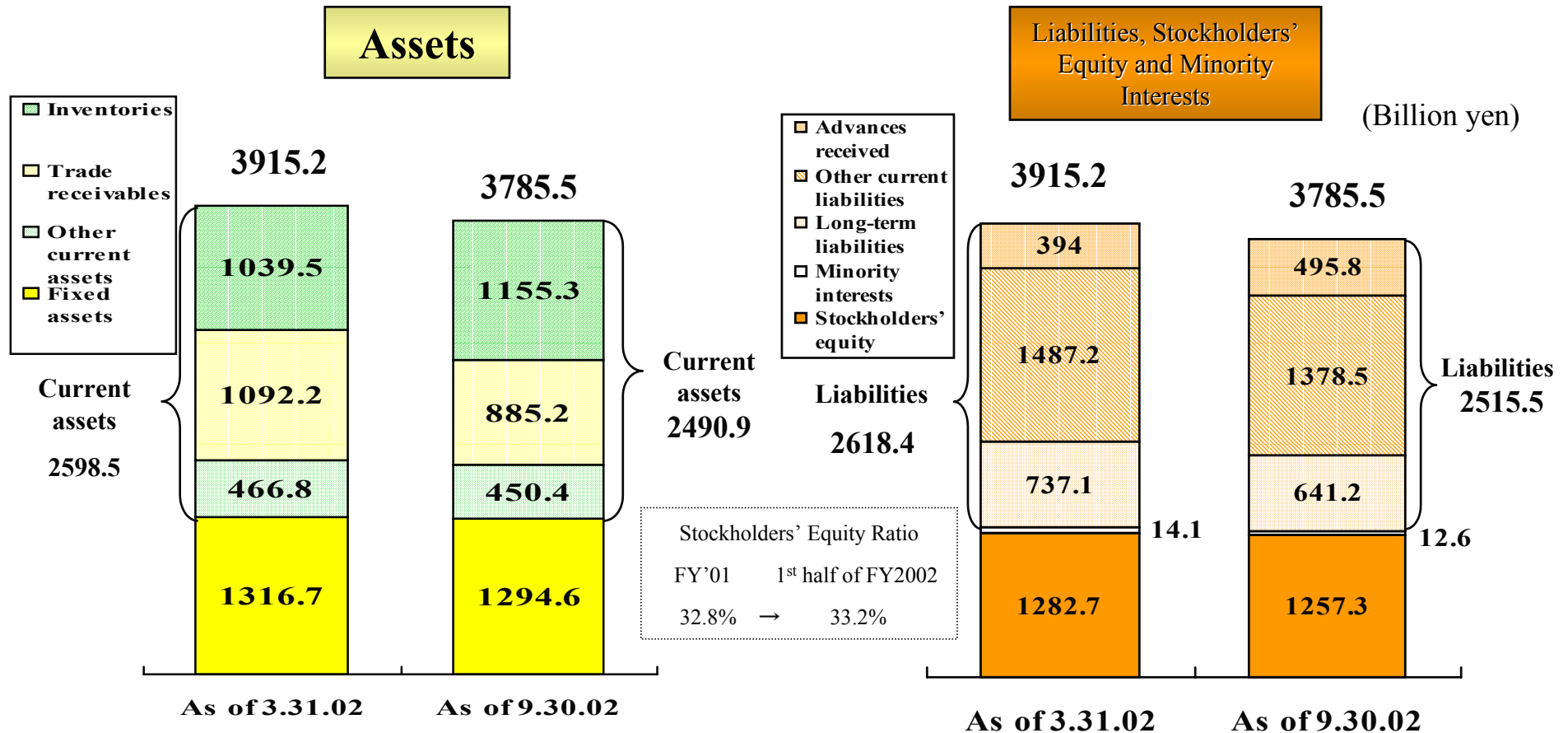
**First Half of FY2001**



**First Half of FY2002**



# Consolidated Balance Sheets



## Changes in assets(-129.7)

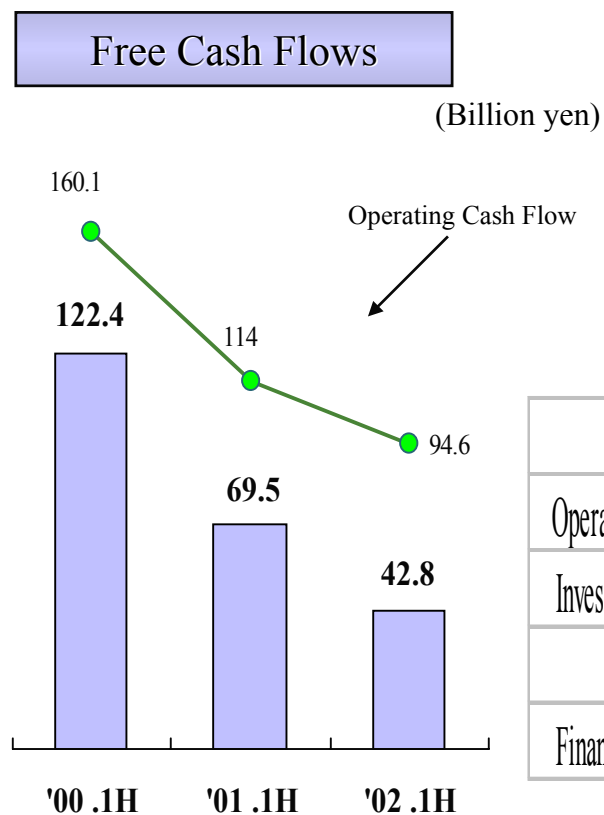
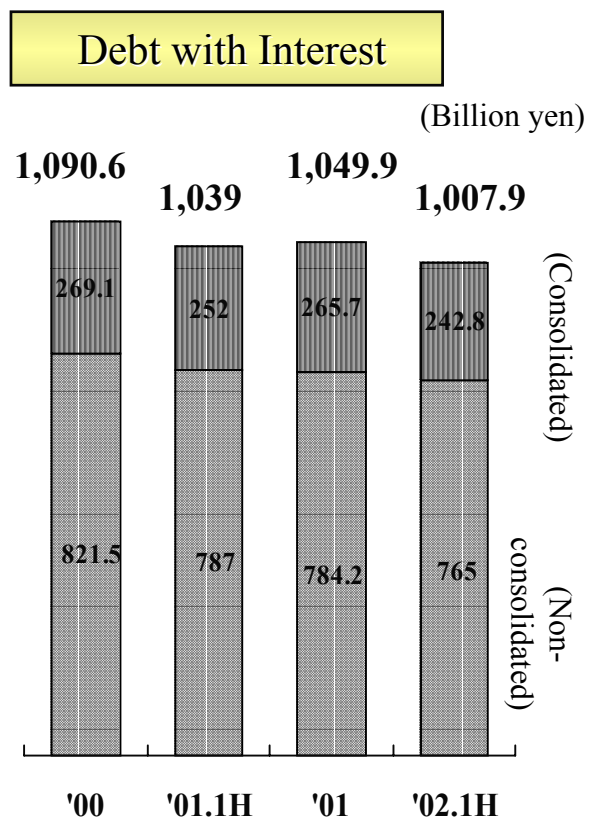
Current assets:-107.5  
 (Trade receivables: -207; Inventories: +115.8, etc.)  
 Fixed assets:-22.1  
 (Investment securities: -11.9; Deferred tax assets: -12.2, etc.)

