Onward and Upward

130TH Anniversary

MHI REPORT 2014

MITSUBISHI HEAVY INDUSTRIES GROUP INTEGRATED REPORT

For the Year Ended March 31, 2014

MITSUBISHI HEAVY INDUSTRIES, LTD.

Our Technologies, Your Tomorrow

As a manufacturer, Mitsubishi Heavy Industries (MHI) Group provides an assured future through technologies and passion.

Long-Term Vision

After Fiscal 2017

Fiscal 2014
(Forecast)

Business scale ¥5.0 Trillion

ROE 12.0%

Fiscal 2013
(Actual)

Business scale ¥4.0 Trillion

ROE 8.2%

Fiscal 2010
(Actual)

Business scale ¥3.3 Trillion

ROE 11.0%

Business scale ¥2.9 Trillion

ROE 2.4%

2010 Medium-Term Business Plan → 2012 Medium-Term Business Plan → After Next Medium-Term Business Plan

MITSUBISHI HEAVY INDUSTRIES, LTD.
Our Technologies, Your Tomorrow

Reason for Publication

The MHI Group conducts management based on the firm intention to "continuously provide an assured future where people can live safe, secure, and enriched lives through technologies that can excite people and passion as a manufacturer for the sustainability of the earth and humankind."

To enhance the understanding of our philosophy among shareholders, investors, and a host of other stakeholders, from fiscal 2013 (the fiscal year ended March 31, 2014), we have integrated financial information, including management strategy and operating performance, with non-financial information related to the Group's environmental and social activities into this *MHI Report*.

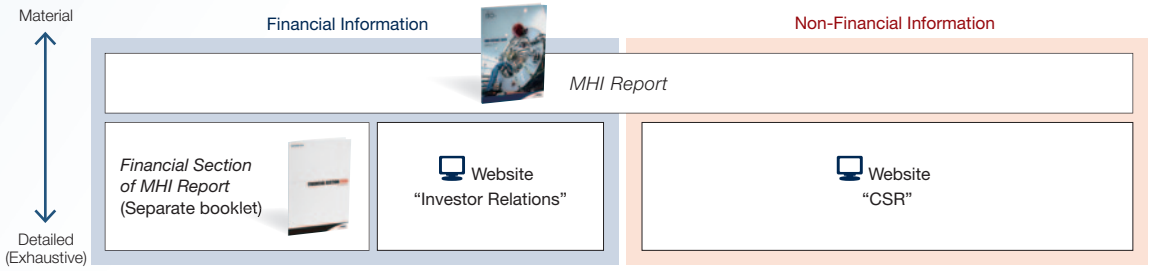
Cover Photo

Facility where the fuel tank section of the H-IIA launch vehicle was manufactured
(Nagoya Aerospace Systems Works, Aichi Prefecture)

Contents

Structure of Information Disclosure

MHI Report contains information that is material to understanding MHI. More detailed information is available on our website.



Reference Guidelines

International Integrated Reporting Council (IIRC)
▶ *International Integrated Reporting Framework*
Global Reporting Initiative
▶ Sustainability Reporting Guidelines (Fourth Edition, or G4)
Ministry of the Environment of Japan
▶ Environmental Reporting Guidelines (2012 version)

Please see the *Financial Section of MHI Report*, provided as a separate booklet, for more detailed financial information.

http://www.mhi-global.com/finance/library/annual/pdf/report_2014_financial.pdf

For detailed CSR information, please see the "CSR" section of our website.

http://www.mhi-global.com/company/csr/index.html

Forward-Looking Statements

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, these projections involve risks and insecurity. For this reason, investors are recommended not to depend solely on these projections for making investment decisions. 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. Also, the results projected here should not be construed in any way as being guaranteed by the Company.

We will leverage our technical expertise built up over 130 years to contribute to social progress and the sustainability of the planet, continuing forward to realize our vision of "Our Technologies, Your Tomorrow."

July 2014 marked the 130th anniversary of MHI's establishment. We started out in shipbuilding, before expanding our operations into aircraft, power generation systems, industrial machinery, rockets, and a host of other areas. In this respect, our history mirrors the progress of society.

Today, the world continues to undergo significant changes, among the most salient being the ascendancy of the emerging countries, globalization driven by rapid advances in information and communications technology (ICT), and increasingly severe environmental problems. As it has in the past, MHI will adapt to these changes in its operating environment, bringing its technologies to bear in addressing the broad-ranging issues faced by society and the planet, and focusing all its effort into resolving these imposing challenges. At the same time, in our bid to become a truly global corporation that earns the trust of people throughout the world, we will constantly maintain a global perspective and a sense of challenge as we continue to innovate in our quest to achieve sustained growth.

I believe that the strong desire to deliver technologies that can excite people and a passion for manufacturing are the driving forces that will allow us to remain true to our corporate identity (CI) statement of “Our Technologies, Your Tomorrow.” I also firmly believe that further strengthening and optimally leveraging the technological expertise we have cultivated in the course of 130 years will contribute not only to our own growth but also to social progress and the sustainability of our planet. We will continue taking up these challenges with the firm determination incorporated into our CI statement.

I look forward to the sustained support and guidance of all our customers, shareholders, investors, and everyone otherwise involved in MHI’s endeavors.

Hideaki Omiya
Chairman of the Board

Board of Directors and Statutory Auditors (As of July 1, 2014)

1
Chairman of the Board

Hideaki Omiya

2
President and CEO*1

Shunichi Miyanaga

3
Director, Senior Executive Vice President
(President and CEO, Energy & Environment)

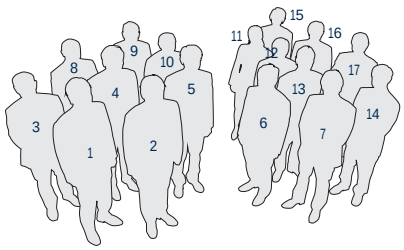
Atsushi Maekawa

4
Director, Senior Executive Vice President
(President and CEO, Commercial Aviation & Transportation Systems)

Yoichi Kujirai

5
Director, Executive Vice President
(President and CEO, Integrated Defense & Space Systems)

Hisakazu Mizutani



10
Director

Yorihiko Kojima

(Chairman of the Board of Mitsubishi Corporation)

11
Director

Christina Ahmadjian

(Professor of Hitotsubashi University Graduate School of Commerce and Management)

12
Director

Hiroki Tsuda

(Former Administrative Vice Minister of Finance)

6
Director, Executive Vice President (President and CEO, Machinery, Equipment & Infrastructure)
Kazuaki Kimura

7
Director, Executive Vice President (CFO*2)
Tatsuhiko Nojima

8
Director, Executive Vice President (CAO*3/CRO*4)
Takashi Funato

9
Director, Executive Vice President (CTO*5, Head of Technology & Innovation Headquarters, Head of ICT Solution Headquarters)
Toshio Kodama

13
Full-time Statutory Auditor
Toshiro Yagami

14
Full-time Statutory Auditor
Eiji Isu

15
Statutory Auditor
Nobuo Kuroyanagi
(Senior Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd.)

16
Statutory Auditor
Haruya Uehara
(Senior Advisor of Mitsubishi UFJ Trust and Banking Corporation)

17
Statutory Auditor
Shinichiro Ito
(President & Chief Executive Officer, ANA Holdings Inc.; Chairman of the Board, All Nippon Airways Co., Ltd.)

*1. CEO: Chief Executive Officer *2. CFO: Chief Financial Officer *3. CAO: Chief Administrative Officer
*4. CRO: Chief Risk Officer *5. CTO: Chief Technology Officer

Value Creation Model

Our Technologies, Your Tomorrow

Inspired by the strong passion of our CI statement, we have taken up the challenge of establishing a corporation with a truly global presence.

To achieve this aim, we seek to provide further value by improving the technologies we have fostered and using new ideas and concepts to integrate our diverse technologies. From a global perspective, we work to solve the problems facing humankind and to realize everyone's dreams.

Enhancing Corporate Value by Resolving Social Issues ▶ Page 24

Creed

1. We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society
2. We base our activities on honesty, harmony, and a clear distinction between corporate and personal life
3. We shall strive for innovative management and technological development from an international perspective

Reason for Instituting the Creed

In Japan there are many enterprises with their own "creeds" which simply represent their management concept. Mitsubishi Heavy Industries, Ltd. has a creed of this type, also. This creed was instituted in 1970 on the basis of the policy advocated by Koyata Iwasaki, president of Mitsubishi Goshi Kaisha in the 1920s, to indicate the essential attitude of the Company, the mental attitude of the employees, and the future directions of the Company. The reason for instituting the present creed is so that all of us can call to mind our 100 years of tradition, and strive for further development in the future.

MHI Group CSR Action Guidelines

In order to ensure a secure future for the Earth, we will establish and maintain:

Close ties with the Earth

Safeguard an abundantly green Earth through environmental technologies and environmental awareness;

Close ties with Society

Build a relationship of trust with society through proactive participation in society and trustworthy actions;

A bridge to the next Generation

Contribute to the cultivation of human resources who can shoulder responsibility in the next generation through technologies that can realize dreams.

Based on its creed and CI statement, "Our Technologies, Your Tomorrow," the MHI Group has formulated CSR Action Guidelines to serve as collective standards for all Group employees when conducting business activities centered on the principles of CSR.

Key Capital

Building Our Technological Base over 130 Years


D

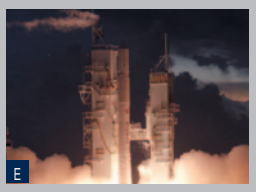

F

1884 | 1910 | 1940 | 1970 | 2000 | 2014


A


B


C


E


G

A: Launched Japan's first steel steamship, the "*Yugao Maru*" (1887) B : Built passenger car, "Mitsubishi Automobile Model A" (1918)
C: Produced the Zero Carrier Fighter (1939) D : Delivered the world's largest combined cycle power plant (Tohoku Electric Power, Higashi Niigata No. 3, unit 2; 545,000kW) (1985)
E : Successfully launched the first H-I Launch Vehicle (1986) F : Delivered a CO_2 recovery plant to Malaysia (1999)
G: A "J-Series" gas turbine, with the world's highest efficiency, achieved the world's highest turbine inlet temperature of 1,600 degrees Celsius (ºC) during the verification test. (2011)

1880 – 1945

Building a Transportation Infrastructure from Roots in Shipbuilding

MHI's *monozukuri* began with the lease of Nagasaki Shipyard & Machinery Works from the Ministry of Industry. Even as the Company built Japan's first steel steamship and battleships, it applied the technologies and knowledge cultivated in those endeavors to begin production of automobiles and aircraft, expanding its range of business as a comprehensive manufacturer of transport equipment. As global tensions rose, the Company entered into an age where its technologies—more advanced than in most countries at that time—would be diverted to military use.

1946 – 1963

Supporting Post-War Recovery with Consumer Products

After the war, in accordance with national policy, MHI shifted its emphasis from military hardware to the development and manufacture of scooters, air conditioners, and many other types of consumer products. In 1950, in line with the GHQ's policy of dissolving large industrial groups (*zaibatsu*), MHI was divided into three independent companies. As a result, the scale of products grew more diverse, and the three companies fell into competition. However, this technology race would provide the foundation for the leading company in heavy industry.

1964 – 1990

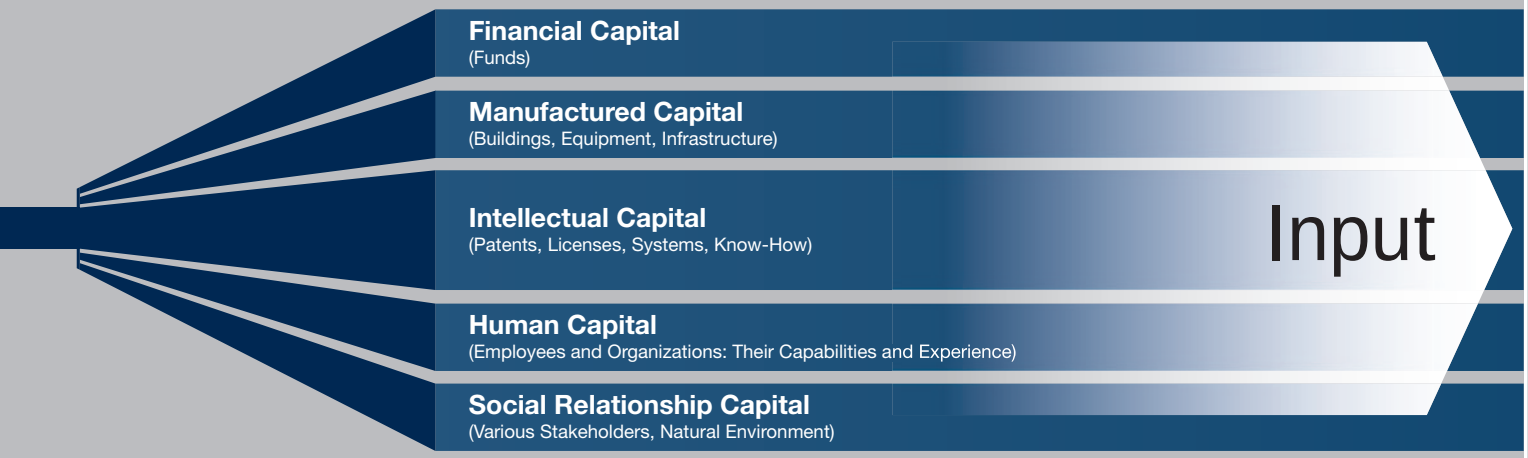
Merging of Three Heavy Industry Companies Leads to Large-Scale Development

In 1964, the same year Tokyo hosted the Summer Olympics, the three principal heavy industry companies reunited, creating the current form of Mitsubishi Heavy Industries. Its products expanded to encompass the fields of land, sea, and air, and included oil-drilling rigs, power plants, tankers, and bridges. In addition, the successful lift-off of the H-I launch vehicle occurred around this time, and the Company's participation in full-fledged space development began.

1991 – Present

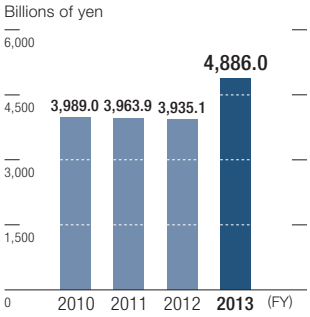
Supporting a Sustainable Society as a Comprehensive Infrastructure Company

MHI has always sought high efficiency, and as the trend toward global environmental conservation gains momentum and the concept of ecology becomes commonplace, the Company's gas turbine, eco-ship, and other technologies and product fields are expanding on a global scale. As a comprehensive infrastructure company, MHI works to develop the technologies and products that will support a sustainable society.



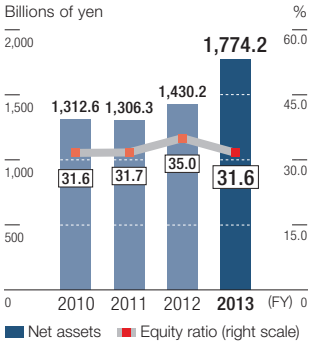
Financial Capital

Total Assets



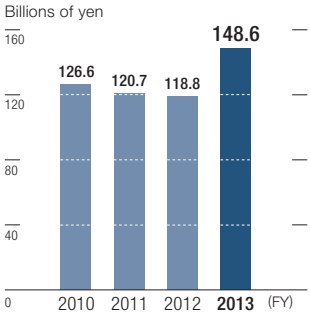
Financial Capital

Net Assets / Equity Ratio



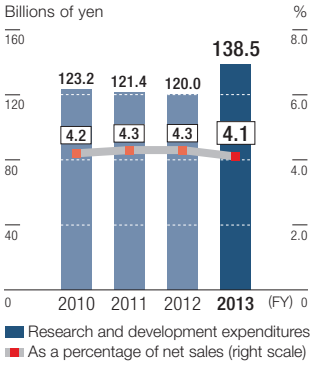
Manufactured Capital

Capital Investment



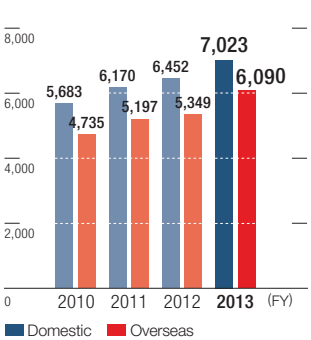
Intellectual Capital

Research and Development Expenditures / As a Percentage of Net Sales



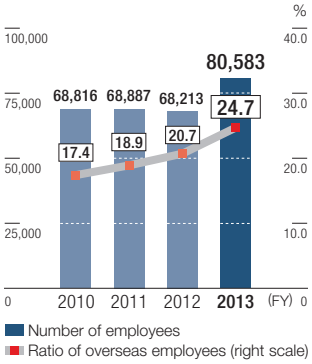
Intellectual Capital

Number of Patents Held in Japan and Overseas



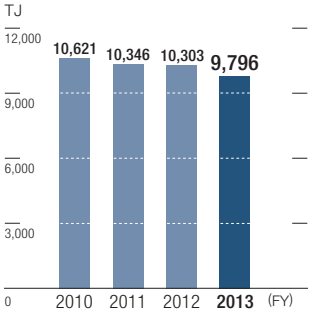
Human Capital

Number of Employees / Ratio of Overseas Employees



Social Relationship Capital

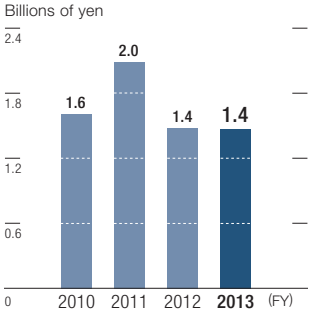
Energy Input



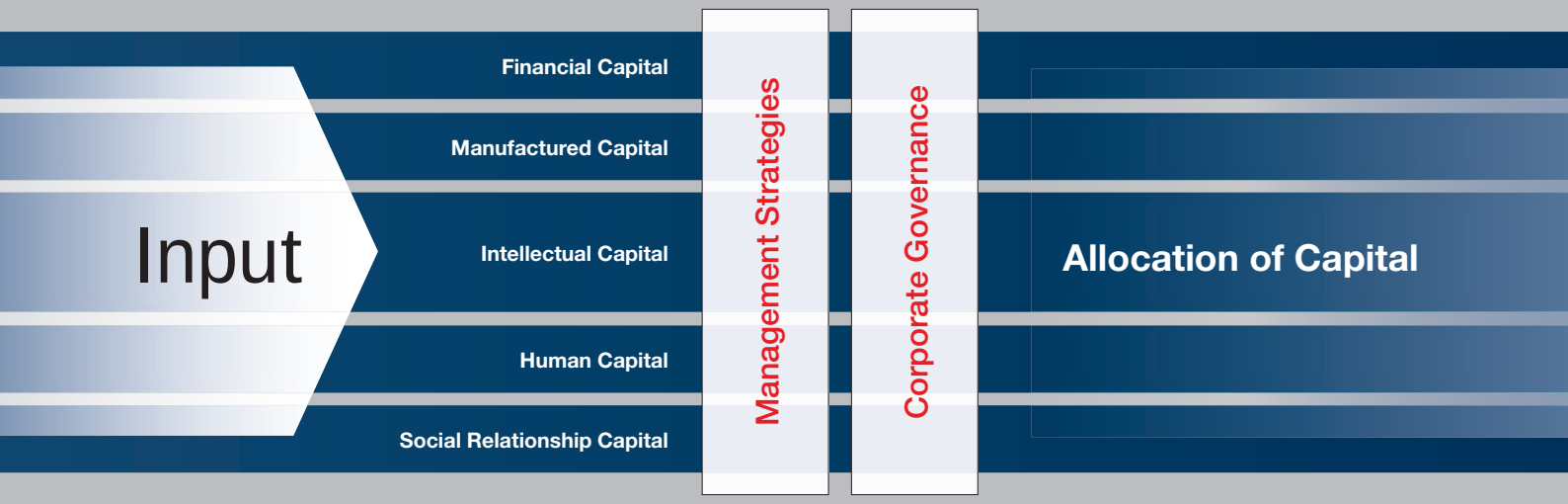
Note: In principle, MHI on a non-consolidated basis (production plants and offices)

