

2012 Medium-Term Business Plan Outlook & 2015 Medium-Term Business Plan Overview

October 31, 2014

Mitsubishi Heavy Industries, Ltd.

Shunichi Miyanaga, President and CEO

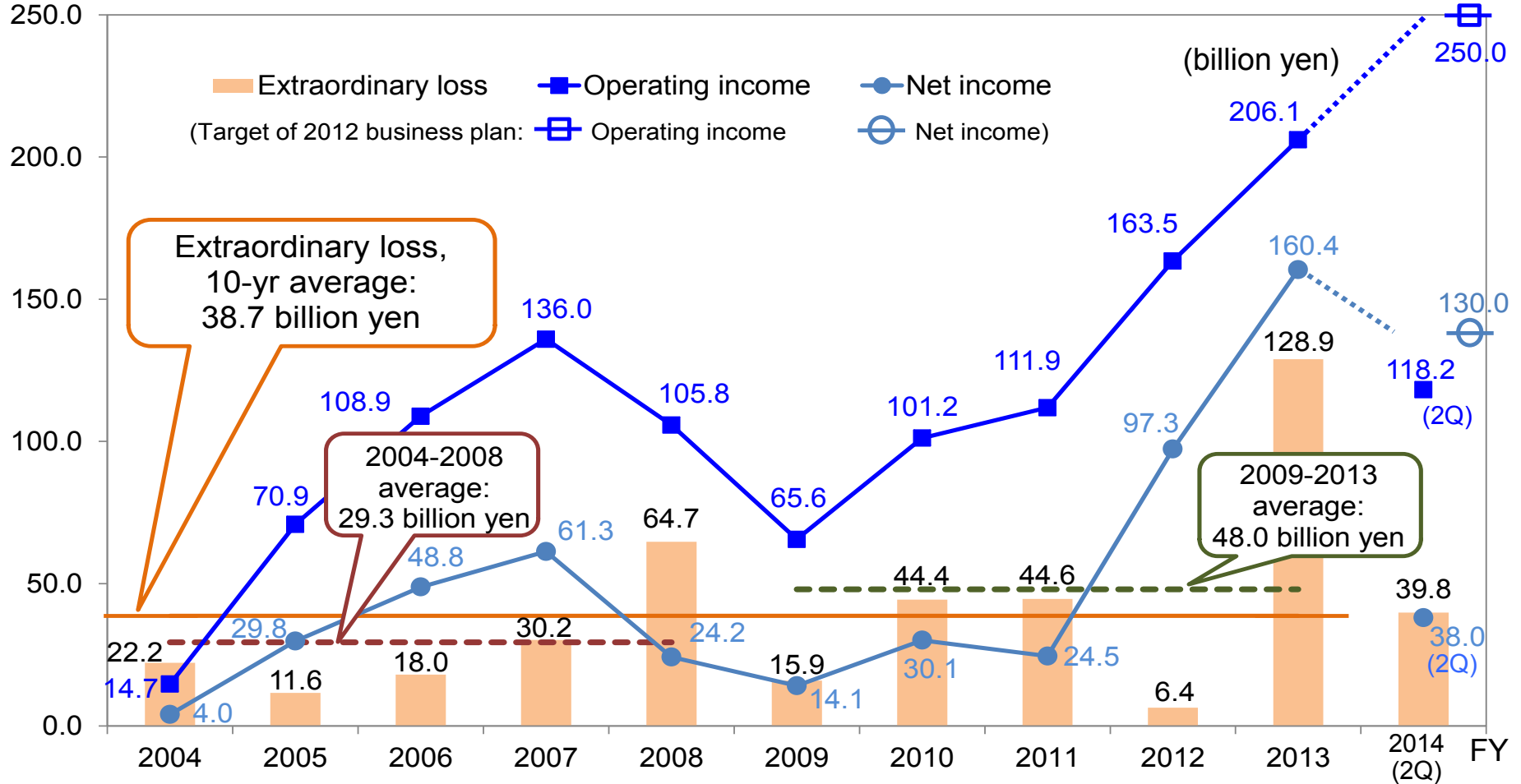
Table of Contents

1. Outlook for Achieving 2012 Medium-Term Business Plan	- 3
2. Overview of 2015 Medium-Term Business Plan	- 8
(1) Plan Preparations Under Way	- 8
(2) Target Corporate Image	- 9
(3) Challenges and Initiatives	- 10
(4) Targets	- 12
(5) Progress Status of Preliminary Initiatives	- 13
(6) Domain Strategies and Initiatives	- 19
(7) Summary	- 23

<u>FY2014</u>	Target		Forecast
Business Scale	4 trillion yen	➔	4 trillion yen
Operating Income	250 billion yen	➔	260 billion yen
Net Income	130 billion yen	➔	100 billion yen

- The projections for business scale and operating income should be achievable, thanks to business strategy results and merits from yen depreciation.
- The net income projection, however, will be adversely impacted by measures taken for the cruise ship business. Weaknesses have been recognized, and implementation of countermeasures is in progress.

Extraordinary Losses and Operating Income / Net Income FY2004-FY2013



Latent risk is increasing in tandem with globalization, changes in market structure, etc.