## Changes in liabilities(-102.8):

Current liabilities -6.8  
 (Advances received +101.7, Trade payables -111.2, etc.)  
 Long-term liabilities -95.9

**Changes in stockholders' equity(-25.3):** Retained earnings-38, Net unrealized gain on investment securities +7.4, etc.

# Debt with Interest and Free Cash Flows



## Summary of 1st Half of FY2002

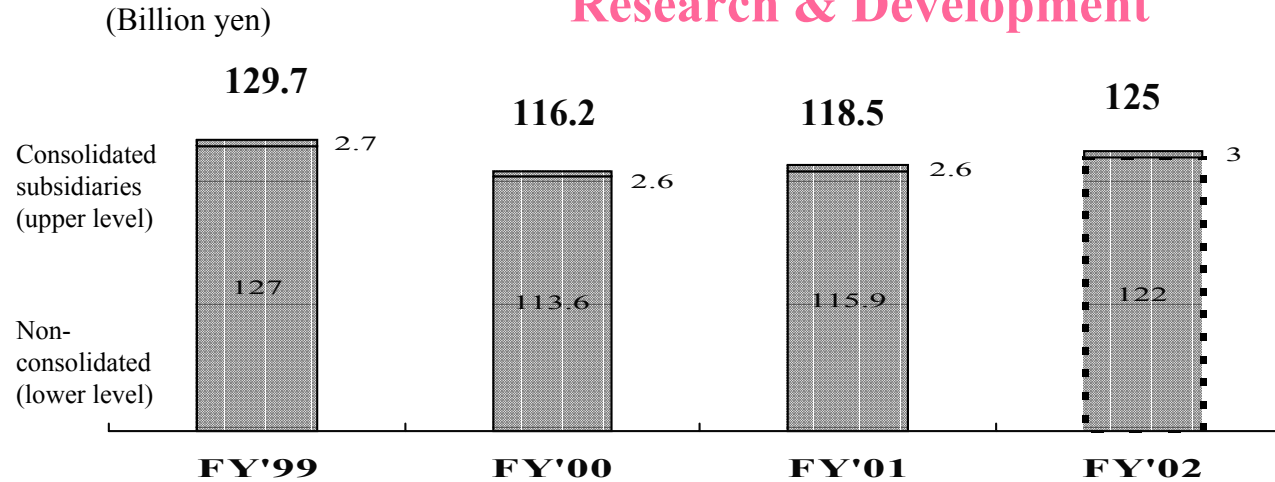
- Operating activities provided net cash of ¥94.6 billion, resulting in a free cash flow of ¥42.8 billion after deducting ¥51.7 billion in net cash used in investing activities.
- Much of this cash was applied to reducing debt, resulting in a net reduction of ¥42 billion in interest-bearing liabilities during the six-month period.

	'02, 1H	'01, 1H	change
Operating Activities CF	94.6	114.0	-19.4
Investing Activities CF	-51.7	-44.5	-7.2
Free CF	42.8	69.5	-26.6
Financing Activities CF	-44.7	-68.0	23.2

CF: Cash flow

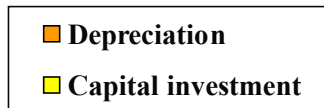


## Research & Development

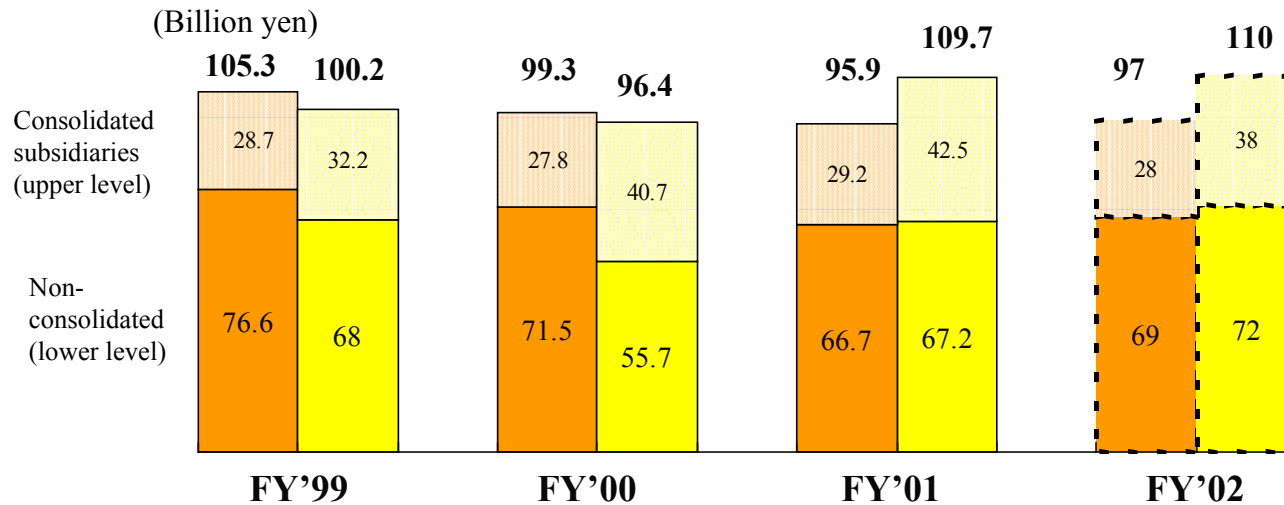


• Increase commitment to R&D, mainly in core business lines

- Gas turbines
- Solar cells
- Fuel cells and Others



## Depreciation and Capital Investment



• Keep capital investment above depreciation, mainly to increase production facilities

- Increase output of high-temperature gas turbine components
- Production facilities for solar cells
- Upgrading of transportation systems works