Social Relationship Capital

Social Contribution Expenses



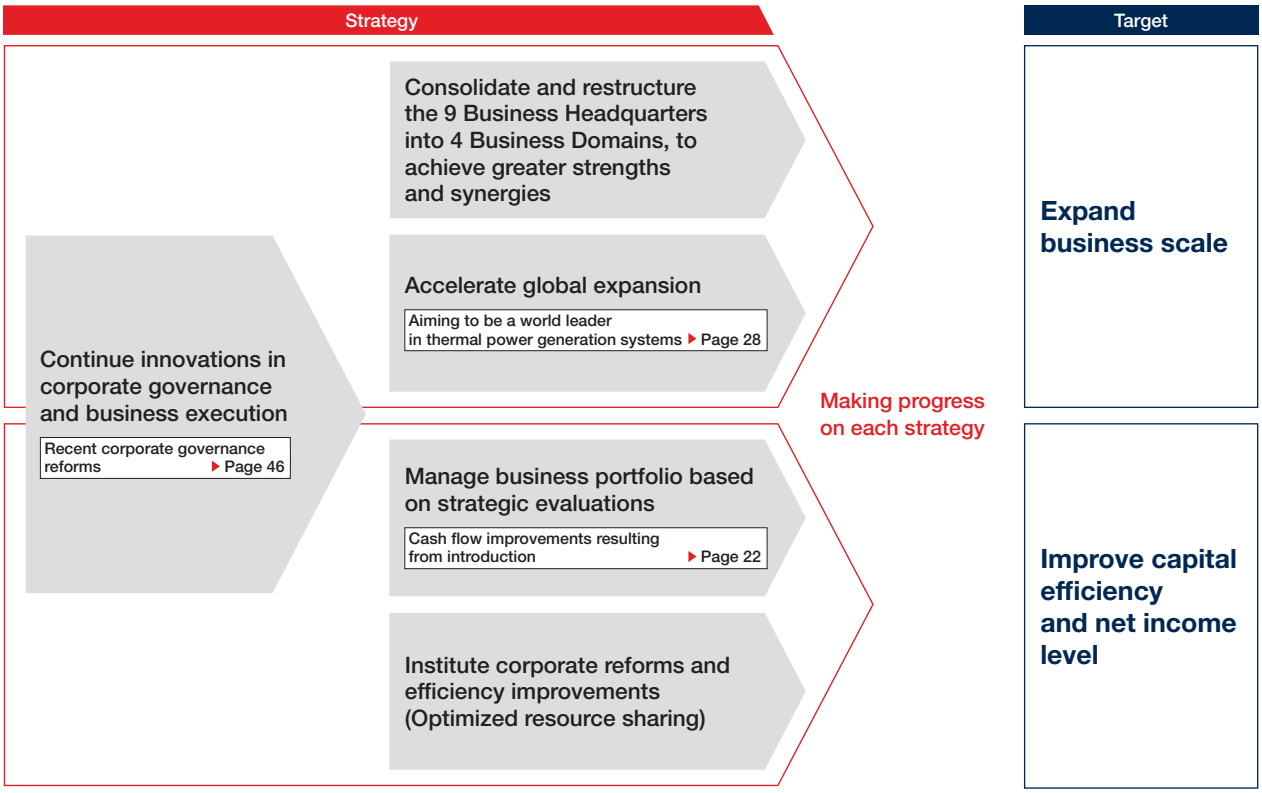
Business Activities

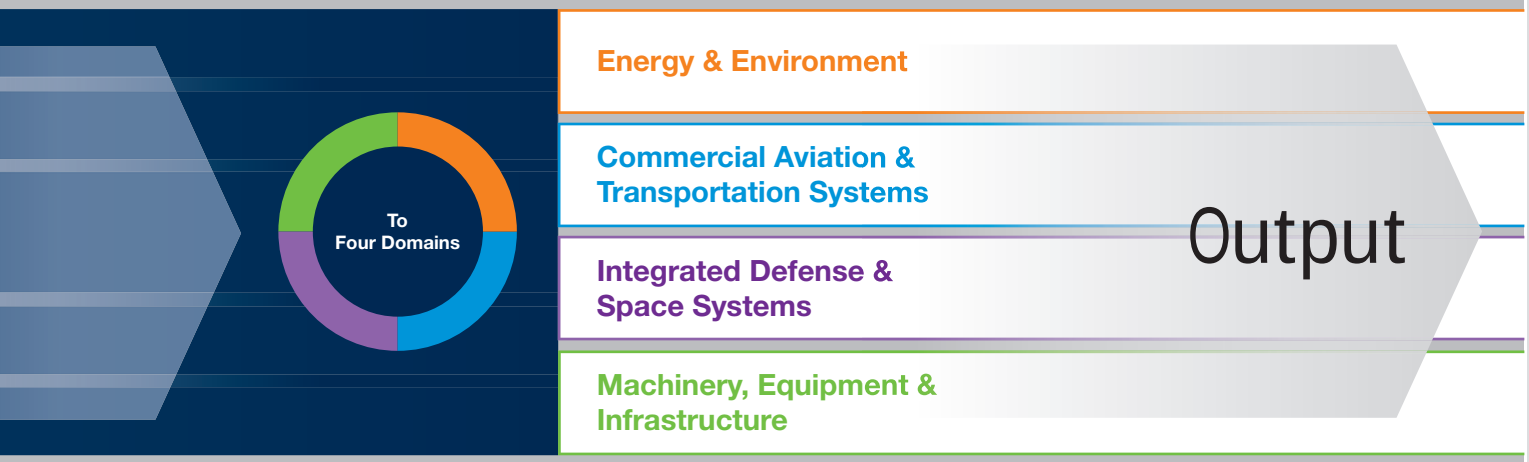


Pursuit of Business Plan

MHI is moving steadily ahead in line with the 2012 Medium-Term Business Plan and aiming for even further growth during the next business plan. Interview with the President ▶ Page 16

2012 Medium-Term Business Plan



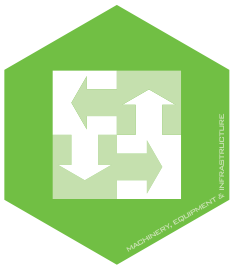


Four Domains

Business Segment Overview ▶ Page 26

Machinery, Equipment & Infrastructure

Machinery, Equipment & Infrastructure provides a wide range of products that form the foundation of industrial development, such as machine tools, material handling, construction machinery, and air-conditioning and refrigeration systems. MHI applies its vast business endeavors and high reliability as a corporation that supports social and industrial infrastructure to connect people to people, businesses to businesses, and the present to the future.

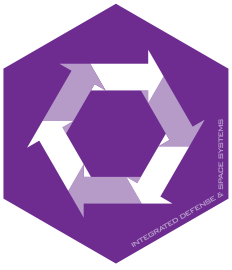


Energy & Environment

Energy & Environment offers optimal solutions in the energy-related fields of thermal power, nuclear power, and renewable energy, in such environmental areas as water and flue gas treatment, and for chemical plants and other industrial infrastructure elements. By integrating large-scale infrastructure projects that support society, MHI generates new power for the future.

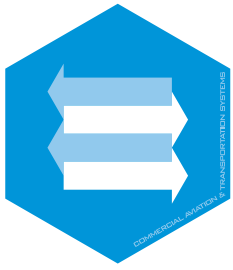
Integrated Defense & Space Systems

Integrated Defense & Space Systems provides integrated land, sea, air, and space defense systems, including naval ships, defense aircraft, launch vehicles, and special vehicles as well as space-related services. MHI uses the technology and expertise cultivated in its defense and space business to provide security on the planet.



Commercial Aviation & Transportation Systems

Commercial Aviation & Transportation Systems delivers advanced land, sea, and air transportation systems, including civilian aircraft, commercial ships, and transit networks. MHI moves society, supporting its transportation and logistics infrastructures with superior safety, guaranteed quality, and reliability backed by technology.



Value Creation

Output

- Energy & Environment
- Commercial Aviation & Transportation Systems
- Integrated Defense & Space Systems
- Machinery, Equipment & Infrastructure

Customers

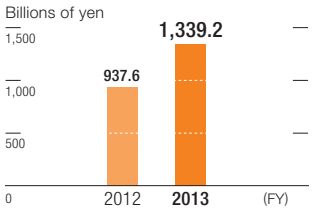
MHI supplies products and services to a wide range of customers. Throughout our activities, we maintain priority on safety and quality.

Product Use

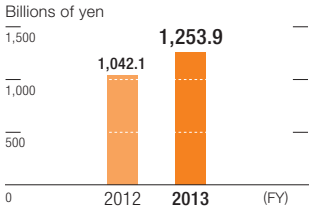
MHI products, which deliver high levels of efficiency and environmental performance, enable customers to reduce costs and curtail their environmental impact as they support the social and industrial infrastructure.

Energy & Environment

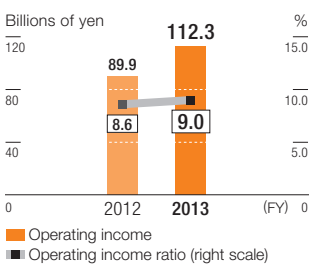
Orders Received



Net Sales

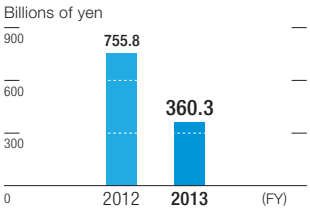


Operating Income / Operating Income Ratio

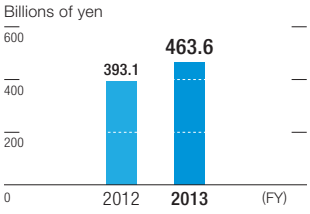


Commercial Aviation & Transportation Systems

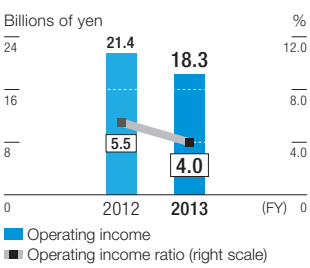
Orders Received



Net Sales

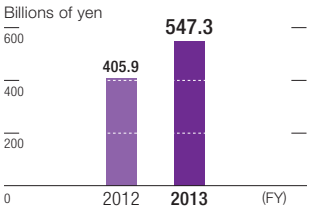


Operating Income / Operating Income Ratio

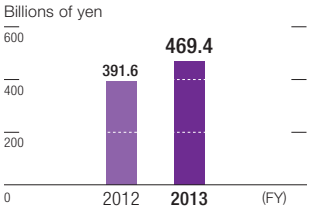


Integrated Defense & Space Systems

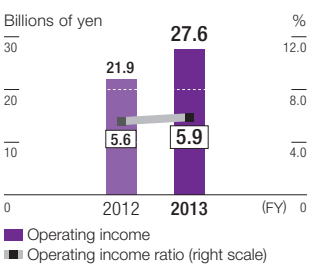
Orders Received



Net Sales

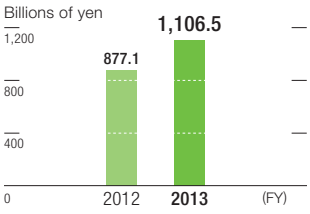


Operating Income / Operating Income Ratio

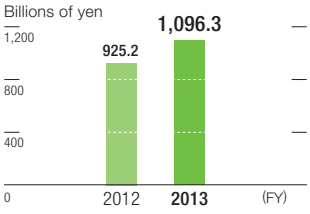


Machinery, Equipment & Infrastructure

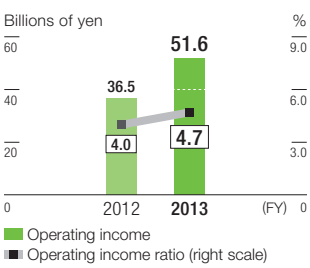
Orders Received



Net Sales



Operating Income / Operating Income Ratio



Outcome

(FY2013)

ROE

11.0%

Dividend Payments

¥30.1 billion

Reduction in CO_2 from Using MHI's Products
(Compared with fiscal 1990 levels)

About 30 million tons

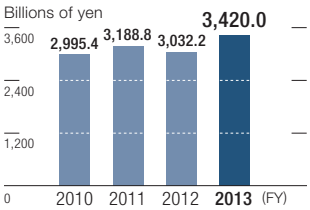
New Recruits and Post-Retirement Employees with Extended Employment Periods

2,942 people

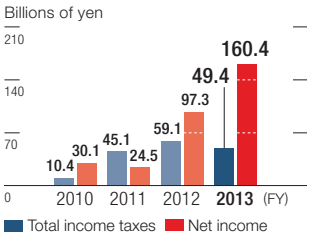
2020

MHI and Its Subsidiaries

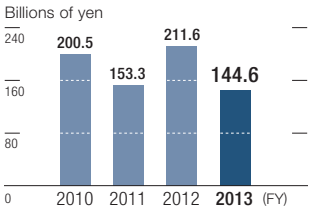
Orders Received



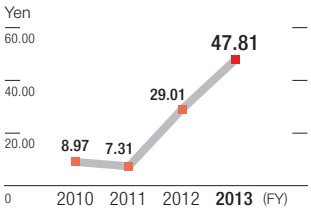
Total Income Taxes / Net Income



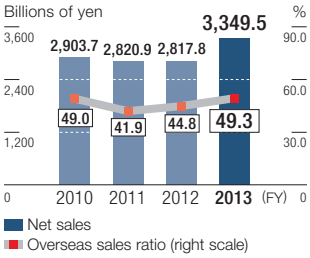
Free Cash Flows



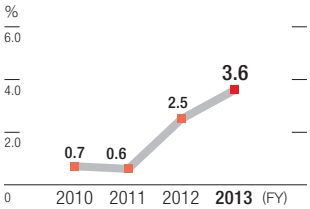
Net Income—Basic (EPS)



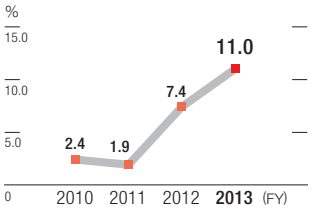
Net Sales / Overseas Sales Ratio



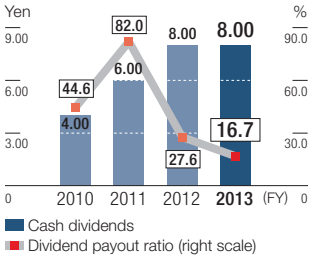
Return on Assets (ROA)



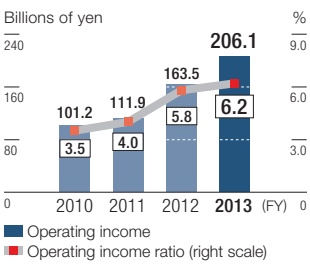
Return on Equity (ROE)



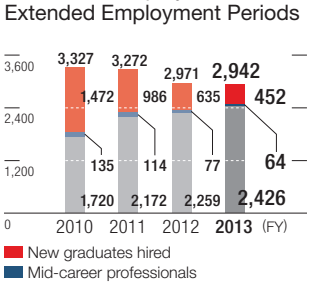
Cash Dividends / Dividend Payout Ratio



Operating Income / Operating Income Ratio

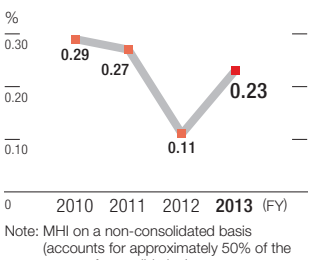


New Recruits and Post-Retirement Employees with Extended Employment Periods



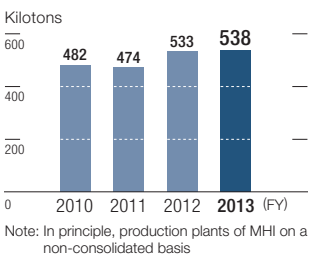
Note: MHI on a non-consolidated basis

Industrial Accident Frequency Rate



Note: MHI on a non-consolidated basis (accounts for approximately 50% of the scope of consolidation)

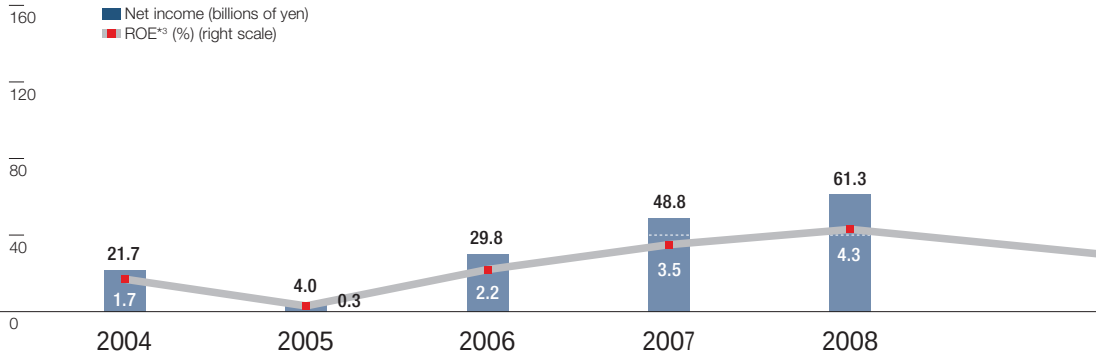
Greenhouse Gas (CO_2) Emissions



Note: In principle, production plants of MHI on a non-consolidated basis

Financial and Non-Financial Highlights

MITSUBISHI HEAVY INDUSTRIES, LTD. and its subsidiaries
Years ended March 31



Years ended March 31 or as of March 31	2004	2005	2006	2007	2008
			2004 Medium-Term Business Plan	2006 Medium-Term Business Plan	
Billions of yen					
Orders received	¥2,662.8	¥2,722.8	¥2,942.0	¥3,274.7	¥3,715.2
Net sales	2,373.4	2,590.7	2,792.1	3,068.5	3,203.0
Operating income	66.6	14.7	70.9	108.9	136.0
Income before income taxes and minority interests	50.1	16.3	52.3	83.7	101.3
Net income	21.7	4.0	29.8	48.8	61.3
Research and development expenses	¥ 99.5	¥ 124.0	¥ 100.7	¥ 106.3	¥ 107.9
Capital investment	109.8	112.2	140.5	175.9	191.4
Depreciation	99.8	99.1	100.8	106.7	129.2
Total assets	¥3,715.3	¥3,831.1	¥4,047.1	¥4,391.8	¥4,517.1
Net assets*2	1,324.4	1,309.9	1,376.2	1,446.4	1,440.4
Interest-bearing debt	1,101.2	1,172.8	1,198.6	1,273.5	1,365.3
Cash flows from operating activities	¥ 134.2	¥ 107.0	¥ 73.9	¥ 158.7	¥ 161.8
Cash flows from investing activities	(95.3)	(163.3)	(104.0)	(158.6)	(193.0)
Free cash flows	38.8	(56.2)	(30.1)	0	(31.2)
Cash flows from financing activities	(44.4)	57.9	7.9	48.7	71.2

Per share information of common stock Yen

Net income–basic (EPS)	¥ 6.46	¥ 1.20	¥ 8.85	¥ 14.56	¥ 18.28
Net assets	393.17	390.44	410.15	425.54	423.17
Cash dividends	6.00	4.00	4.00	6.00	6.00

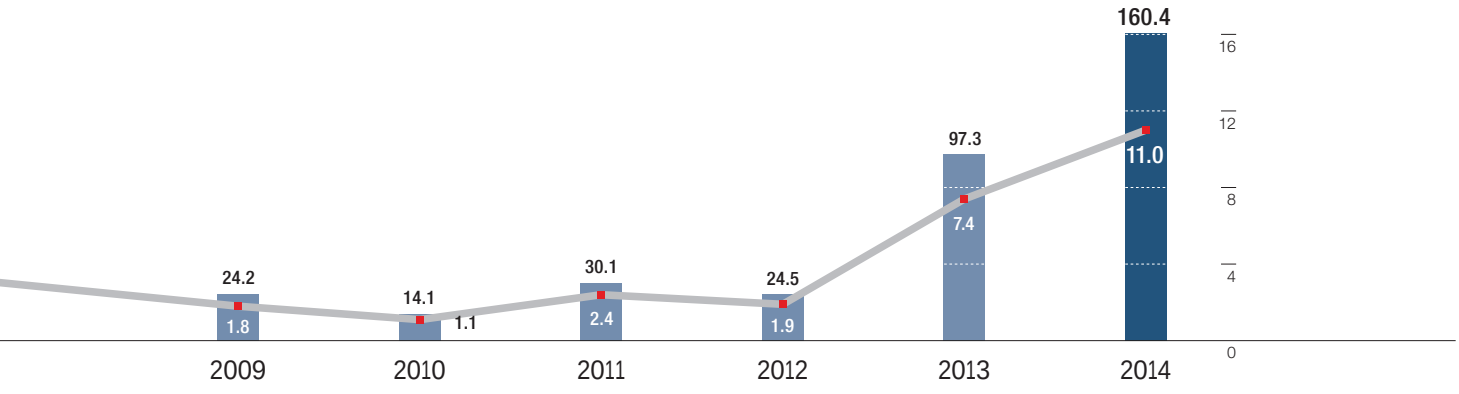
Ratios

Overseas sales ratio	37.6%	40.5%	43.9%	47.7%	48.7%
Operating income ratio	2.8%	0.6%	2.5%	3.5%	4.2%
Return on equity*3	1.7%	0.3%	2.2%	3.5%	4.3%
Return on invested capital*4	1.6%	0.8%	1.6%	2.3%	2.7%
Return on assets*5	0.6%	0.1%	0.8%	1.2%	1.4%
Current ratio	158.1%	157.3%	156.4%	154.2%	160.9%
D/E ratio*6	82%	89%	86%	88%	95%
Equity ratio*7	35.6%	34.2%	34.0%	32.5%	31.4%
Dividend payout ratio*8	92.8%	333.3%	45.1%	41.2%	32.8%

Notes:
*1. U.S. dollar amounts in this report are translated from yen, for convenience only, at the rate of ¥102.92 = U.S. $1, the exchange rate prevailing at March 31, 2014.
*2. In calculating the net assets, MHI and its consolidated subsidiaries have applied the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan (ASBJ) Statement No. 5) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8) since the year ended March 31, 2007.
*3. Return on equity = net income / (net assets – share subscription rights – minority interests)
*4. Return on invested capital = NOPAT / (net assets + interest-bearing debt)
*5. Return on assets = net income / total assets
*6. D/E ratio = interest-bearing debt / net assets
*7. Equity ratio = (net assets – share subscription rights – minority interests) / total assets
*8. Dividend payout ratio = dividends / net income

Number of female managers: As one aspect of its diversity management aimed at accelerating global development, by 2020 MHI plans to triple its number of female managers (section heads or their equivalent and above) from the present level.

Investment and costs for environmental preservation: These include the costs for preventing pollution and conserving energy, reducing waste, and developing various types of environmentally friendly products.



	2008 Medium-Term Business Plan		2010 Medium-Term Business Plan		2012 Medium-Term Business Plan		Millions of U.S. dollars*1
	¥3,268.7	¥2,476.2	¥2,995.4	¥3,188.8	¥3,032.2	¥3,420.0	$33,229
	3,375.6	2,940.8	2,903.7	2,820.9	2,817.8	3,349.5	32,544
	105.8	65.6	101.2	111.9	163.5	206.1	2,002
	64.9	28.1	39.4	69.8	155.4	214.4	2,083
	24.2	14.1	30.1	24.5	97.3	160.4	1,558
	¥ 101.3	¥ 129.2	¥ 123.2	¥ 121.4	¥ 120.0	¥ 138.5	$ 1,345
	196.6	177.1	126.6	120.7	118.8	148.6	1,443
	153.8	140.4	134.4	126.2	119.4	134.9	1,310
	¥4,526.2	¥4,262.8	¥3,989.0	¥3,963.9	¥3,935.1	¥4,886.0	$47,473
	1,283.2	1,328.7	1,312.6	1,306.3	1,430.2	1,774.2	17,238
	1,612.8	1,495.3	1,325.6	1,157.1	1,031.2	957.4	9,302
	¥ 79.5	¥ 117.9	¥ 337.8	¥ 200.3	¥ 288.3	¥ 296.2	$ 2,877
	(156.5)	(180.7)	(137.2)	(47.0)	(76.7)	(151.5)	(1,472)
	(77.0)	(62.7)	200.5	153.3	211.6	144.6	1,404
	262.0	(105.2)	(169.7)	(183.6)	(154.2)	(136.6)	(1,327)
							U.S. dollars
	¥ 7.22	¥ 4.22	¥ 8.97	¥ 7.31	¥ 29.01	¥ 47.81	$ 0.464
	369.94	380.80	376.17	374.08	410.90	459.99	4.469
	6.00	4.00	4.00	6.00	8.00	8.00	0.077
	48.9%	50.3%	49.0%	41.9%	44.8%	49.3%	
	3.1%	2.2%	3.5%	4.0%	5.8%	6.2%	
	1.8%	1.1%	2.4%	1.9%	7.4%	11.0%	
	1.8%	1.0%	1.5%	1.5%	4.4%	6.7%	
	0.5%	0.3%	0.7%	0.6%	2.5%	3.6%	
	158.7%	181.7%	167.9%	153.9%	155.0%	139.2%	
	126%	113%	101%	89%	72%	54%	
	27.4%	30.0%	31.6%	31.7%	35.0%	31.6%	
	83.2%	94.8%	44.6%	82.0%	27.6%	16.7%	

Non-financial indexes

Number of employees	68,816	68,887	68,213	80,583
Number of overseas employees	12,001	13,036	14,129	19,909
Number of female managers*9, *10	266	288	293	256
Energy input*10 (TJ)	10,621	10,346	10,303	9,796
Greenhouse gas (CO_2) emissions*11 (kilotons)	482	474	533	538
Water usage*11 (million cubic meters)	7.66	7.22	7.02	6.82
Investment and costs for environmental preservation*10 (billions of yen)	25.1	20.6	23.3	21.6
Social contribution expenses (billions of yen)	1.6	2.0	1.4	1.4

Notes:
*9. Number of section managers or above, excluding medical staff, as of April 1
*10. In principle, MHI on a non-consolidated basis
*11. In principle, production plants of MHI on a non-consolidated basis

We will proceed swiftly in line with our business plan, working toward our objective of becoming a highly profitable company with a business scale of ¥5 trillion.