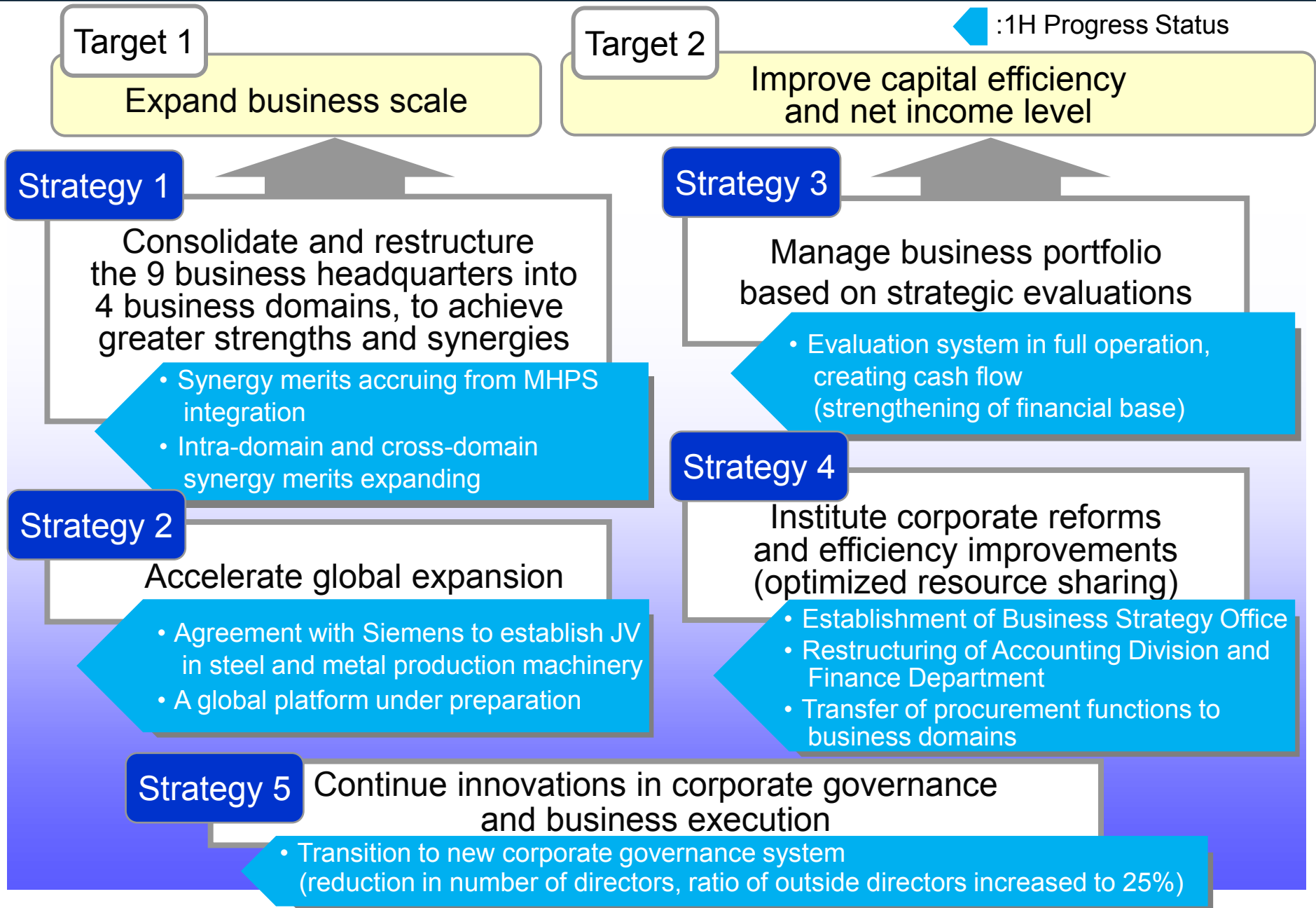
Weaknesses

- (1) Inadequate awareness and sensitivity toward expanding risk accompanying globalization, increasing complexity and sophistication of projects, etc.
- (2) Inadequate risk response capability (especially initial response) and lack of uniformity in response capabilities of the various business segments

Initiatives

- (1) Companywide enhancement of expanding risk awareness, sensitivity and response capability
 - Strengthening of preventive systems
(effective use of domain system, education of management personnel)
 - Early elimination of risk, minimization of losses (special response structure, etc.)
- (2) Preparation, through improved earnings capacity, of a financial base strong enough to withstand risk of a certain scale accompanying new ventures

Outlook for Achieving 2012 Medium-Term Business Plan (4)



Reference: Financial Targets

7

(billion yen)

2012 Business Plan

		FY2012 Actual	FY2013 Actual	FY2014 Previous Forecast	FY2014 Forecast	FY2014 Target
Expansion of business scale	Orders received (overseas sales ratio)	3,032.2 (50%)	3,420.0 (51%)	4,150.0 (62%)	4,300.0 (62%)	4,000.0 (64%)
	Net sales	2,817.8	3,349.5	4,000.0	4,000.0	3,700.0
Strengthening of risk response capability	Operating income (ordinary income)	163.5 (149.0)	206.1 (183.1)	250.0 (230.0)	260.0 (230.0)	250.0 (210.0)
	Net income	97.3	160.4	130.0	100.0	130.0
	ROE	7.4%	11.0%	8.2%	6.3%	8.9%
Improvement of financial soundness	FCF	211.6	144.6	100.0	50.0	200.0
	Debt/Equity Ratio	0.72	0.54	0.5	0.5	0.7
	Equity ratio	35.0%	31.6%	34%	34%	36.6%
	Interest-bearing debt	1,031.2	957.4	900.0	950.0	1,000.0
	Dividend per share	8 yen	8 yen	10 yen	10 yen	10 yen
Foreign exchange rates		83.6 yen/\$ 106.8 yen/€	100.1 yen/\$ 132.6 yen/€	100 yen/\$ 130 yen/€	105 yen/\$ 135 yen/€	80 yen/\$ 110 yen/€

FY2012 FY2013 **FY2014** FY2015 FY2016 FY2017

2012 Business Plan

2015 Business Plan

Structural reforms

Completion of full-scale examination and preparations between summer and autumn 2014