## Outline of Non-Consolidated Financial Results for the First Half of FY2002

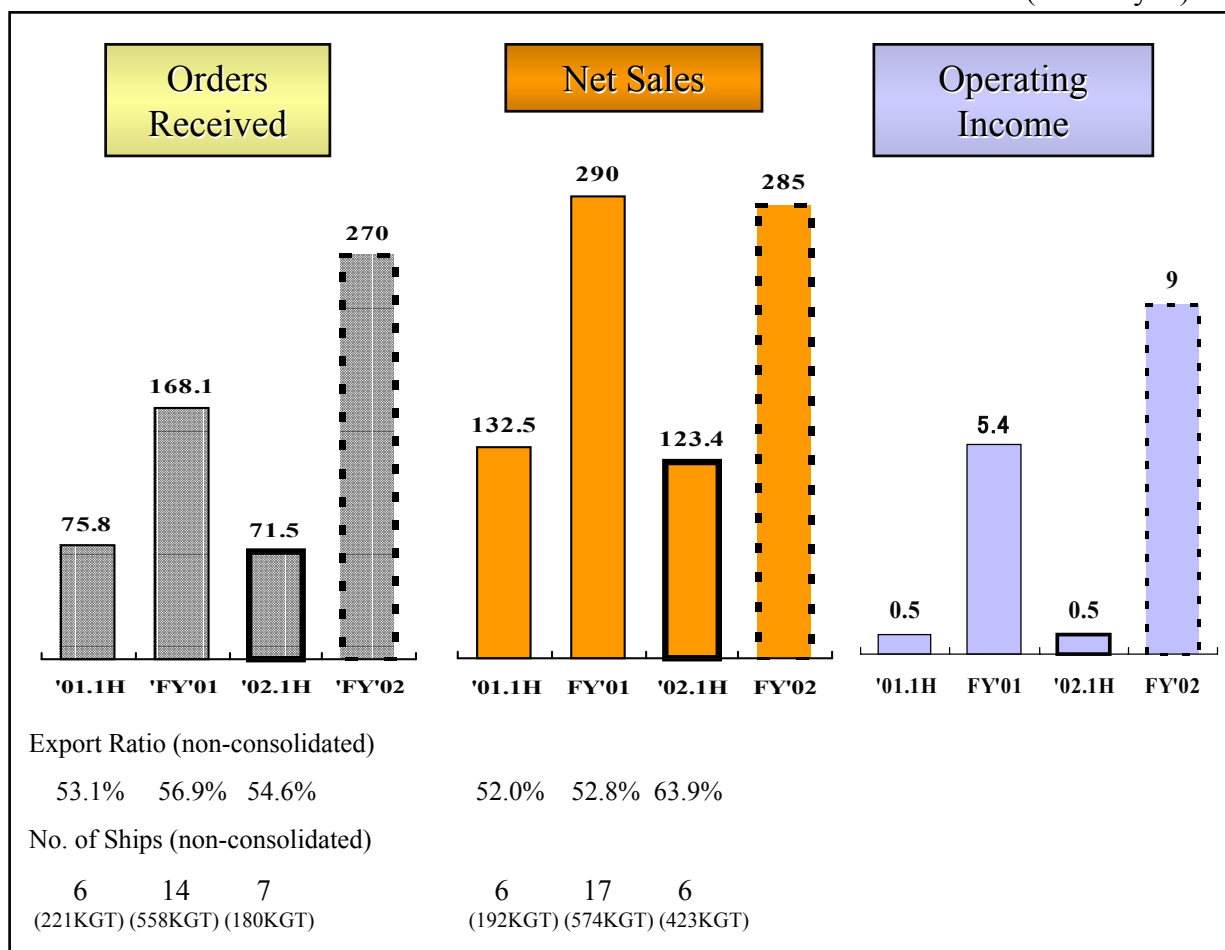
(Billion yen)

	<b>FY2002 1st half</b>	<b>FY2001 1st half</b>	<b>Change (amount)</b>	<b>Change (%)</b>
Orders Received	596.7	756.6	-159.8	-21.1
Net Sales	890.1	1,037.9	-147.8	-14.2
Operating Income	20.6	16.1	4.5	28.0
Ordinary Income	-3.3	6.2	-9.6	-
Extraordinary Income (Loss)	1.8	-13.1	14.9	-
Income (Loss) before Taxes	-1.5	-6.8	5.3	-
Net Income (Loss)	-0.8	-1.7	0.8	-

The extraordinary income (¥1.8 Billion) is the net result of a ¥1.4 billion write-down in the value of investment securities and ¥3.2 billion in gains from sales of investment securities.

# Shipbuilding & Ocean Development

(Billion yen)



## [Market Conditions / Orders Received]

•Orders decreased due to a steep drop in demand for new vessels caused by global recession.

•Orders received for 7 vessels during the first half, including LNG carriers and dredging vessels (total of 41 vessels order backlog including 8 LNG carriers)

## [Sales / Profit]

•Sales decreased because of fewer deliveries in Japan but earnings were about the same year-on-year.

## [Topics]

•Continued to make progress in cutting personnel and other fixed expenses

«Segment employment»

5,610→5,380 → 5,160 → 4,920

(4/00) (4/01) (4/02) (4/03 est.)

