# 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.

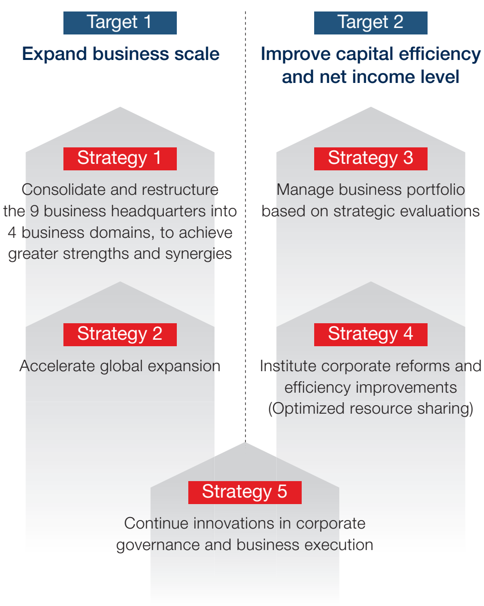
As we pursued the 2010 Medium-Term Business Plan, it became clear that the MHI Group was facing two issues: for a long period, growth had been stagnant, holding the Company to a scale of around ¥3 trillion in net sales, and capital efficiency and net income were lackluster. We recognize that to win out 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.

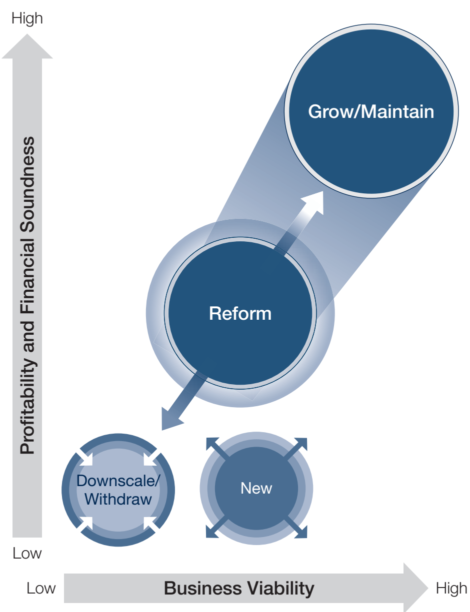
The introduction of portfolio management based on strategic evaluations Strategy 3 has been a major success. With this system, we plotted approximately 60 strategic business units (SBUs) on *x*-*y* axes with profitability and financial soundness on one axis and the rate of business viability on the other, 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" and "continue innovations in corporate governance and business execution"?

Strategy 4 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.