

Status of 2012 Medium-Term Business Plan

April 26, 2013

Mitsubishi Heavy Industries, Ltd.

Shunichi Miyanaga, President

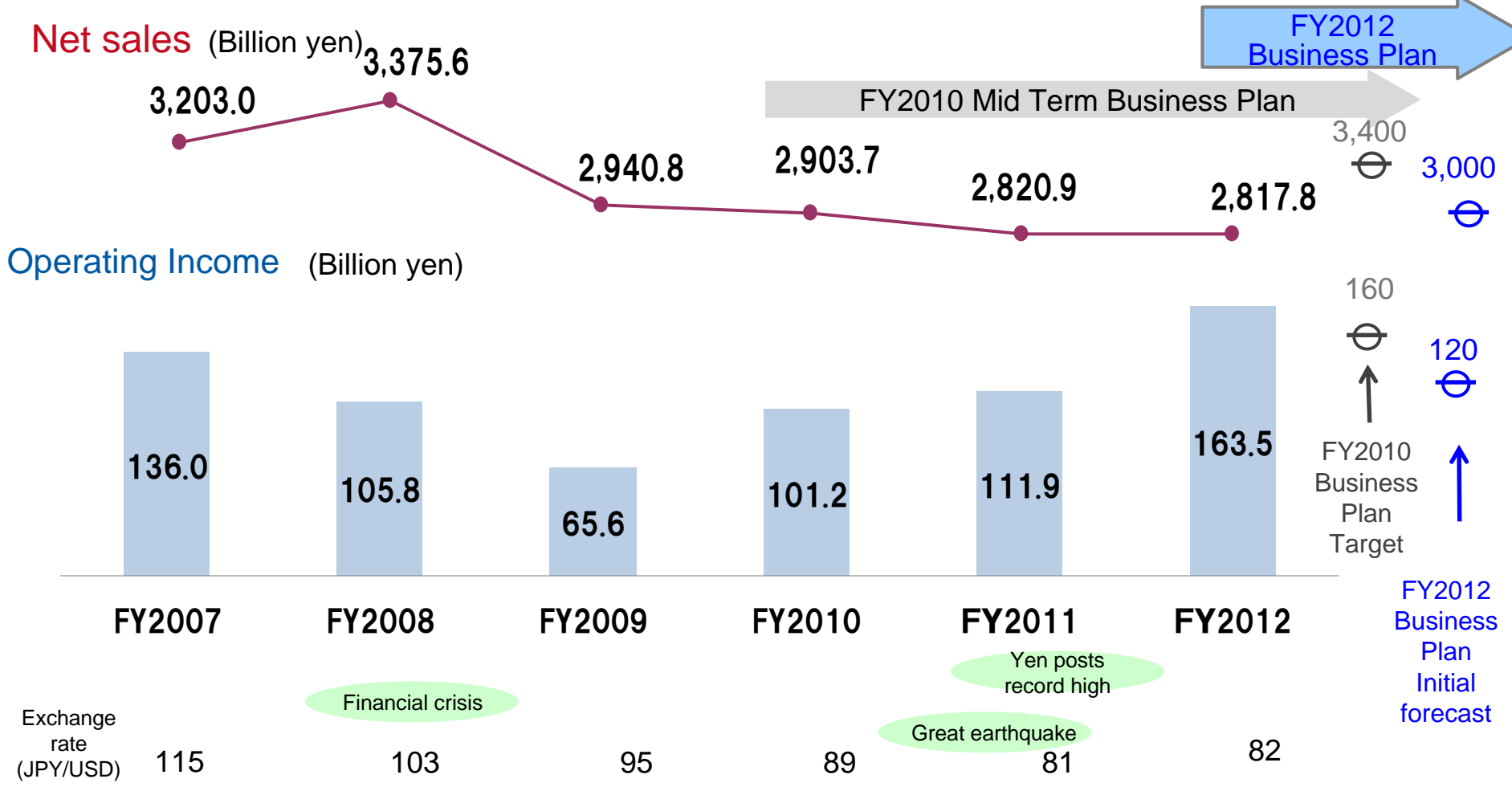
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- Operating income reached both the FY2010 Business Plan target and the initial forecasts of the FY2012 Business Plan
- “Challenges exist” regarding orders received

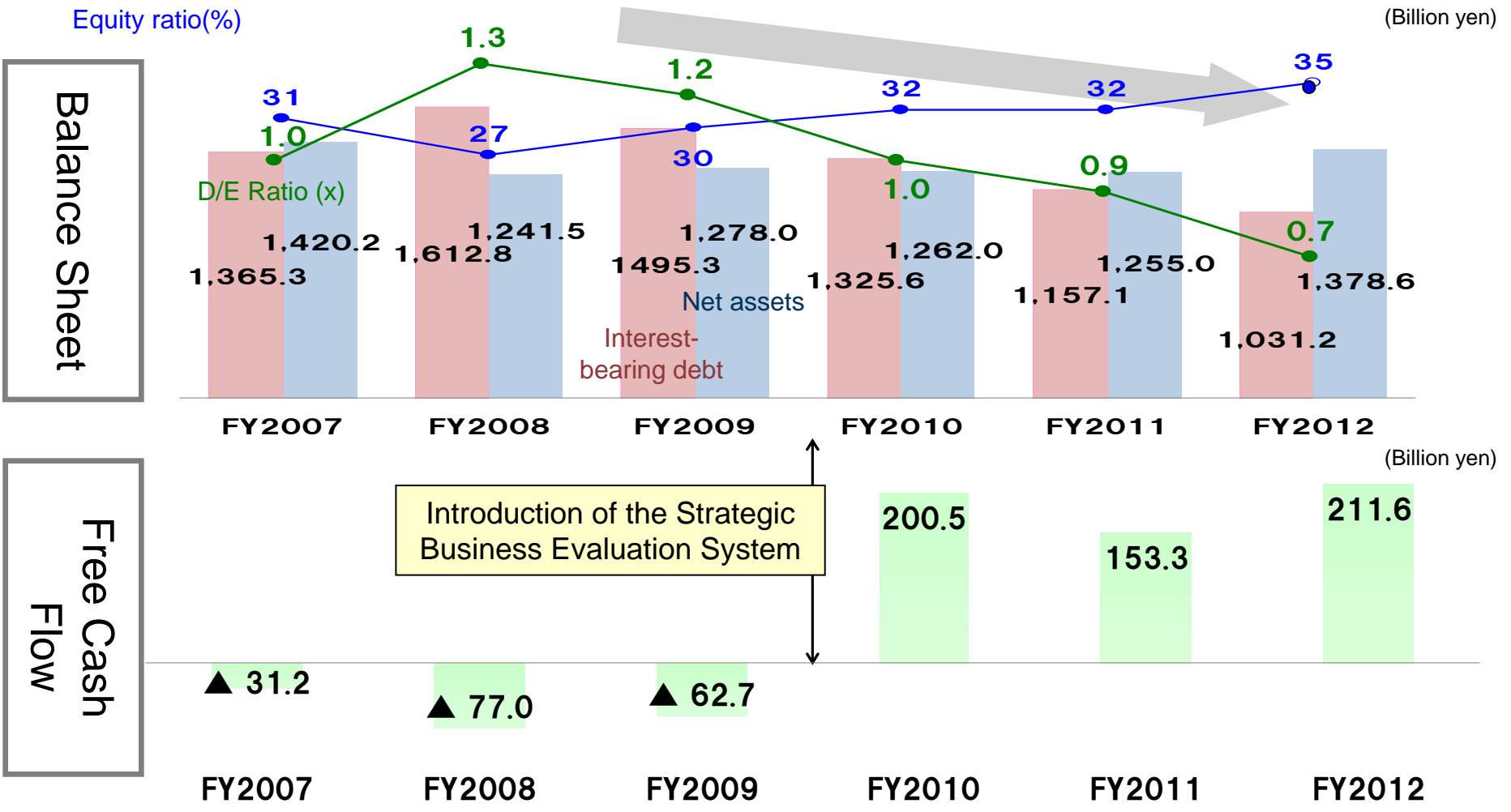
Net Sales and Operating Income

Overcoming decline in net sales and the appreciation of yen in FY2012, operating income reached both the FY2010 Business Plan targets and the initial forecasts of the FY2012 Business Plan



Balance Sheet and Free Cash Flow

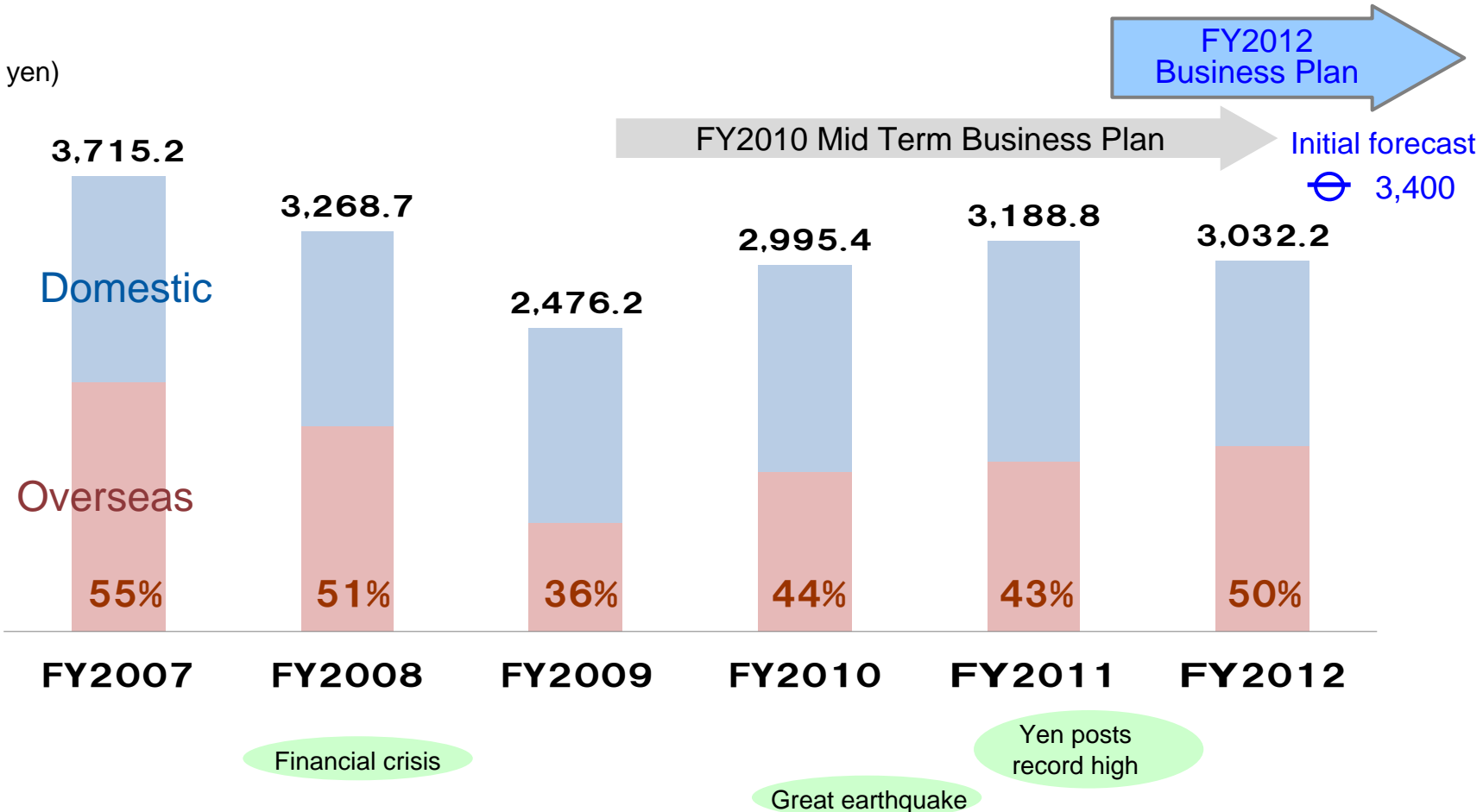
By expanding operating income and strengthening cash flow management, reduced interest-bearing debt which exceeded 1.6 trillion yen after the financial crisis (FY2008)



Status of Orders Received

FY2012 orders failed to reach the initial forecast of the FY2012 Mid Term Plan due to changes in the business environment (stagnant domestic market, slow growth of the overseas market)

(Billion yen)



Financial Targets

(Billion yen)

FY2012
Business Plan

	FY2010 Actual	FY2011 Actual	FY2012 Actual	FY2013 Forecast	FY2014 Target
Orders received (Shares of overseas sales)	2,995.4 (44%)	3,188.8 (43%)	3,032.2 (50%)	3,550.0 (56%)	4,000.0 (64%)
Net sales	2,903.7	2,820.9	2,817.8	3,150.0	3,700.0
Operating income (Ordinary income)	101.2 (68.1)	111.9 (86.1)	163.5 (149.0)	190.0 (160.0)	250.0 (210.0)
Net income	30.1	24.5	97.3	100.0	130.0
ROE	2.4%	1.9%	7.4%	7.1%	8.9%
ROIC	1.5%	1.5%	4.4%	4.5%	6.5%
D/E Ratio	1.0	0.9	0.7	0.7	0.7
Interest-bearing debt	1,325.6	1,157.1	1,031.2	970.0	1,000.0
Dividend per share	4 yen	6 yen	8 yen	8 yen	10 yen

Foreign exchange rate	88.5 yen/\$ 113.5 yen/€	81.0 yen/\$ 109.3 yen/€	83.6 yen/\$ 106.8 yen/€	95 yen/\$ 120 yen/€	80 yen/\$ 110 yen/€
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Vision — Drive to Become a Highly-Profitable 5-Trillion-Yen Enterprise ⁸

Enhance financial robustness and build capital base to drive growth and respond to risks