- Target directions have been set
- Initiatives described on pages 9-11

Preliminary initiatives

- (1) Promote further M&A's
- (2) Enhance MHPS's synergy merits
- (3) Steadily advance the MRJ project
- (4) Strengthen the Transportation Systems business
- (5) Establish a global platform

Initiatives described on page 13ff

Highly profitable 5-trillion-yen enterprise

To be continued

Additional initiatives (under examination)

- Reform and strengthen commercial ships business
- Strengthen the Integrated Defense & Space Systems business
- Undertake governance reforms
- Accelerate measures for reforming SBUs

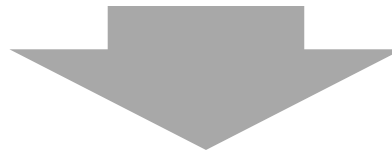
Initiatives described on page 19ff

An enterprise that contributes to social and industrial development through advanced technological capabilities and engineering (integration/execution capabilities) adapted to the global market

- An enterprise that provides stability and reliability through its business scale, added value creation and strong financial base
- An enterprise highly acclaimed globally not only for its products, technologies and services but also for its standards of conduct and ability to accomplish what it sets out to do

Initial challenges and initiatives

- Implementation of initiatives targeted at weak businesses
- Stronger response capability to risks accompanying business expansion and risk-bearing ventures
- Maintenance and enhancement of financial strength (needed to advance the above 2 initiatives)



Aiming to become a “highly profitable 5-trillion-yen enterprise” by responding swiftly to preliminary challenges and carrying out strategies and initiatives developed under the 2012 Business Plan

Medium/Long-term Challenges

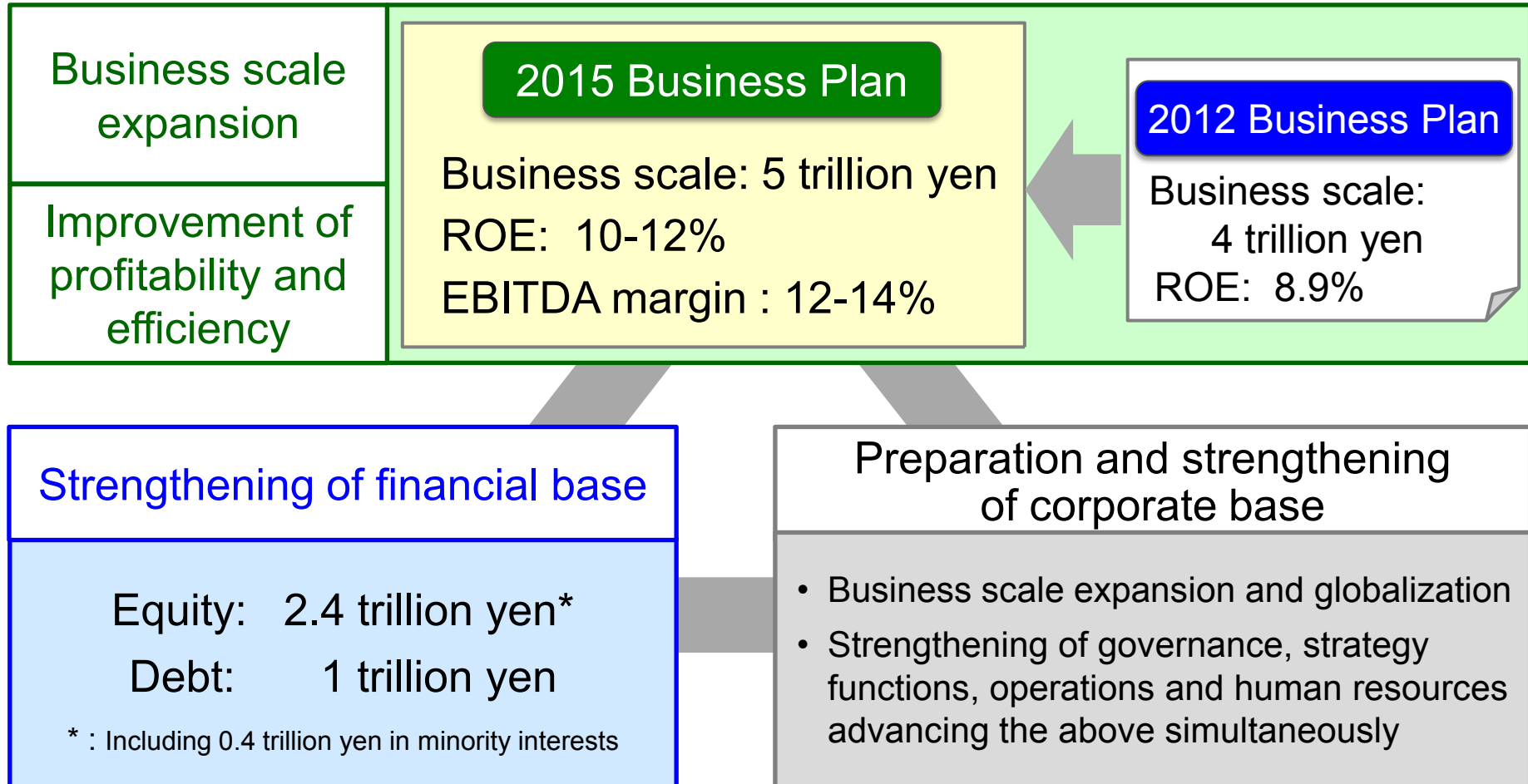
- Further progress in globalization
 - Dual achievement of business scale expansion and organizational efficiency; expansion of ICT and business processing; widening gap in human resources, etc.
- Acceleration in technological progress and gap in response capability
 - Gap emerging in response capability to increasing R&D costs, increasingly complicated intellectual property management, etc.
 - Competition to secure international human resources in advanced and digital technology areas
- Gap between companies in collaborative business models (especially, response to the above 2 major trends)



Response incorporated into 2015 Business Plan strategies

- Advance governance further
- Reform corporate functions
- As shared business strategies, strengthen ICT, intellectual properties and collaborative business models; and secure and cultivate global human resources; etc.