## [Full Year Forecast (Orders/Sales/Earnings)]

FY02 forecast: **270 / 285 / 9**

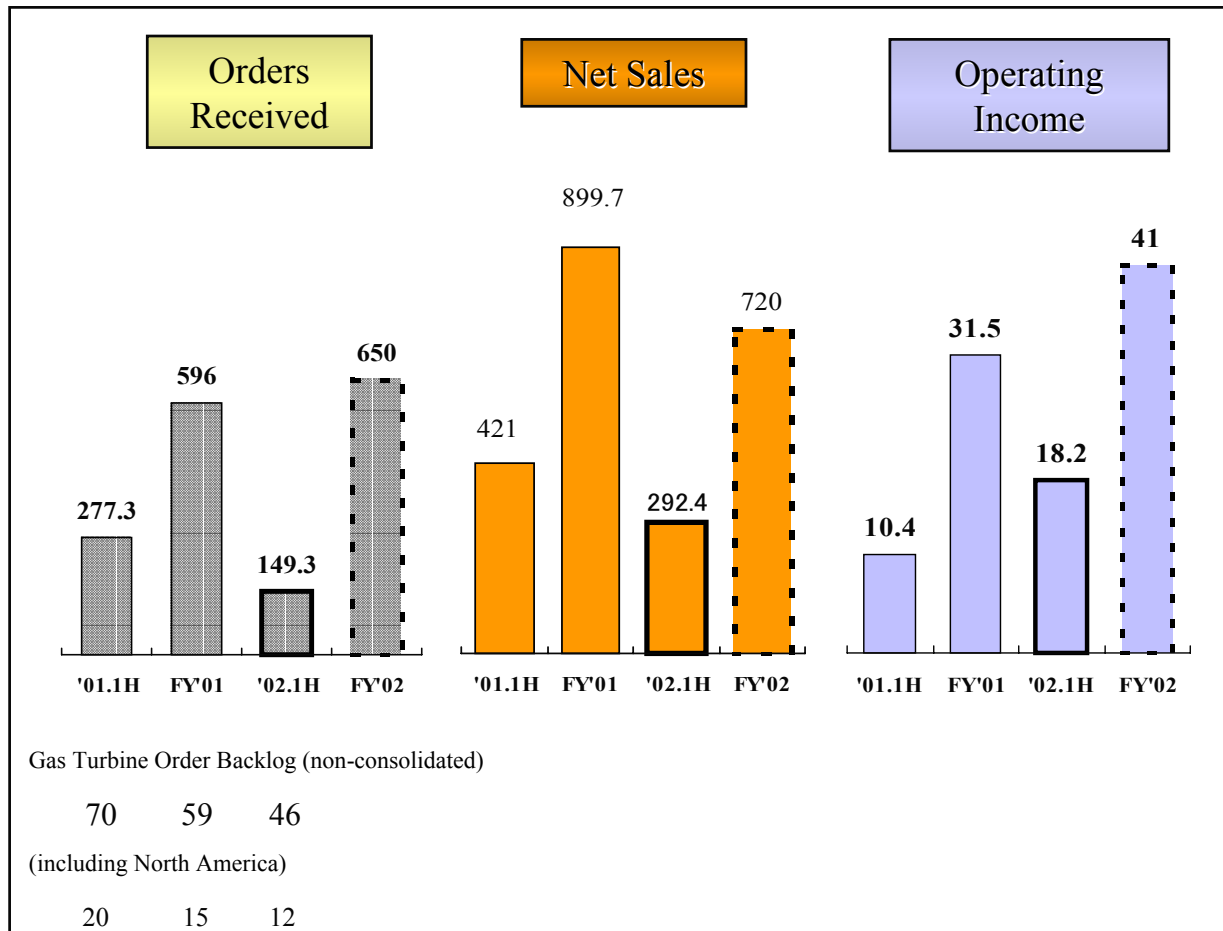
(Original forecast) 270 / 285 / 9)

FY01 results: **168.1 / 290 / 5.4**

**At this time, MHI is unable to release an accurate estimate of losses incurred due to the October 1, 2002 fire on the cruise ship Diamond Princess, which was under construction. As a result, this incident is not reflected in first-half results and full-year forecasts.**

# Power Systems

(Billion yen)



## [Market Conditions / Orders Received]

- Market remains extremely difficult in Japan due to cutbacks in capital investment for new power generation capacity.
- Overseas, planned new capacity is being postponed in the U.S. due to slowing economy and excess electric power generation capacity; demand is relatively solid in Europe and Asia.
- Orders received were down year-on-year due to a decline in upgrading and service contracts in Japan and the postponement of orders for gas turbines for North American uses.

## [Sales / Profit]

- Sales decreased due to decline in exports, mainly large plants in Asia. Fewer unprofitable contracts and cost-cutting initiatives produced increased earnings.

## [Topics]

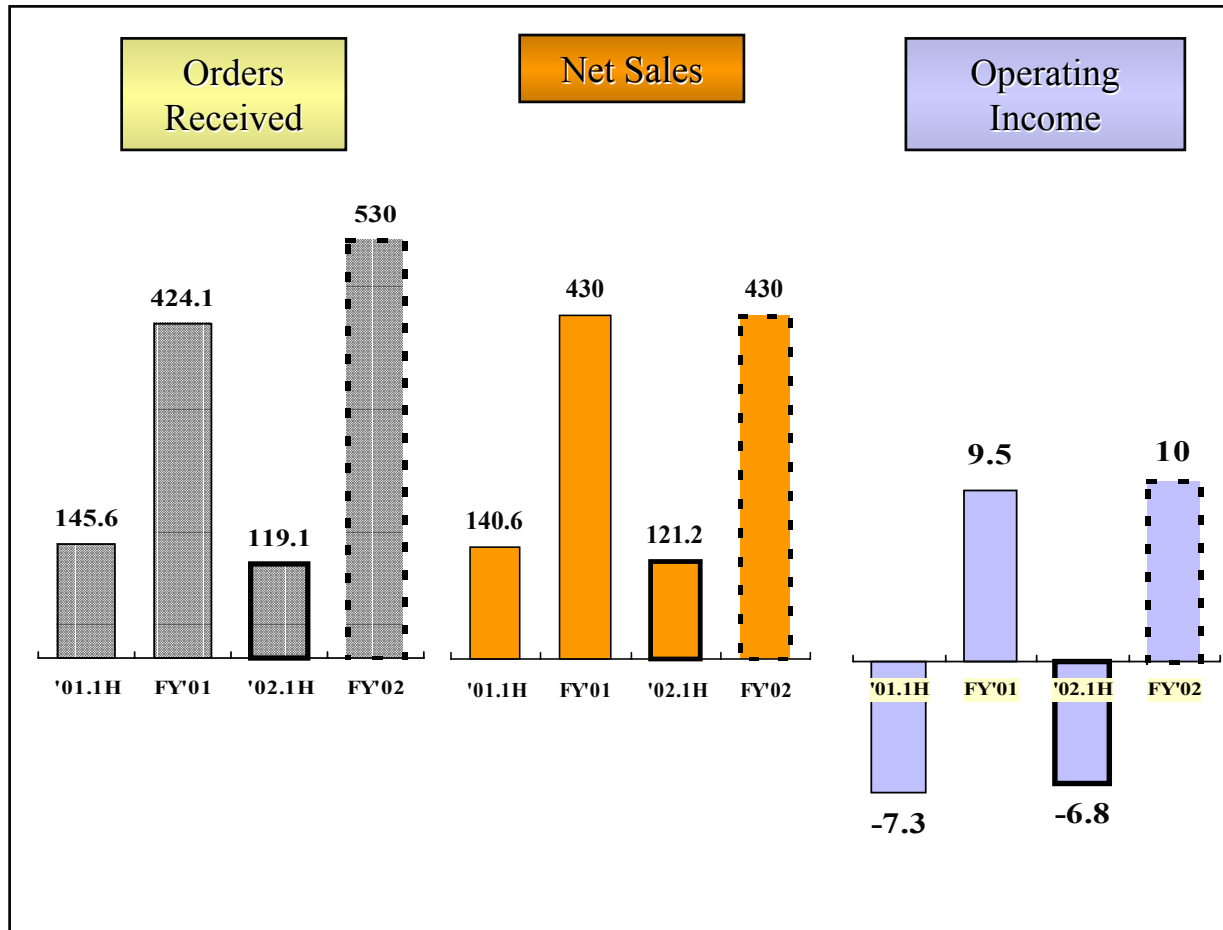
- Gas turbines: Formed alliance with Dongfang Electric Corp. to participate in bidding for large gas turbine project in China.
- Nuclear energy: Received orders in U.S. and Sweden for reactor vessel closure heads