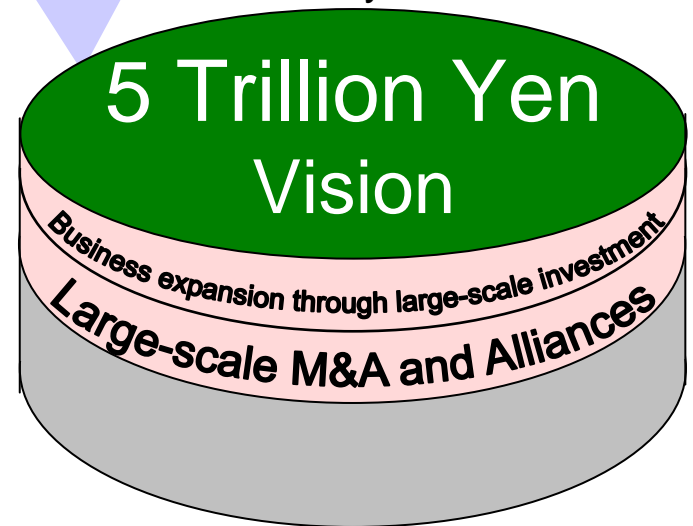


FY2011

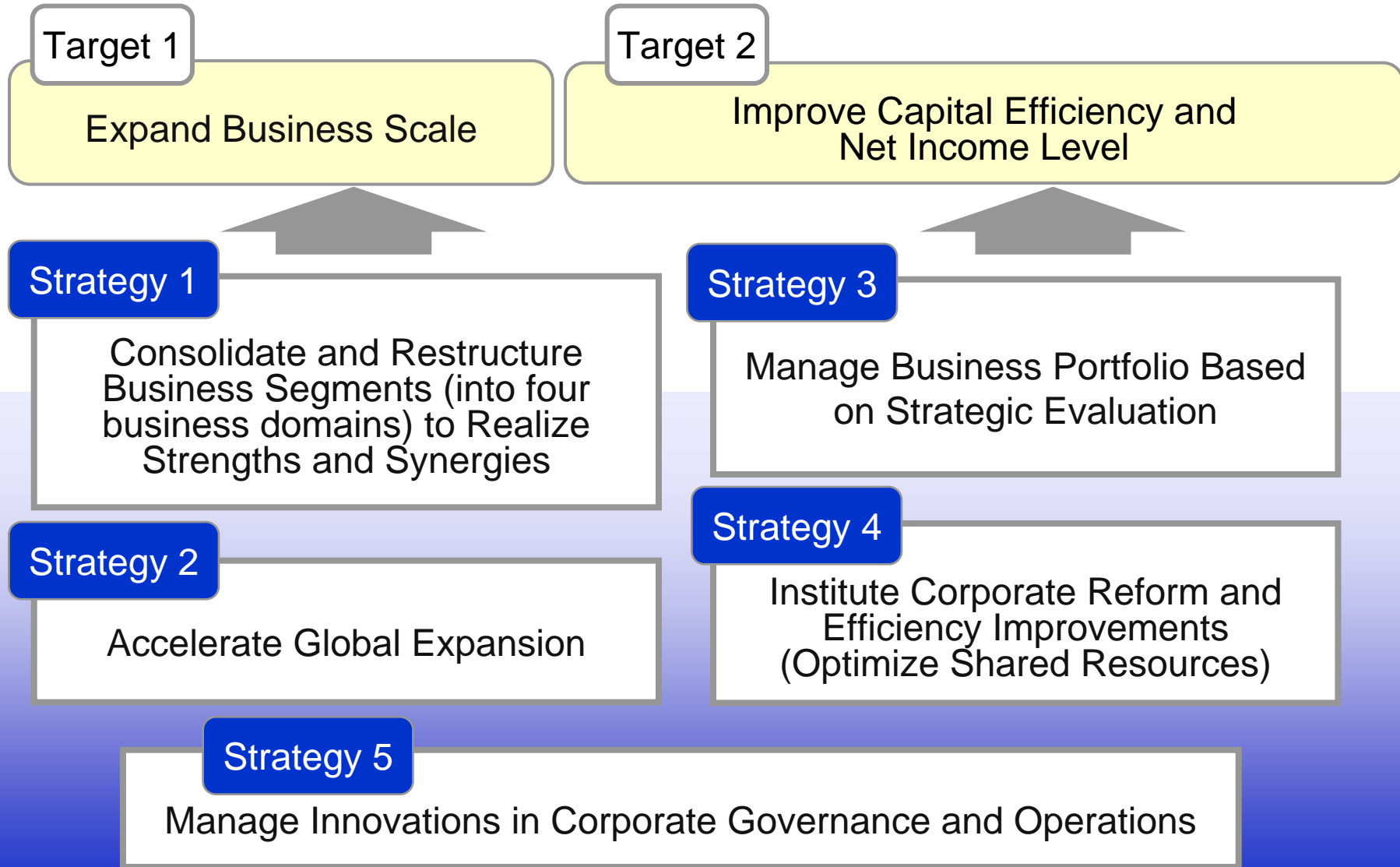
FY2014

After FY2017

FCF	153.3 billion yen	200.0 billion yen	200.0 billion yen
D/E Ratio	0.9	0.7	0.7
(Reserve fund raising potential)		(500.0 billion yen)	(700.0 billion yen)
	1.9%	8.9%	12.0%
ROE	1.3 trillion yen	1.5 trillion yen	2.2 trillion yen
Net worth			

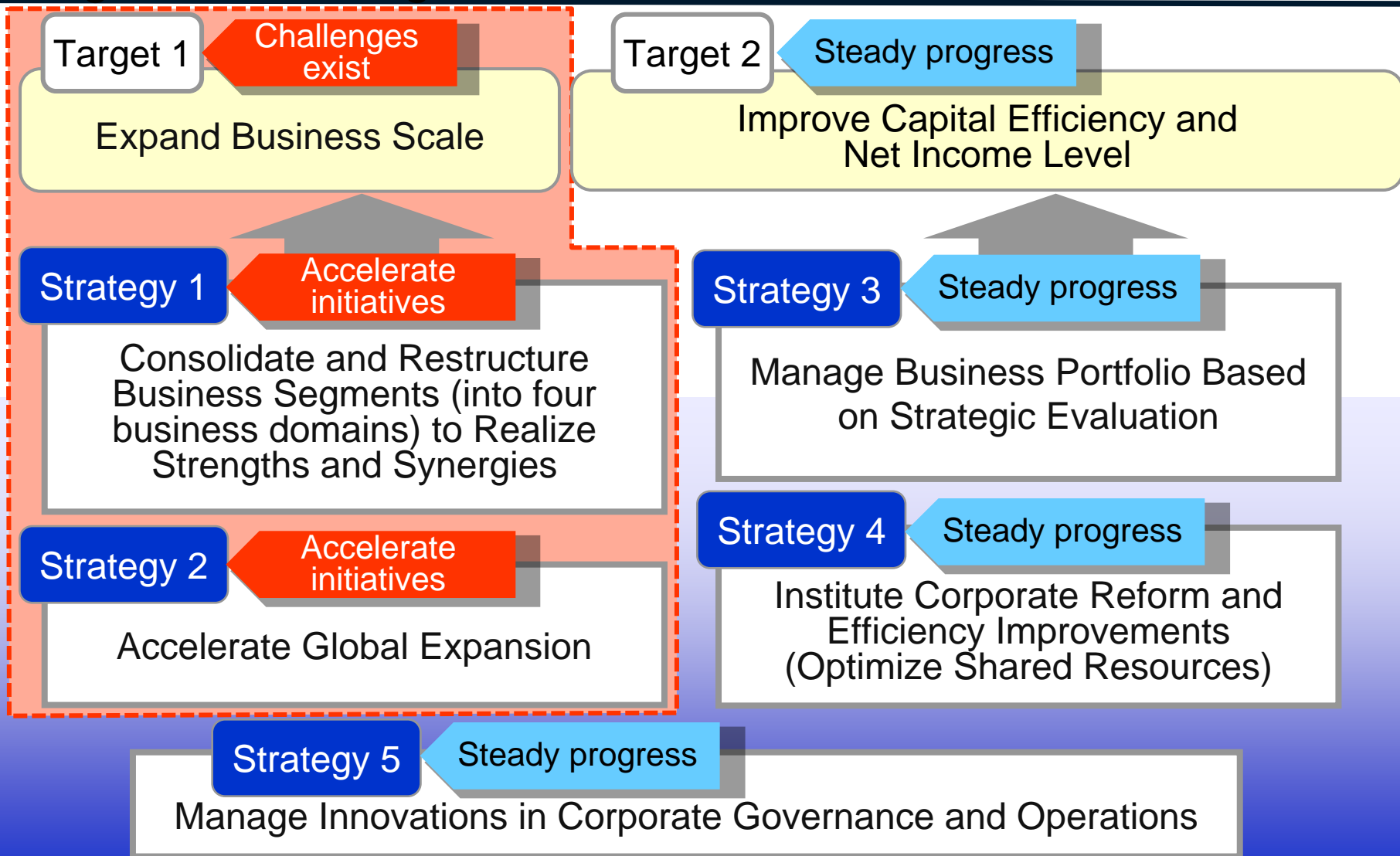


FY2012 Business Plan Strategies



FY2012 Business Plan Strategies

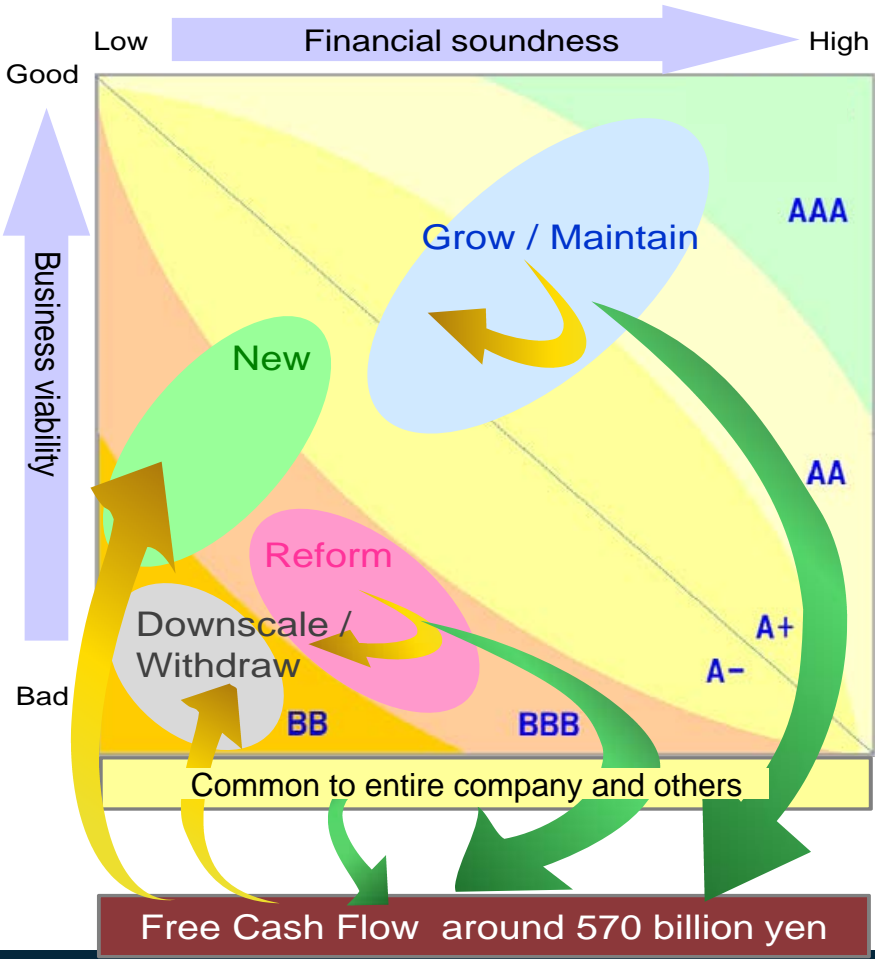
– Progress of Strategies in Initial Year



Strategy 3

Manage Business Portfolio Based on Strategic Evaluation

Full year FY2010~FY2012



Resource turnover from FCF standpoint

- FCF is created in the Grow/Maintain area and the Reform area mainly by balance sheet compression (compressed operational capital, selling assets, etc.)
 - This is applied to investment in new businesses or interest-bearing debt reduction
- FCF:Free Cash Flow

Achieved a fiscal condition in which funds that adhered to each business were liquidated, enabling funds to be re-directed and utilized elsewhere such as capital investment in growth strategies

Shareholder returns around 50 billion yen

Capital created by fiscal potential around 520 billion yen

Strategy 4

Institute corporate reform and efficiency improvements (optimize shared resources)

Measures and impacts

	Measure		
	Elimination of overlap, wastefulness	IT	Outsourcing
Evolution and streamlining of corporate organization and functions	✓		✓
Reorganize group companies	✓	✓	✓
Global cash management	✓	✓	
Make effective use of underutilized assets	✓		✓



Impact		
Improved capital efficiency	Improved net income levels	Accelerated globalization
✓	✓	✓
✓	✓	
✓	✓	✓
✓	✓	

Promote globalization while pursuing efficiency without exceptions

Strategy 1

Consolidate and restructure business segments (into four business domains) to realize strengths and synergies

Need to shift to a business domains structure (target)

Market environment

Intensifying global competition

Our Vision

Realizing a highly-profitable 5-trillion-yen enterprise

Challenges of the business headquarters

- (1) The scale of each business headquarters is smaller than global competitors (Scale of sales force and management resources)
- (2) Synergy in management resources is stifled as functions and human resources are dispersed across 8 business headquarters and 1 division
- (3) Comprehensive capabilities are difficult to realize due to time-consuming process between business headquarters