Toward enhancement of enterprise value

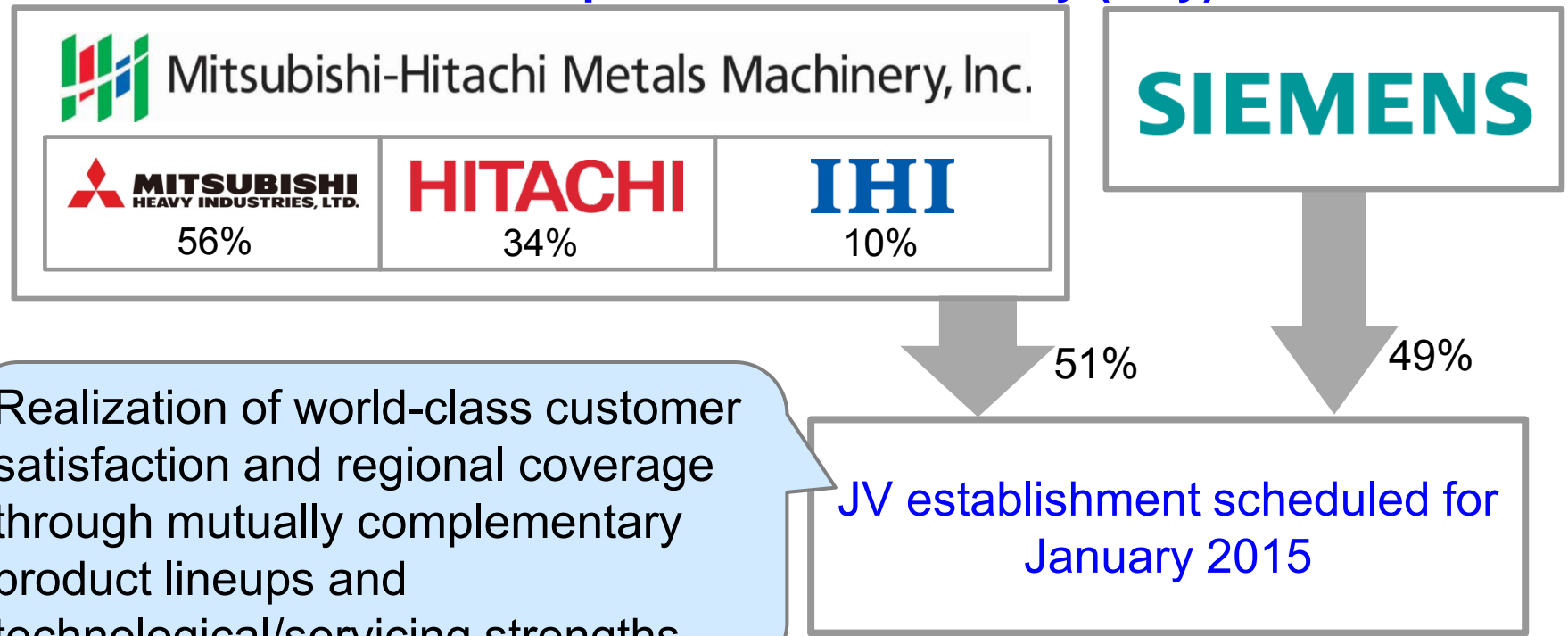


ROE: Return On Equity

EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization

(1) Promote further M&A's

Agreement with Siemens on establishing JV
in metal production machinery (May)

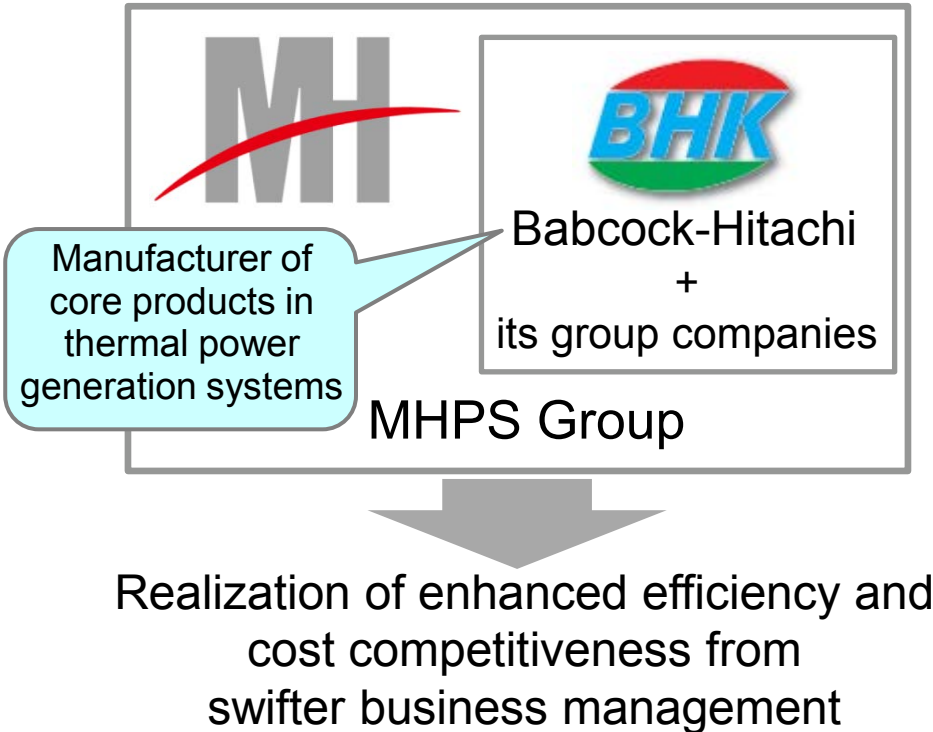


Realization of world-class customer satisfaction and regional coverage through mutually complementary product lineups and technological/servicing strengths

Currently promoting preliminary PMI toward vertical start-up of JV

(2) Enhance MHPS's synergy merits

Integration with Babcock-Hitachi (October)



Responding precisely and swiftly to the diversifying needs of the thermal power generation system market and intensifying competition among mega corporations

MHPS: Mitsubishi Hitachi Power Systems.