Shunichi Miyanaga
President and CEO

Profile
Graduated from the University of Tokyo's Faculty of Law and joined MHI in 1972. In 2000, was appointed president of MHI-HITACHI Metals Machinery, Inc. (currently Mitsubishi-Hitachi Metals Machinery, Inc.), the first joint venture between MHI and Hitachi, Ltd. This venture was restructured into the steel and metal production machinery business. Returned to MHI in 2006, and in 2008 was appointed Member of the Board and Executive Vice President of MHI, as well as Head of Machinery & Steel Structures Headquarters. Served as Member of the Board, Senior Executive Vice President, and Head of the Presidential Administration Office from 2011. Appointed President in 2013.

Please watch the video on the website below.
www.mhi-global.com/finance/mr2014

Q1 Would you please describe some of the highlights of MHI's consolidated operating performance during fiscal 2013?

A1 Our performance was positive, showing a response to our efforts to simultaneously expand our scale of business and improve our capital efficiency and net income level.

The 2012 Medium-Term Business Plan calls for the MHI Group to simultaneously expand its scale of business and improve its capital efficiency and net income level. Our performance during fiscal 2013, the second year of this plan, indicates that we are making steady progress toward achieving those goals.

Net sales reached the highest level since fiscal 2008, and both operating and net income hit record levels for the first time in 17 years. I believe these results can be traced to our acceleration of strategies as we moved from the 2010 Medium-Term Business Plan, our previous plan, to the current 2012 Medium-Term Business Plan. Return on equity is improving, but we need to continue raising our capital efficiency and net income level to become a highly profitable ¥5 trillion enterprise.

Billions of yen	FY2013		FY2014 forecast		
	Actual	Year-on-year change	Forecast	Year-on-year change	Target of 2012 Business Plan
Net sales	3,349.5	+18.9%	4,000.0	+19.4%	3,700.0
Operating income	206.1	+26.1%	250.0	+21.3%	250.0
Net income	160.4	+64.8%	130.0	–19.0%*	130.0
Ratios					
Operating income ratio	6.2%	+0.4 point	6.3%	+0.1 point	6.8%
ROE	11.0%	+3.6 points	8.2%	–2.8 points*	8.9%
D/E ratio	0.54 time	–0.18 point	0.5 time	–0.04 point	0.7 time

* The substantial decline in net income and the fall in ROE in fiscal 2014 stem from the absence of a temporary extraordinary gain (gain on changes in equity interest) posted in fiscal 2013.

Q2 Please describe the background for setting the 2012 Medium-Term Business Plan's objectives of expanding business scale and improving capital efficiency and net income level, as well as specific initiatives being taken.

A2 We are pursuing five strategies to make a turnaround that will launch us into a highly profitable ¥5 trillion enterprise.

As we pursued the 2010 Medium-Term Business Plan, it became clear that the MHI Group was facing two issues: for a long period, growth had been stagnant, holding the Company to a scale of around ¥3 trillion in net sales, and capital efficiency and net income were lackluster. We recognize that to win out in competition against the major players in Europe and the United States in an increasingly global society, we need to raise our scale of operations as well as our profitability.

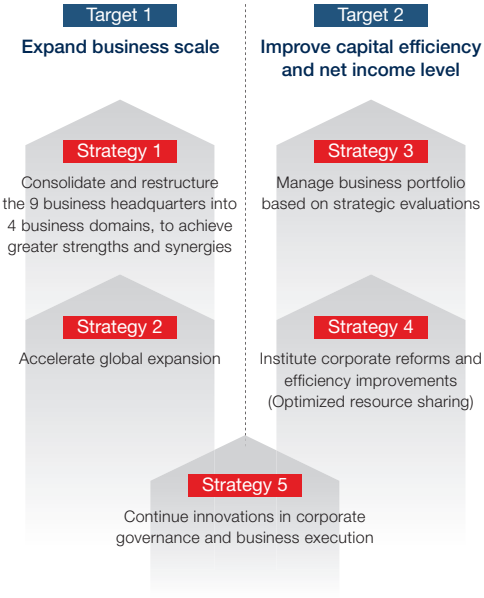
To achieve these two goals, the 2012 Medium-Term Business Plan sets forth five strategies. (See the figure on the left on the following page.) One of these is to consolidate and restructure our Business Headquarters Structure and transition to a Business Domain Structure. Strategy 1 We consolidated and restructured our nine business headquarters, which had originally been created from the standpoints of product groupings, manufacturing locations, and internal management aspects, into four business domains. These business domains, which are intended to leverage commonly shared markets, customers, core technologies, and business strategies, are Energy & Environment, Commercial Aviation & Transportation Systems, Integrated Defense & Space Systems, and Machinery, Equipment & Infrastructure. Reorganizing into more inclusive business domains has allowed the Company more freedom in the use of its management resources, permitting timely investments into areas that will drive business growth. Also the reorganization enabled us to harness synergies beyond the boundaries of

business headquarters, deriving from our comprehensive capabilities. In addition to enabling us to respond to a broader range of market needs, we expect the reorganization to improve management quality and efficiency compared with the host of overlapping management functions we had under the Business Headquarters Structure.

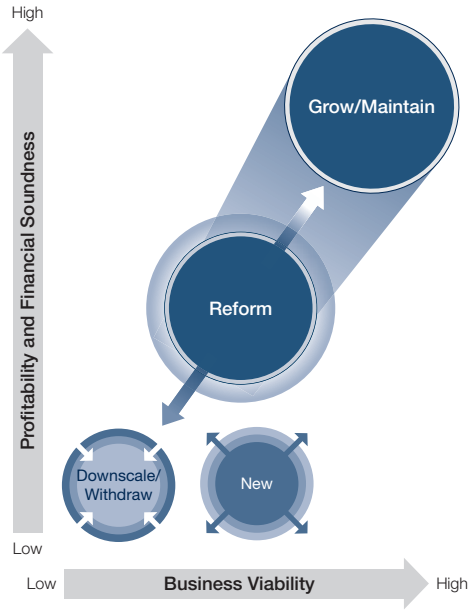
The introduction of portfolio management based on strategic evaluations (Strategy 3) has been a major success. With this system, we plotted approximately 60 strategic business units (SBUs) on *x*-*y* axes with profitability and financial soundness on one axis and the rate of business viability on the other, organizing them into four business positions—grow/maintain, reform, downscale/withdraw, and new—strategically allocating invested capital and setting required return by position. Under this system, SBUs in the "grow/maintain" sector achieved sales and income growth, raised capital efficiency, and contributed to increases in corporate value. Meanwhile, capital efficiency was strengthened at SBUs in the "reform" sector, which moved into the black on an operating basis.

We also made steady progress on the strategies of accelerating global expansion, instituting corporate reform and efficiency improvements, and continuing innovations in corporate governance and business execution.

Strategies of the 2012 Medium-Term Business Plan



Positioning Based on Strategic Business Evaluation



Q3 As specific measures to accelerate global expansion (Strategy 2), you have proactively pursued business growth through M&A and alliance activities. How is your progress on this front?

A3 By engaging in M&A and alliance activities in the thermal power generation systems business and a variety of other fields, we expect to achieve the expansion in business scale targeted in the 2012 Medium-Term Business Plan.

I believe winning out amid fierce global competition requires us to do more than reinforce our business structure. We also need to combine our operations with those of other companies if we are to accelerate our business expansion. A clear example of this approach was the February 2014 integration of our thermal power generation systems business with that of Hitachi, Ltd. Both companies had a broad-ranging product lineup in the field of thermal power generation. In gas turbines, MHI's forte

was in high-efficiency large gas turbines, whereas Hitachi's strength was in small and medium-sized products. The combination also leveraged complementary strengths in regional coverage: MHI in Southeast Asia and the Middle East, and Hitachi in Europe and Africa. MHI and Hitachi share the same corporate credo of contributing to society through the development of superior, original technologies and products. Integrating our thermal power generation systems business into Mitsubishi Hitachi Power Systems, Ltd., has boosted our comprehensive technological and engineering capabilities as well as our sales and service capacities. Furthermore, we aim to respond to the hopes and expectations of customers and the world at large for solutions to the dual issues of energy supply stability and environmental compatibility.

Another example of our M&A and alliance activities is an agreement we reached with Vestas Wind Systems A/S to establish a joint venture in fiscal 2014 in the offshore wind turbine business. We anticipate rapid growth in offshore wind power generation, which presents fewer siting issues than its onshore counterpart and is expected to generate more power because of exposure to stronger and steadier offshore winds. We aim for the new company to combine the technologies of our two companies and generate synergies to become a world market leader in this growth field. In October 2013, we decided to join a consortium with a Japanese trading company and shipbuilders in a capital participation deal with Engevix Construções Oceânicas S.A. (ECOVIX), a leading Brazilian shipbuilder. ECOVIX has strong ties to Petróleo Brasileiro S.A. (Petrobras), Brazil's nationally operated developer that is seeking to accelerate exploitation of the country's large oil fields. Brazil is seeing increased demand for ships and marine structures of all types, including drill ships and floating, production, storage and offloading (FPSO) hulls. This provision of advanced technology and operating expertise is enabling companies in the Japanese and Brazilian shipbuilding industries to work together for mutual prosperity.

Through these M&A and alliance activities, as well as from the growth of existing businesses, we have expanded our business scale to the point where net sales of ¥4 trillion are now in our sights.

Principal M&A and Alliance Activities since Fiscal 2012

December 2012	■ Acquired Pratt & Whitney Power Systems
June 2013	■ Reached agreement to integrate our thermal power generation systems business with that of Hitachi, Ltd., establishing a new company in February 2014
September 2013	■ With Vestas Wind Systems A/S, of Denmark, formed joint venture dedicated to offshore wind turbine business
October 2013	■ With a Japanese trading company and shipbuilders, agreed to capital participation in Engevix Construções Oceânicas S.A. (ECOVIX), of Brazil
May 2014	■ Concluded agreement to establish a joint venture with Siemens AG in steel and metal production machinery business

Q4 What progress has been made in the two areas of "institute corporate reforms and efficiency improvements" (Strategy 4) and "continue innovations in corporate governance and business execution" (Strategy 5)?

A4 We are stepping up outsourcing in an effort to increase efficiency and optimize our corporate divisions, which are a shared resource. Regarding corporate governance, we are reinforcing the Board of Directors' decision-making and supervisory functions and further enhancing management transparency.

As part of our corporate reforms, we are stepping up outsourcing. We established a joint venture with Fuji Xerox Co., Ltd., to handle the Group's documentation business, and we have centralized manned security services for the Group. We set up the ICT Solution Headquarters to consolidate the Company's information and communications technologies (ICT). In these ways, we are making inroads into the consolidation and restructuring of the Group's internal business operations.

These two activities are promoting further efficiencies and the optimization of shared resources. The decision to close the Presidential Administration Office stemmed from our establishment of the Business Strategy Office to strengthen Groupwide strategy planning and execution capabilities and clarify corporate division functions.

In corporate governance, we have increased the number of outside directors and are undertaking other reforms proactively and on an ongoing basis. We have also reduced the number of internal directors significantly; the proposal to decrease this number from 16 to 12 was approved at our General Meeting of Shareholders in June 2014. This change should strengthen the decision-making and supervisory functions of the Board of Directors and further enhance managerial transparency.

In April 2014, we introduced a Chief Officer System. In addition to the chief executive officer (CEO: President and CEO) and domain CEOs (president and CEO for each of the four domains), three chief officer posts were established: the chief administrative officer/chief risk officer (CAO/CRO), chief financial officer (CFO), and chief technology officer (CTO). The CAO/CRO oversees management auditing, general affairs, legal affairs, human resources, and labor relations; the CFO is responsible for finance and procurement; and the CTO takes charge of technology and innovation as well as ICT. The three chief officers are delegated a portion of authority and responsibilities previously held by the president, overseeing specific companywide matters, and providing support to the domains.

Q5 What will be some of your primary focuses for fiscal 2014 and beyond, as you proceed toward meeting the objectives of the 2012 Medium-Term Business Plan and become a highly profitable company with a business scale of ¥5 trillion?

A5 We will work to maximize the effects of our M&A and alliance activities and move steadily forward on promising projects with the potential to drive the MHI Group's future growth.

We will remain proactive in M&A and alliance activities, which are one of our main measures for raising our standing in global markets and enhancing our scale of business. For example, we have concluded an agreement with Siemens AG to establish a joint venture in the steel and metal production machinery business. Through this venture, we aim to expand our product lineup, and we anticipate substantial synergies in R&D and procurement. Meanwhile, we will relaunch our commercial aircraft engine business as a new company backed by capital investment and financing from the Development Bank of Japan Inc. and IHI Corporation. In recent years, the market for commercial aircraft engines has seen robust demand, and we anticipate a steady stream of new developments and large-scale growth. Our aims with the new company are to reinforce our competitiveness in this market by creating an integrated system spanning sales, design, manufacturing, and repairs; provide a structure leading to enhanced production capacity; and raise our capital strength through infusions of external funding. These efforts will enable us to firm up our regional presence as a partner company engaging in international joint development. Moreover, in fiscal 2014 we will continue moving resolutely ahead in the MRJ business—a large-scale, long-term project—and concentrate on extensive transportation system projects as we shore up the MHI Group's business foundations.

Q6 Won't the further expansion of your business scale and additional globalization also give rise to new issues?

A6 We will need to step up our response to a growing variety of risks as well as construct platforms appropriate to a global company.

Management issues to address over the medium to long term include responding to greater and more diverse compliance risk and business execution risk. On the compliance front, while managing the risks specific to individual regions we will need to clarify activity guidelines and entrench rules that are consistent around the world. This is the thorough approach we will take to boost management efficiency.

We have set up a standing organization to address business execution risks, including insufficient knowledge of new markets and new customers as well as risks that grow due to the potential of a scheduled project to lengthen or expand in scope. I plan to become directly involved in this aspect to improve information-gathering capabilities, accumulate risk resolution know-how, and enhance human resource development. I also consider it essential to strengthen the financial base, as this will heighten our risk response capability.

At the same time, we need to promote a more sophisticated management platform that befits a truly global company. We have already set up four finance subsidiaries, which are located in the United States, Europe, China, and Singapore, in line with efforts to establish a unified global financial management system. We are also working to build platforms that respond to the challenges of globalization on the R&D front, through initiatives such as dispatching specialized R&D engineers overseas. Moreover, we are making inroads on a global business processing system for personnel, accounting, and procurement. As another part of our transformation into a truly global company, we believe it will be necessary to build sophisticated global networks spanning marketing, production, servicing, capital resources, human resources, and R&D, thereby enhancing the visibility and sharing of management information.

Ongoing globalization is having a significant impact on the economies, environment, and societies where companies are located. Every year, the need grows for companies to share the lead with governments in addressing various social problems. In 2004, the MHI Group joined the United Nations Global Compact. We are pursuing activities in line with a clear corporate vision based on the compact's 10 principles in the four categories of human rights, labor, environment, and anti-corruption.

For Japanese companies, I believe that gaining the ability to continue generating value on an ongoing basis through their international activities and promptly tackling issues related to the environment, society, and governance (ESG) is tantamount to earning a license to operate. This is also the source of competitive strength.

Q7 What closing message would you like to leave with readers?

A7 The MHI Group strives to be a company that delivers high added value to global society.

We have a solid base in the technologies needed to address social issues on a global scale. By uniting these technologies with the structures to make effective use of them flexibly, I believe we will be able to exert a global presence. As a manufacturing company, we will pay topmost attention to safety and product quality, and going forward we will provide infrastructure elements and solutions that simultaneously support national and regional economies and reduce environmental impact, contributing toward the realization of a sustainable society.

We aim to be a company trusted by society, and we are working to provide high added value through our operations. I ask for your ongoing understanding and support of our endeavors.

We aim to drive our corporate value through portfolio management by leveraging the efficient allocation of our management resources.

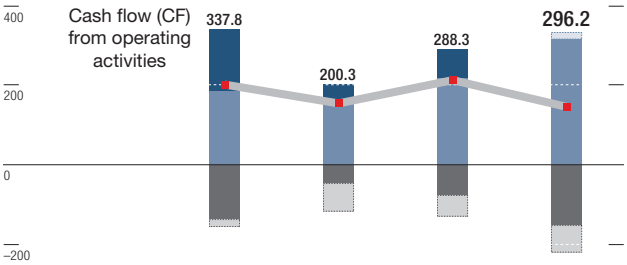
Tatsuhiko Nojima
Executive Vice President,
Chief Financial Officer

Q1 MHI has been aggressively promoting cash flow management ever since the launch of the 2010 Medium-Term Business Plan. How has this effort strengthened the Company's financial base?

A1 The MHI Group has generated free cash flow of more than ¥100 billion during each of the four years since fiscal 2010. Thanks to the introduction of various structural reforms and the management of our business portfolio based on strategic evaluations, profitability has grown steadily in each business domain. Our overall EBITDA margin has risen from 8.1% in fiscal 2010 to 10.4% in fiscal 2013. In addition, we have improved capital efficiency through reductions in operating capital and worked to improve investment efficiency while continuing investments for growth and selling assets. As a result, we have slashed interest-bearing debt from ¥1,325.6 billion as of March 31, 2011, to ¥957.4 billion as of March 31, 2014. Our ratio of interest-bearing debt to shareholders' equity (D/E ratio) has accordingly improved to 0.54.

Free Cash Flow (FY2010-FY2013)

Billions of yen



(FY)	2010	2011	2012	2013
Free cash flow	200.5	153.3	211.6	144.6
Improving CF by improving efficiency in operating capital	153.6	36.2	71.7	(17.6)
CF margin	184.2	164.1	216.6	313.8
CF from investing activities	(137.2)	(47.0)	(76.7)	(151.5)
Sale of assets	19.1	70.5	53.4	68.7

Revenue / Invested capital	1.06 times	1.11 times	1.14 times	1.29 times
EBITDA margin	8.1%	8.4%	10.0%	10.4%
Interest-bearing debt	¥1,325.6 billion	¥1,157.1 billion	¥1,031.2 billion	¥957.4 billion
Interest paid	¥22.8 billion	¥20.9 billion	¥17.5 billion	¥16.1 billion

Q2 As business scale expands, funding requirements inevitably increase. What are the Company's financial strategies for the future?

A2 Managing our business portfolio based on strategic evaluations has improved our cash flow circulation. In fiscal 2013 for example, of the cash flow generated by strategic business units (SBUs) in the "grow/maintain" category, we reinvested ¥131.6 billion into business growth and returned the remaining ¥97.0 billion to the Group as a whole. Similarly, we returned ¥40.0 billion in surplus cash from "reform"-type SBUs to the Group. These cash surpluses funded the cultivation of "new" SBUs, and we used the remaining ¥144.6 billion in free cash flow to pay down interest-bearing debt and provide returns to shareholders.

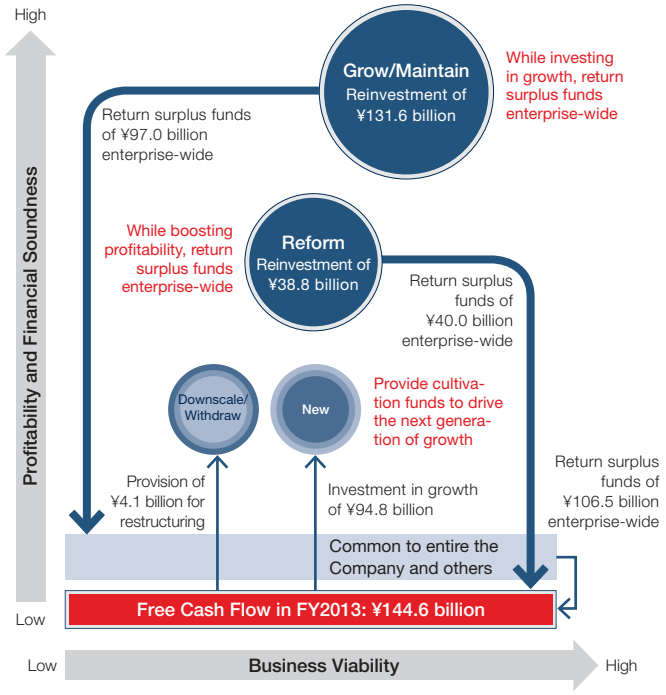
The MHI Group is aiming to become a highly profitable group with a business scale of ¥5 trillion during or after fiscal 2017. To reach that goal, I believe we need to boost our net worth to ¥2.0 trillion, compared with ¥1.5 trillion as of March 31, 2014. By diversely allocating our capital, we will simultaneously pursue three objectives—expansion of our business scale, strengthening of our financial base, and enhancement of our shareholder returns—and this, I believe, will enable us to boost our corporate value.

Specifically, we plan to prioritize capital allocations into SBUs in the highly profitable "grow/maintain" category and then allocate a high proportion into the "new business/risk" category (which includes "new" SBUs, funding necessary for future growth investments, and a buffer to deal with unexpected risks), while aiming for ROE of 12%.

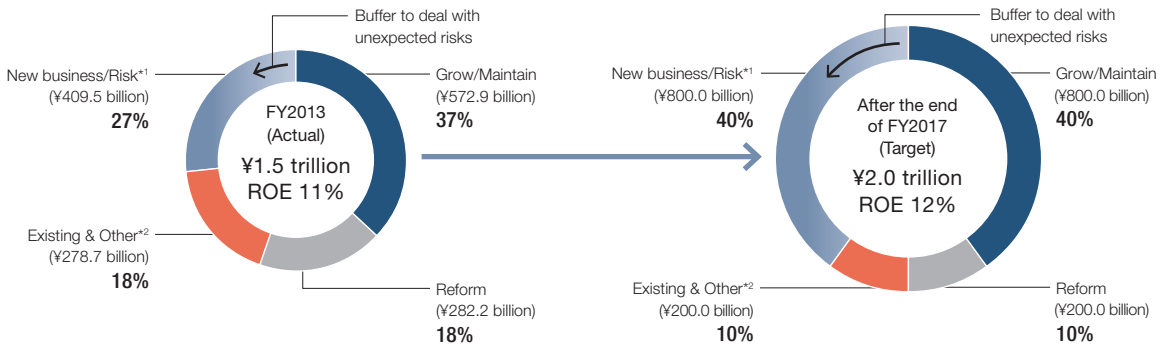
Meanwhile, we will reduce capital allocations into the "reform" and "existing & other" categories (SBUs in the "downscale/withdraw" category and areas "common to the entire Company"). In these ways, we will work to raise profitability further and establish a financial base that will support a business scale of ¥5 trillion.