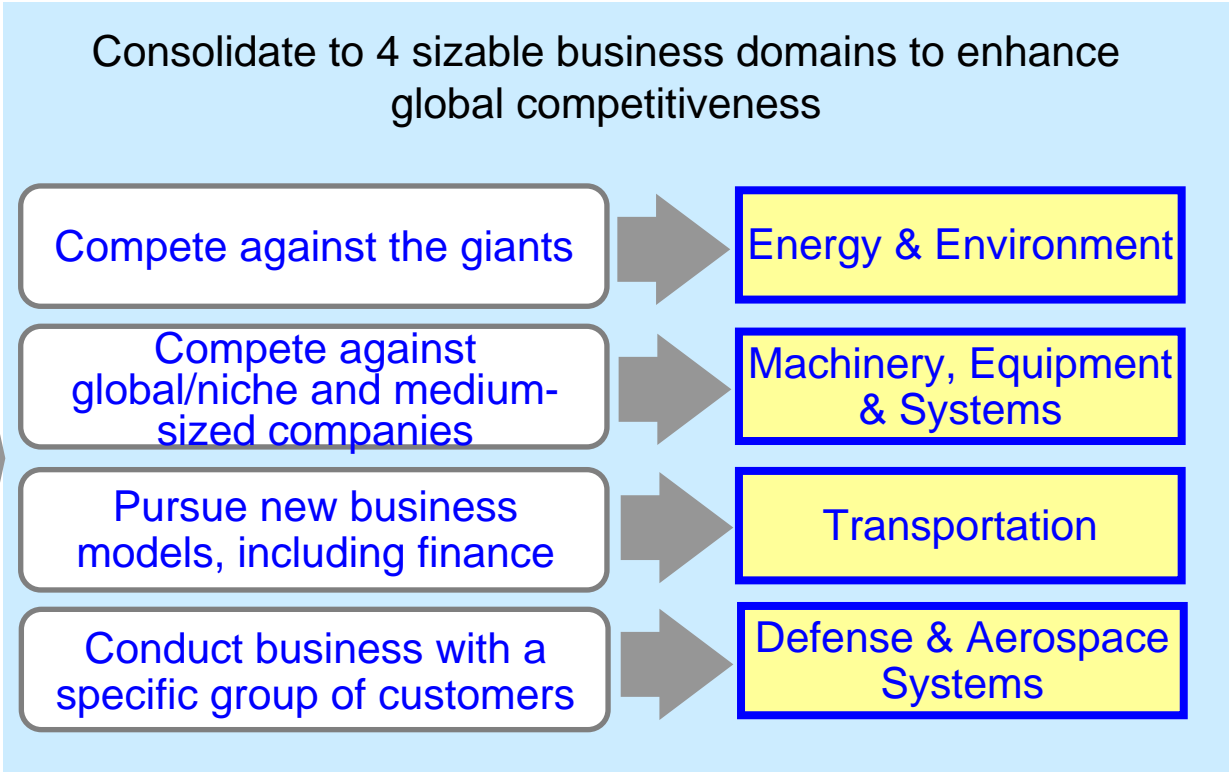
Resolve challenges by shifting to a business domains structure

Strategy 1

Consolidate and restructure business segments (into four business domains) to realize strengths and synergies

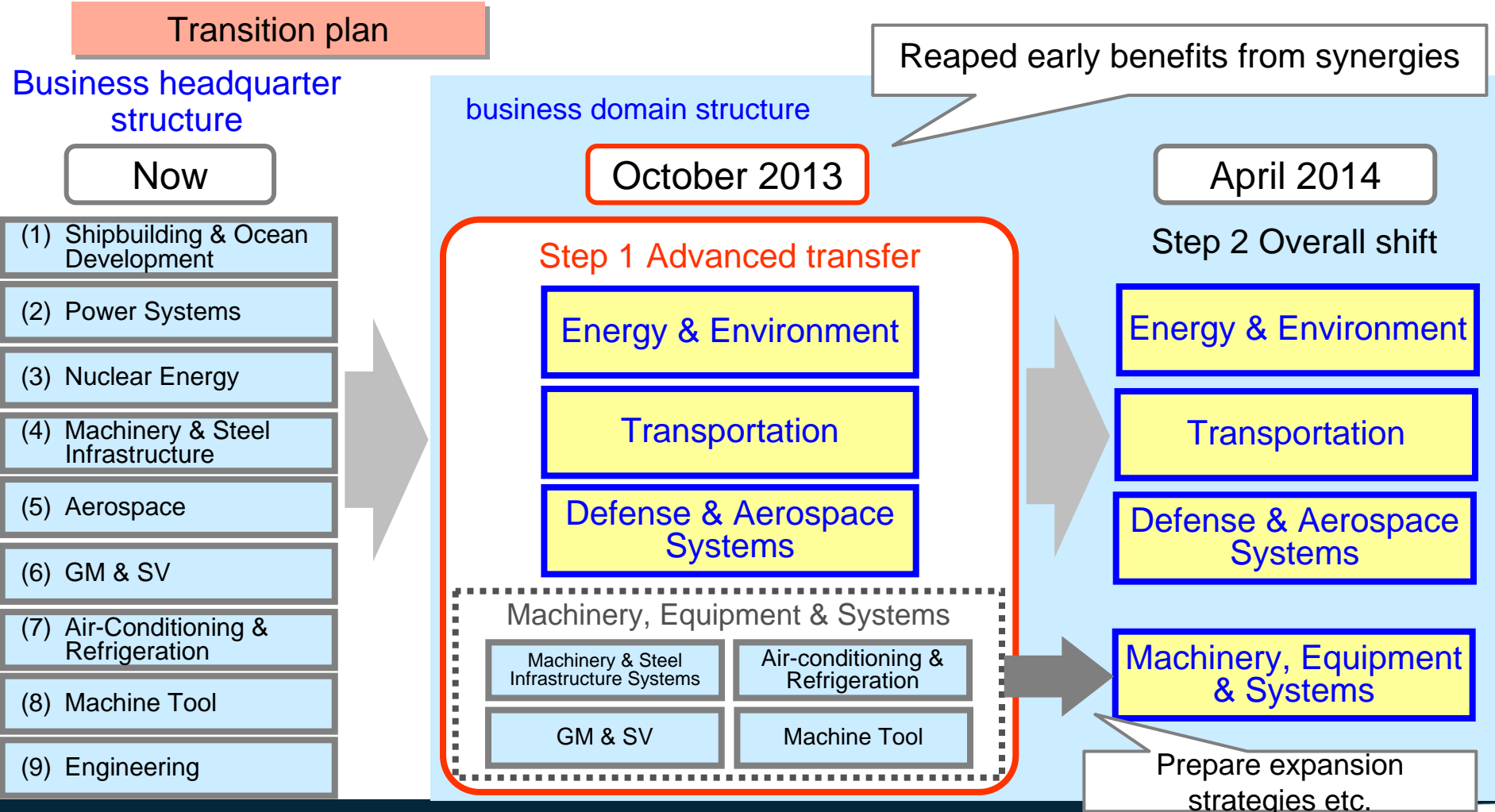
Viewpoint of consolidation and restructuring

- Customers
- Market
- Finance
- Competitors
- Sales method
- Core technology (level of difficulty, complexity)
- Commonality of rules to be followed



Expand business by promoting an optimal strategy for each business domain

Strategy 1 Consolidate and restructure business segments (into four business domains) to realize strengths and synergies

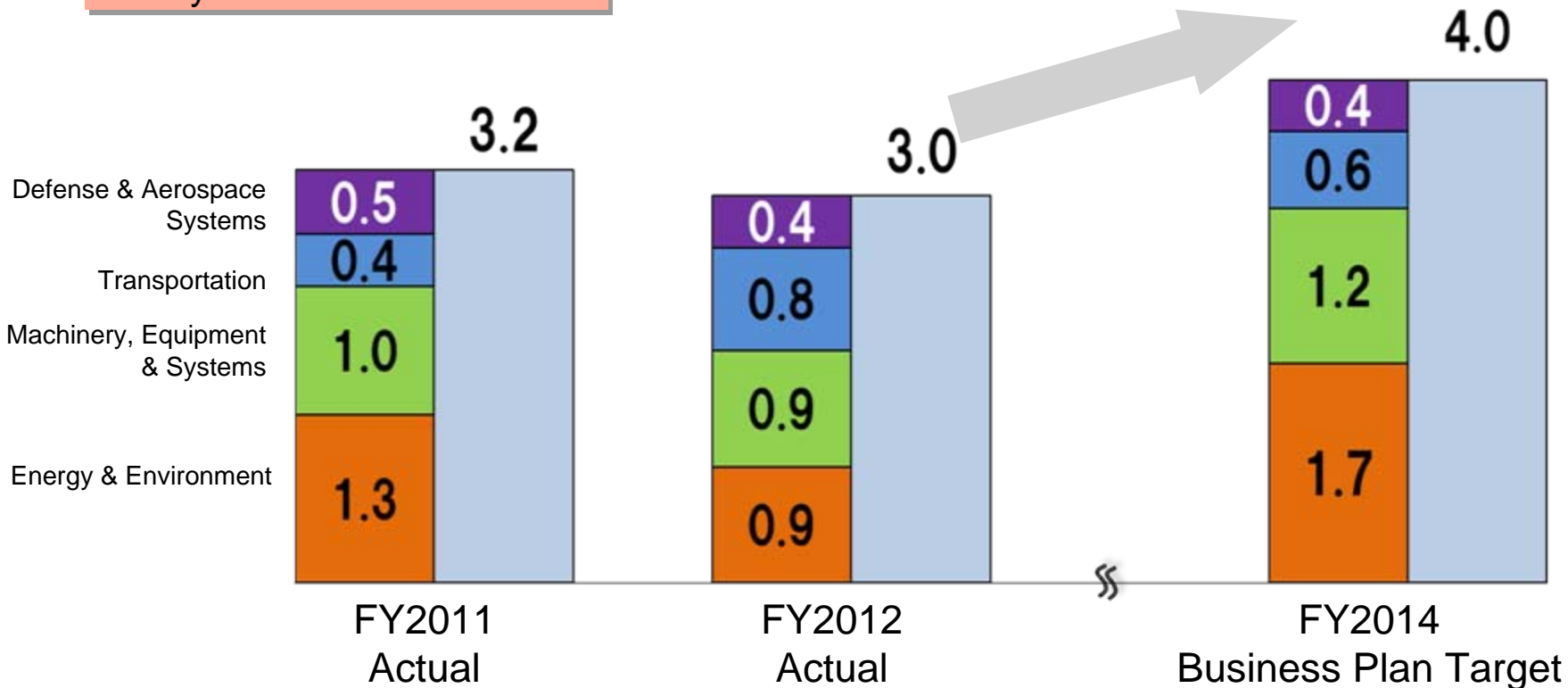


Strategy 1

Consolidate and restructure business segments (into four business domains) to realize strengths and synergies

Change in orders by business domains

(Trillion yen)



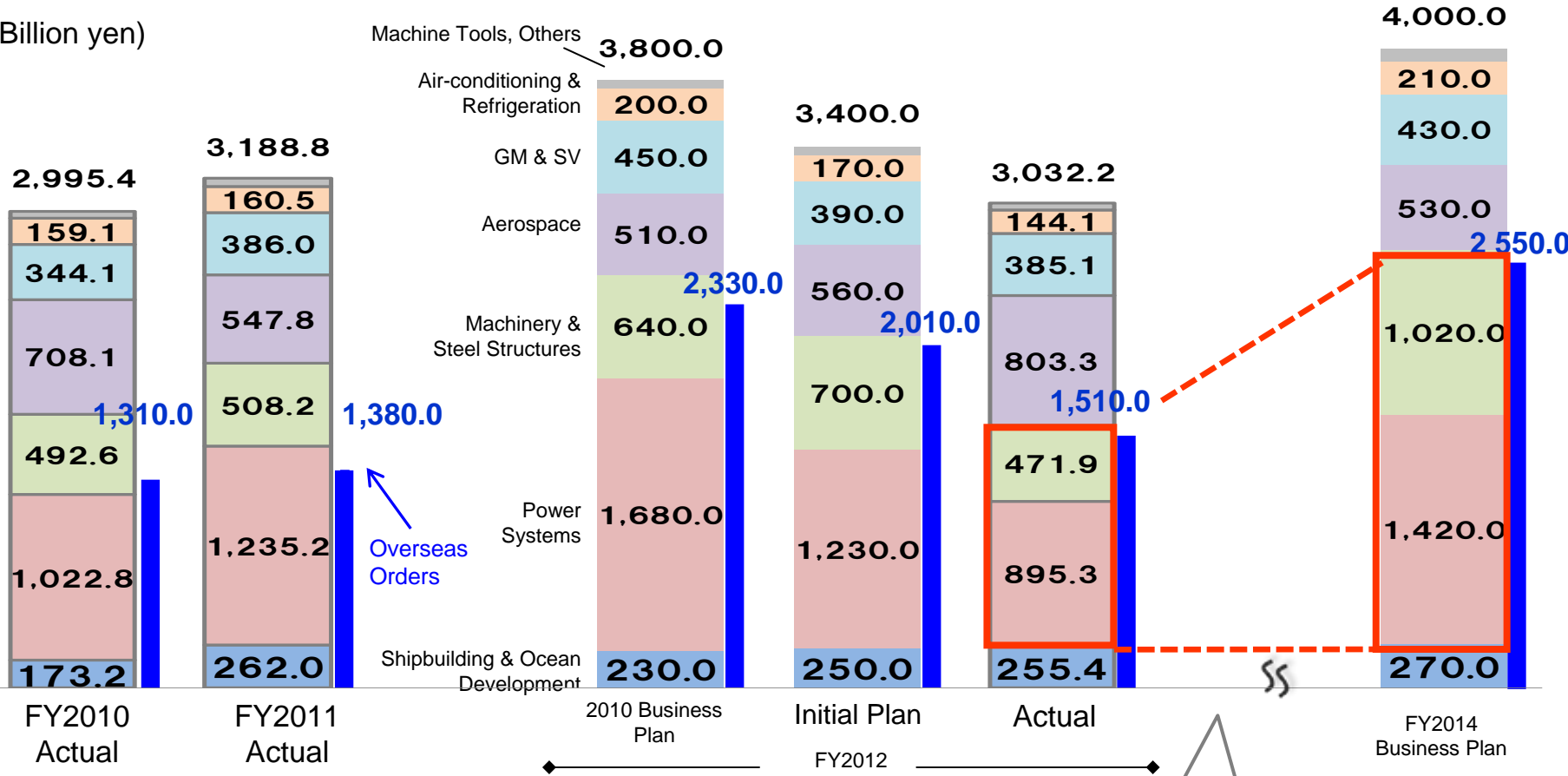
Thoroughly pursue strengths and synergies for each business domain and seek four trillion yen in orders