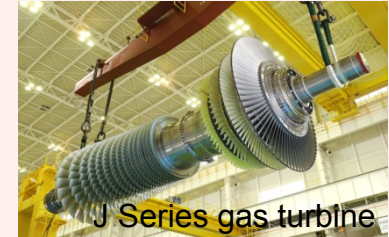
Status of Orders Received

- Most advanced model:
J Series gas turbine

Successive orders received from US and Korea
Total orders worldwide to date: 31 units

- World's most advanced integrated gasification combined cycle (IGCC) system, to promote Fukushima recovery
Orders received for design work
- Lignite-fired thermal power unit for Poland
Contract signed on ultra-supercritical-pressure thermal power system construction project

Steady implementation of activities to attract orders, leveraging technological superiority



(3) Steadily advance the MRJ project

Rollout ceremony for maiden test flight aircraft (October 18)



Maiden test flight: Apr-Jun 2015
Delivery of first aircraft: Apr-Jun 2017

Status of Orders Received

Total units ordered: 407
(including option contracts and basic agreements)

- New orders secured from Air Mandalay (Myanmar) and Eastern Air Lines (US)
- Letter of Intent concluded with Japan Airlines

Viewing for families of full-time/temp employees involved in the MRJ project (October 19)



Project is advancing steadily toward the maiden flight

(4) Strengthen the Transportation Systems business

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



Status of Orders Received

- Order received for APM systems for Orlando International Airport (US)
- Order received for railway system for Metro Line No.6, São Paulo (Brazil)



Development completed of "High-speed AGT System"

- Maximum speed: 120kph (double conventional speeds)
- Reductions in vibration and noise

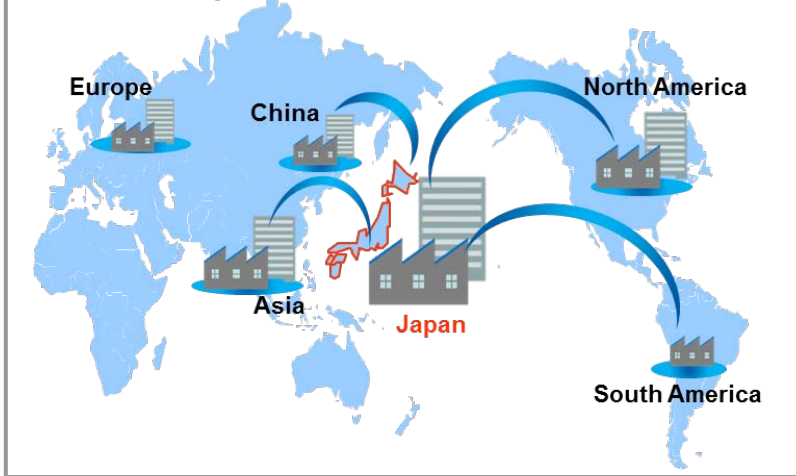


Steady progress being made in strengthening and expanding business, through advanced integration capabilities and introduction of new products

(5) Prepare groupwide global platform (1)

Now

A domestically based company focusing on exports

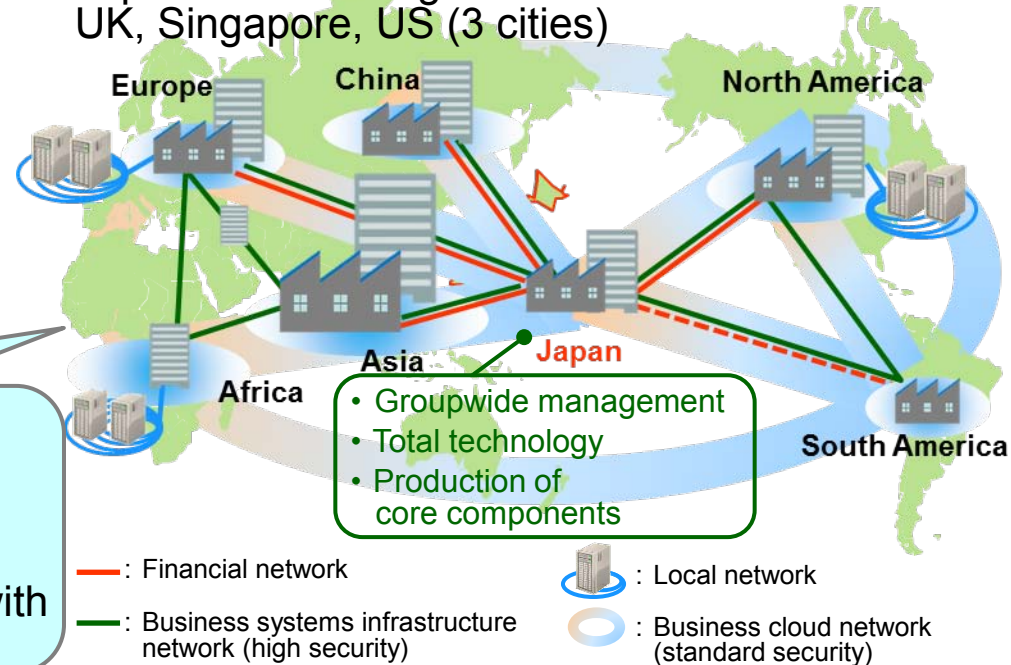


- Make information visible and more advanced
- Global business standardization and centralized processing (system preparation under way, starting with personnel and procurement areas)