## [Full Year Forecast (Orders/Sales/Earnings)]

FY02 forecast: **650 / 720 / 41**  
 (Original forecast) 650 / 720 / 32)  
 FY01 results: **596 / 899.7 / 31.5**

# Machinery & Steel Structures

(Billion yen)



## [Market Conditions / Orders Received]

- In Japan, public-works expenditures remain sluggish.
- In exports, demand for transportation systems increased and negotiations are under way for a large chemical plant.
- Total orders received were lower, because needs for dioxin-related projects decreased in the environmental (waste treatment equipment) sector and contracts for several large orders were moved back to the year's second half.

## [Sales / Profit]

- Although there was growth in sales of environmental systems in Japan, total segment sales fell as export sales from chemical and other plants decreased. The operating loss was about the same as one year earlier as the segment was unable to cover fixed expenses.

## [Topics]

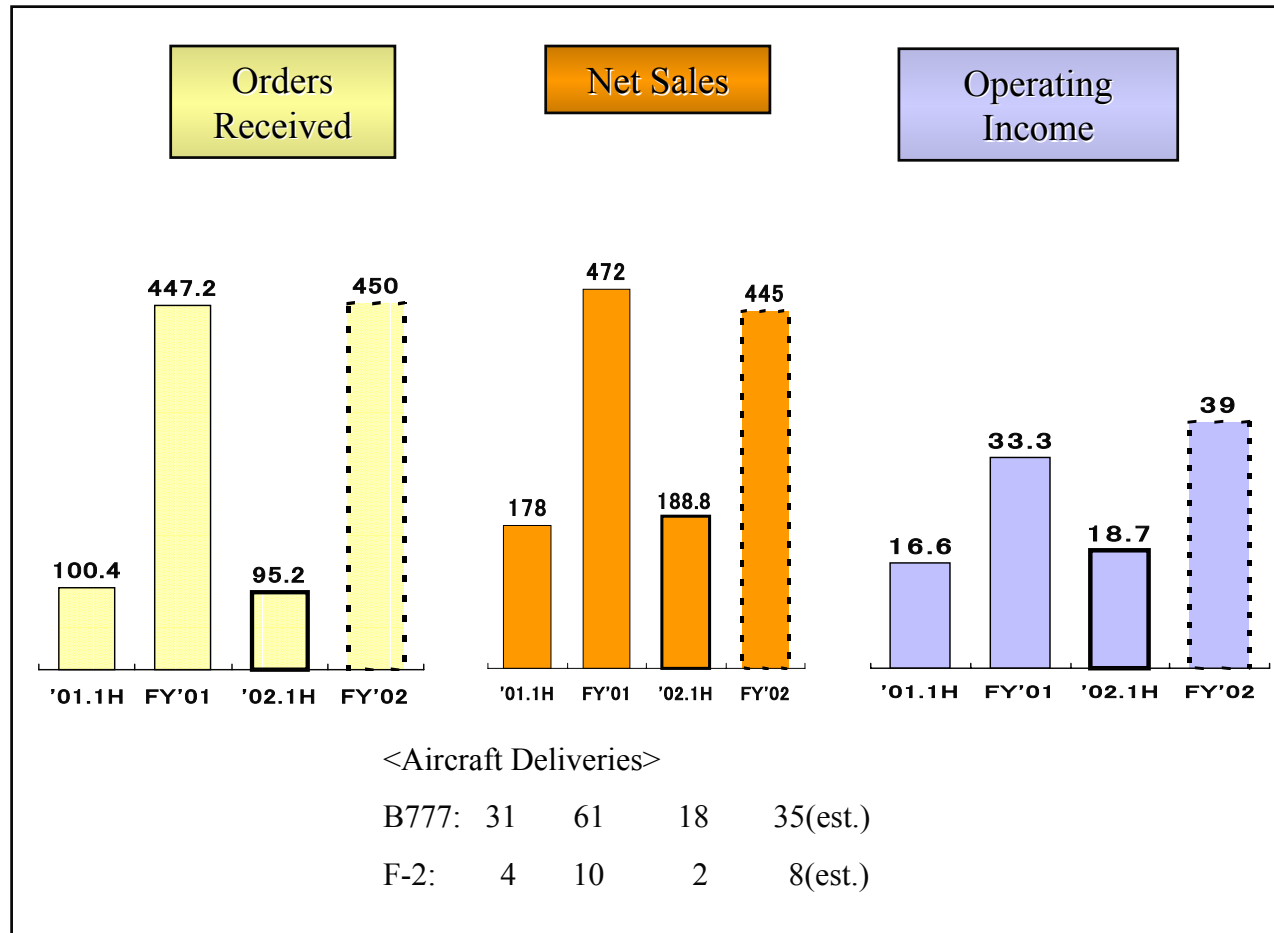
- Taiwan Shinkansen Project: Received contracts for No. 4 and 5 tracks (T230, T240)
- Transportation systems: Formed business alliance in traffic signal control systems with Kyosan Electric Mfg. Co., Ltd.

## [Full Year Forecast (Orders/Sales/Earnings)]

FY02 forecast: **530 / 430 / 10**  
 (Original forecast: 530 / 430 / 10)  
 FY01 results: **424.1 / 430 / 9.5**

# Aerospace

(Billion yen)



## [Market Conditions / Orders Received]

- Japanese gov't defense budget is about the same as last year.
- Impact of U.S. terrorist attacks is bringing down orders for B-777 and other passenger aircraft. Orders were slightly lower across the entire segment.

## [Sales / Profit]

- Passenger aircraft sales fell mainly due to decline in B-777 deliveries. However, total segment sales and earnings rose due to growth in Patriot missile deliveries.