Strategy 2

Accelerate global expansion

Change in orders by segment

(Billion yen)



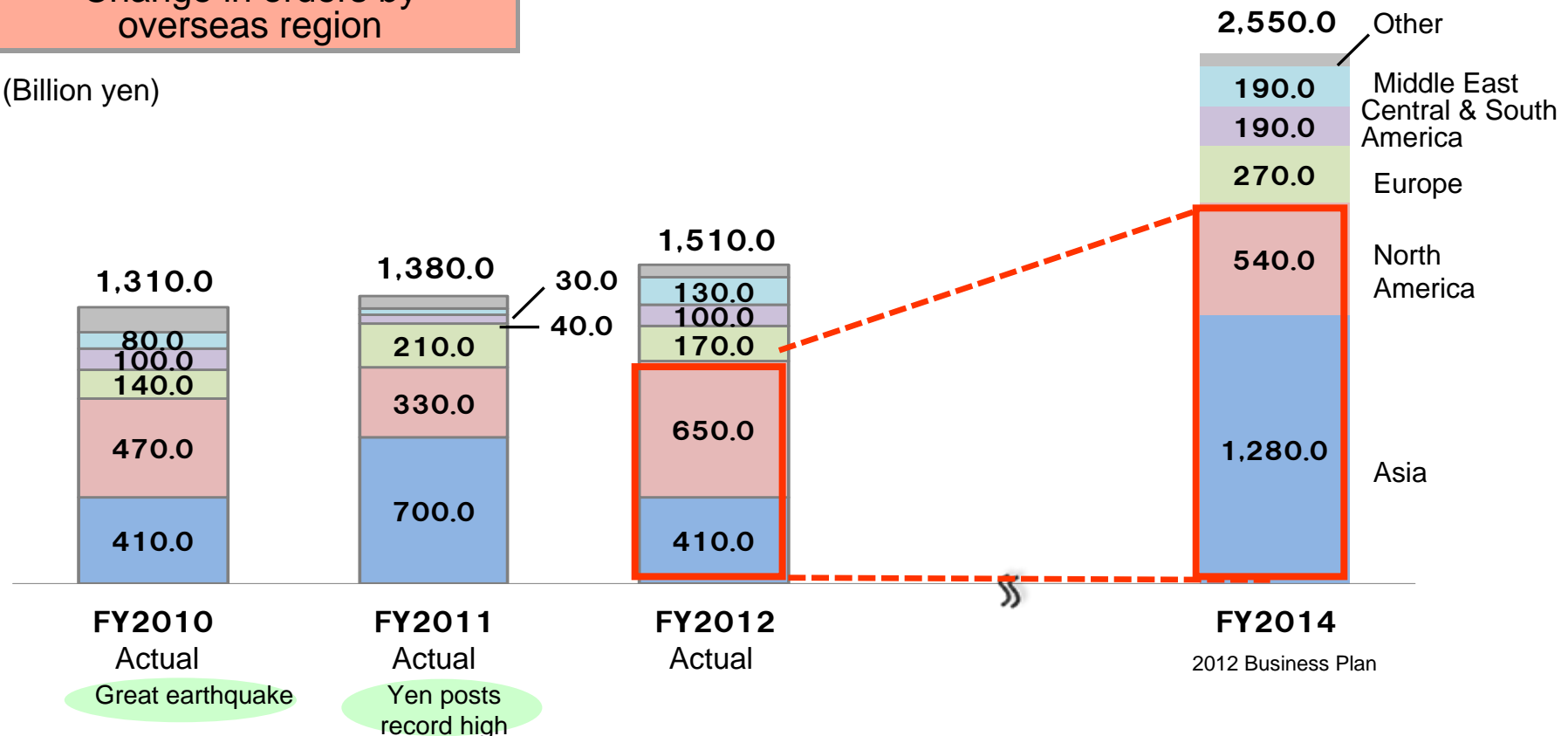
Timing differences, etc. occurring

Strategy 2

Accelerate global expansion

Change in orders by overseas region

(Billion yen)



Expand orders received focusing on strategic regions (Asia, N. America)

Review of the Initial Year

Vision

Expand business scale and
drive to become a highly-profitable enterprise

Recognition of current situation

- (1) Development of management system and organization is largely complete
- (2) Internal reforms to improve profitability are proceeding steadily



Further efforts towards expanding business scale are required

- Specific strategies and initiatives that are executable
- Optimized mix of organic and inorganic options
- Taking risks, with appropriate management and evaluation
- Capability enhancement to embrace to diversification

Further Actions (1) – Expand Business Scale (1/2)

Focus on growth businesses

- Energy & Environment (Thermal power business, Nuclear power business etc.)
- Fertilizer plant, LNG-related
- Tier 1 business for Boeing, etc.

GTCC: Gas Turbine Combined Cycle

Strengthen regional capability

- Emerging markets (Southeast Asia, etc.)
 - Mainly infrastructure in line with economic growth
- Existing markets
 - North America/shale gas boom (Restoration of the chemical industry & GTCC)

Expand EPC business

- Joint venture with Hitachi for thermal power business
- Chemical plants, transportation systems, etc.
- Strengthen overseas engineering bases

EPC: Engineering, Procurement and Construction

Pursue synergy with other companies

- M&A and alliance with companies that have an affinity with us (Mitsubishi Group, etc.) (Enhance added value and expand business area)

Grow service business

- Strengthen the global service network (forklift business, etc.)
- O&M/MRO business in transportation systems, etc.

O&M: Operation & Maintenance MRO: Maintenance, Repair and Operations

ICT infrastructure optimal for the entire company with global capability

ICT: Information and Communication Technology

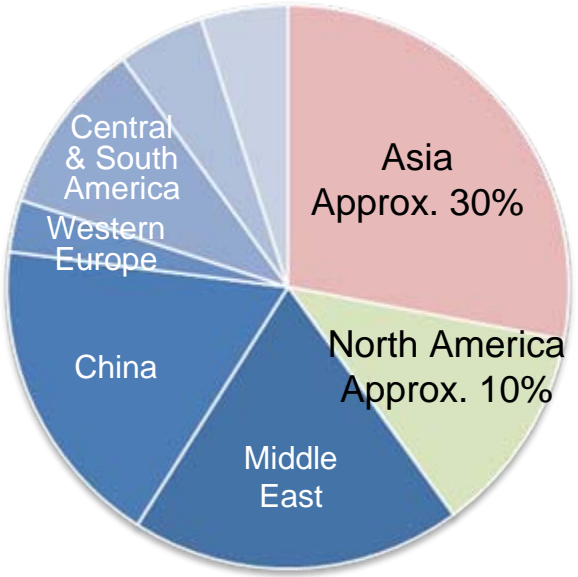
Further Actions (1) – Expand Business Scale (2/2)

Resource allocation to high priority businesses		Aim		
		Focus on growth businesses	Strengthen regional capability	
			Emerging markets	Existing markets
Products to grow / maintain	Thermal power business	Achieve jump start of the joint venture with Hitachi for thermal power business	◎	○
		Expand impact from acquisition of PWPS (small-scale GT business).	◎	○
		Accelerate overseas expansion of nuclear power business	◎	○
		Promote small- and medium-scale M&A (mainly machinery, equipment & systems)		◎
Products to reform		Strengthen the chemical plant business (Expand market for fertilizer, shale gas)	◎ (Fertilizer)	◎ (US, Russia)
		Expand the Boeing Tier 1 business (processing/assembly).	◎	
		Strengthen ability to expand globally in forklifts, etc.		◎

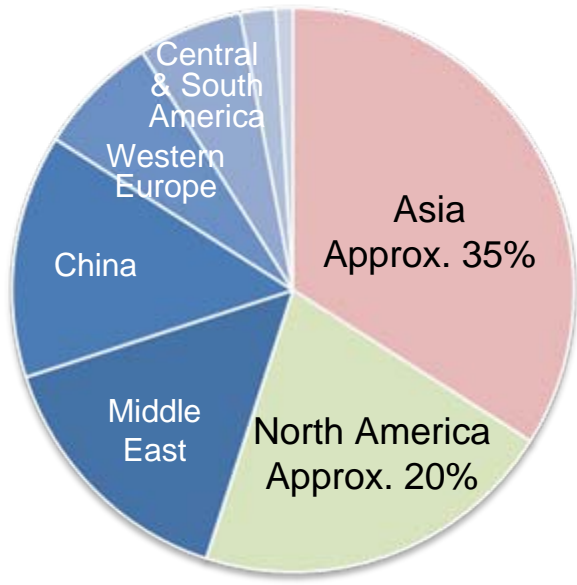
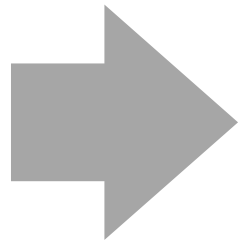
Thermal Power Business – Gas Turbine Market Outlook

Demand is estimated to grow mainly in North America and Asia

Large gas turbines
(170 MW and greater)



2010-2012 (Actual)
Approx. 35 GW/year



~2016 (Outlook)
Approx. 30 GW/year

Thermal Power Business

– Initiatives for Strengthening the Business

Key policies

- Further strengthen global competitiveness (procurement/production/development)
- Enter new fields through M&A and alliances
- Increase orders through an expanded lineup (PWPS)

Overseas business

- Renewal demand of aging facilities in developed countries, GTCC plants compatible with diverse energy source demand in emerging countries

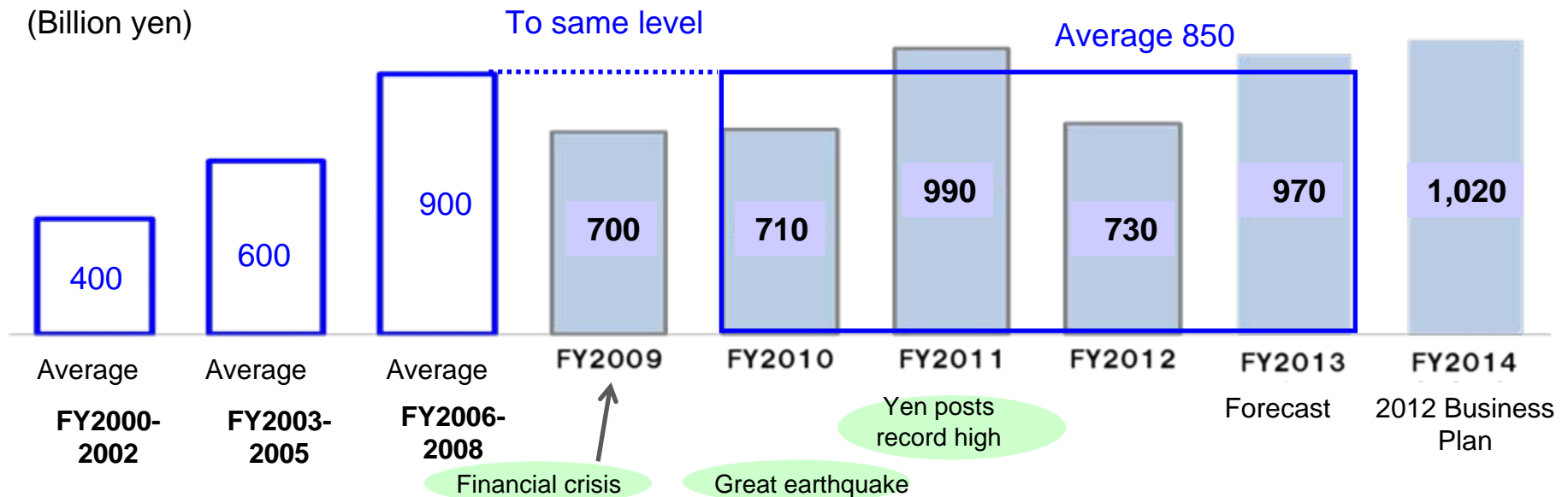
Domestic business

- Reinforce handling of projects to secure electric power following the earthquake and IPP projects