Regarding shareholder returns, we have continuously raised our dividends per share—from ¥4 in fiscal 2010, to ¥6, then ¥8, and now we are planning a dividend of ¥10 per share for fiscal 2014. In fiscal 2015 and onward, during the period of our next Medium-Term Business Plan, we will consider raising the dividend level even further, depending on our net worth situation, progress in reducing risk, and status in improving our ROE.

Cash Flow Circulation in FY2013



Enhancement of Net Worth to Strengthen the Financial Base



*1. Capital for the existing SBUs in the "new" category as well as seed money (growth investments) and capital required as a buffer for unexpected risk
*2. Capital for SBUs in the "downscale/withdraw" category and the "common to the entire Company" category

Enhancing Corporate Value by Resolving Social Issues

In line with ongoing globalization, in recent years the economic, environmental, and social impacts that companies have on the countries and regions they enter into have become more pronounced. Accordingly, the importance is growing for companies, as well as governments, to identify and resolve diverse social issues facing us on a global scale, starting with environmental problems.

The MHI Group, which is accelerating its global business development, recognizes the accurate response to such social issues as a condition for its ongoing corporate existence. We consider the ability to continue with sustainable value generation to be the source of our competitiveness.

Accordingly, the MHI Group identifies issues the Group should prioritize and proactively works towards the resolution of social issues through its products, technologies, and activities within all business processes to prevent or reduce the Group's negative impact and increase its positive impact, and thereby contributes to the realization of a sustainable society and enhances corporate value.

Creating Social Value through Our Business Activities and Contributing to a Sustainable Society

Please visit our website for information about CSR initiatives or more detailed environmental, social, and governance (ESG) data

Our website provides ESG data related to socially responsible investment, such as our various policies, strategies, and initiatives related to CSR and ESG. In October 2014, we plan to update the site with data for fiscal 2013.

http://www.mhi-global.com/company/csr/index.html

Approaches and Processes Defining Material Issues

The MHI Group considers material issues to be those that significantly affect both society and corporate value—primarily, issues related to ESG. We define these material issues through social issues by employing analysis that takes into account the social perspective, including various international standards and stakeholder opinions, and our corporate perspective.

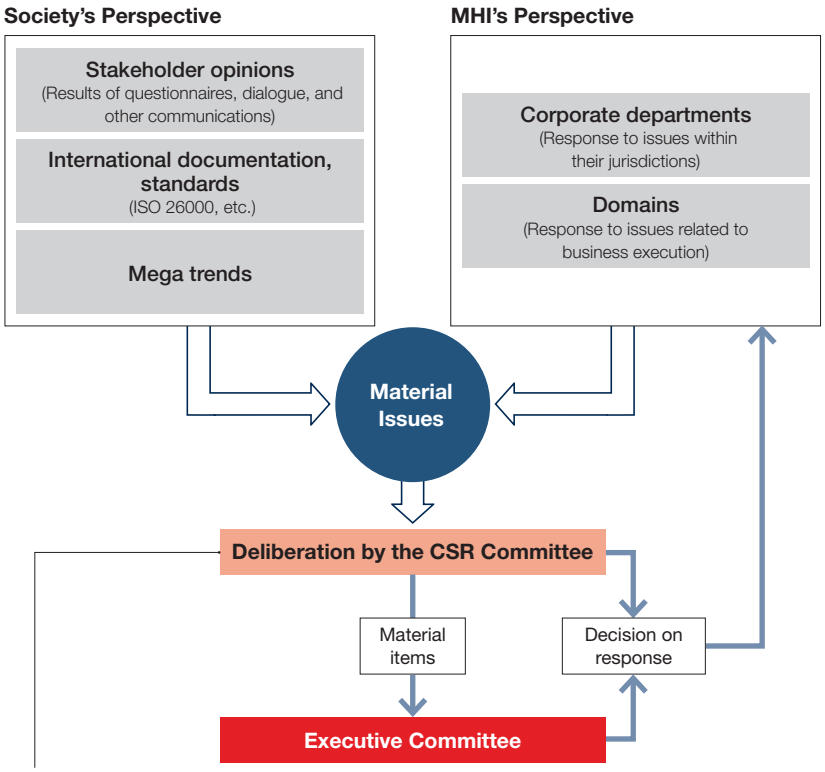
The main international standards that we refer to are the seven core subjects of ISO 26000—organizational governance, human rights, labor practices, the environment, fair operating practices, consumer issues, and community involvement and development—as well as the Global Reporting Initiative (GRI) "Sustainability Reporting Guidelines (Fourth Edition, or G4)."

We obtain stakeholder opinions by engaging in dialogue with institutional investors in Japan and overseas and through customer supplier questionnaires. We also incorporate social feedback from influential questionnaires related to environmental, social, and governance issues.

We have set as a task for completion by the end of fiscal 2014 the identification of material issues in accordance with the steps outlined below. We are currently at the stage of eliciting and analyzing issue candidates.

We will identify material issues and formulate response strategies through deliberations of the CSR Committee, which is chaired by the executive officer in charge of CSR (head of the Business Strategy Office) and includes the CFO, CAO/CRO, CTO, and officer in charge of Human Resources, Labor Relations, and Global Personnel as well as officer in charge of Global Business Planning & Operations. Issues considered to be of particular importance will be determined through deliberations of the Executive Committee. Following the decisions of these committees, corporate departments and individual domains will plan and promote various measures as we endeavor to resolve social issues.

In the following pages, we will introduce activities related to the business overview in our four domains, case studies, research and development, and corporate governance reforms from both the financial and non-financial perspectives.



STEP 1

Understand the issues

Analyze issues that are potentially material from the environmental, social, and governance (ESG) perspectives.

STEP 2

Prioritize the issues (analyze materiality from the standpoint of society and the Company) and identify material issues

After issues have been identified, prioritize them from the perspectives of both a social perspective and the perspective of their relationship to business, defining them as material issues.

STEP 3

Gain authorization from stakeholders and management

After having obtained stakeholder understanding of processes for defining material issues and their boundaries, define after receiving approval from the CSR Committee or the Executive Committee.

STEP 4

Report

Report on the material issues and defining processes that have been determined through such media as the integrated report and the website.

Organizational Structure of the CSR Committee

- Chair: Head of the Business Strategy Office
- Members: CFO, CAO/CRO, CTO, officer in charge of Human Resources, Labor Relations, and Global Personnel, and officer in charge of Global Business Planning & Operations
- Secretariat: CSR Group, Corporate Communications Department

Providing optimal solutions toward the creation of improvement of social infrastructure in the energy and environmental areas

Energy & Environment

Energy & Environment provides optimal solutions in social infrastructure in the areas of energy—including thermal, nuclear, and renewable energies—and the environment, such as water and flue gas treatment, and chemical plants. MHI also combines its engineering, procurement, and construction (EPC) capabilities relating to the domain's various businesses and products to provide optimal solutions.

By pursuing the MHI Group's diverse product and operational strengths and synergies, we will strive to win out in global competition by responding to customer and market needs.

Atsushi Maekawa
Domain CEO,
Energy & Environment

Fiscal 2013 in Review

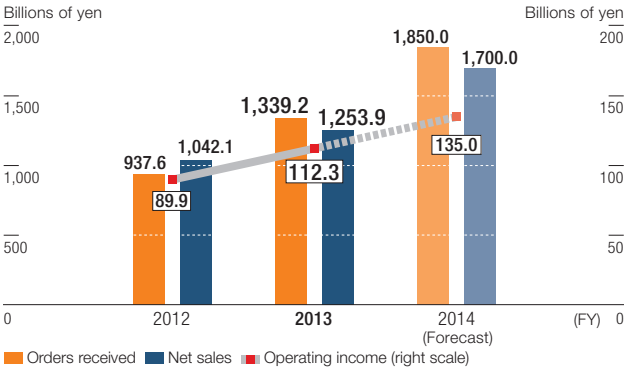
During fiscal 2013, MHI received orders for chemical plants in Russia and the United States, and orders for large-scale gas turbines totaled 18, up from eight in the previous fiscal year. Benefiting from the rise in large overseas projects, centering on thermal power and chemical plants, orders received amounted to ¥1,339.2 billion, significantly higher than in the previous fiscal year.

In addition to the integration of the thermal power generation businesses of MHI and Hitachi, Ltd., higher sales of thermal power and chemical plants helped push up consolidated net sales in this domain to ¥1,253.9 billion. Operating income was also up year on year, to ¥112.3 billion, due primarily to higher sales of gas turbine combined-cycle (GTCC) and chemical plants and the effects of yen depreciation.

Operating Environment

Energy demand continues to grow on a global scale; by 2035, demand is forecast to be 1.3 times the current level.* In thermal generation, given that the shale gas revolution is driving down

Orders Received / Net Sales / Operating Income



Strategic Business Unit (SBU)

- GTCC
- Large Conventional Plant & Service
- Industrial Conventional Plant & Service
- Onshore Wind Turbine
- Offshore Wind Turbine
- Photovoltaic Power System
- Marine Diesel Engine
- Marine Machinery
- Pump & Hydro Turbine
- Power Generation Project Development
- Nuclear Turbines
- New Products
  - Desalination Plant
  - Geothermal Power Plant
  - SOFC
  - Lithium-ion Battery
- Nuclear Power Plant (Domestic)
- Nuclear Power Plant (Global)
- Nuclear Fuel Cycle & Advanced Solutions
- Chemical Plant
- Environmental Plant

SWOT Matrix

Strengths

- Accommodate almost all methods of power generation
- Thermal: High efficiency, high output, energy saving
  Broad-ranging product lineup, encompassing small, medium-sized, and large
- Nuclear: Highest level in the world in safety technologies and product quality

Weaknesses

- Thermal: Low profitability relative to major overseas competitors
- Nuclear: Little experience in constructing new plants overseas

Opportunities

- Thermal, renewable energy: Increased need for efficient thermal and wind power generation systems, etc.
- Nuclear: Increased need in emerging countries where demand for energy is strong
- Chemical plants: Growing capital investment in emerging countries

Threats

- Thermal: Overwhelming presence overseas by two major competitors
- Nuclear: Stronger presence in world market by South Korean and Russian manufacturers

Basic Strategies

- Elicit synergies from the business integration with Hitachi and the shift to a Business Domain Structure, maintain our quality orientation (customer standards), and expand the power systems business
- In compliance with new regulatory standards, contribute to early restart of existing Japanese nuclear plants and accelerate overseas expansion of Japanese nuclear safety technology
- Expand the EPC business, make a full-fledged entry into the environmental business (such as water and PM2.5 businesses), and promote business development in new areas, including distributed power, and power generation

natural gas prices, GTCC demand is expected to stay strong going forward. We expect coal-fired thermal power demand to remain robust, owing to demand to upgrade aging facilities and build new generating plants in emerging countries. At the same time, as CO_2 emissions from power generation account for 41.7% of the global total,* pressure for global warming countermeasures is growing. Under these circumstances, we are seeing growing demand and expectations for nuclear power generation and renewable energy, as well as for thermal power generation that is highly efficient and curtails CO_2 emissions.

The new construction of chemical plants is growing in North America, where shale gas development is pushing ahead, and in such gas-resource-rich areas as Russia and Africa.

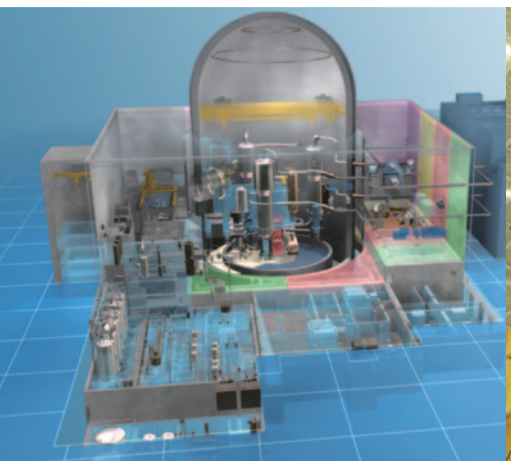
* Source: *CO_2 Emissions from Fuel Combustion Highlights 2013*, International Energy Agency

Initiatives for Growth over the Medium to Long Term

Maintaining a core quality orientation, by investing aggressively in growth fields and bolstering cost competitiveness we aim to boost orders by around 1.5 times and approximately double operating income. In the field of thermal power generation, at Mitsubishi Hitachi Power Systems, Ltd. (MHPS), which was established through the integration of businesses from Hitachi and MHI, we expect to accelerate the combination of technological capabilities. On the development front, we will hone our competitive edge by pursuing additional generation efficiencies, while taking advantage of our larger combined network to reinforce EPC and after-sales services. Through the new joint venture we have established with Vestas Wind Systems A/S, we will strive to develop the offshore wind turbine business on a global scale. As part of this business, MHI is promoting developments designed to reduce environmental impact by entering the water, distributed power source, and power generation businesses. As we continue to view nuclear power as a key source of generation, we will work to improve nuclear power safety and develop advanced technologies. Furthermore, we will maintain an ongoing focus on the chemical plant business, for which the market is expanding.

Key Projects

Announcement	Delivery	Project
June 2014	2017	MHI Receives Order for Large-Scale Polyethylene Plant Project in the United States
June 2014	2016	MHPS Signs Agreement with Daewoo Engineering & Construction Co., Ltd., of South Korea to Supply Core Components for GTCC Power Generation Plant
May 2014	2016	MHPS Receives Order for GTCC Power Generation Plant from Kyushu Electric Power Co. Inc.
April 2014	–	Operations Get Under Way at MHI Vestas Offshore Wind A/S, New Joint-Venture Company Dedicated to Offshore Wind Turbine Business
March 2014	2016	MHI and Turkish Company Sign Partnership Agreement in Natural Gas Fired Power Generation Business
February 2014	–	Mitsubishi Hitachi Power Systems Commences Operations
October 2013	–	Broad Framework Reached with Government of Turkey on Commercial Agreement Relating to Nuclear Power Plant Project
October 2013	–	Launch of Mitsubishi Heavy Industries Marine Machinery & Engine Co., Ltd.



FOCUS **Energy & Environment**

Aiming to Be a World Leader in Thermal Power Generation Systems

Rising energy demand across the world is causing the global market for thermal power generation systems to expand. However, competition in this area is fierce, pitting us against some of world's largest companies—the so-called mega-players. Leveraging our strength in power generation technologies that have a low environmental impact to win out in global competition, on February 1, 2014, MHI formed Mitsubishi Hitachi Power Systems, Ltd., integrating our business in thermal power generation systems with that of Hitachi, Ltd.

Backdrop

- **Growing demand for thermal power generation systems that have low environmental impact**
- **Increasingly severe competition with megaplayers from Europe and the United States**

In emerging countries experiencing rapid economic expansion, particularly those in Asia, rising energy consumption is leading to growing demand for the new construction of power generation systems and the replacement of aging equipment. This trend is expected to remain consistent over the medium to long term. The market for thermal power generation is expanding due to the shale gas revolution, which is boosting supplies of natural gas, as well as to abundant reserves of coal used for fuel. Meanwhile, increasing concerns about global warming are sharpening the focus on power generation systems that feature reduced environmental impact.

Technological expertise and cost competitiveness are keys to the market for thermal power generation systems. Due to the extremely high burden of investment in such systems, companies that operate on a large scale and can harness the benefits of mass production are at a clear advantage. For this reason, the major European and U.S. companies in this field—the so-called megaplayers—enjoy an overwhelming presence. For MHI, which is now turning its strategic focus to the global market, winning out against this formidable competition will be a challenge.

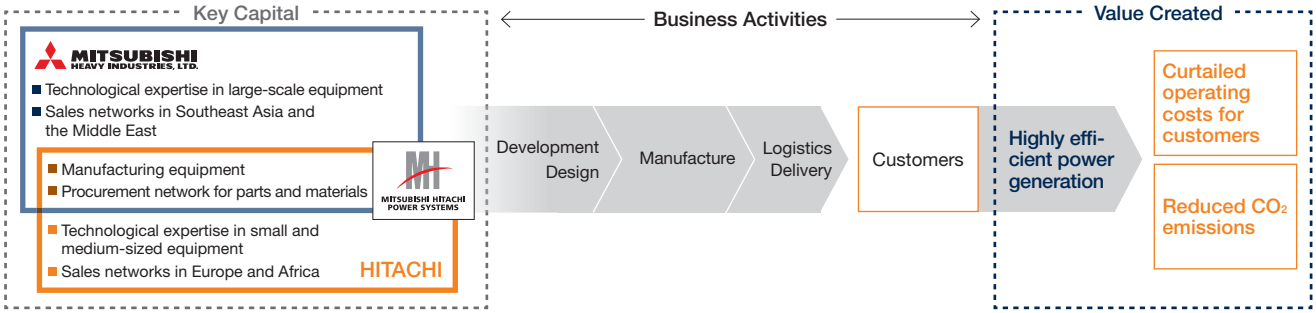
Key Capital

- **Strong business partners with complementary relationships**
- **Technologies for the manufacturing of thermal power equipment with the world's highest level of environmental performance**

As a far-reaching measure to face increasingly severe global competition, we resolved to undergo a business integration with Hitachi, our former rival in Japan. Over the years, our companies had pursued partnerships in a variety of fields, including iron and steel manufacturing machinery. This combination in thermal power generation systems was ideal in many ways, as Hitachi and MHI complement each other in terms of geographical location of operations and product categories. Regionally, MHI has strengths mainly in Southeast Asia and the Middle East, with sales routes in China and the United States, while Hitachi has harnessed its strengths in markets such as Europe and Africa. In gas turbines, central components for thermal power generation, MHI's forte is in large-scale equipment, whereas Hitachi excels at small and medium-sized equipment.

MHI's gas turbine combined-cycle (GTCC) generation systems, which have J-Series gas turbines at their core, achieve the world's highest level of environmental performance within the field of thermal power generation. Accordingly, we are well placed to meet demand for reduced environmental impact.

In use at Japan's first integrated coal gasification combined-cycle (IGCC) plant, the Nakoso power plant of Joban Joint Power Co., Ltd., in Fukushima Prefecture



Strategy

- Elicit synergies stemming from complementary strengths in product lineups and geographic regions
- Differentiate ourselves by proactively deploying EPC expertise

Striving to become a global leader in thermal power generation systems and contributing our utmost to global warming prevention

Mitsubishi Hitachi Power Systems, which aims to become a global leader in the area of thermal power generation systems, commenced operations on February 1, 2014, with MHI and Hitachi taking equity interests of 65% and 35%, respectively. Geographically, the joint venture covers the entire world and has in place systems to meet needs for both the new construction of generation systems and the provision of after-sales services. This integration of two companies with strengths in different product areas results in a full lineup and the ability to meet a host of needs throughout the world. One of MHI's particular strengths, its large GTCC systems, combine the superb generation efficiency of J-Series gas turbines with steam turbines that utilize the high-temperature exhaust gas from the gas turbine to generate electricity. With J-Series gas turbines, GTCC power generation enables reductions in CO_2 emissions of approximately 50% compared with conventional coal-fired generation plants, making a substantial contribution toward reducing the global environmental impact. Accordingly, we anticipate a strong customer response to GTCC systems fitted with J-Series gas turbines from countries and regions where environmental awareness is mounting. We have also introduced integrated coal gasification combined cycle (IGCC) power generation technology to generate electricity with steam turbines powered by the incineration of gasified coal. Compared with conventional generation methods, this approach improves generation efficiency by 10% to 20%,* curtailing greenhouse gas emissions despite the use of coal. The small and medium-sized gas turbines that are Hitachi's forte also offer superb environmental performance, contributing to the new company's broad range of technological expertise.

By proactively deploying engineering, procurement, and construction (EPC) expertise across all plants, we aim to differentiate ourselves from the megaplayers with an integrated offering they are unable to match. The broad range of products and services that MHI and Hitachi have developed in their respective thermal power generation system businesses, coupled with the expertise MHI has accumulated in its engineering business, will enable the new company to go beyond products to offer total solutions that encompass entire systems.

Based on this strategy, at the time of the company's establishment its scale of business was around ¥1,240.0 billion per year. In fiscal 2014, the business is expected to generate revenues of ¥1,300 billion, rising to ¥2 trillion by fiscal 2020. We also expect the company's share of the market for large-scale gas turbines to grow eventually from more than 10% as of February 2014 to in excess of 30%. To survive in the face of stringent competition, we will provide our highly efficient thermal power generation systems that offer superb environmental performance on a global scale, thereby helping to resolve worldwide issues, including energy shortages and global warming.

* Based on MHI's research

VOICE

Ataporn Vathanavisuth

Assistant Governor, Business Administration, Operation and Maintenance Business Management Division, Electricity Generating Authority of Thailand

It has been more than 45 years since MHI and EGAT began their relationship through the construction, operation, and maintenance of hydro, conventional, and GTCC power plants, and such long-term relationship has made MHI and EGAT "strategic business partners" rather than just a "supplier" and "owner." This partnership has resulted in successful collaborative businesses, such as the completion of the Joint Gas Turbine Relocation Project, the establishment and operation of the Joint Gas Turbine Repair Factory, among other ventures, and the business areas of the collaborations between MHI and EGAT have been expanded to overseas locations beyond Thailand.

In addition, EGAT has further expectations for Mitsubishi Hitachi Power Systems (MHPS), with a wide variety in its service lineup, reliable technologies, and warm support, based on the synergetic effect after the integration of the thermal power generation systems business of MHI and Hitachi during the year. Actually, MHPS and EGAT have already started strategic discussions in order to create a new collaborative business drawing on Hitachi's technologies as well as MHI's technologies. EGAT believes that it will further contribute to the enhancement of the relationship between MHPS and EGAT and to provide reliable and affordable energy and services for the happiness of people, societies, and environments in ASEAN countries, which is one of EGAT's missions.

We hope that MHPS keeps providing its Japanese style of warm, timely, and careful support based on "*CS-First!*" (Customer Satisfaction First!)—the mission of the MHPS Service Division—and to continuously be EGAT's "Best Friend Partner."

Supplying advanced transportation systems and services for land, sea, and air applications

Commercial Aviation & Transportation Systems

Commercial Aviation & Transportation Systems delivers advanced land, sea, and air transportation systems, including commercial airplanes and ships, as well as land transportation systems. MHI moves society, supporting its transportation and logistics infrastructures with superior safety, guaranteed quality, and reliability backed by technology.