Vision

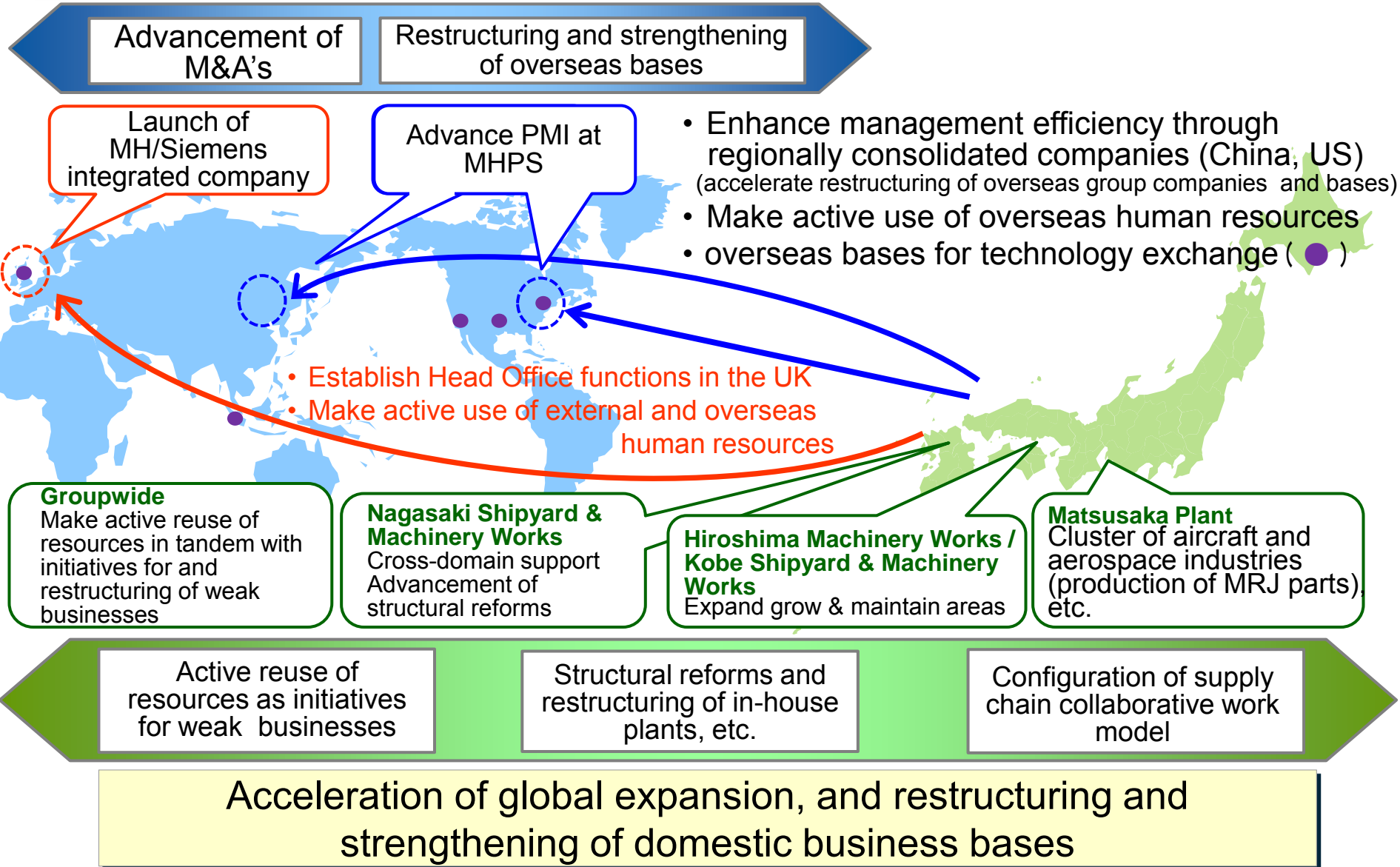
Integration of Japanese values (merits) and global business

- Expand the functions and business scope of overseas bases
- Improve and strengthen R&D bases: UK, Singapore, US (3 cities)



Global platform building is making steady progress through integration of external knowhow and MHI's needs

(5) Prepare groupwide global platform (2)






Energy & Environment

Pursuit of business scale enabling competition against the industry giants

- Accelerate PMI and expand synergies at MHPS*
- Advance business in distributed power sources
- Expand business in chemical plants (see page 20)
- Respond to full-scale development of environment business
- Maintain nuclear power business (early restart of domestic plants; diversification)



Integrated Defense & Space Systems

Pursue maximum synergies within limited environments

- Synergy merits from defense/space and civilian technologies
- Steady strengthening and maintenance of defense production and technology base
- Response to “The Three Principles on Transfer of Defense Equipment and Technology”
- Development of new flagship launch vehicle



Commercial Aviation & Transportation Systems

Establish new business models and expand business

- Strengthen profitability of commercial aircraft business
- Steady progress from MRJ’s maiden flight to start of mass production*
- Globalization of transportation systems business*
- Structural reforms of shipbuilding business** (further reform and strengthening of commercial ship business)