Change in orders

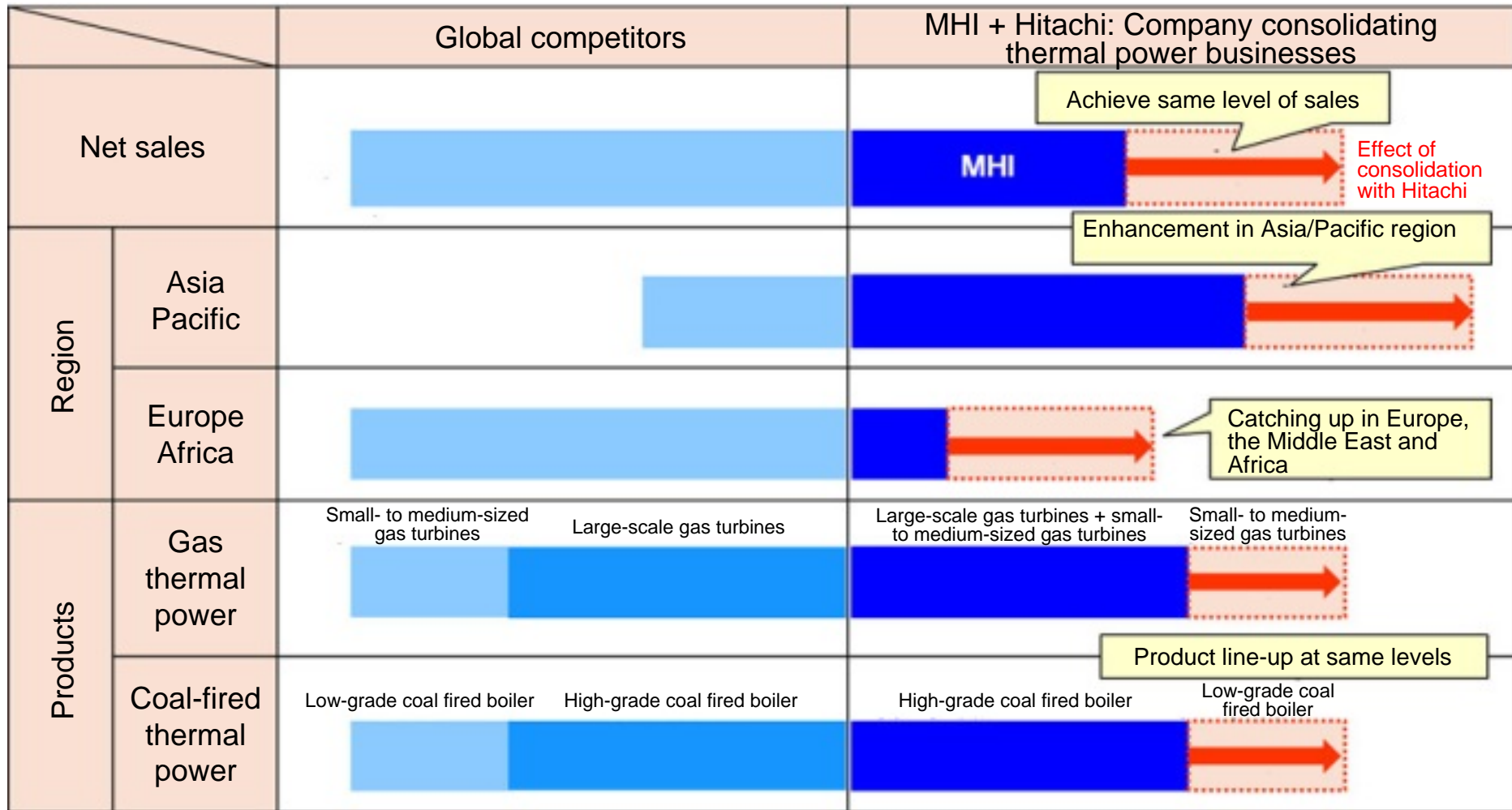
* Orders received by Power Systems Headquarters

(Billion yen)



Jump Start the Joint Venture with Hitachi for the Thermal Power Business

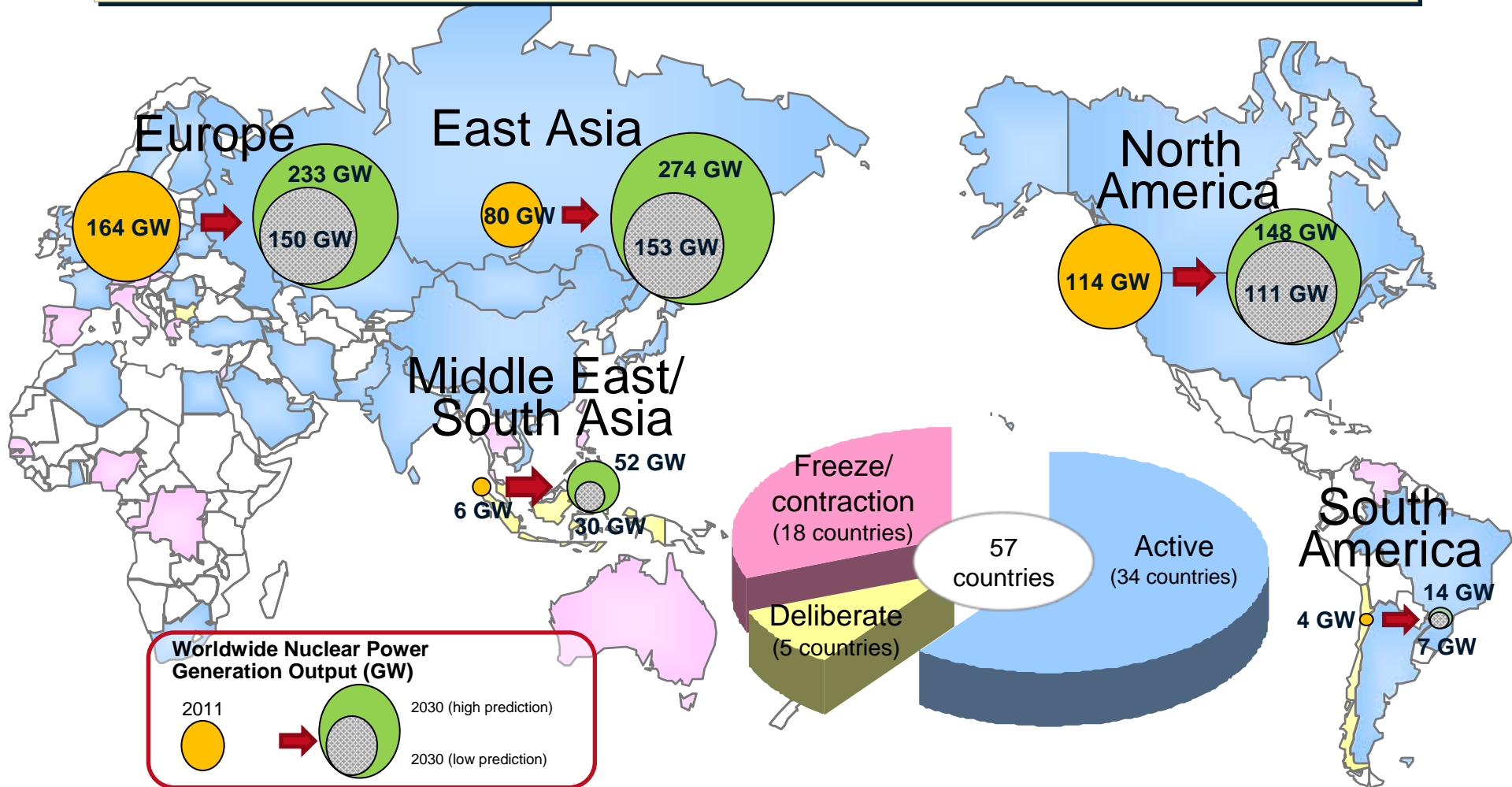
Aim to reap the benefits of the expected synergies



Nuclear Energy Business

– Nuclear Energy Policies by Country

34 countries promotes nuclear power generation
 Growing demand in Europe, Asia and North America



Nuclear Energy Business

– Initiatives for Strengthening the Business

Grow overseas business based on foundation in Japan

Key Policies

Overseas Business

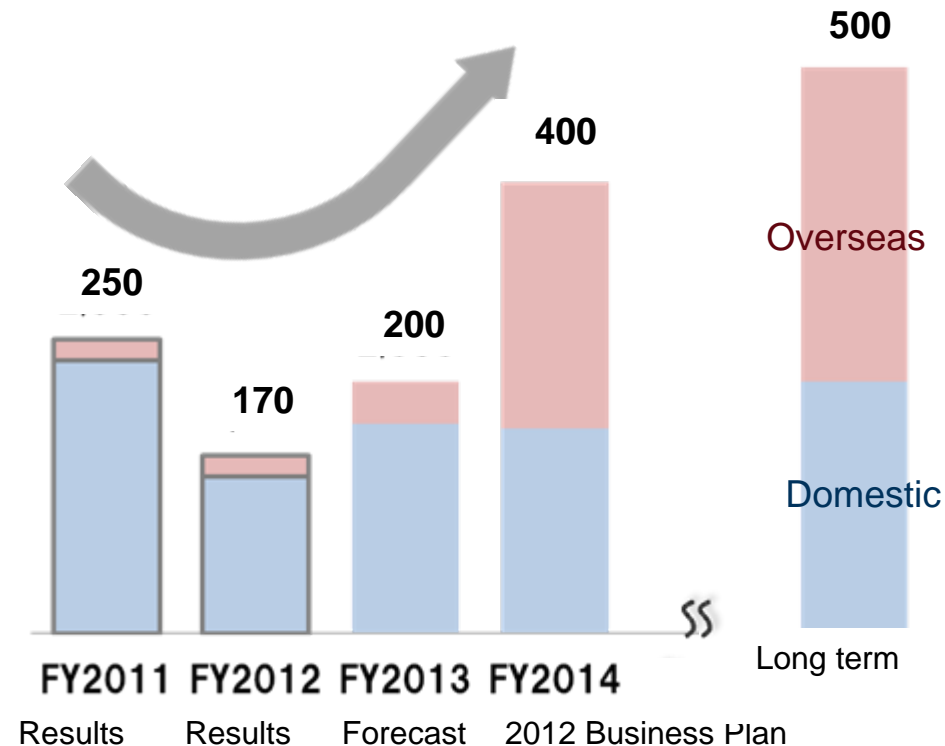
- Accelerate global development of internationally strategic reactors (ATMEA 1 etc.)
- Leverage advanced technology with track record in Japan to promote alliances in maintenance work

Domestic Business

- Actively promote measures to improve safety based on the new regulation standards (enacted in July), support power companies aiming for an early restart of plants
- Strengthen initiatives in new fields such as TEPCO Fukushima stabilization, and the International Thermonuclear Experimental Reactor (ITER) etc.

Change in Orders

(Billion yen)

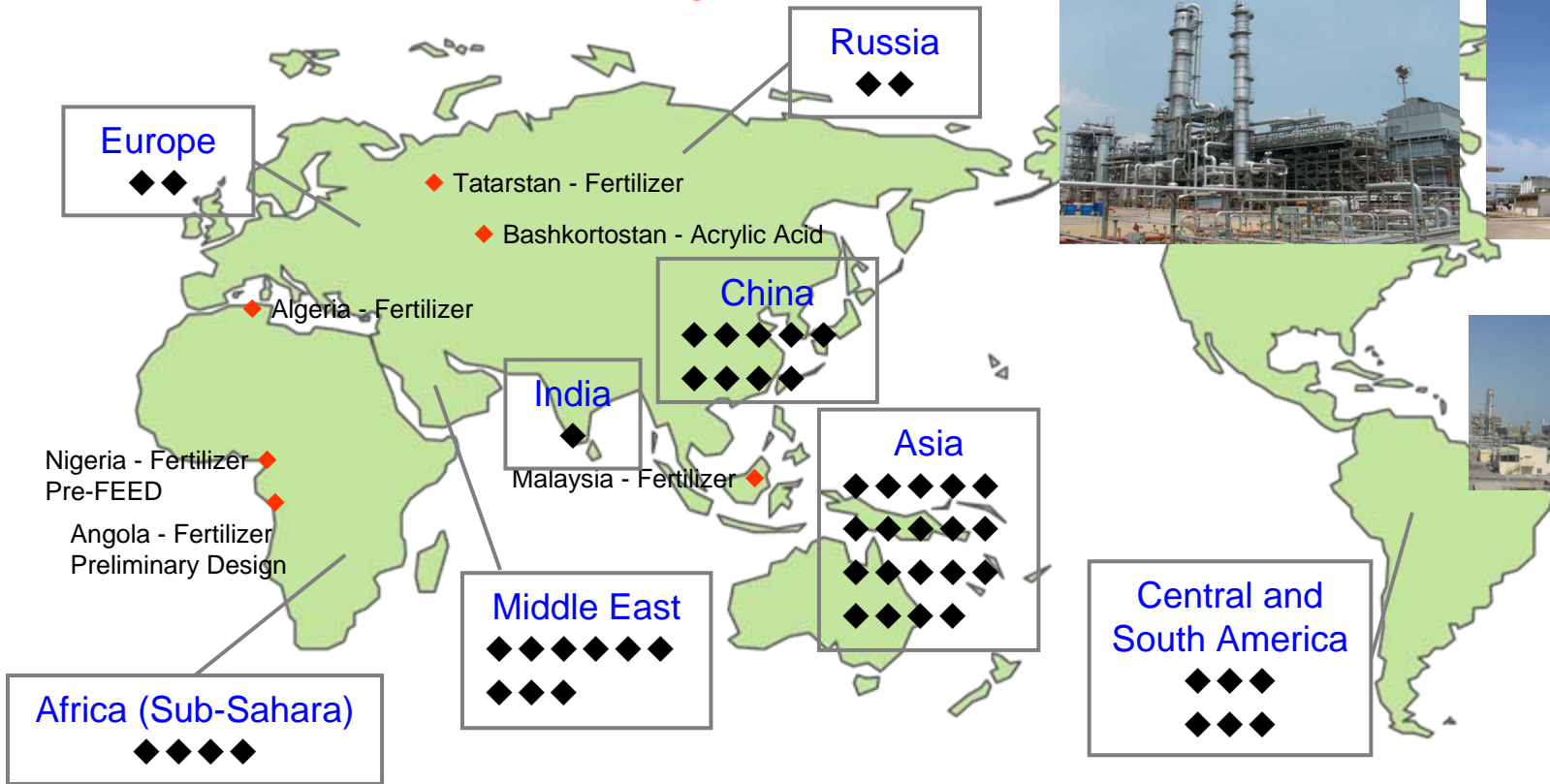


Strengthening the Chemical Plant Business

Expand overseas business and improve profitability leveraging expertise gained from overseas plant delivery

◆: Delivered (since 1990)