We are creating a new business model that reinforces strengths tailored to our target markets in various fields of operation and leverages synergies, enabling us to cultivate new business areas.

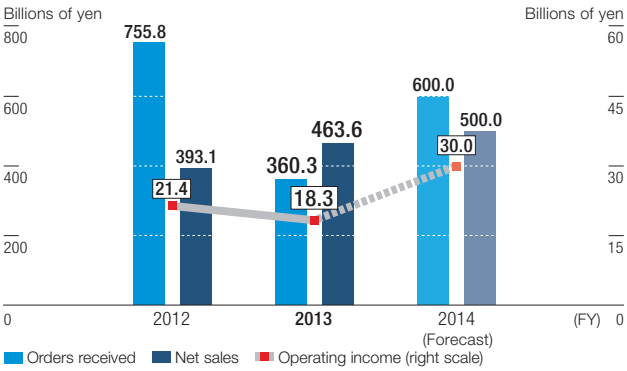
Yoichi Kujirai
Domain CEO,
Commercial Aviation & Transportation Systems

Fiscal 2013 in Review

On a consolidated basis, orders received in fiscal 2013 fell below the previous year's level, to ¥360.3 billion. Reasons for the decline included a lack of orders for the Mitsubishi Regional Jet (MRJ), compared with substantial orders in the previous year. Also, orders for commercial ships fell from 29 ships in fiscal 2012, to eight in fiscal 2013, due to delays in negotiations on liquefied natural gas (LNG) carriers that caused orders anticipated for fiscal 2013 to move into the following fiscal year.

Consolidated net sales in this domain rose, to ¥463.6 billion. Although sales of commercial ships were down, deliveries related to commercial airplanes increased to 99 for Boeing 777 aircraft and 78 for Boeing 787s. These figures represent year-on-year increases of nine and 26 aircraft, respectively. Operating income decreased, to ¥18.3 billion, due to a decline in the profitability of commercial ships that outweighed the positive influences of improved production efficiency in commercial airplanes and yen depreciation.

Orders Received / Net Sales / Operating Income



Strategic Business Unit (SBU)

- Commercial Ships
- Land Transportation System
- Boeing Sustaining
- Boeing 787
- Bombardier
- MRJ
- Commercial Aero Engines
- Established Commercial Airplanes

SWOT Matrix

Strengths

- **Commercial airplanes** Price competitiveness, thanks to global supply chain management / Design and manufacturing technologies for large compos te main wings and other structural components / Complete aircraft (MRJ) offering high levels of efficiency and reliability and outstanding economy
- **Transportation systems** Strong system integration and project management capabilities
- **Commercial ships** Concentration on sophisticated technologies and high-value added ships / Proprietary environmental and energy-saving technologies unrivaled by other companies

Weaknesses

- **Commercial airplanes** Fierce competition in regional market
- **Transportation systems** Deficiencies in lineup among core products
- **Commercial ships** Cost competitiveness relative to South Korean and Chinese manufacturers

Opportunities

- **Commercial airplanes** New demand for around 22,000 aircraft over next 20 years
- **Transportation systems** Numerous new infrastructure projects planned in emerging markets
- **Commercial ships** Increased demand for energy-efficient vessels due to the surging price of crude oil and the introduction of the Energy Efficiency Design Index (EEDI) / Higher demand for LNG carriers

Threats

- **Commercial ships** Decline in ship prices due to gap between global supply and demand / Soaring prices on steel materials / South Korean and Chinese manufacturers augmenting shipbuilding capacity

Basic Strategies

- **Growth strategy deployment**
  Create new business model, new markets
- **Structural reforms**
  Reinforce and promote strengths in program management and system integration
- **Business structure reforms**
  Thoroughly transform structures for problematic businesses

Operating Environment

With the global volume of air passenger traffic growing every year, demand for commercial airplanes remains robust. Low-cost carriers (LCCs) are advancing rapidly, and major airlines are placing replacement orders for airplanes offering improved fuel efficiency. Consequently, orders remain strong, and aircraft manufacturers are faced with long order backlogs.

Particularly in Asian countries, measures to improve urban transport moved forward, prompting new investment in rail infrastructure as a mode of transport having relatively low environmental impact.

Although the overall market for new ships is contracting, increased use of natural gas is boosting orders for LNG carriers. Demand is also rising for ships offering enhanced environmental performance, reflecting the need for ships with lower fuel consumption and reduced emissions, as well as an overarching interest in preserving marine ecosystems and decreasing environmental impact.

Initiatives for Growth over the Medium to Long Term

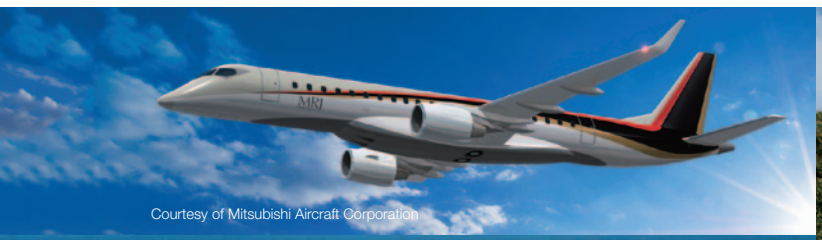
In the commercial airplanes business, we are developing production systems in preparation for increased production. We are also building a global supply chain and working to improve profitability by transforming our production systems. At the same time, we are gearing up for expanded MRJ orders and putting in place a mass-production system. We are making steady progress on the development of this next-generation regional jet, which offers superb fuel economy, environmental performance, and cabin comfort. The jet's maiden flight is scheduled for 2015, and we plan to commence deliveries in 2017.

In the transportation systems business, we are conducting broad-based sales efforts in the Middle East, Southeast Asia, Brazil, and North America that are designed to bolster our global market competitiveness.

We are seeking to differentiate ourselves in the commercial ships business by concentrating on sophisticated and high-value-added ships such as the *Sayaendo*, our next-generation LNG carrier that employs proprietary MHI technologies. We are also undertaking efforts to reinforce our engineering business and commercialize our overseas shipbuilding business.

Key Projects

Announcement	Delivery	Project
July 2014	2018	MHI Receives Order for 18 New Train Cars for Three Automated Guideway Transit (AGT) Systems at Orlando International Airport
July 2014	2018	Air Mandalay of the Republic of Myanmar Places Order for 10 MRJ90 Aircraft (Firm Orders for Six, Purchase Rights on Four)
July 2014	2019	Eastern Airlines of the United States Signs MOU for 40 MRJ90 Aircraft (Firm Orders for 20, Purchase Rights on 20)
June 2014	2017	Engines Mounted on MRJ's First Flight Test Aircraft
January 2014	2017	MHI Receives Follow-up Order for 48 More Cars for the Macau Light Rapid Transit System
October 2013	—	Consortium of Five Japanese Companies to Acquire Stake in ECOVIX Engevix Construções Oceânicas S.A., a Major Brazilian Shipbuilder
June 2013	2016	MHI Receives Order from Taiwan High Speed Rail Corporation for Nangang Extension Project



Courtesy of Mitsubishi Aircraft Corporation

FOCUS **Commercial Aviation & Transportation Systems**

Providing Transportation Systems That Deliver Safety and Peace of Mind in Locations around the World

The growing number of automobiles in urban areas is giving rise to such social issues as traffic congestion and environmental degradation. MHI is contributing to improvements in urban transportation through transportation systems that include high-speed railways, urban rail systems, and new rubber-tire-based urban transportation systems, which the Company delivers to customers in Japan and overseas.

Backdrop

- Growing need to move within urban areas, in line with economic development in emerging countries
- Increasingly serious urban traffic congestion and environmental problems
- Escalating demand for urban transportation systems that have little environmental impact

The global market for rail transit systems is brisk and is said to have an annual value of more than ¥20 trillion. The number of urban projects is increasing, particularly in emerging countries. In tandem with economic development, emerging countries' populations are concentrating in urban centers, stimulating demand for intracity transportation. Growing numbers of automobiles are causing more traffic congestion, and exhaust gases are reducing environmental quality. The need to address social problems such as these is pressing.

Against this backdrop, demand is intensifying to set up urban transportation systems to serve as a means of public transportation with relatively low environmental impact. MHI is drawing on its experience in high-speed rail projects such as Taiwan High Speed Rail; rail transit systems, including the Dubai Metro; and new Automated Guideway Transit (AGT) systems using rubber tires, such as the Yurikamome Line, in Tokyo. By combining its expertise in these areas, MHI provides transportation systems that are optimal for the cities in which they are used.

Macau Light Rapid Transit

Key Capital

- Extensive experience in delivering systems in Japan and overseas
- Sophisticated system integration and project management capabilities

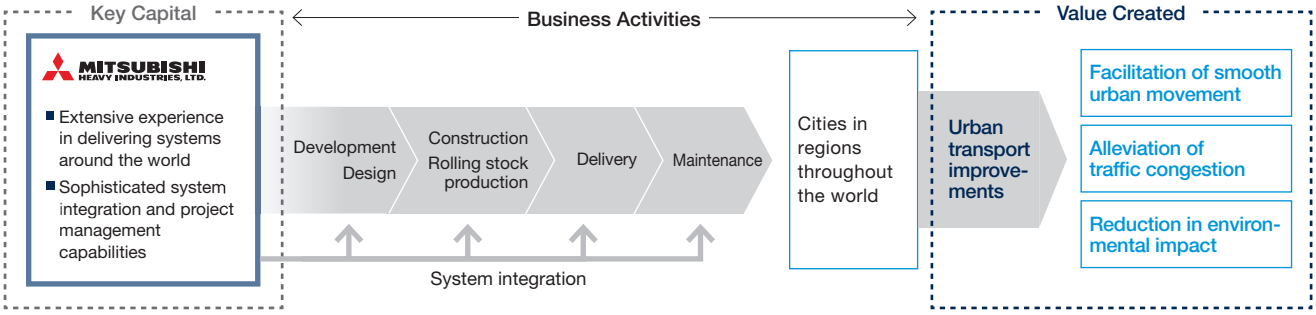
In rail transit systems, MHI oversaw track, communications, and electrical system integration for Taiwan High Speed Rail, earning high praise for its project management capabilities. We have also received an order for a project to extend the Taiwan High Speed Rail, and construction currently is under way. In urban rail systems, MHI handled the overall transport system engineering, procurement, construction, test operation and adjustment, and safety verification for the Dubai Metro, the world's longest fully automated metro network. The high marks we received on these projects led to an order for São Paolo Metro Line 6, in Brazil. Since 1973, MHI has delivered numerous new urban transportation systems, including one to the Miami International Airport, in the United States, as well as others in Singapore, South Korea, and Dubai. Recent projects include the construction of the Macau Light Rapid Transit system, which is scheduled to commence commercial operations in 2015. In 2014, MHI received an order for AGT systems from the Orlando International Airport, in the United States. Its mastery of engineering and expertise in the design and production of rolling stock for new transportation systems makes MHI one of the few system integrators in the world capable of undertaking such projects, and the Company has earned a solid reputation for its systems.

Major Urban Transportation Projects Planned in Key Markets

Middle East
Qatar: Doha
Saudi Arabia: Jeddah, Medina, Dammam
Kuwait
Abu Dhabi
Egypt: Cairo

United States
Orlando International Airport AGT
Tampa International Airport AGT

ASEAN Countries, Brazil
Thailand: Bangkok Red Line
Indonesia: Jakarta MRT
Brazil: São Paolo Metro Line 6



Strategy

- Benefit from the synergies of transitioning to the Business Domain Structure, and take advantage of comprehensive capabilities
- Accelerate global development by establishing business bases at four locations throughout the world
- Expand business that utilizes the MIHARA Test Center

Provide new transportation systems that are safe and offer peace of mind, contributing to improvements in urban transportation in locations around the world

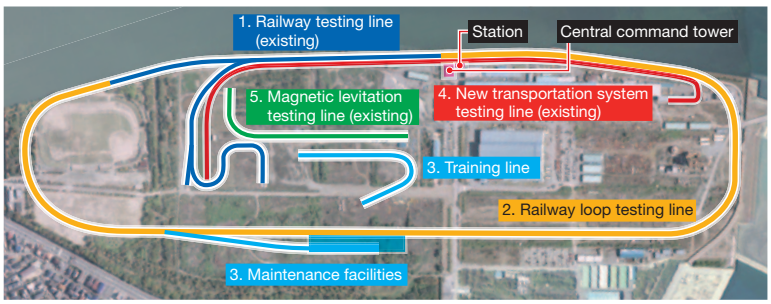
In Commercial Aviation & Transportation Systems, we strive to generate and expand business by combining and taking advantage of synergies among the domain's technologies, products, human resources and other areas. Our strengths in the transportation systems business lie in our expertise as a system integrator. Moving ahead, we will combine and strengthen the system integration expertise, methodologies, and personnel we have cultivated through various products in this domain involving large-scale, complex systems to serve the rapidly expanding transportation systems business. As one example of product synergies, we are proposing total package solutions for certain cities in Southeast Asia using MRJ to expand air routes and that include airport infrastructure and transportation systems.

To strengthen our global development in the transportation systems business, by 2016 we plan to establish operating bases in the United States, Dubai, Brazil, and Singapore. We will station expert internal and outside personnel in each region and strive to develop close and ongoing communications and alliances with local government bodies, customers, and regional partners. These bases will also handle maintenance services, serving as a bridgehead for reinforcing our service business.

Another key to expanding the transportation systems business is the testing and verification of rolling stock, components, and communications. The MIHARA Test Center,* located at the Wadaoki Plant of our Mihara Machinery Works, will open in autumn of 2014, making it possible to test rolling stock during actual operation. This capability will enable us to augment safety, shorten verification periods, and accelerate development. The facility will also allow us to provide hands-on training and education for overseas personnel involved in rail operations. We expect the center to serve as a powerful tool for generating export orders.

Going forward, in addition to new routes MHI will strive to expand orders for construction work to renovate and increase transportation capacity on existing routes. By providing new transportation systems that are safe and offer peace of mind, we will contribute to improvements in urban transportation in locations throughout the world and endeavor to expand our operations.

* MIHARA is an acronym for Multipurpose Integrated Highly Advanced Railway Applications. The center has a 3.2-kilometer-long loop track and is the first facility in Japan capable of testing integrated transportation systems.



MIHARA Test Center, Japan's first comprehensive railway system test facility

VOICE

Yasuhiro Nakata
Chief Executive Officer,
Japan Transportation
Planning Association

High Expectations for Overseas Development Leveraging Sophisticated System Integration Capabilities

New transportation systems are being developed as modes of transport that make cities more convenient. Such systems already play an important role as a core means of public transportation in Japan. Our association is working to promote the export of new transportation systems developed in Japan to serve in intraurban transport in other countries. We believe these systems will be particularly effective in alleviating the traffic congestion and increasingly serious environmental degradation that major Asian and African countries are experiencing. We have high hopes for joint overseas development with MHI, which is a member of our association, based on its highly rated system integration capabilities for the rolling stock technology and overseas projects it has delivered to date.

Providing integrated defense systems encompassing land, sea, air, and space applications as well as space-related equipment and services

Integrated Defense & Space Systems

Integrated Defense & Space Systems provides integrated land, sea, air, and space defense systems—encompassing naval ships, defense aircraft, missile systems, launch vehicles, and special vehicles—and space-related services. Through the cutting-edge technologies cultivated in these fields, MHI is positioned to supply products and services with high added value.

In accordance with the Japanese government's policies and objectives, we apply our comprehensive expertise and advanced technological capabilities on various types of products in land, sea, air, and space systems to meet the needs of our customers.

Hisakazu Mizutani
Domain CEO, Integrated Defense & Space Systems

Fiscal 2013 in Review

During the year, orders for naval ships and defense aircraft rose, and some orders were received ahead of schedule. As a result, on a consolidated basis this domain booked orders of ¥547.3 billion for fiscal 2013, up from the previous year's level.

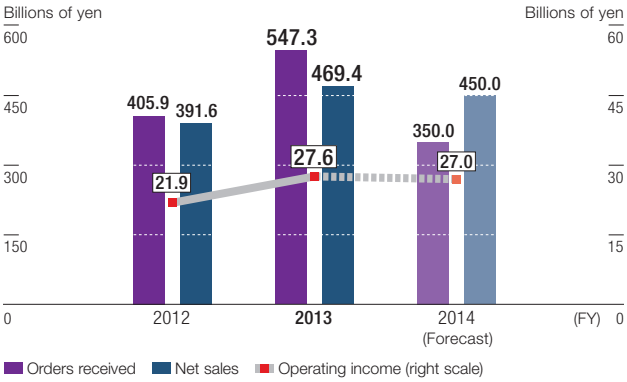
Consolidated net sales in this domain rose, to ¥469.4 billion, buoyed by higher sales of defense aircraft, missiles and other items.

Boosted by the rise in sales, consolidated operating income increased, to ¥27.6 billion.

Operating Environment

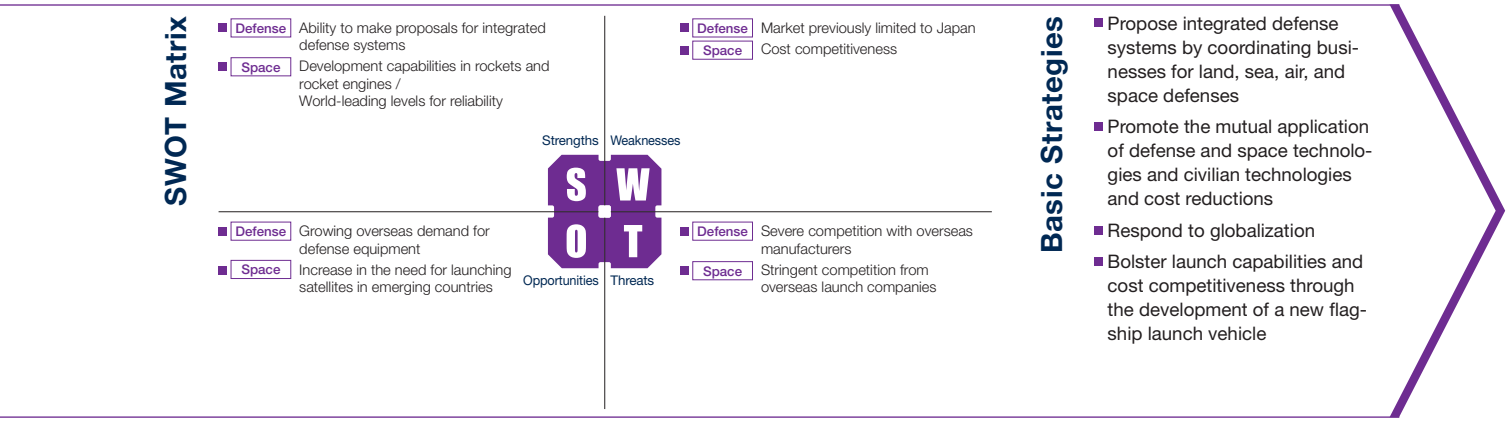
The East Asian security environment remains under rising tensions, but growth in defense-related budgets has been sluggish. This trend is expected to continue, and we see little likelihood of this market expanding substantially. The National Security Strategy (NSS) that Japan adopted at the end of 2013 calls for the country to contribute even more proactively in securing peace, stability, and prosperity of the international

Orders Received / Net Sales / Operating Income



Strategic Business Unit (SBU)

- Naval Ship
- Defense Aircraft
- Missile Systems
- Defense Aero-Engines & Control Equipment
- Maritime Systems
- Space Systems
- Special Vehicle



community as a “Proactive Contributor to Peace,” based on the principles of international cooperation. The National Defense Program Guidelines announced in conjunction with the NSS explain Japan’s policy to build a Dynamic Joint Defense Force to address the global security challenges and conduct a diverse range of activities to be seamless as well as dynamic based on joint operations. In response to the Three Principles on Transfer of Defense Equipment and Technology adopted by Cabinet decision in April 2014, MHI recognizes the importance of responding adroitly to the country’s defense-related needs by pursuing globalization initiatives and reinforcing its defense production and technology base.

As for recent space systems business, the government’s Basic Space Plan on Space Policy outline has shifted from space development to space utilization. Furthermore, the space systems business environment is in flux, as demonstrated by the increasingly competitive international launch market.

Initiatives for Growth over the Medium to Long Term

The basic policy of this domain is to ensure the safety and security of the populace and contribute to long-term economic and social development by fostering cutting-edge technologies in the defense and space businesses and applying the defense and space technologies to civilian sectors. At the same time, we strive to uphold the levels of safety assurance, compliance, and information security that are essential to the operation of these businesses.

In the defense business, we will provide products and services that meet customers’ needs for joint operation by generating synergies across product lines for the technologies related to land, sea, and air. These products and services were divided along product lines under the Business Headquarters Structure and are now integrated by this domain.

Specifically, we will collaborate with customers in developing compact, sophisticated escort ships and amphibious vehicles, considering technologies for future surface-to-air missiles, and researching technologies related to future jet fighters. In these ways, we will move forward with initiatives targeting the demand related to national security.

In the space systems business, we aim to maintain a high success rate for our H-II A/B rockets. Furthermore, we will continue to assume a leading role in Japan’s space development and endeavor to expand this business by developing a new flagship launch vehicle. (See the “FOCUS” article on the next page for details.)

MHI is dedicated to a core vision of supplying cutting-edge technologies for national safety and security. As a leading supplier in the Japanese defense industry, MHI endeavors to maintain and strengthen defense production and technological bases. MHI develops and manufactures a vast array of defense equipment to meet the needs of the Japanese government and also provides operational support.

See the following website for information on maintaining and strengthening defense production and technological bases.

http://www.mhi-global.com/company/csr/index.html

FOCUS **Integrated Defense & Space Systems**

Satellite Launch Services for Future Space Development

The satellite launch services of MHI have achieved a strong global reputation thanks to the remarkable success rate of its H-II A/B rockets and on-time service—despite the difficulties. In fiscal 2014, we will embark on the development of a new flagship launch vehicle as the prime contractor, employing technologies that will open up the next era of space development.

Backdrop

- **Shift in the main thrust of the Basic Plan on Space Policy from development to utilization**
- **Growing satellite launch demand especially in emerging markets**

The Basic Plan on Space Policy, unveiled by the Japanese government in January 2013, outlined a shift in Japan's space policy from development to the utilization of space. The plan strongly promotes initiatives related directly to enhancing the quality of life for the Japanese nation, such as data communications, satellite broadcasting, mapping and resource exploration, and the use of the global positioning system (GPS) for navigation. In addition to the ability to manufacture and operate satellites for such purposes as telecommunications and broadcasting, positioning, and remote sensing, such ambitions require enhanced satellite launch capabilities as well as maintaining the Japanese industrial and technological base to support them.

Overseas demand is growing in Southeast Asian and other emerging countries for the launch of communication satellites and others, providing a growing number of opportunities in the business of launching commercial satellites.