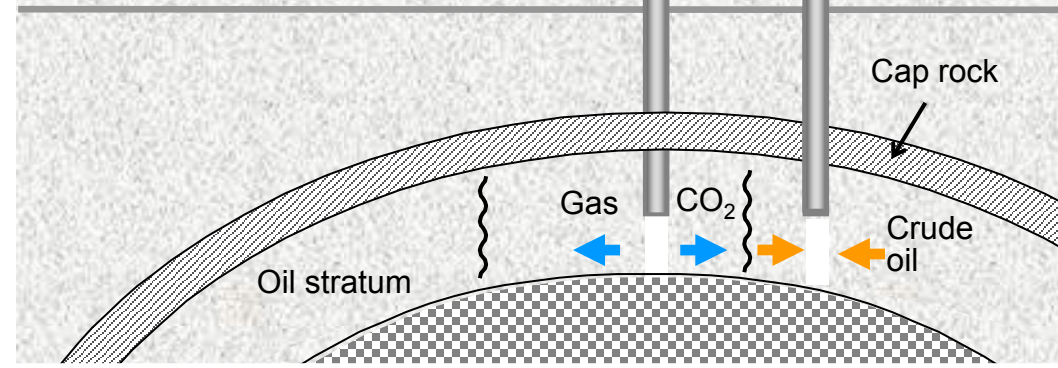
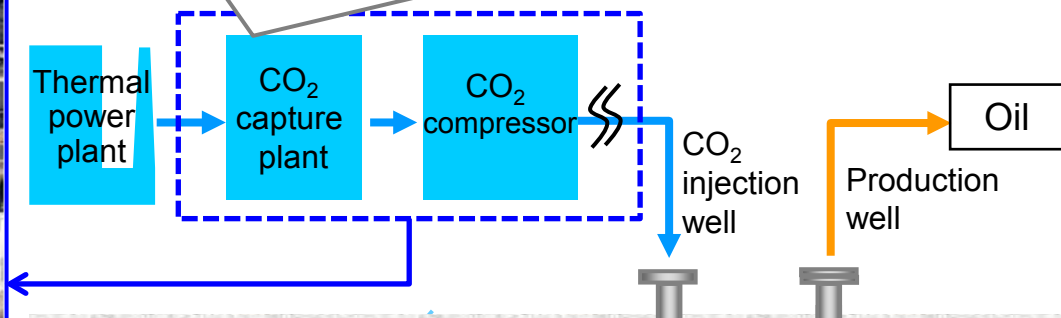
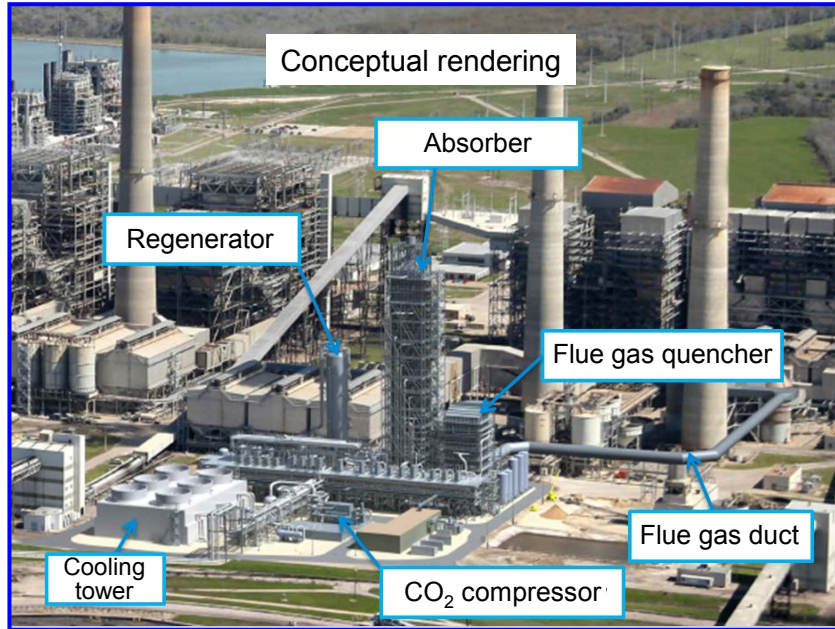
Machinery, Equipment & Infrastructure

Create top global niche businesses

- Accelerate PMI of steel and metal production machinery
 - Expand business globalization: compressors and turbochargers
 - Accelerate initiatives for weak businesses** (see page 21)
- * : “Preliminary initiative” in “Status of 2012 Medium-Term Business Plan” (May 2014)
**: “Additional Initiative” under examination since May

Order received for world's largest CO₂ capture plant for joint (US-Japan) EOR project

Delivery of 10 commercial-use CO₂ capture plants for chemical applications (increased fertilizer production), etc.
 - One of the industry's foremost track records -



EOR: Enhanced Oil Recovery

Ground-breaking ceremony (September 5)



Business restructuring

Blue: overseas undertaking

		Completed	Forthcoming
Acquisition		<ul style="list-style-type: none"> • Federal Broach (US): machine tools • PWPS (US): gas turbines • Daily Equipment (US): forklift trucks • Concast (India): steel and metal production machinery • Toyo Engineering Works: refrigeration systems 	<p>Initiatives primarily in Energy & Environment and Machinery, Equipment & Infrastructure domains</p> <p>Initiatives involving weak SBUs in each domain, outsourceable indirect work, etc.</p>
JV	Led by MHI	<ul style="list-style-type: none"> • Nippon Yusoki: forklift trucks • Hitachi: thermal power generation systems • Vestas Wind Systems (Denmark): wind turbines • Siemens (Germany): steel and metal production machinery • IHI Metaltech: steel and metal production machinery 	
	Led by partner	<ul style="list-style-type: none"> • Ryobi: commercial printing machinery • Ecovix (Brazil): shipbuilding • Fuji Xerox: document services 	
Transfer/ withdrawal		<ul style="list-style-type: none"> • HIDROMEK (Turkey): motor graders (transfer) • Delta Electronics (Taiwan): lithium-ion rechargeable batteries (transfer) 	

Energy & Environment

Pursuit of business scale enabling competition against the industry giants

- Accelerate PMI and expand synergies at MHPS**
- Advance business in distributed power sources

Commercial Aviation & Transportation Systems

Establish new business models and expand business

- Strengthen profitability of commercial aircraft business

The frameworks of domain strategies and initiatives have been decided.