◆: Under construction/proceeding



Methanol Plant



Polyethylene Plant

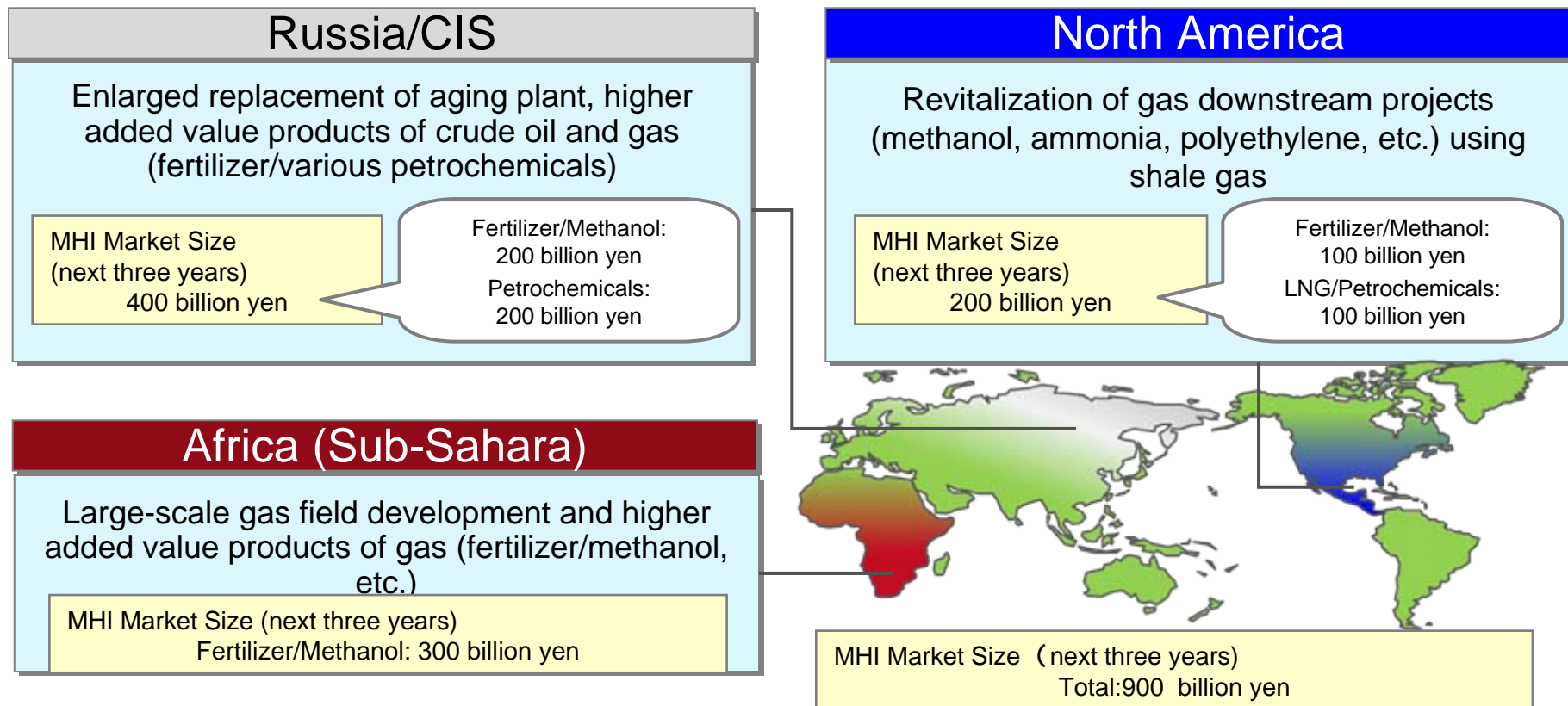


Fertilizer Plant



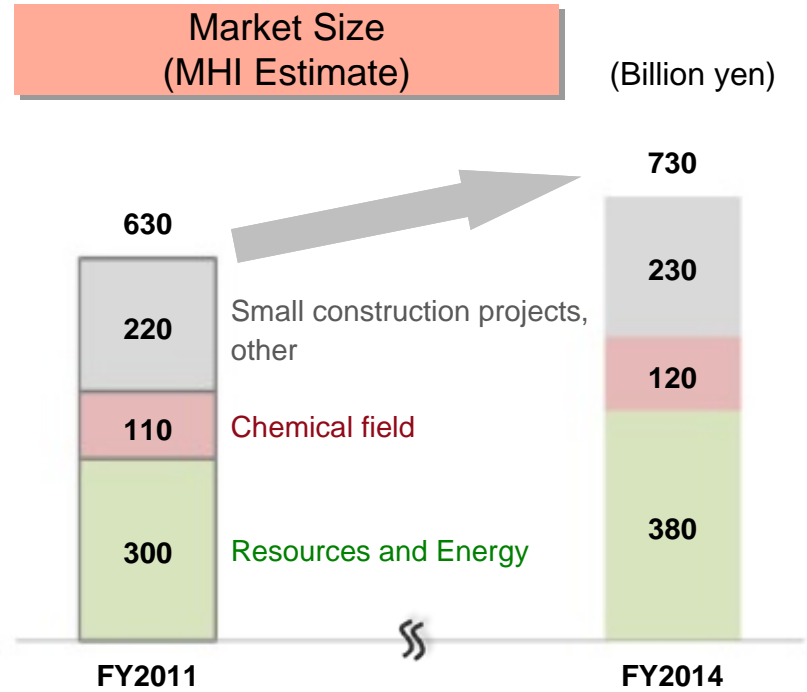
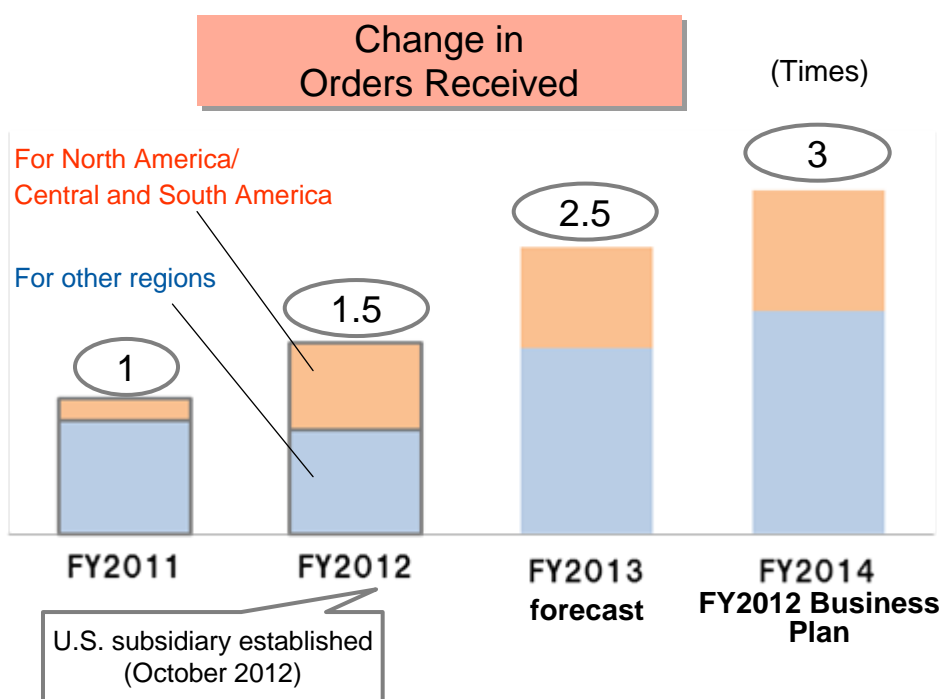
Strengthening the Chemical Plant Business

- Target fertilizer and methanol plants in gas-rich emerging countries such as Russia, CIS and Africa (Sub-Sahara)
- Gas and petrochemical industry vitalized due to increased shale gas & oil production, primarily in the US
 - Enhance capability to handle downstream gas and LNG projects.



Strengthening the Compressor Business

- Target greenfield petrochemical plant demand driven by increased production of shale gas in North America
 - Aggressive sales initiative by US subsidiary MHI Compressor International
- Strengthen global sales, production and service systems.
 - Accelerate local production and service base establishment in the U.S. and Brazil.



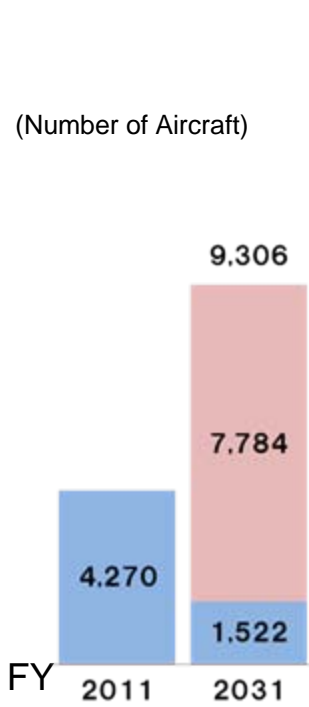
Maintain the No. 1 share in petrochemical plants and expand share in other fields

Expanding Tier 1 Business for Boeing (Processing/Assembly)

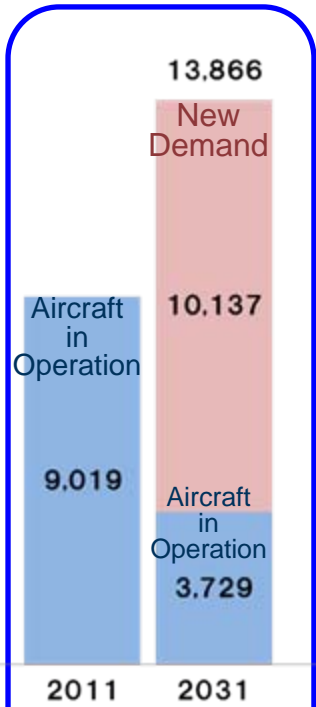
Number of Jets in Service and Predicted Demand by Size

- New demand for approx. 22,000 new aircrafts in a 20-year period (2012-2031)

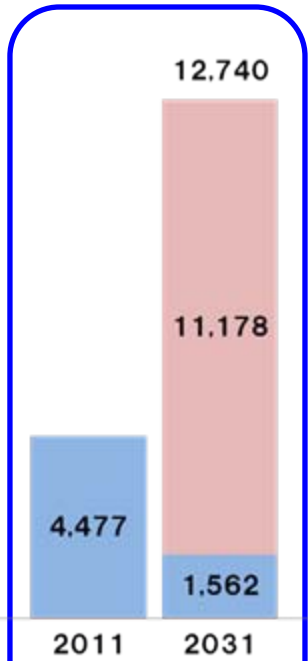
Source: Japan Aircraft Development Corporation