Key Capital

- **H-IIA rocket, with increased launch capability**
- **Track record of highly successful on-time launches**

For around the past 40 years, MHI has played a key role in Japanese space policy by developing and manufacturing the rockets for launching satellites. At present, our current flagship launch vehicle is the H-IIA rocket. After receiving a technology transfer from JAXA*1, MHI has handled the entire process from manufacture to launch since the H-IIA Launch Vehicle No.13, which was launched in September 2007. By working with JAXA on improvements of the H-IIA's second stage, we are going to succeed in enhancing our satellite launch capability, which is closer to geostationary orbit than ever, placing them in geostationary transfer orbit. Through this improvement, we are able to support a variety of demand from customers throughout the world.

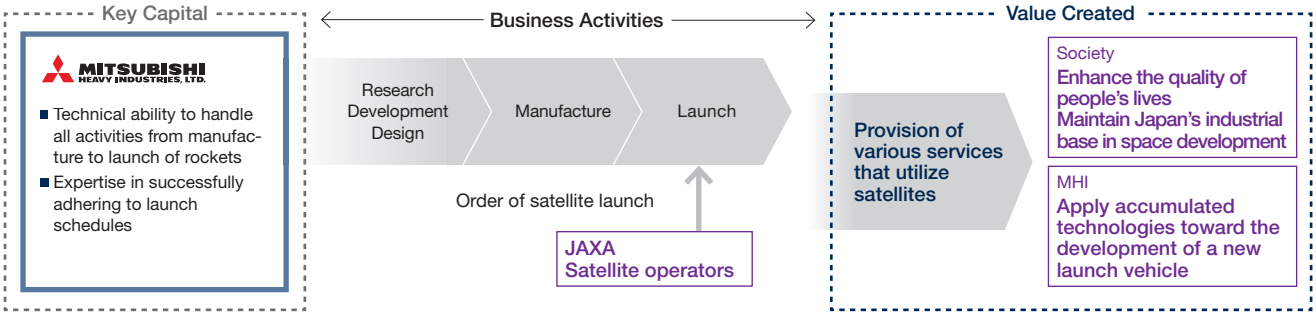
The H-IIA rocket is highly reliable, boasting a current*2 success rate of approximately 96% (23 of 24 launches). Furthermore, launches continue to be performed at the appointed time and date.

*1. JAXA: Japan Aerospace Exploration Agency. An independent administrative agency in charge of Japan's space science research, aerospace technology research, and space development research.
*2. As of July 2014

The 24th H-IIA, launched on May 24, 2014

Key Projects

Announcement	Delivery Date	Project
May 2014	–	MHI Achieves Successful Launch of the H-IIA Launch Vehicle No. 24
May 2014	Fiscal 2016	MHI Receives Order for Satellite Launch Services from SKY Perfect JSAT
March 2014	–	MHI Selected by JAXA as Prime Contractor in Charge of Development and Manufacture of New Flagship Launch Vehicle (Responsibility for Space Transportation Services Also Included)
September 2013	Late 2015	MHI Receives Order to Launch Telesat's New High Throughput Satellite, Telstar 12 VANTAGE (First Order for Launch Services Involving a Commercial Satellite)
June 2013	–	MHI and Arianespace S.A. Conclude memorandum of understanding (MOU) on Cooperation in Commercial Space Rocket Launches



Strategy

- Achieve continued launch successes and ongoing improvements to production efficiency on the H-II A/B launch vehicles
- Develop a new and internationally competitive flagship launch vehicle

By ensuring Japan's autonomous launch capabilities and maintaining its industrial base, increase the launch vehicle's contribution to space development, and enhance our presence

These H-IIA launch capabilities, as well as to reliably launch as planned, have earned a high reputation with Telesat Holdings Inc., the world's fourth-largest satellite operator. MHI has received an order to provide launch services for Telesat's Telstar 12 VANTAGE satellite. The launch is scheduled to take place in late 2015 and marks the first time MHI has received an order to launch a commercial satellite. In May 2014, MHI received its first order from a domestic satellite operator, signing an agreement with SKY Perfect JSAT Corporation, which is also the world's fifth-largest satellite operator. Building on the momentum of these orders from two of the world's leading operators, we look forward to actively cultivating the market for satellite launch services in Japan and overseas.

At present, MHI launches between two and three rockets per year that are capable of launching satellites. In perspective, industrywide launches are currently being carried out at a rate of 20 to 30 per year, buoyed by energetic demand from emerging countries. To take advantage of this business opportunity, MHI believes that in addition to the H-IIA launch vehicle, building up a solid track record for the H-IIB—added to the lineup in 2013—will be essential. At the same time, we will work toward increased manufacturing efficiency and cost competitiveness.

Furthermore, in March 2014 MHI was selected by JAXA to serve as the prime contractor in charge of the development and provider of launch services for a new flagship launch vehicle. MHI intends to commence development in fiscal 2014, aiming for a maiden flight in 2020. The new launch vehicle represents the first time a private-sector company has been called upon to play a leading role from the development stage. MHI will take full charge of all aspects of the new launch vehicle's development, manufacture, and launch services, working in cooperation with JAXA and other private-sector companies. The new launch vehicle is to be based on the current H-IIA and H-IIB rockets, incorporating a wealth of the latest technologies, and be internationally competitive, simultaneously achieving supreme reliability and a low-cost structure.

While continuing to build on a stable launch history for its existing rocket lineup, MHI will push forward with the development of this new launch vehicle, shoring up its technological base in the field of space development. These efforts are directly linked with ensuring Japan's autonomous launch capabilities and promoting the nation's industrial base. Going forward, MHI aims to further enhance its presence and contribute to worldwide space development and utilization, thereby meeting increasingly diverse industry needs.

VOICE

Daniel S. Goldberg
President and CEO,
Telesat Holdings Inc.

We judged MHI's satellite launch service to be superior to that of its competitors in a number of ways.

Telesat selected MHI to launch its new Telstar 12 VANTAGE satellite after an extensive evaluation of the H-IIA launch vehicle, including the planned enhancements. MHI scored highest on our selection criteria that took into account the flexibility of the launch schedule, vehicle performance, technical and operational expertise, and overall commercial terms. Telesat is confident that our strong record of innovation will be enhanced by our partnership with MHI, and we look forward to the successful Telstar 12 VANTAGE launch mission.

Furnishing highly efficient products and services to support key industries and areas

Machinery, Equipment & Infrastructure

Machinery, Equipment & Infrastructure provides a wide range of products that form the foundation of industrial development, such as machine tools, material handling, construction machinery, and air-conditioning and refrigeration systems. As a manufacturer, MHI is applying its sophisticated technologies and expanding its areas of business to play a major role in infrastructure development in countries worldwide.

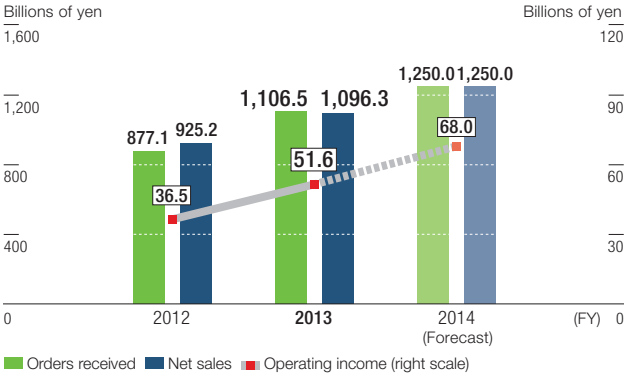
We are working to boost profitability by building a portfolio that optimizes the scale and profitability of strategic business units (SBUs) and efficiently allocating business resources.

Kazuaki Kimura
Domain CEO,
Machinery, Equipment & Infrastructure

Fiscal 2013 in Review

April 2013 marked the launch of operations at Mitsubishi Nichiyu Forklift Co., Ltd., a consolidated subsidiary of MHI that integrates the forklift truck operations of MHI and Nippon Yusoki Co., Ltd. This new entity will enable us to take on larger orders for forklift trucks. During the year, orders increased for automobile turbochargers, centered on China and Europe. Orders also rose for air-conditioning equipment from China and compressors in the United States. As a result, in this domain orders received amounted to ¥1,106.5 billion and consolidated net sales came to ¥1,096.3 billion, both up from the previous fiscal year. Operating income also rose year on year, to ¥51.6 billion, benefiting from the impact of yen depreciation.

Orders Received / Net Sales / Operating Income



Strategic Business Unit (SBU)

- Compressors
- Metals Machinery
- Environmental System
- Mechatronics Systems
- Industry and Precision Instruments
- Advanced Mechanical System
- Hydraulics & Machinery
- Other Equipment
- Turbocharger
- Automotive Thermal Systems
- Engine
- Material Handling Equipment
- Agricultural Machinery
- Air-Conditioning & Refrigeration
- Machine Tool

SWOT Matrix

Strengths

- Turbochargers Customer-based model in Europe, the world's largest market
- Engines Diverse lineup, from small to medium and large engines
- Forklift trucks Extensive product lineup of internal combustion trucks, electric trucks, and indoor distribution equipment
- Air-conditioning and refrigeration systems Machine tools Extensive product lineup

Weaknesses

- Large number of low-share products compared with specialized manufacturers
- Turbochargers Engines Ability to respond to rapid business fluctuations
- Air-conditioning and refrigeration systems Smaller business scale than specialized manufacturers

Opportunities

- Growth in demand in China, India, Southeast Asia, and North America
- Turbochargers Expansion of emerging markets such as India and Brazil
  Shift to smaller, turbocharged engines against a background of environmental and fuel efficiency regulations
- Engines Increased global demand for gas engines due to spread of low-cost shale gas

Threats

- Prominence of Chinese and South Korean companies
- Turbochargers Engines Continuation of impact from European economic crisis
  Economic slumps in emerging countries such as China and India
  Decline in unit prices of products due to commoditization
- Air-conditioning and refrigeration systems Machine tools Rise of manufacturers in emerging countries

Basic Strategies

- Reinforce production and sales in emerging markets in which such core industries are rapidly expanding, and aim to increase market shares and expand profitability
- Establish dedicated operating companies, form alliances and carry out mergers and acquisitions, and build world-class businesses by engaging in agile and flexible organizational management

Operating Environment

Against a backdrop of increasingly stringent environmental regulations on automobiles, around the world a growing number of vehicles powered by gasoline and diesel engines are being fitted with turbochargers to enhance their fuel efficiency. With the trend toward stricter environmental regulations slated to continue, this market is expected to continue growing.

Increased U.S. shale gas production has led to demand for compressors. Demand is also vigorous for gas-related plant equipment used in shale gas production, such as LNG shipping facilities, as well as for new petrochemical plants to produce ethylene. Compressor demand is benefiting from the ripple effect of expanding shale gas production, as these devices are used to compress the air and gases that related plants require to generate products.

Initiatives for Growth over the Medium to Long Term

In the Machinery, Equipment & Infrastructure domain, we offer a wide range of products targeted at such key industries as steel and automobiles and include iron and steel manufacturing machinery, compressors, and machine tools. We are working to reinforce production and sales in emerging markets in which such core industries are rapidly expanding and aim to increase market share and expand profitability. Through initiatives that reach across individual SBUs, this domain strives to generate synergies in production, sales, and on a host of other functional fronts. To accomplish this aim, we will cultivate human resources and extend our lineup of products that are capable of responding to the needs of diverse customers, markets, and business practices. We will also enhance our service networks and set up production bases that cater to the need for local production for local consumption.

To achieve agile and flexible organizational management, we will work actively to establish dedicated operating companies, form alliances, and carry out mergers and acquisitions in our aim to build world-class businesses.

Key Projects

Announcement	Delivery	Project
March 2014	—	Three Group Companies in Machinery and Steel Structures Businesses to Merge into Mitsubishi Heavy Industries Mechatronics Systems, Ltd.
January 2014	—	MHI and Hitachi to Collaborate on the Distributed Gas Engine Power Generation Systems Business in China
October 2013	—	MHI and Tokyo Gas Co., Ltd., Develop New 1,000 kW Gas Engine Cogeneration System
October 2013	—	MHI Develops MEGASEG, Industry's First Portable Generator in the 2 kVA Class Fueled by Propane Gas (LPG)
August 2013	—	MHI Announces Plan to Boost Turbocharger Production Capacity Worldwide, Aiming for 10 Million Units/Year Production Structure
April 2013	—	MHI to License KU Gas Engine Technologies to ZGPT of China

FOCUS **Machinery, Equipment & Infrastructure**

Turbochargers Increasing Acceleration and Contributing to Environmental Performance

Around the world, fuel-efficiency regulations on automobiles are growing stricter. While demand for vehicles is rising, particularly in emerging markets, on the other hand automakers face the urgent task of meeting stiffer requirements. Under these conditions, expectations are growing for turbochargers, which boost the fuel efficiency of gasoline- and diesel-powered vehicles. MHI is contributing to better fuel efficiency through its efforts to develop high-performance turbochargers and promote them on a global basis.

Backdrop

- **Concern about environmental pollution as the number of vehicles in the world grows**
- **Increasingly stringent exhaust emissions going into place throughout the world**

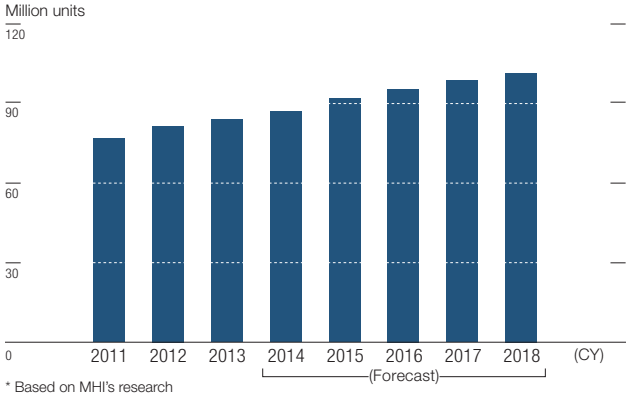
Global automobile production continues to rise. During the past decade, the number of automobiles manufactured each year has risen approximately 40%, to 90 million. Underpinning this growth are emerging countries, which are heightening in importance as production bases as well as consumer markets. In the past, the automotive industry hinged on advanced countries, but this focus is expected to continue shifting toward emerging markets. World automobile production is predicted to expand to around 100 million units per year by 2018. Meanwhile, emerging countries such as China and India are facing air pollution from automobile exhaust. As a result, countries around the world are adopting ever-stricter fuel-efficiency requirements, such as the Corporate Average Fuel Economy (CAFE) regulations in the United States. It is growing increasingly difficult for vehicles to get to market unless they deliver superior fuel efficiency. Accordingly, boosting fuel efficiency is of pressing importance for automakers the world over.

Key Capital

- **Core technologies for the development of high-performance turbochargers**
- **Global production system in place**

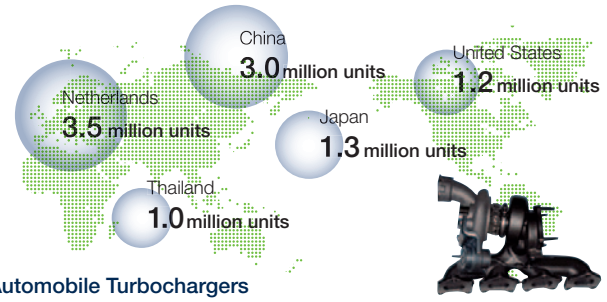
Automakers are developing hybrid and electric cars in the interest of enhancing fuel efficiency. At the same time, market demand for turbocharged engines, especially gasoline engines, is increasing rapidly. Installing a turbocharger simultaneously reduces exhaust volumes and boosts performance compared with other engines in the same class, so smaller engines can be used. This combination contributes to substantially higher fuel efficiency. Turbochargers also curtail the amount of harmful substances contained in emissions, allowing gasoline and diesel vehicles to pass stricter fuel-efficiency regulations. However, developing high-performance turbochargers is no easy feat, as it requires the application of technologies capable of high-speed turbine rotation at elevated temperatures. MHI has cultivated the core technologies needed in automobile turbochargers though its work in aircraft engines and gas turbines. The Company has also earned a strong reputation among customers for the low failure rate of its products. MHI is building a global production system to meet the steady ongoing increases expected for turbocharger demand.

Worldwide Automobile Production (Vehicle Weight of 3.5 Tons or Less)



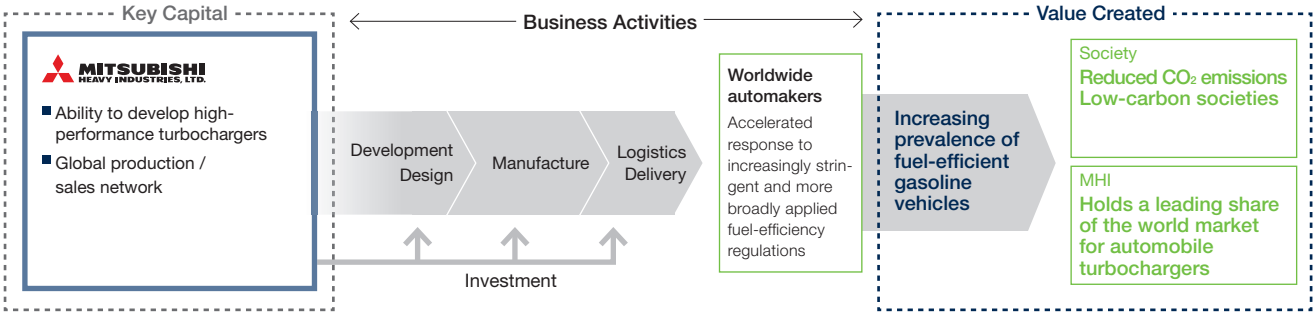
* Based on MHI's research

Global Turbocharger Manufacturing Structure (10 Million Units)



Automobile Turbochargers

Automobile turbochargers are environmentally friendly products. These eco-products recover an engine's heat energy to boost thermal efficiency, curtailing fuel consumption (better fuel efficiency) and reducing the volume of harmful components in exhaust gases (lower pollution). Meanwhile, supplying compressed air boosts output (more power).



Strategy

- Augment turbocharger production capacity
- Develop next-generation turbochargers

Help to achieve a low-carbon society through growing global uptake of turbochargers

MHI is investing aggressively to build a worldwide structure capable of producing 10 million turbochargers per year. By investing a total of ¥15.0 billion in its overseas production bases, including a key component manufacturing facility in Thailand, by 2016 MHI expects to have in place a structure capable of manufacturing 10 million units per year. At the same time, to enhance cost competitiveness the Company aims to achieve a flexible production structure with four focal points—Japan, the United States, Europe, and Asia. Forthcoming innovations include a new-concept turbocharger that achieves the world's highest level of efficiency and an electrically driven two-stage supercharging system (turbocharger) that will allow further downsizing of gasoline engines. MHI is cultivating the market for such products. In addition, we are creating a locally responsive engine development support structure through which we will be able to respond to diverse market needs from nearby bases precisely and with short delivery schedules. Going forward, we will continue to strengthen these measures, making additional investments if necessary, to achieve our goal of garnering a leading share of the world market for automobile turbochargers. MHI aims to contribute to a low-carbon society by encouraging the spread of turbochargers, which can play a key role in improving fuel performance.

VOICE

Cheryl Morphew
President & CEO,
Johnson County
Development Corp.
Indiana State,
United States

We had been working to attract an environmentally conscious company, so MHI's establishment of a turbocharger plant in Franklin was a welcome occurrence.

The city of Franklin and Johnson County, Indiana, are delighted to have an MHI turbocharger production plant in our community. We strive to attract environmentally friendly companies and are extremely pleased about MHI's new product technology that will manufacture turbochargers capable of reducing CO_2 emissions and fuel consumption in the environment.

We have had a long-standing relationship with the MHI Group for automotive parts business and look forward to building such a relationship for turbocharger.

Congratulations, and welcome to your new Franklin home!


Automated production line for core turbocharger components (cartridges)

Conducting Global Intellectual Property Activities and R&D That Support MHI's Business Strategies

Manufacturing technologies are the source of value creation for the MHI Group, and intellectual property activities and R&D are the bedrock of its business. Supporting our business strategies for growth, we are promoting the construction of a global system, led by the chief technology officer (CTO), who is the head of technology.

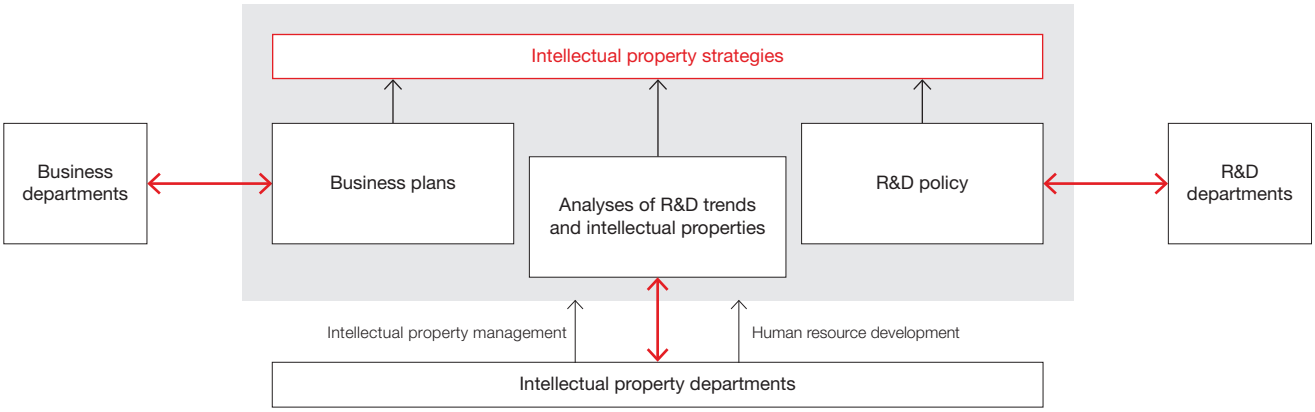
An Integrated Approach Linking Businesses, Intellectual Property, and R&D

The MHI Group integrally develops its business, intellectual property, and R&D strategies. The MHI Group defines intellectual property strategies centered on the guiding policies of each business segment, with business, intellectual property, and R&D departments working closely together to implement these strategies. By having the intellectual property departments coordinate the intellectual property strategies of all business segments, the MHI Group strives to realize the intellectual property strategies of the Group and further enhance its corporate value.

Intellectual Property Activities Structure

The MHI Group has shifted from a Business Headquarters Structure to a Business Domain Structure. This transformation was aimed at consolidating and restructuring Group businesses from the standpoint of similarities of the market, customer, core technology, and business strategies.

Intellectual property departments, which are part of the corporate division, have built domain-based activity structures and contribute to planning intellectual property strategies as well as strengthening the support functions related to intellectual property.