The implementation plans (numerical targets, development outline, etc.) are now under examination.

– To be announced in April 2015 –

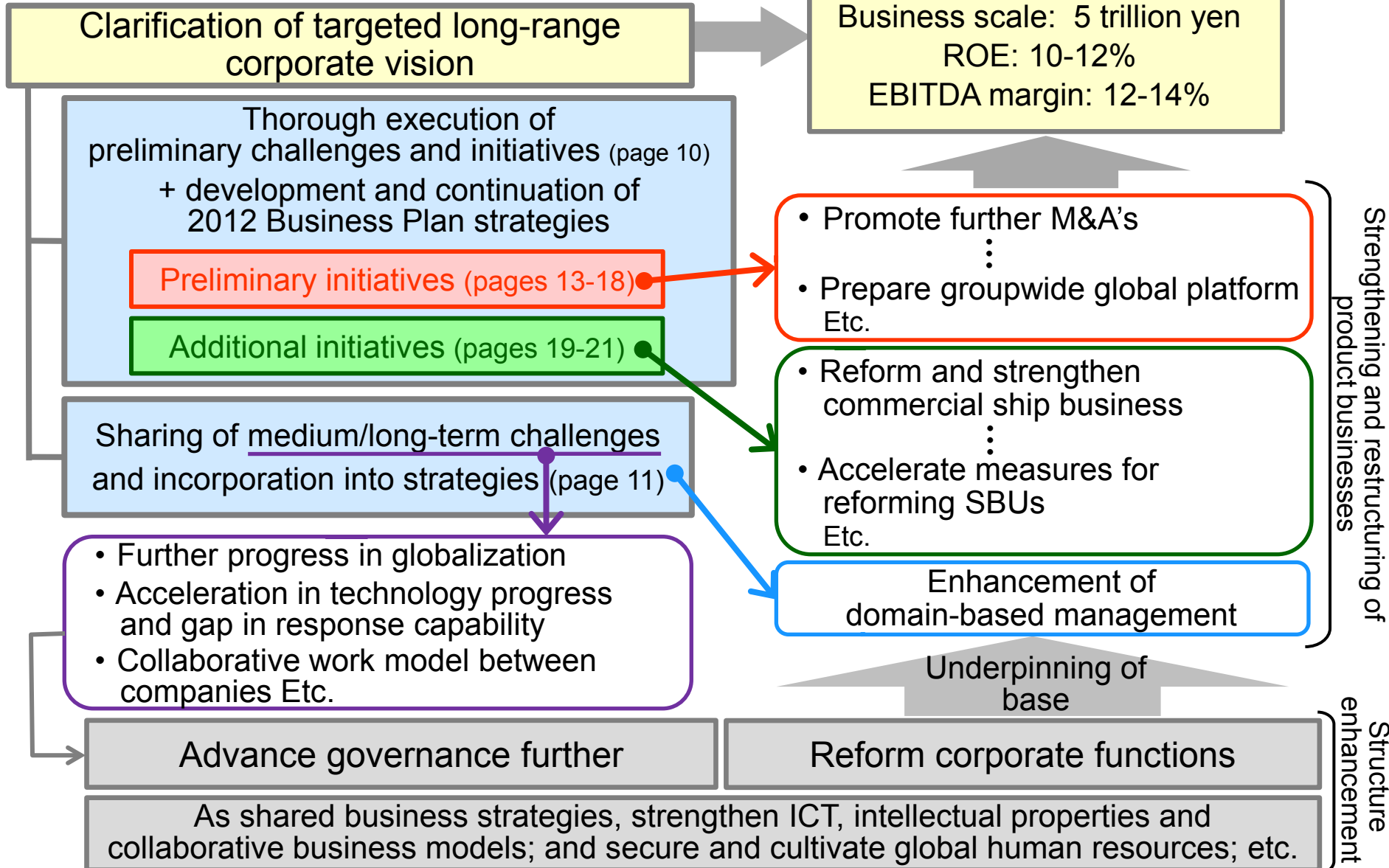
- Response to “The Three Principles on Transfer of Defense Equipment and Technology”
- Development of new flagship launch vehicle

- Accelerate initiatives for weak businesses* (see page 21)

** : “Preliminary initiative” in “Status of 2012 Medium-Term Business Plan” (May 2014)

* : “Additional Initiative” under examination since May

Overall structure (framework) of 2015 Business Plan



The 2015 Business Plan is the first step toward achieving the company's target image.

Strategies and initiatives target establishment of a base for sustained growth and enhanced enterprise value.



- A corporate culture* will be built and maintained that undertakes continual reforms and challenges for the customer's benefit and the market's needs
- Sustained efforts will be made to ensure that the products, technologies and services the company provides maintain outstanding global recognition and acclaim.

*: A management and organizational culture with a positive stance toward structural improvements and ongoing transformations in order to achieve sustained growth

	FY2012 Actual	FY2013 Actual	FY2014 Previous Forecast (May)	FY2014 Forecast (Oct.)	FY2014 Target
Equity (billion yen)	1,378.6	1,543.3	1,640.0	1,650.0	1,500.0
Debt (billion yen)	1,031.2	957.4	900.0	950.0	1,000.0
Net income (billion yen)	97.3	160.4	130.0	100.0	130.0
ROE	7.4%	11.0%	8.2%	6.3%	8.9%
EBITDA margin	10.0%	10.4%	10.0%	10.3%	10.3%



Our Technologies, Your Tomorrow