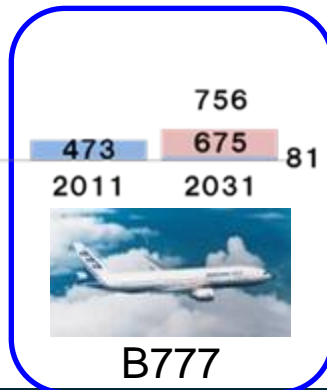
MRJ



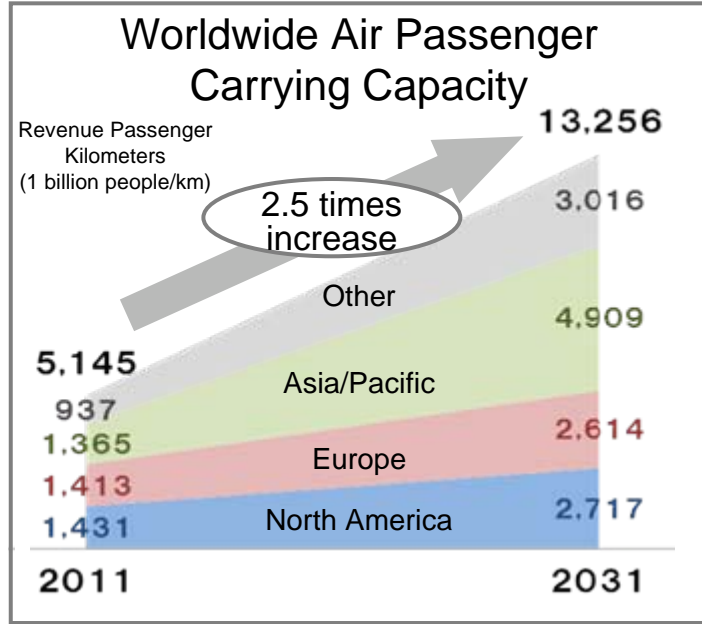
B737



B787

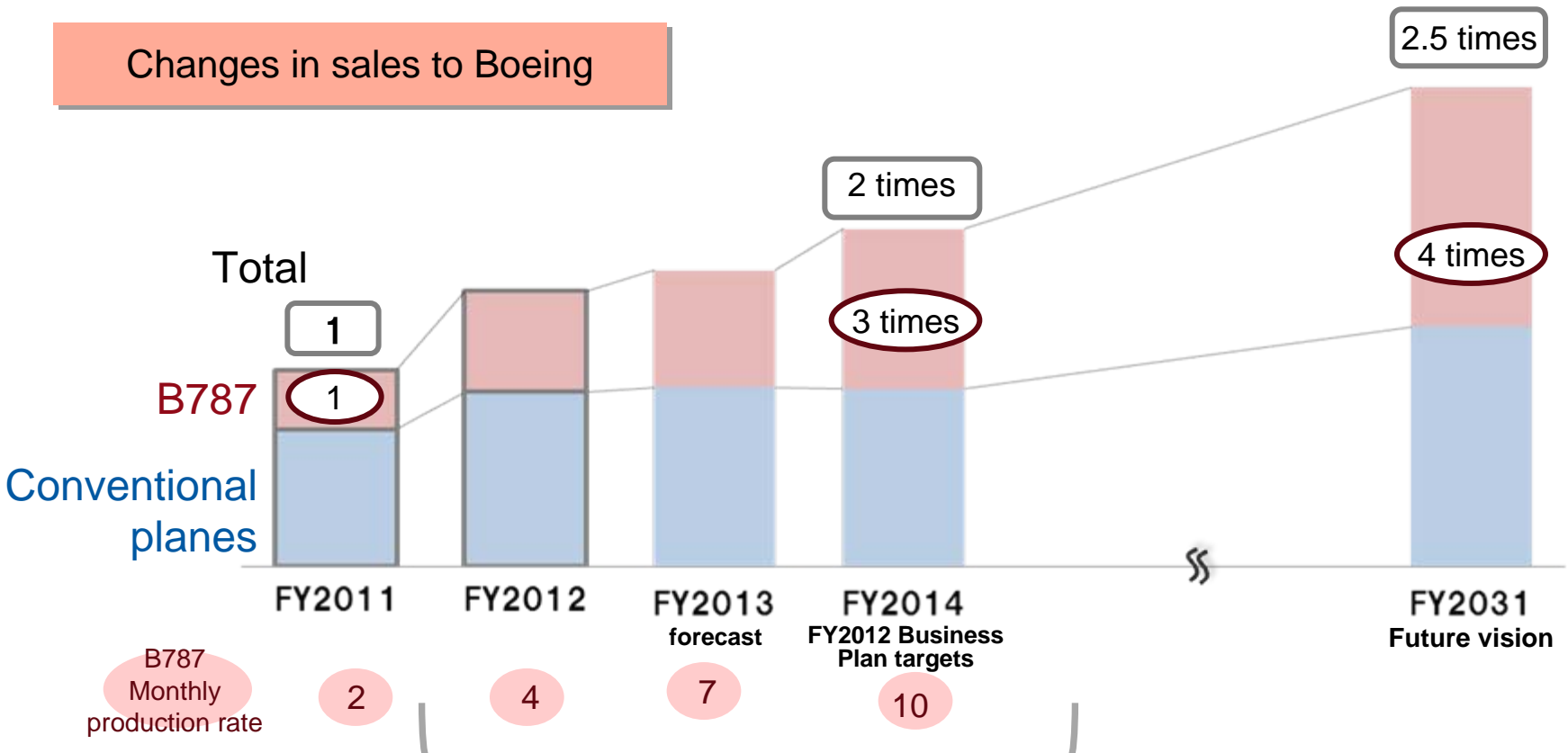


B777



Expanding Tier 1 Business for Boeing (Processing/Assembly)

Changes in sales to Boeing



Increase production and establish efficient production systems (Expand profit levels)

Expanding Tier 1 Business for Boeing (Processing/Assembly)

Further optimize the production system for increased production

Nagoya Aerospace Systems Works (Oye-Nishi Plant)

Become the global manufacturing base for producing composite wing boxes for B787
- Further improve B787 manufacturing productivity.
→Promote automation (capability of manufacturing 10 per month).

Nagoya Aerospace Systems Works (Oye Plant)

Become the centralized control center for development, technology and information

Nagoya Aerospace Systems Works (Iwatsuka Plant)

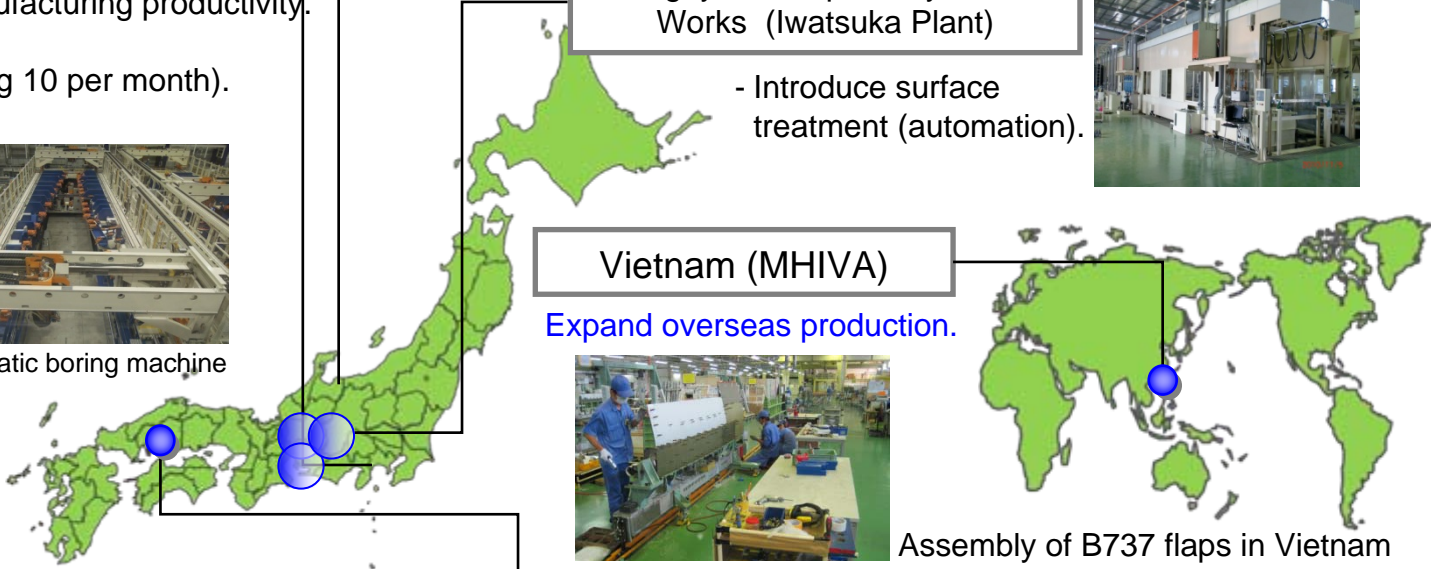
- Introduce surface treatment (automation).



Composite lay-up equipment



Automatic boring machine



Vietnam (MHIVA)

Expand overseas production.



Assembly of B737 flaps in Vietnam

MHIVA: MHI Aerospace Vietnam Co., Ltd.

Hiroshima Machinery Works

Expand B777 and B767 to Hiroshima

- Build a plant exclusive for Boeing planes by consolidating structural assembly.



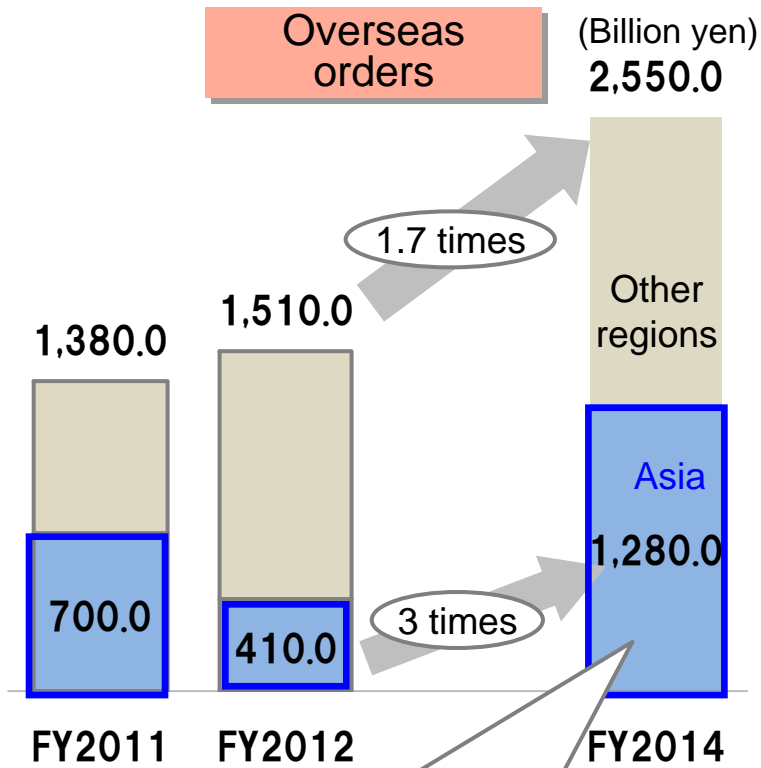
The world's largest autoclave



Water jet cutting equipment for skin

Strengthen Regional Capability – Initiatives Aimed at Asian Markets

Position both social infrastructure and commodities as markets of primary importance and strengthen initiatives aimed at expanding orders

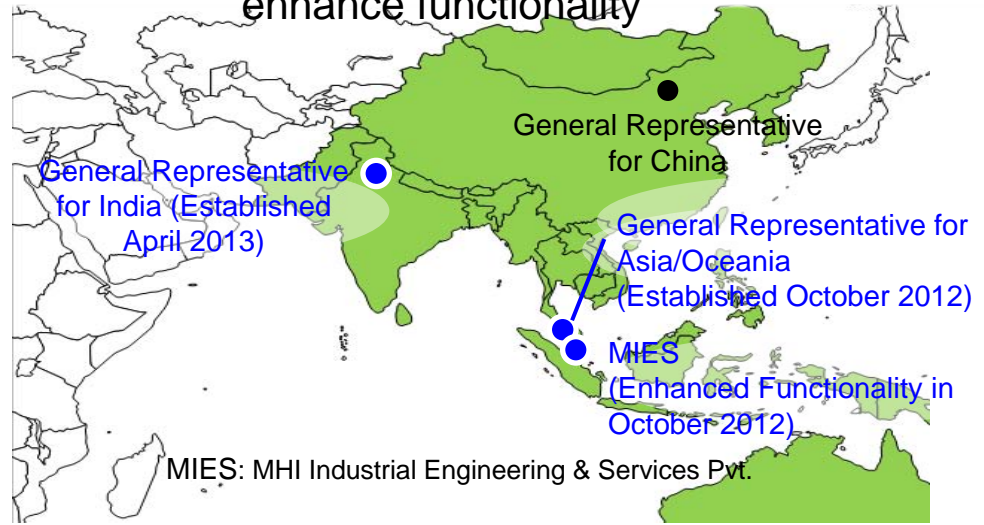


Accounts for 50% of overseas sales

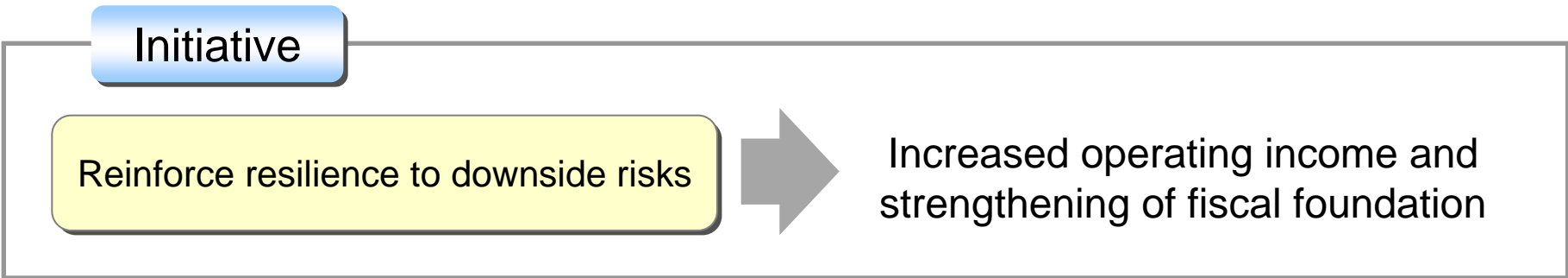
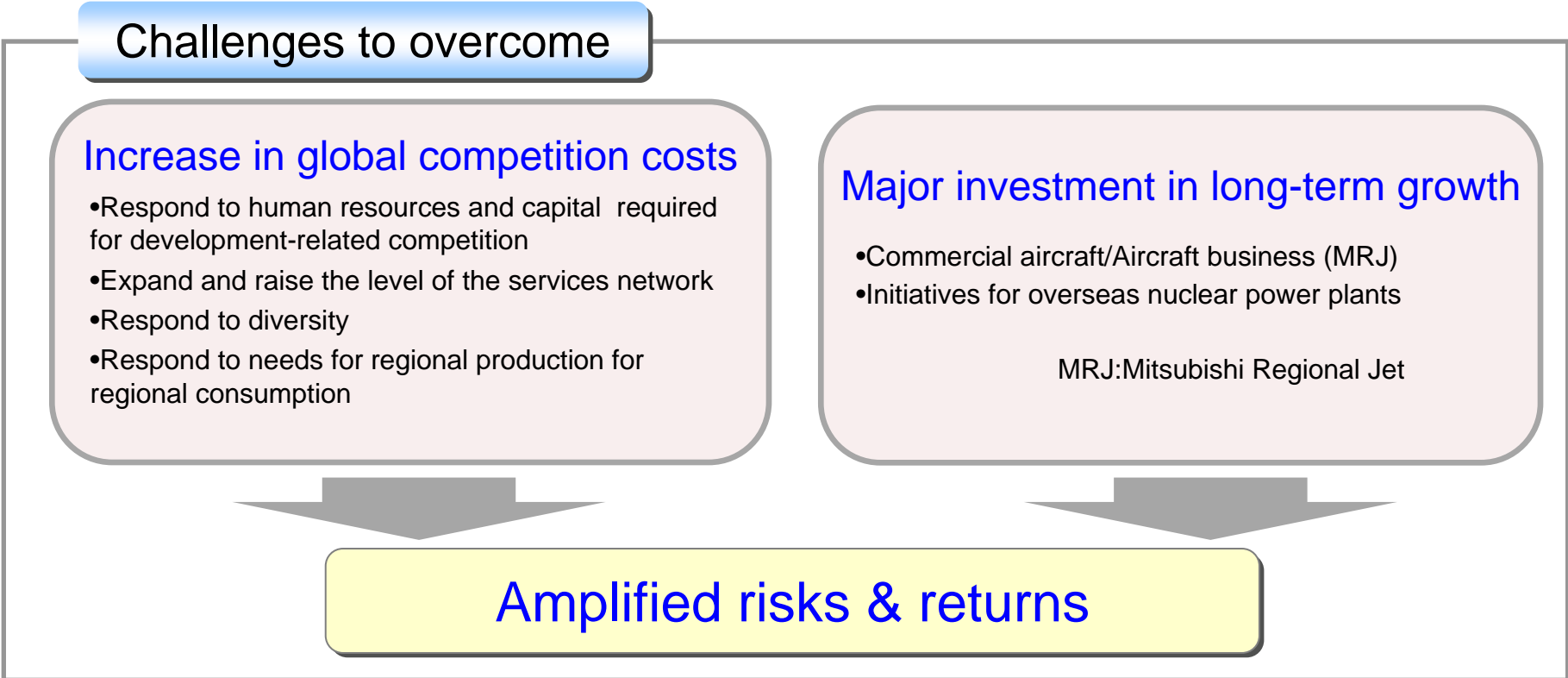
Forecast Asian GDP Growth Rate:
Average of approx. 7% per year