Intellectual Property Activities Policy

The MHI Group strives to increase the competitiveness of its intellectual property in line with its basic policy of "globalization of intellectual property strategies and intellectual property activities" and the "utilization of intellectual property."

Because the MHI Group's R&D bases and the locations of intellectual property utilization are expected to spread out further around the world, the MHI Group is stepping up efforts to secure overseas intellectual property, in particular, and strengthening its global intellectual property management system.

To establish a competitive advantage, by securing the intellectual property that meets the purpose of intellectual property utilization, such as blocking other entrants and market expansion that incorporates an open strategy, the MHI Group seeks to create an optimal intellectual property portfolio that will support the development of the Group's business.

To encourage invention and creativity, MHI has set up a reward system for employees who come up with inventions or generate new ideas. The MHI Group revises this system to keep pace with legal revisions and growing public regard for intellectual property. Through efforts such as these, the MHI Group tries to stimulate the intellectual property activities of the entire Group.

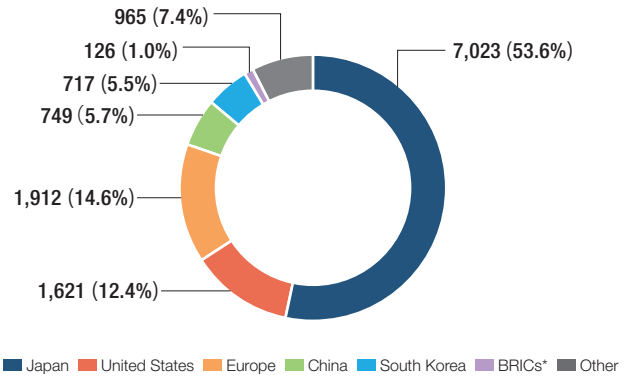
Risk Management Related to Intellectual Property

The MHI Group respects the valid intellectual property of others and, at the same time, promotes the appropriate protection and active use of intellectual property.

To accelerate global development, the MHI Group actively pursues overseas M&A and alliance initiatives and builds bases in other countries. Along with the growth in global M&A activities,

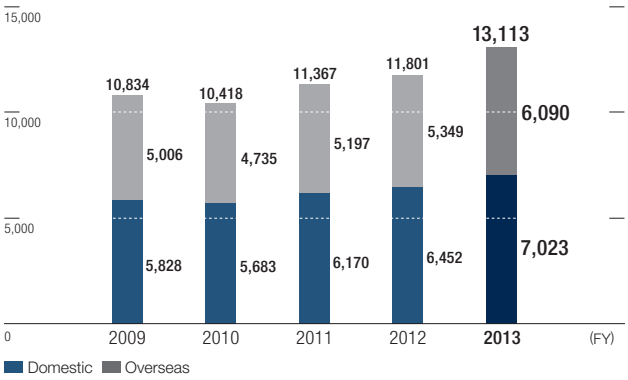
the external environment and risk factors related to intellectual property are changing rapidly. Even under these circumstances, when developing its business the MHI Group makes every effort to ensure it respects the intellectual property of others by considering the intellectual property rights of others at every product stage, from basic planning and design to production. In these ways, the MHI Group strives to prevent international intellectual property difficulties from arising.

FY2013 Patents by Region



* "BRICs" does not include patents held in China.

Number of Domestic and Overseas Patents



Research and Development

The MHI Group maintains close ties between its R&D centers and its business domains. This focus enables us to enhance product competitiveness in the Energy & Environment domain and other fields as well as intensify R&D with a view to future business expansion.

We are working toward the globalization of our R&D structure, and as part of these efforts we are dispatching specialist engineers from five research centers to our bases in the United Kingdom, Singapore, and the United States. We are making efforts to secure leading global technologies, information, and human resources, while conducting research and providing technological support that is closely aligned with market needs.

Some of our major R&D projects in fiscal 2013 are described in the following pages.

More detailed information on our technology is available for viewing on the website.

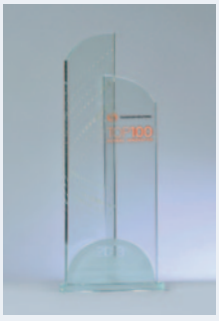
http://www.mhi-global.com/company/technology/index.html

TOPICS Thomson Reuters Corporation* Names MHI among "Top 100 Global Innovators" in 2013

In October 2013, MHI was named one of the world's 100 most innovative companies of 2013 by New York-based Thomson Reuters Corporation for the second consecutive year. MHI received high marks for its innovations and intellectual property activities in each of the "Top 100 Global Innovator" program's four categories: patent approval success rate, global reach of patent portfolio, patent influence in literature citations, and overall patent volume.

Thomson Reuters annually selects what it considers to be the world's most innovative companies or research institutes based on an analysis of its own patent database. The 100 companies and research institutes honored are recognized as "top global innovators" for the impact of their valuable inventions on the global market, their appropriate protection of intellectual property rights, and the global development that results from their commercialization.

This prestigious award reflects a firm commitment by MHI to continuing its proactive pursuit of innovative technology developments and its quest to actively protect the resulting intellectual property and apply its innovations in the global market.



* Thomson Reuters is a New York-based global information services company. It was established in 2008 when the Thomson Corporation, a Canadian information services provider, purchased Reuters Group PLC, the British communications giant. Presently, Thomson Reuters has approximately 60,000 employees working in more than 100 countries worldwide.

Principal R&D Activities

Development of gas turbine technologies with inlet temperatures in the 1,700°C class

The thermal efficiency of GTCC power generation increases along with the temperature increase at the inlet of the turbine (combustor outlet). MHI has been engaged in developing a 1,700°C-class gas turbine as part of a national project to improve energy efficiency since 2004 and has been working on technology development for such factors as the combustor, compressor, turbine, cooling, and heat shield coating, with a target combined-cycle efficiency of 62% to 65% (lower heating value).
(Energy & Environment domain)

Expanding the flexibility of fuels at integrated coal gasification combined-cycle (IGCC) power plants

Among power generation technologies that employ coal, IGCC is heralded for its ability to make use of sub-bituminous coal, which has proven difficult in the past. We have also developed a system for drying lignite, which contains more than 50% water, consuming less energy than was previously needed. Making use of this system at IGCC plants substantially boosts power generation efficiency and aims to contribute toward significantly lowering CO_2 emissions in coal-producing countries.
(Energy & Environment domain)

Development of CO_2 capture technologies for coal-fired power plants

MHI is pursuing a joint carbon capture and sequestration (CCS) demonstration project with Southern Company, a major U.S. electric utility. Having confirmed high-performance, continuous, and stable operation of a large-scale CO_2 recovery plant, MHI concluded its initial planned testing in December 2013. Based on these results, the Company plans to accelerate its commercialization of CO_2 capture technologies for coal-fired thermal power plants, whose emissions tend to include substantial impurities.
(Energy & Environment domain)

CCS demonstration plant

Development of a high-pressure LNG fuel supply system to allow ships to operate on LNG

Using LNG to fuel ship engines designed to operate on diesel requires the practical application of technologies to inject LNG vapor at high pressure as well as heat exchange technologies. Currently, we are also working on ways to extend service intervals and improve operability.
(Commercial Aviation & Transportation Systems domain)

Development of the MRJ, a cutting-edge regional aircraft

The Mitsubishi Regional Jet (MRJ) employs a leading-edge engine, state-of-the-art aerodynamics, and acoustic analysis technology to drastically reduce fuel consumption, noise, and emissions. Presently, MHI is conducting final assembly with a view toward a maiden flight in 2015; as of the end of June 2014, we completed the wing–body combination and engine installation.
(Commercial Aviation & Transportation Systems domain)

MRJ

Development of guidance control and manufacturing technologies that help to reduce costs and improve reliability for new flagship launch vehicles

Various technologies are under development as part of the development of an internationally competitive new launch vehicle. In March 2014, MHI was selected by the Japan Aerospace Exploration Agency (JAXA) to serve as the prime contractor in charge of the development and provider of launch services for a new flagship launch vehicle.
(Integrated Defense & Space Systems domain)

Satellite Launch Services for Future Space Development ▸ Page 36

Production of the Advanced Technology Demonstrator prototype

Aiming to acquire technologies necessary for developing a next-generation indigenous fighter aircraft, MHI developed a supersonic stealth prototype aircraft with high maneuverability, which conventional fighter aircraft have never been able to achieve.
(Integrated Defense & Space Systems domain)

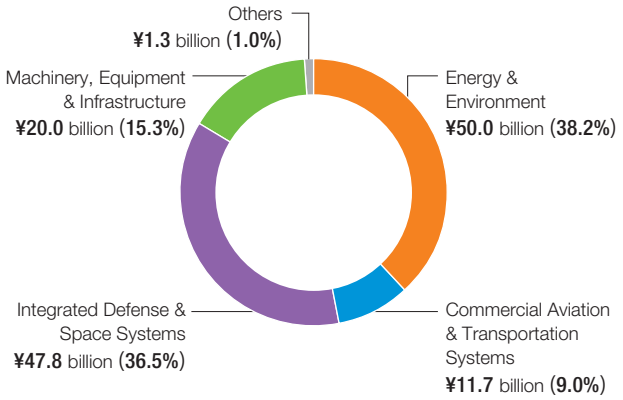
Development of a highly efficient turbocharger that enhances engine fuel efficiency

MHI has developed a turbocharger that boosts engine fuel efficiency through the combination of a low-noise, high-efficiency bearing, as well as a highly efficient turbine and compressor. (Machinery, Equipment & Infrastructure domain)

Development of the MVR-Ex Series for high-accuracy machining

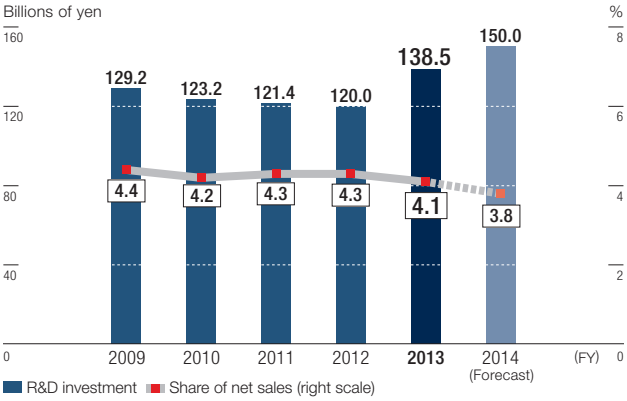
Based on its experience in the production of 1,000 units of the MVR—a best-selling double-column, five-face milling machine—MHI has developed a new model, the MVR-Ex. Equipped with the latest CNC controller functions as well as state-of-the-art technologies, this model is suitable for high-end users who are keenly interested in high-performance machines. In particular, the winning combination of internal cooling spindle and special columns with thermo stabilizer functions realizes high accuracy and powerful machining for true machinists. (Machinery, Equipment & Infrastructure domain)

FY2013 R&D Investment by Business Segment



Note: The figures above exclude ¥7.4 billion for expenses related to reinforcing the MHI Group's common technological base.

R&D Investment and Share of Net Sales



Note: The figures above for R&D investment include expenses related to R&D under contract.

TOPICS Research activity on an innovative elemental transmutation method

MHI is pursuing research on a fundamental technology called "new elemental transmutation reaction." In the field of physics, it has always been known as a matter of course that the use of a nuclear reactor or an accelerator is necessary to achieve elemental transmutation. This new method enables us to transmute elements with relatively simple equipment and using little energy.

The transmutation method involves forming a specialized palladium film on the element to be transmuted and then permeating the film with deuterium. The element then reacts with the deuterium, undergoing elemental transmutation. The transmutation mechanism is not understood at present, but MHI has confirmed conversions of cesium to praseodymium, strontium to molybdenum, calcium to titanium, and tungsten to platinum. MHI has patented this proprietary technology in Japan and Europe.

Since 1994, MHI has been conducting research in the field of elemental transmutation, which is at the fundamental stage, but the Company is currently increasing the volume of elements that can be transmuted and is at the stage of considering this technology's applicability. One possible application would be in transmuting radioactive cesium into a harmless, non-radioactive element. This application could apply to the inactivation of radioactive waste. A variety of issues need to be addressed before the technology can be applied, but MHI is forging ahead in this direction.

Reinforcing Corporate Governance with a View to Sustainable Growth

In June 2005, MHI launched proactive corporate governance reforms to enhance soundness and transparency as well as efficiency and maneuverability. We will introduce governance measures on an ongoing basis as appropriate to our aim, as a truly global company, of earning the trust of a wide range of stakeholders and continuing to grow while responding to changes in the operating environment.

Recent Corporate Governance Reforms

2005
- Increased the number of outside directors from one to two and outside statutory auditors from two to three A
- Reduced the number of directors from 28 to 17 B
- Shortened the term of office for directors from two years to one
- Introduced an executive officer system, splitting management oversight / decision making and business execution into two separate roles
- Established the Internal Audit Department and strengthened internal controls

2006
- Abolished the system of director retirement allowances, switching to compensation tied to Company performance, including monthly salary, stock options, and bonuses

2007
- Increased the number of outside directors from two to three A

2011
- Transitioned to the Business Headquarters Structure, clarifying responsibilities and speeding up decision making through the integration of business operations
- Established the Management Audit Department by reorganizing and strengthening the Internal Audit Department, enhancing audits of management and product quality control processes of existing operational auditing functions and risk management functions

2013
- Consolidated and restructured the nine Business Headquarters, transitioning to the Business Domain Structure C
- Reorganized the management audit, accounting, procurement, IT, and other functions at individual works, placing them under direct Head Office control, thereby enhancing corporate functions and making them more efficient

2014
- Introduced the Chief Officer System D
- Reduced the number of representative directors to six B
- Decreased the number of directors to 12, raising the ratio of outside directors to 25% A

A Enhancing the Management Decision-Making and Supervisory Functions

Increasing the Ratio of Outside Directors (June 30, 2004 → June 30, 2014)

4 % (One of 28) ⇨ 25 % (Three of 12)

Management risks have increased and grown more diverse as our business has become more global. In response, we enhanced the Board of Directors' decision-making and supervisory functions capabilities, as well as bolstered management transparency, by leveraging the specialties and knowledge of outside directors.

B Increasing the Flexibility and Transparency of Decision Making

Slimming the Board of Directors (June 30, 2004 → June 30, 2014)

28 ⇨ 12 directors

Reducing the Number of Representative Directors (June 30, 2004 → June 30, 2014)

11 ⇨ 6 directors

We are reducing the number of directors with a view toward a highly efficient and transparent management system. We have also revised our thinking on the granting of representative status. Accordingly, we have made the chairman of the Board of Directors a non-representative position, with the chairman focused on supervising business execution by chairing the Board, thereby reducing the total number of representative directors.

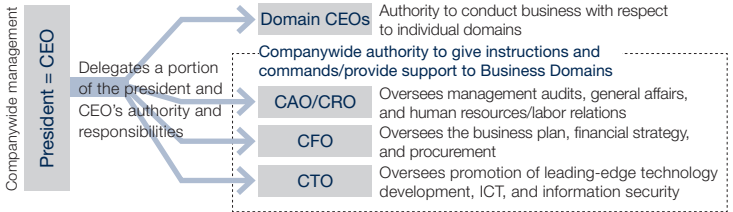
C Utilizing Management Resources More Flexibly and Producing Synergies

9 Business Headquarters ⇨ 4 Business Domains

In 2011, MHI went from a matrix structure of Business Headquarters and Works, integrating into the Business Headquarters Structure. From 2013 to 2014, we consolidated and restructured, transitioning to the Business Domain Structure based on such perspectives as customers and market characteristics, and creating individual domains capable of competing in global markets.

D Separating Roles in and Clarifying Corporate Functions

Introduction of the Chief Officer System



By introducing the Chief Officer System, we aim to clarify authority and responsibilities, further reinforce governance, and strengthen and raise the efficiency of business support for domains.

Enhanced Soundness and Transparency, Efficiency, and Maneuverability

A Truly Global Company

Interview with an Outside Director

We asked one of our outside directors, Christina Ahmadjian, who specializes in corporate governance, to share with us her impressions about governance at MHI and the issues that we need to address as we work to enhance our corporate value.

Christina Ahmadjian
Professor of Hitotsubashi University
Graduate School of Commerce and Management
Outside Director

Ms. Ahmadjian specializes in such research themes as corporate governance, globalization, and capitalist systems. Following a position as Assistant Professor at the Columbia University Graduate School of Business, she joined the faculty at Hitotsubashi University, where she currently lectures. Ms. Ahmadjian has also held positions at U.S. and Japanese companies.

Impression of MHI

To tell the truth, my impression of MHI was that of an "old Japanese company." But when I met Chairman Omiya (at that time, president), I began to think that maybe I had been mistaken. When I actually joined the Board, my impression of the Company changed when I realized that MHI does operate strategically and from a global perspective. I was particularly surprised when I first heard about MHI's business integration with the thermal power generation systems of Hitachi, Ltd. That's not the sort of decision a typical Japanese company makes.

With regard to governance, I think we have made steady progress since I was first appointed two years ago. At first, the numerous people attending Board meetings, the detailed level of execution, and the technical topics were a little overwhelming. Recently, though, the Company has reduced the number of directors and introduced a Chief Officer System, and the talk has turned toward deliberations that befit a Board of Directors, such as global strategy and human resources, risk management, and IT.

As an outside director, I feel that I receive materials and briefings as necessary and support several days prior to Board of Directors' meetings to fill in gaps in my knowledge. During Board meetings, as well, I sense that the opinions of outside directors and outside statutory auditors are taken into serious consideration, rather than ignored.

In terms of governance—and this may seem to be trivializing recent issues involving outside directors—I think the actual system itself is a problem. In particular, if management does not have much of an interest in corporate value, it really doesn't matter how many outside directors a company has. I think governance at MHI functions largely due to the acute awareness that President Miyanaga has shown. MHI's high levels of ROE for a Japanese manufacturer attest to this success.

Issues to Address in Enhancing Corporate Value

The direction we are currently moving is appropriate; above all, we must maintain our course. As we do so, I see several points that we need to focus on if we are to win out amid the global competition.

The first item is to secure global human resources, meaning both Japanese employees who are global-minded and overseas employees. Diversity, along with the inclusion of women, will be a key focus. Unless the Company can succeed in this area, competing with global mega-players is likely to be difficult.

I would also say that progress on accelerating decision-making speed is too slow. While MHI is spending time on consensus-building, global competitors will have already made their decisions and will be moving forward.

From a corporate governance standpoint, I would suggest incorporating perspectives gained over a broader experience base. To this end, I recommend increasing the number of outside directors who are non-Japanese managers as well as Japanese managers who have extensive management experience overseas.

Roles I Would Like to Play

Although this is hard for somebody with ties to the Company to say, I believe that the role being asked of me as an outside director is to speak frankly and encourage deliberation on points that concern me. Japanese culture tends to eschew divergent opinion; that is precisely the reason why outside directors need to adopt the vantage point of shareholders, overseas employees, and a host of other stakeholders. The experience that the Company gains in responding to the questions of outside directors serves as a sort of training in external accountability. In many cases, overseas audiences require specific explanations. Success in this area is linked with the globalization of MHI's corporate culture. Naturally, I will continue to offer advice proactively in line with my university research theme: global human resources.

Corporate Governance Framework

MHI is a company with a Board of Statutory Auditors. The Board of Directors makes important management decisions and oversees the execution of business operations. Statutory auditors oversee the execution of director duties by engaging in various activities such as attending meetings of the Board of Directors and other key meetings.

Additionally, MHI has established an Executive Committee to provide a forum for discussing important matters related to business execution. This allows for a more cohesive approach to discussion as part of the operational execution framework centered on the president and CEO, and consequently leads to more appropriate management decisions and business execution. In addition, MHI has established various committees to ensure thorough risk management and compliance.

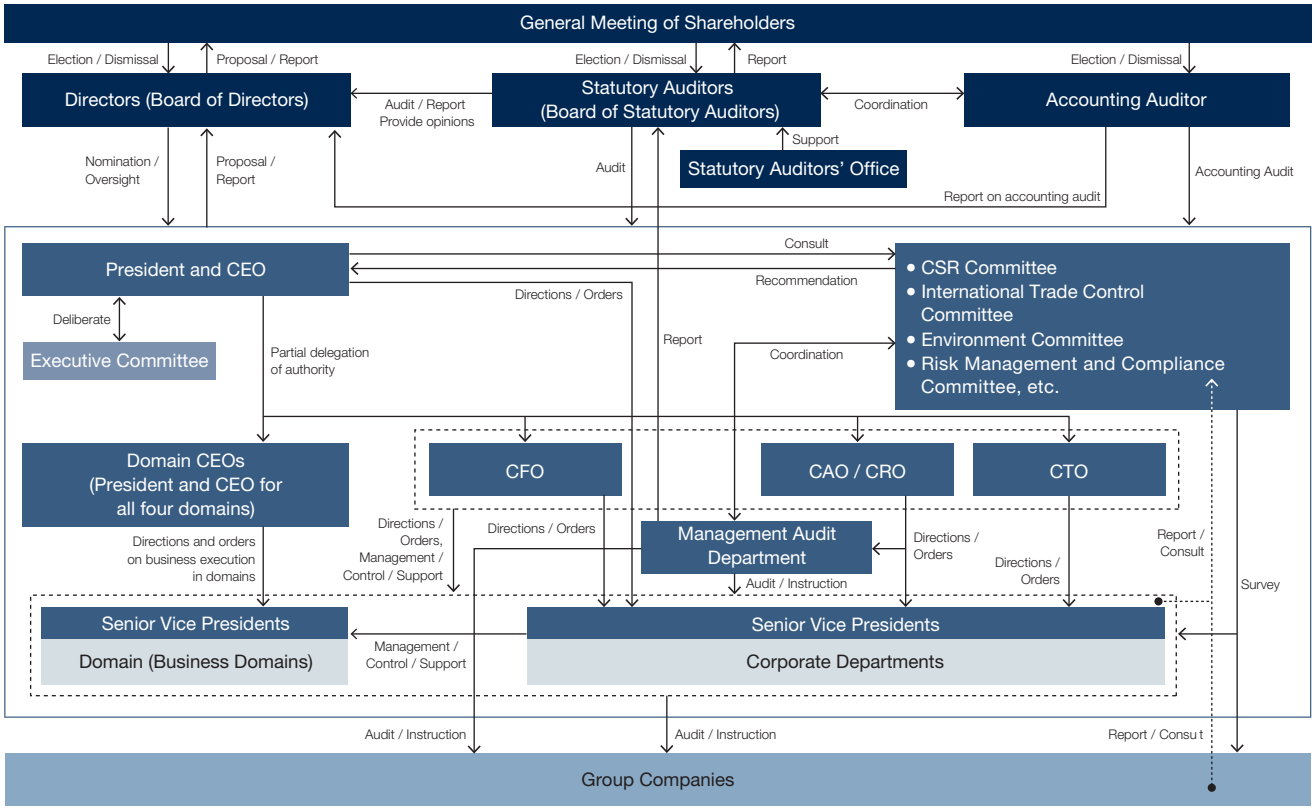
Outside Directors and Outside Statutory Auditors

For the purpose of receiving advice and oversight of the Company's management from an objective standpoint not biased by an internal company perspective and based on abundant experience and broad knowledge as a corporate manager, government official, or academic expert, three of the 12 directors elected and three of the five statutory auditors elected are from outside the Company (as of June 26, 2014).