## [Topics]

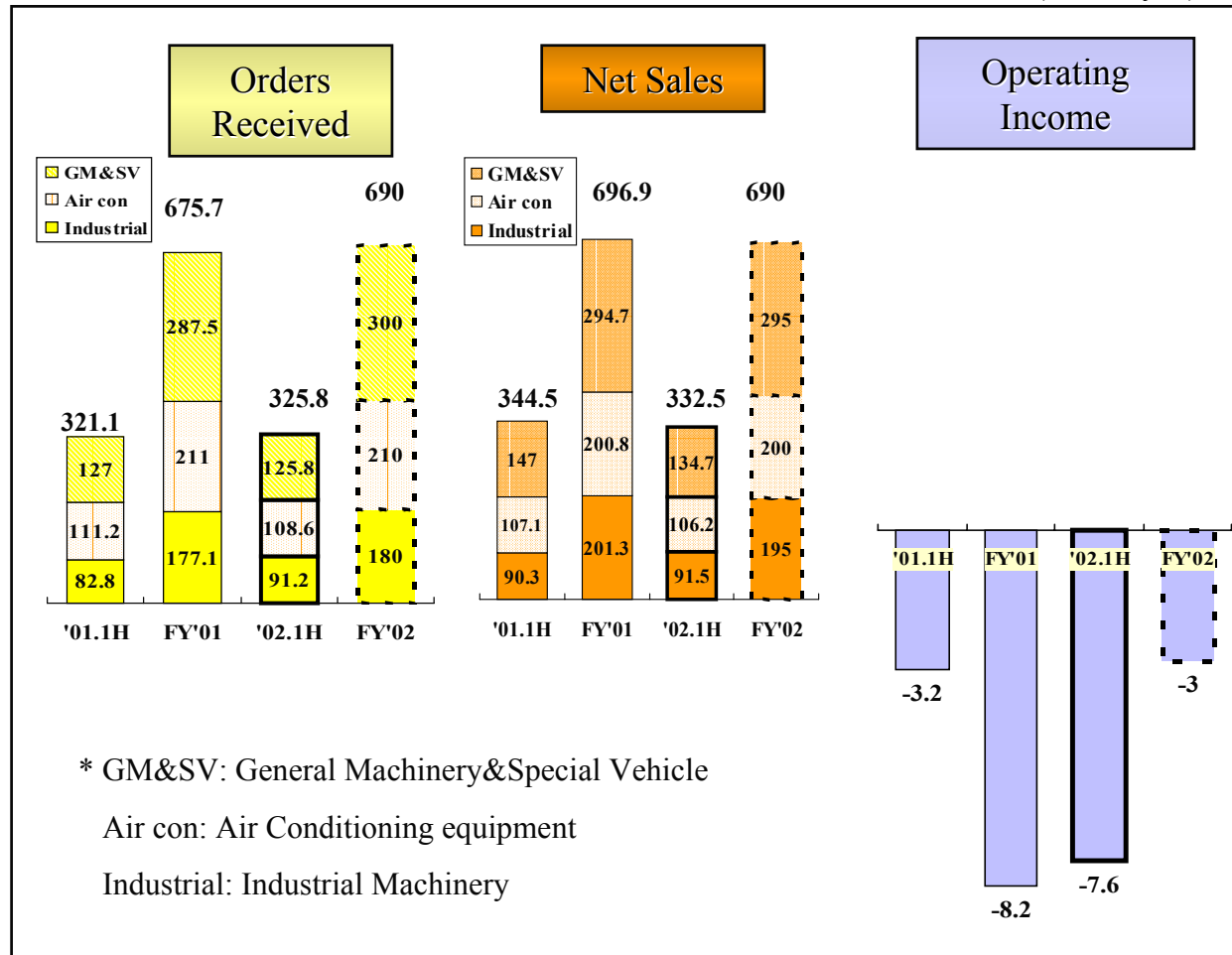
- June 2002: Received order for fabrication of cargo door for Airbus A380.
- June 2002: Delivered two prototypes of SH-60K anti-submarine helicopter.
- Sept. 2002: Successful launch of H-IIA rocket flight No.3 with commercial satellite.

## [Full Year Forecast (Orders/Sales/Earnings)]

FY02 forecast: **450 / 445 / 39**  
 (Original forecast: 450 / 445 / 34)  
 FY01 results: **447.2 / 472 / 33.3**

# Mass and Medium-Lot Manufactured Machinery

(Billion yen)



## [Market Conditions / Orders Received]

- Overseas, orders in the U.S. were weak due to the U. S. sluggish economy, but orders were strong in Asia, especially in China.
- In Japan, orders were generally weak due to soft domestic economy. However, exports of industrial machinery, including printing presses, to China increased, producing a year-on-year increase in orders.

## [Sales / Profit]

- Export sales increased due to growth in demand for industrial machinery. However total sales and operating income decreased as sales volumes and prices in Japan fell, particularly in air-conditioning sector.

## [Topics]

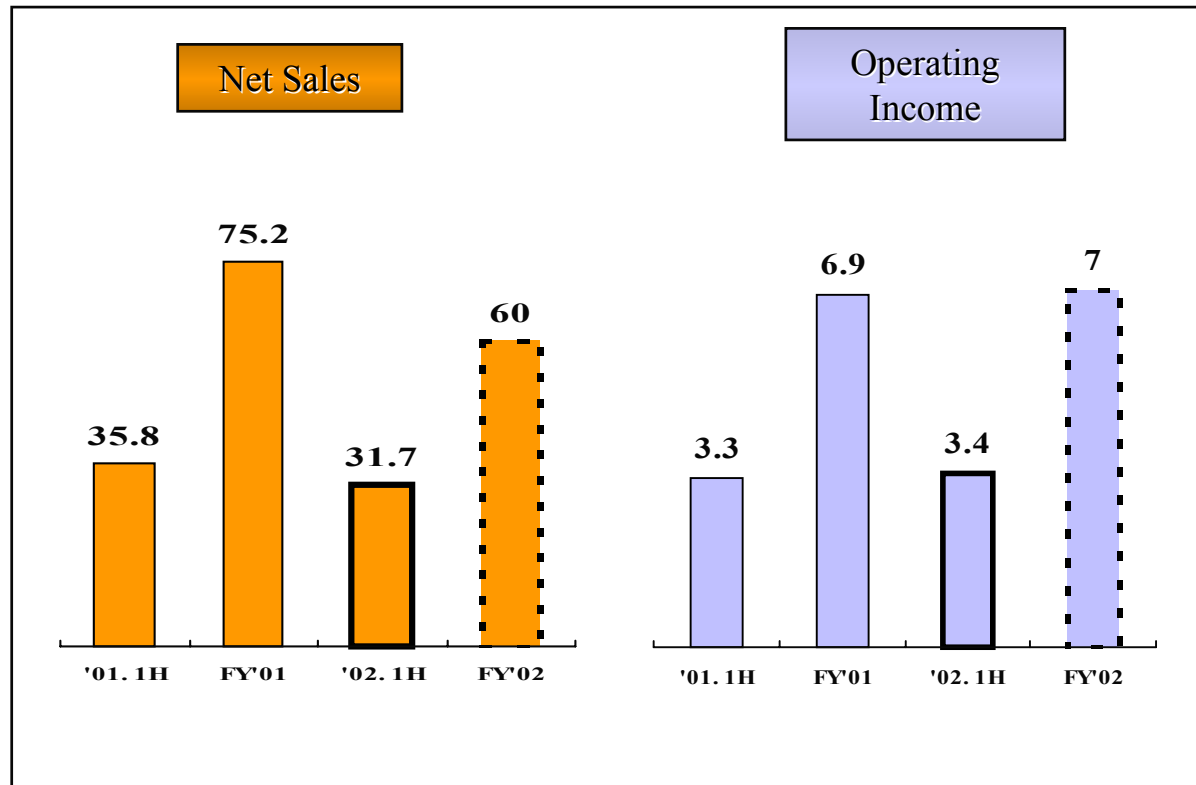
- Machine tools: Received order for cutting line from Chinese automaker.
- Air-conditioning and refrigeration systems: Received automotive thermal system orders from North America. (mass production to start beginning in 2004.)