Enhancement of systems and various initiatives

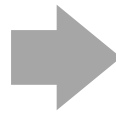
(1) Establish regional base system and enhance functionality



- (2) Promotion of Strategic Alliances/M&A
- (3) Project Formation through Private-Public Initiatives
- (4) Enhancement of Solution Proposals



Amplified risks & returns



Reinforce resilience to
downside risks



Strengthening of fiscal foundation

— Increasing fund raising potential —

(1) Further improved free cash flow = increase in profit

→ Establish foundations of high-profit businesses

(2) Improved balance sheet

→ Seek balance between fixed and current assets

- Asset management

- Cashing in current assets early on

(3) Equity strategy with a medium-to-long term perspective

Increased Operating Income and Strengthening of Fiscal Foundation



Business size
3 Trillion Yen

Business scale
4 trillion yen

5 Trillion Yen
Vision

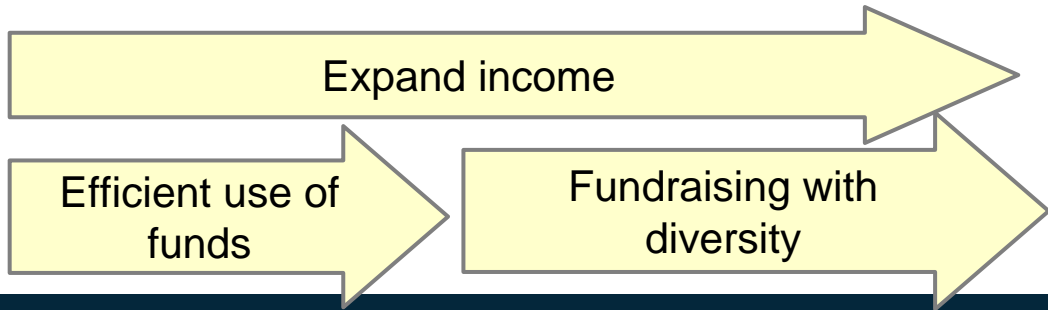
FY2011

FY2012

FY2014

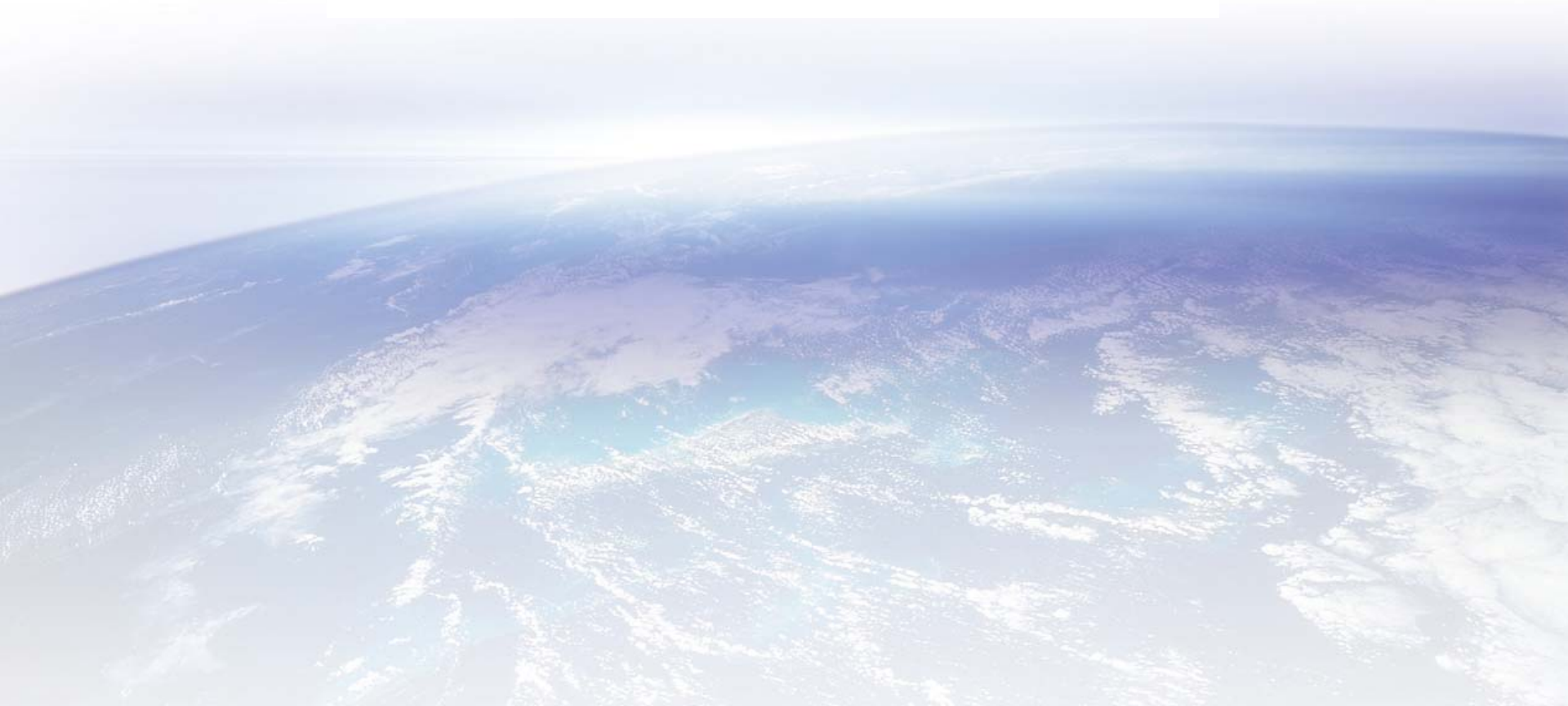
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D/E Ratio	0.9	0.7	0.7	0.7
(reserve fund raising potential)			(500.0 billion yen)	(700.0 billion yen)
ROE	1.9%	7.4%	8.9%	12.0%
Net worth	1.3 trillion yen	1.4 trillion yen	1.5 trillion yen	2.2 trillion yen





Our Technologies, Your Tomorrow



Supplementary Materials

Financial Targets by Segment

(Billion yen)

Segment	Orders Received				Net Sales				Operating Income (Loss)			
	FY2011 Actual	FY2012 Actual	FY2013 Forecast	FY2014 Target	FY2011 Actual	FY2012 Actual	FY2013 Forecast	FY2014 Target	FY2011 Actual	FY2012 Actual	FY2013 Forecast	FY2014 Target
Shipbuilding & Ocean Development	262.0	255.4	330.0	270.0	311.6	225.8	190.0	250.0	△ 3.8	11.5	4.0	8.0
Power Systems	1,235.2	895.3	1,170.0	1,420.0	955.3	988.7	1,090.0	1,320.0	92.3	88.9	95.0	143.0
Machinery & Steel Infrastructure Systems	508.2	471.9	760.0	1,020.0	428.8	482.5	530.0	760.0	25.3	26.4	35.0	54.0
Aerospace Systems	547.8	803.3	590.0	530.0	495.9	485.8	640.0	630.0	△ 5.3	29.1	44.0	14.0
General Machinery & Special Vehicles	386.0	385.1	450.0	430.0	381.7	389.1	450.0	430.0	5.1	12.7	18.0	26.0
Air-Conditioning	160.5	144.1	160.0	210.0	159.9	148.7	160.0	210.0	1.4	0.3	2.0	9.0
Machine Tool	53.8	44.2	50.0	70.0	51.1	52.2	50.0	60.0	4.0	2.5	3.0	8.0
Others	79.5	148.1	160.0	160.0	83.3	144.7	160.0	160.0	10.6	10.1	9.0	10.0
Inter-group consolidation adjustments	△ 44.5	△ 115.5	△ 120.0	△ 11.0	△ 47.1	△ 99.9	△ 120.0	△ 120.0	△ 17.8	△ 18.3	△ 20.0	△ 22.0
Total	3,188.8	3,032.2	3,550.0	4,000.0	2,820.9	2,817.8	3,150.0	3,700.0	111.9	163.5	190.0	250.0

Financial Targets by business domains (Rough Figures)

(Billion yen)

Domain	Orders Received			Net Sales			Operating Income (Loss)		
	FY2011 Actual	FY2012 Actual	FY2014 Target	FY2011 Actual	FY2012 Actual	FY2014 Target	FY2011 Actual	FY2012 Actual	FY2014 Target
Energy & Environment	1,290.0	940.0	1,740.0	970.0	1,030.0	1,460.0	90.0	90.0	150.0
Machinery, Equipment & Systems	970.0	880.0	1,240.0	920.0	930.0	1,160.0	30.0	40.0	80.0
Transportation	420.0	780.0	600.0	450.0	420.0	580.0	△ 15.0	20.0	10.0
Defence & Aerospace	470.0	410.0	370.0	440.0	390.0	460.0	15.0	20.0	22.0
Others (Inter-group consolidation adjustments included)	40.0	20.0	50.0	40.0	50.0	40.0	△ 10.0	△ 10.0	△ 12.0
Total	3,190.0	3,030.0	4,000.0	2,820.0	2,820.0	3,700.0	110.0	160.0	250.0

- The figures for each business domain may change with the restructuring of SBUs or other factors.

Resources Planning

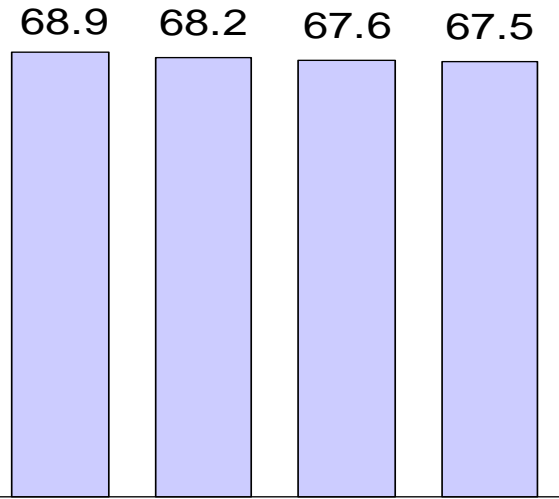
Human Resources

- Increase overseas human resources.

Share of human resources overseas (%)



Consolidated number of employees (thousand persons)

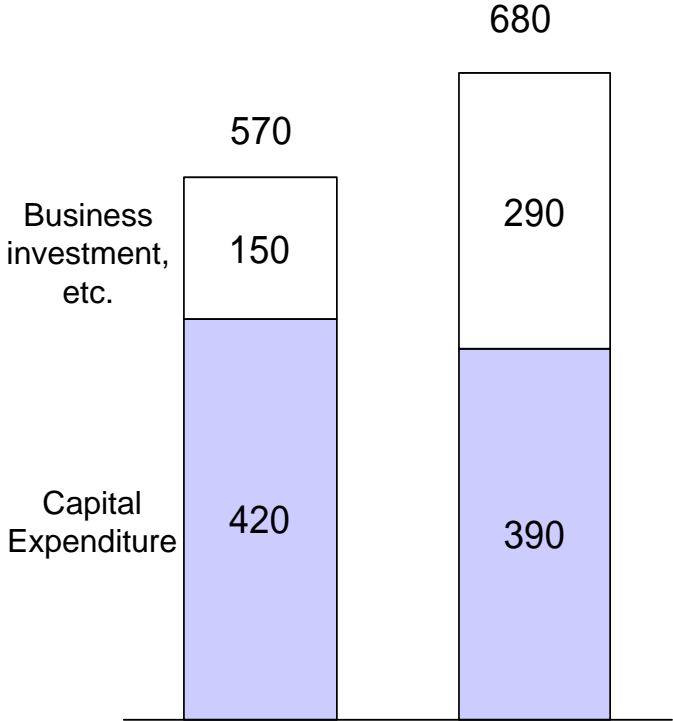


FY2011 FY2012 FY2013 FY2014

Capital Expenditure

- Concentrate investment in priority businesses.

(Billion yen)

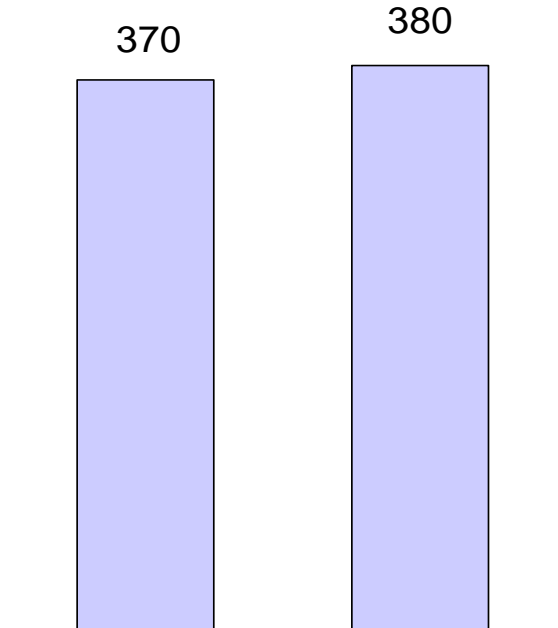


Total 2009-2011 Total 2012-2014

R&D Investment

- Invest intensively in products that forge the company's future.

(Billion yen)



Total 2009-2011 Total 2012-2014