The Company judges all of these outside directors and outside statutory auditors to be independent from its management team on the basis that there are no circumstances that compromise independence from the Company. Specifically, there are no personal relationships, capital relationships, trading relationships, or other special interests between the individuals and the Company. In addition, there are no circumstances that compromise the independence of these individuals from the Company as there are no personal relationships, capital relationships, or significant trading relationships between companies to which these individuals currently belong or were employed with or belonged to. As a result, the Company has reported to the Tokyo Stock Exchange and other bourses that these individuals are independent directors/statutory auditors.

All the outside directors and outside statutory auditors are independent from management and supervise or audit management. In addition, at meetings of the Board of Directors, they receive reports of the status of establishment and operation of internal control systems, including compliance, risk management, and other activities, and the results of internal

Corporate Governance Structure and Roles (Including Internal Control Systems) (As of June 26, 2014)



The "Report Concerning Corporate Governance" (Japanese only) submitted by MHI to the Tokyo Stock Exchange is available for viewing on the MHI corporate website.

http://www.mhi.co.jp/finance/library/governance/pdf/report20140626.pdf

audits, and they state their opinions when appropriate. In particular, the outside statutory auditors shall regularly exchange opinions with directors while conducting effective auditing through collaboration with the full-time statutory auditors, the internal audit department, and the accounting auditor.

Dedicated personnel have been assigned to serve as a Board of Directors' secretariat, supporting outside directors and outside statutory auditors. This team provides materials prior to Board of Directors' meetings to ensure that outside officers are thoroughly briefed on important matters. A Statutory Auditors' Officers Office has also been established and is staffed with dedicated personnel to support statutory auditors in their auditing tasks, thereby helping to ensure that these tasks are performed smoothly.

Outside Directors

Yorihiko Kojima

Chairman of the Board of Mitsubishi Corporation

Reason for Appointment:

Mr. Kojima was nominated for the position of outside director since he can provide beneficial views and candid assessments on the management of MHI based on his extensive experience as a business manager; as such, he is expected to contribute to the improvement of sound and transparent decision-making processes at MHI.

Board of Directors' Meetings in FY2013 Attended: 12 of 18

Christina Ahmadjian

Professor of Hitotsubashi University Graduate School of Commerce and Management

Reason for Appointment:

Ms. Ahmadjian was nominated for the position of outside director since she has extensive knowledge as a researcher in the field of corporate governance and management. Based on her background, she is expected to contribute to the improvement of sound and transparent decision-making processes at MHI by providing beneficial views and candid assessments from a global perspective on the management of MHI.

Board of Directors' Meetings in FY2013 Attended: 18 of 18

Hiroki Tsuda

Former Administrative Vice Minister of Finance

Reason for Appointment:

Mr. Tsuda was appointed to the position of outside director because of the extensive knowledge of fiscal and financial policy he has acquired as a government administrator and researcher. Based on this, he is expected to contribute to the improvement of sound and transparent decision-making processes at MHI by providing helpful advice and objective criticism on the Company's management.

Board of Directors' Meetings in FY2013 Attended: 13 of 13*1

Outside Statutory Auditors

Nobuo Kuroyanagi

Senior Advisor, The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Reason for Appointment:

Mr. Kuroyanagi was appointed as an outside statutory auditor in light of his beneficial views and candid assessments on the management of MHI based on his extensive experience as a business manager and MHI's desire that he contribute to ensuring the Company's sound and appropriate management.

Board of Directors' Meetings in FY2013 Attended: 14 of 18
Board of Auditors' Meetings in FY2013 Attended: 14 of 15

Haruya Uehara

Senior Advisor of Mitsubishi UFJ Trust and Banking Corporation

Reason for Appointment:

Mr. Uehara was appointed as an outside statutory auditor in light of his beneficial views and candid assessments on the management of MHI based on his extensive experience as a business manager and MHI's desire that he contribute to ensuring the Company's sound and appropriate management.

Board of Directors' Meetings in FY2013 Attended: 17 of 18
Board of Auditors' Meetings in FY2013 Attended: 15 of 15

Shinichiro Ito

President & Chief Executive Officer, ANA Holdings Inc.;
Chairman of the Board, All Nippon Airways Co., Ltd.

Reason for Appointment:

Mr. Ito was appointed as an outside statutory auditor in light of his beneficial views and candid assessments on the management of MHI based on his extensive experience as a business manager and MHI's desire that he contribute to ensuring the Company's sound and appropriate management.

Board of Directors' Meetings in FY2013 Attended: 11 of 13*2
Board of Auditors' Meetings in FY2013 Attended: 10 of 10*2

*1. The number of meetings attended by Hiroki Tsuda, director, differs from that of other directors as he assumed his position on June 26, 2013 (at the 88th Ordinary General Meeting of Shareholders).
*2. The number of meetings attended by Shinichiro Ito, statutory auditor, differs from that of other statutory auditors as he assumed his position on June 26, 2013 (at the 88th Ordinary General Meeting of Shareholders).

Director and Statutory Auditor Compensation

Position	No. of Recipients	Amount of Compensation by Category (Millions of yen)			Total Amount of Compensation (Millions of yen)
		Base Compensation	Performance-Linked Compensation	Stock Options	
Directors (Excluding Outside Directors)	19	727	430	229	1,387
Statutory Auditors (Excluding Outside Statutory Auditors)	2	70	47	—	118
Outside Directors and Statutory Auditors	8	74	—	—	74

Notes:
1. The recipients in the table include six directors and one statutory auditor who retired during fiscal 2013. Five are stated under the classification "Directors (Excluding Outside Directors)" and two are stated under "Outside Officers."
2. Amounts stated in performance-linked compensation include the difference between the amounts disclosed as estimated compensation in the previous fiscal year and the total amounts paid. During the year under review, this amount for directors, excluding outside directors, was ¥22 million. For statutory auditors, excluding outside auditors, this amount was ¥1 million.
3. Amounts stated as stock options include the cost associated with the accounting of stock acquisition rights issued in a so-called stock-linked compensation scheme.
4. The maximum permitted financial compensation amount for directors, including base and performance-linked compensation, is ¥1,200 million per fiscal year (resolution of the 81st Ordinary General Meeting of Shareholders, on June 28, 2006). The maximum amount of stock acquisition rights that may be issued per fiscal year for directors, excluding outside directors, is ¥300 million (resolution of the 82nd Ordinary General Meeting of Shareholders, on June 27, 2007).
5. The maximum permitted financial compensation amount for statutory auditors, including base and performance-linked compensation, is ¥160 million per fiscal year (resolution of the 81st Ordinary General Meeting of Shareholders, on June 28, 2006).

Auditing Certified Public Accountant Compensation

Category	Fiscal Year 2012		Fiscal Year 2013	
	Audit Attestation Duty-Based Compensation (Millions of yen)	Non-Audit-Based Compensation (Millions of yen)	Audit Attestation Duty-Based Compensation (Millions of yen)	Non-Audit-Based Compensation (Millions of yen)
MHI	185	63	187	24
Consolidated Subsidiaries	120	—	170	—
Total	306	63	358	24

Notes:
1. In fiscal 2012, the Company's overseas subsidiaries delegated audit attestation duties to the Ernst & Young Group, which belongs to the same network as the Company's accounting auditor, paying ¥466 million for fiscal 2012 audit attestation duty-based compensation and non-audit-based compensation.
2. In fiscal 2013, the Company's overseas subsidiaries delegated audit attestation duties to the Ernst & Young Group, which belongs to the same network as the Company's accounting auditor, paying ¥786 million for fiscal 2013 audit attestation duty-based compensation and non-audit-based compensation.

Disclosure and IR Activities

MHI works to make management more transparent by disclosing information rapidly and accurately to shareholders and other external stakeholders.

For Shareholders

We distribute General Meeting of Shareholders' convocation notices earlier than the statutory deadline (of two weeks prior to convocation). We also prepare English-language summaries of these notices, which we distribute and publish on our website. We have made the exercise of voting rights electronic, and institutional investors can make use of a platform for the electronic exercise of voting rights.

For Investors

MHI takes the initiative in creating opportunities to communicate directly with investors and promote an understanding of the Company. The chart below indicates activities we conducted in fiscal 2013.

We are augmenting website content and working to disclose information promptly. In the interest of fair disclosure, we provide videos of meetings, including the General Meeting of Shareholders, financial results briefings, and meetings on business operations, for the benefit of institutional investors and analysts. We have received awards from research companies and IR services firms giving high marks to our Web-based IR activities.

Promoting Dialogue with Investors in Fiscal 2013

For individual investors	■ Participated in seminars sponsored by securities firms and conducted our own briefing sessions: 15 times, in total
For analysts and institutional investors	■ Financial results briefings: Four times each quarter (At year-end financial results briefings, the president explains the state of progress on the medium-term business plan.) ■ Small meetings: Once ■ Factory tours: Twice
For overseas institutional investors	■ Generally visit Europe, the United States, and Asia semi-annually ■ Participated in conferences in Japan for foreign investors: Four times

Risk Management

During fiscal 2013, the General Manager of the Management Audit Department held discussions with the heads of business segments and administrative departments. Together, they identified important risks and strengthened companywide risk control activities in response. They also introduced and operated a risk management system that combines controls centered on voluntary management and assessments by process owners* and monitoring by the Management Audit Department.

"Serious management risks" were identified that need to be managed at a senior-management level because of their major impact on the management operation of the Company or an emergency response is required, and a corporate director was assigned to oversee their control.

In fiscal 2014, we will follow this same risk management cycle, but due to the fiscal 2014 transition to the Business Domain Structure and our adoption of the Chief Officer System, this process will take place under the direction of the chief administrative officer / chief risk officer (CAO/CRO). We will review the response to risks important to domains, strengthening management by making the chain of responsibility clearer.

* Organizations and/or persons responsible for establishing and executing risk management mechanisms for individual business functions

Compliance

The Management Audit Department centrally manages activities aimed at identifying, averting, and reducing risks before a crisis occurs. The Risk Management & Compliance Committee meets twice annually to draw up companywide compliance promotion plans, confirm progress, and engage in other activities. Individual departments have their own compliance committees, which is intended to strengthen compliance at the departmental level. A Compliance Liaison Conference is also in place for regularly exchanging compliance information with Group companies.

Compliance Promotion System (As of April 1, 2014)

Recent Actions to Promote Compliance

FY2001	■Established the Compliance Committee ■Opened an internal whistleblower hotline
FY2003	■Began compliance training (undertaken by 97% in FY2013)
FY2004	■Began measurement of compliance awareness levels
FY2005	■Established the Order Compliance Committee
FY2006	■Established departmental compliance committees and a Compliance Liaison Conference
FY2007	■Formulated “Compliance Promotion Regulation” in the Company rules ■Distributed a “Compliance Guidelines” pamphlet to all employees
FY2011	■Opened an external whistleblower hotline to further promote compliance with anti-trust laws ■Formulated Company rules in response to more stringent anti-bribery regulations in the U.K.
FY2012	■Set up a Compliance Group in the Management Audit Department (Compliance Section in the General Affairs Department was transferred) ■Established the Risk Management & Compliance Committee as a companywide organization
FY2014	■Established the Risk Solutions Department ■Appointed a chief administrative officer / chief risk officer (CAO/CRO)

Corporate Data

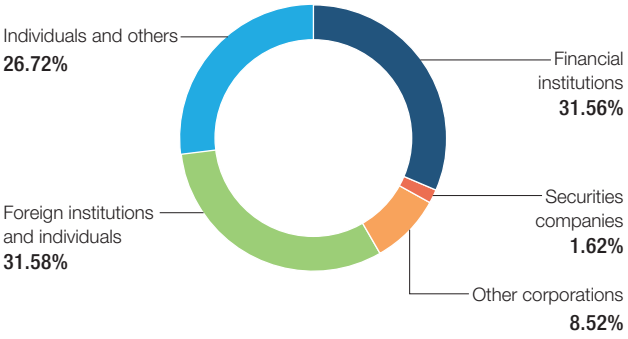
(As of March 31, 2014)

Head Office:	16-5, Konan 2-chome, Minato-ku, Tokyo 108-8215, Japan Phone: +81-3-6716-3111 Fax: +81-3-6716-5800
Established:	January 11, 1950
Paid-in Capital:	¥265.6 billion
Total Number of Issuable Shares:	6,000,000,000
Total Number of Shares Issued:	3,373,647,813
Number of Shareholders:	272,971
Number of Employees:	80,583 (Consolidated) 22,147 (Non-consolidated)
Stock Listings:	Tokyo, Nagoya, Fukuoka, and Sapporo Stock Exchanges
Ticker Code:	7011
Manager of the Register of Shareholders:	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan
Independent Auditors:	Ernst & Young ShinNihon LLC Hibiya Kokusai Bldg., 2-3, Uchisaiwai-cho 2-chome, Chiyoda-ku, Tokyo 100-0011, Japan

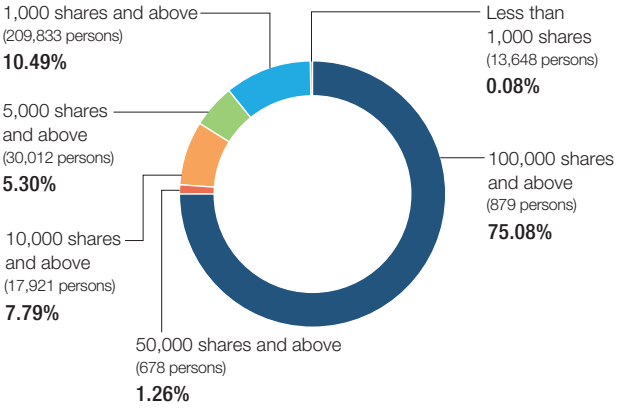
Major Shareholders

	Number of shares owned by major shareholders	% of total shares
The Master Trust Bank of Japan, Ltd. (Trust Account)	158,299,000	4.69%
Japan Trustee Services Bank, Ltd. (Trust Account)	134,214,900	3.97%
The Nomura Trust and Banking Co., Ltd. (Retirement Benefit Trust Account for The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	125,666,000	3.72%
JP Morgan Chase Bank 380072	80,369,700	2.38%
Meiji Yasuda Life Insurance Company	80,022,741	2.37%
The Nomura Trust and Banking Co., Ltd. (Retirement Benefit Trust Account for Mitsubishi UFJ Trust and Banking Corporation)	45,934,000	1.36%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	44,100,000	1.30%
Japan Trustee Services Bank, Ltd. (Trust Account 1)	39,451,000	1.16%
Japan Trustee Services Bank, Ltd. (Trust Account 2)	37,152,000	1.10%
Japan Trustee Services Bank, Ltd. (Trust Account 6)	37,127,000	1.10%

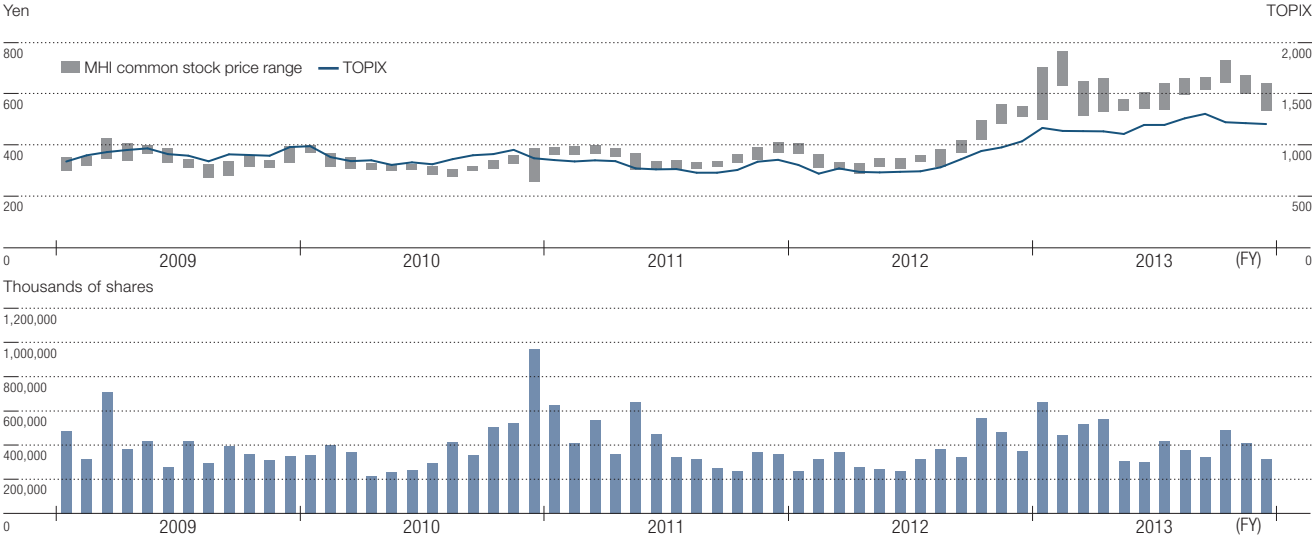
Classified by Type of Shareholder



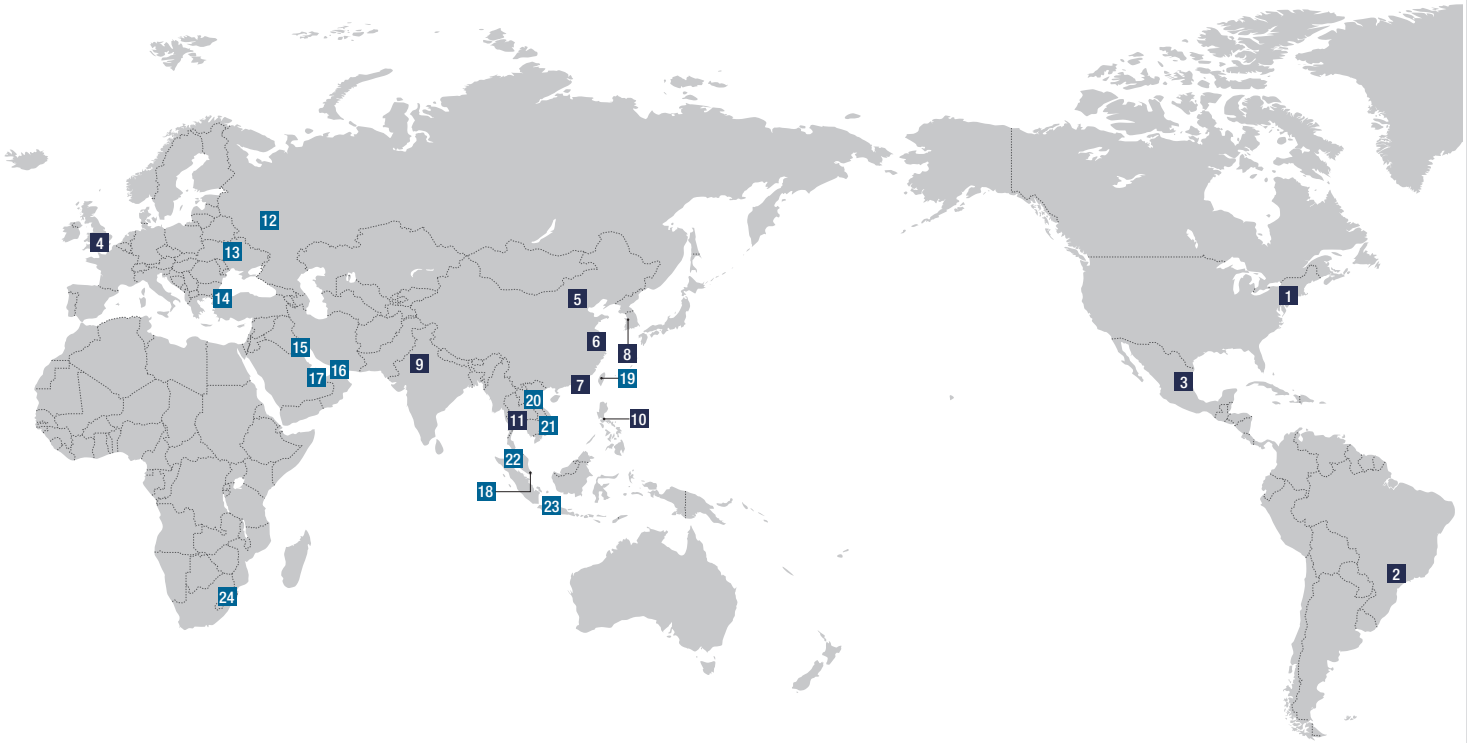
Classified by Number of Holdings



Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Overseas Network and Overseas Offices



Overseas Network

North America
1 Mitsubishi Heavy Industries America, Inc.

Latin America
2 Mitsubishi Industrias Pesadas do Brasil Ltda.
3 Mitsubishi Heavy Industries Mexicana, S.A. de C.V.

Europe
4 Mitsubishi Heavy Industries Europe Ltd.

Asia
5 Mitsubishi Heavy Industries (China) Co., Ltd.
6 Mitsubishi Heavy Industries (Shanghai) Co., Ltd.
7 Mitsubishi Heavy Industries, (Hong Kong) Ltd.
8 MHI KOREA, Ltd.
9 Mitsubishi Heavy Industries India Private Ltd.
10 Mitsubishi Heavy Industries Philippines, Inc.
11 Mitsubishi Heavy Industries (Thailand) Ltd.

Overseas Offices

Europe
12 Moscow Liaison Office
13 Kiev Liaison Office
14 Istanbul Liaison Office

Middle East
15 Basra Liaison Office
16 Dubai Office
17 Abu Dhabi Office

Asia
18 Representative Office for Asia Pacific
19 Taipei Office
20 Hanoi Liaison Office
21 Ho Chi Minh City Liaison Office
22 Kuala Lumpur Office
23 Jakarta Liaison Office

Africa
24 Johannesburg Office

For information on overseas Group companies not provided above, please refer to the “Global Network” section of our website.
http://www.mhi-global.com/network/index.html

MITSUBISHI HEAVY INDUSTRIES, LTD.

MIX
Paper from responsible sources
FSC® C006410
www.fsc.org

Waterless Printing. Naturally.

This report has been printed on environmentally considerate FSC® certified paper, using VOC (volatile organic compound) free ink. A waterless printing process was employed, which eliminates the use of alkaline developing solutions and elements such as isopropyl alcohol in the damping water.

K130-MHIR14E1-A-0, (3.0) 14-10, 美

Printed in Japan