## [Full Year Forecast (Orders/Sales/Earnings)]

FY02 forecast: **690 / 690 / -3**  
 (Original forecast: 690 / 690 / 0)  
 FY01 results: **675.7/ 696.9/ -8.2**

# Others

(Billion yen)



- Construction and real estate
- Information,communication systems and others

**<Forecast for Sales/Earnings>**

**60 / 7**  
 (Original forecast: 60 / 7)  
 FY01 results: **75.2 / 6.9**



# Consolidated Forecast for FY2002

Fiscal year (Billion yen)

	2001	2002	
	Results	Original Forecast	Revised Forecast
Orders	2,424.9	2,700	<b>2,700</b>
Net Sales	2,863.9	2,630	<b>2,630</b>
Operating Income	78.6	92	<b>103</b>
Ordinary Income	67.9	80	<b>80</b>
Income (Loss) before Taxes	48.0	80	<b>80</b>
Net Income (Loss)	26.4	45	<b>45</b>

•Forecasts do not reflect expenses related to the October 1, 2002 cruise ship fire because MHI is unable to release an accurate estimate of losses incurred at this time.

•Forecasts are based on exchange rates of ¥125 to U.S. dollar and ¥115 to euro. (US\$2.9 billion and 0.2 billion euros remain unhedged.)

Forecasts regarding future performance in these materials are based on judgments made in accordance with information available at the time this presentation was prepared. Forecasts therefore embody risks and uncertainties. For this reason, investors are urged not to make decisions based solely on these forecasts. Actual results may differ significantly from these forecasts for a number of factors. Such factors include, but are not limited to, economic trends affecting the company's operating environment and the value of the yen relative to U.S. dollar and other foreign currencies.

# Forecast for Orders

## First Half Results

### Results are sluggish

1. Demand from the public sector and electric utilities continues to decline (already included in forecast).
2. North American market for gas turbine combined cycle equipment is shrinking.
3. Postponements in orders for exported plants
4. Orders received from the U.S. for reactor vessels closure heads

## Second Half Estimates

### The key is orders for exported plants

#### 1. Power Systems

- Much potential for business in China, Southeast Asia, Europe and South America (formed alliance with Dongfang Electric Corp. in China to supply gas turbines)

#### 2. Machinery & Steel Structures

- Refuse incineration plants: Received orders for plants in Miyazaki and Kagoshima.
- Transportation systems: Proposal accepted by Washington Dallas Airport Authority (U.S.) , Now negotiating for orders for No. 2 and 3 tracks (T210 and T220)of Taiwan Shinkansen Project.
- Flue gas desulfurization systems: Taking actions on expanding demand in North America.
- Chemical plants: Now negotiating for large-scale orders for fertilizer, methanol, GTL (gas-to-liquids fuel) and other plants.

#### 3. Aerospace

- Receiving a steady flow of orders from Boeing
- Minimal impact of lower production at Bombardier

# Forecast for Earnings

## First Half Results

- 1. Return to profitability (profit for first time for the interim period since MHI began reporting results for this segment in the first half of FY99)**
- 2. Higher operating income at Power Systems and Aerospace**
- 3. Mass and Medium-Lot Manufactured Machinery**
  - a) Solid performance in general machinery, industrial machinery and paper and printing machinery**
  - b) Air-conditioning**
    - Automotive thermal systems business on recovery track
    - Weakness continues in residential-use air-conditioner business
  - c) Machine tools**
    - Positioned to return to the black

## Second Half Estimates

- 1. Measures to improve performance of mass and medium-lot manufactured machinery**
  - Air-conditioning: Restructure residential-use air-conditioner business
    - ➔ See page 20
  - Machine tools: Achieve base for consistent profitability (reinforce machine tool operations)
    - ➔ See page 21

## Measures to Improve Earnings in AC & Refrigeration Systems

### First Half Results

#### 1. Automotive thermal systems/U.S. (MCC)

- Achieve dramatic improvement in profitability this year by conducting an exhaustive cost-containment program targeting materials and fixed expenses for existing products. Expect to return this business to the black in the following fiscal year.
- Received new orders from North America

#### 2. Commercial-use air conditioners/China (MHAQ)

Expand JV factory with partner Haier Air-Conditioners Co., Ltd., increase sales of multi-type ice storage air conditioners for buildings (operations began September end, 2002)

#### 3. Residential-use air conditioners

Remains unprofitable as benefits of cost reductions are offset by falling sales prices in Japan

### Strategy

#### 1. Strengthen AC & refrigeration system business

- Commercial-use air conditioners: strengthen product strategy (Launch hyper-inverter models, install a new line and SCM at Biwajima plant)
- Automotive thermal systems: Expand overseas business (GM, Daimler–Chrysler, and other customers)
- Transport refrigeration unit: Introduce new models based on improved technologies (Expand orders for new type of transport refrigeration units for trucks)

#### 2. Rebuild residential-use air conditioners business

- Sales: Place priority on profitability and boost exports by focusing on models where MHI has competitive advantage.
- Production: Concentrate production base in Thailand (MACO)
- Slash fixed costs: Shift personnel to commercial-use and transport refrigeration systems in order to streamline payroll, including marketing subsidiaries.

SCM: Supply Chain Management

# Measures to Improve Earnings in Machine Tools

## Operating Environment

1. Solid performance by automotive products (machine tools, tools and parts for the automobile industry)
2. Rapid changes in the market are sparking intense competition in markets for machining centers and heavy machinery



Introduction of new products, cost containment initiatives and other measures are producing results. However, more actions are needed to become consistently profitable.

## Improvement Measures

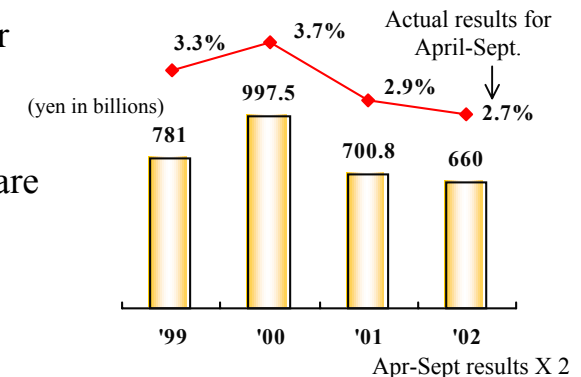
### 1. Basic policy

Make machining centers and heavy machinery more competitive to establish a consistently profitable framework for the machine tools business.

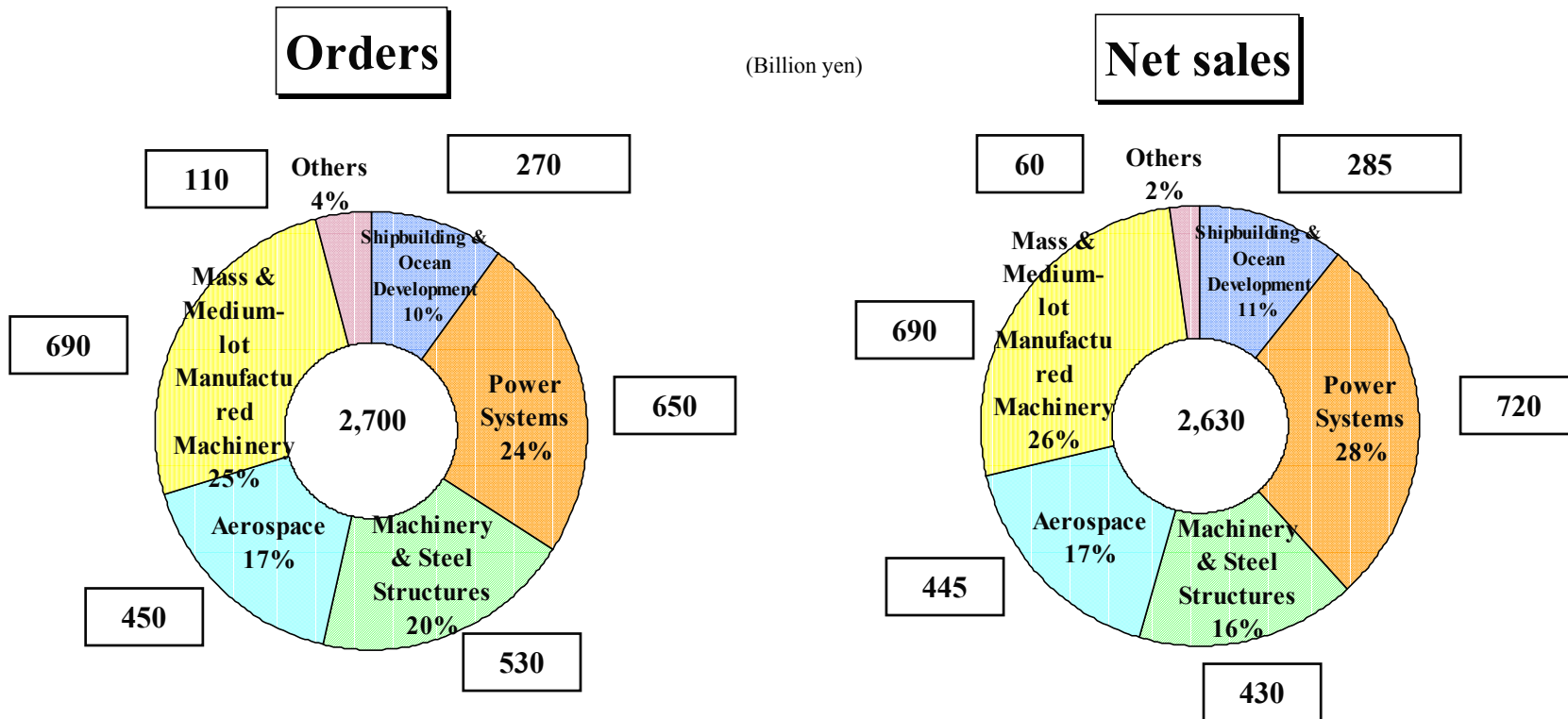
### 2. Key initiatives

- a) Bolster design and development capabilities
  - Introduce steady stream of new products
  - Deepen ties with Technical Headquarters (Leverage MHI's broad-based skills in technology: materials, structures, vibrations, tribology, etc.)
- b) Bolster manufacturing infrastructure → Cost reduction by conducting a sweeping integration of production activities
  - Equip Ritto Plant with sophisticated facilities (completion slated for October 2003) → Move operations of Hiroshima (Gion) Plant to Ritto Plant, consolidating machining center production in a single location
- c) Improve sales and service operations
  - Enhance domestic sales activities (established Customer Satisfaction Center in August 2002, reviewed sales infrastructure, taking other steps)
  - Enhance export sales activities (posted service personnel in China, established sales network in Southeast Asia and China)

Aggregate Machine Tools Demand and MHI Share of Machining Center & Heavy Machinery Market



# Forecast for Segment Consolidated Orders and Sales for FY2002



## Non-Consolidated Forecast for FY2002

Fiscal year	(billion yen)		
	2001	2002	
	Results	Original Forecast	Revised Forecast
Orders	1,970.4	2,300	<b>2,300</b>
Net Sales	2,388.6	2,200	<b>2,200</b>
Operating Income	66.8	81	<b>91</b>
Ordinary Income	59.4	70	<b>70</b>
Income (Loss) before Taxes	33.4	70	<b>70</b>
Net Income (Loss)	22.4	40	<b>40</b>
Annual dividend per share	4.0 yen	6.0 yen	<b>6.0 yen</b>

Forecasts regarding future performance in these materials are based on judgments made in accordance with information available at the time this presentation was prepared. Forecasts therefore embody risks and uncertainties. For this reason, investors are urged not to make decisions based solely on these forecasts. Actual results may differ significantly from these forecasts for a number of factors. Such factors include, but are not limited to, economic trends affecting the company's operating environment and the value of the yen relative to U.S. dollar and other foreign currencies.