MOVE THE WORLD FORWARD MITSUBISHI HEAVY INDUSTRIES GROUP

# Status of 2015 Medium-Term Business Plan

February 2, 2017

Mitsubishi Heavy Industries, Ltd.

Shunichi Miyanaga, President and CEO



MITSUBISHI HEAVY INDUSTRIES, LTD.

As President and CEO of MHI, I am pleased today to present an overview of the current status of our 2015 Medium-Term Business Plan.

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To begin with, I will explain our current outlook for fiscal year 2016, having completed the first three quarters. Next, I will describe the progress made so far in carrying out our key initiatives. Finally, I will present a summary of where we now stand in terms of achieving the goals set out in our 2015 Business Plan.

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# I. FY2016 Forecast

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I will begin by explaining our current earnings forecasts for fiscal 2016.

## I. FY2016 Forecast – Overview

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・Orders received, net sales and operating income may drop somewhat due to booking delays and other factors.
・The outlook for net income, FCF, etc. remains unchanged from when 1H results were announced, due primarily to asset management impact. (However, SONGS continues to be a variable factor.)

| | FY2015 Actual | FY2016 Forecast (billions of yen) Previous* | | Current |
|---|---|---|---|---|
| Orders received | 4,485.5 | 4,800.0 | Possible fluctuation by approx. 100 billion yen due to booking delay | 4,800.0 |
| Net sales | 4,046.8 | 4,000.0 | | 4,000.0 |
| Operating income (Margin) | 309.5 (7.6%) | 240.0 (6.0%) | Risk of weakening due to sales fluctuations and other factors | 240.0 (6.0%) |
| Net income | 63.8 | 100.0 | Excluding SONGS, nearly unchanged | 100.0 |
| FCF | 7.5 | 100.0 | | 100.0 |
| ROE | 3.7% | 5.8% | | 5.8% |
| Foreign exchange rates | 119.7 yen/$ 132.6 yen/€ | 100 yen/$ 115 yen/€ | * Upon release of FY2016 2Q results (October 2016) | 110 yen/$ 120 yen/€ |

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FCF：Free Cash Flow　ROE：Return On Equity　SONGS：San Onofre Nuclear Generating Station

In fiscal 2016 we are still projecting that orders received will reach 4,800 billion yen and net sales will reach 4,000 billion yen. However, actual results may fall short of these figures by approximately 100 billion yen, due to the possibility of delayed booking until fiscal 2017 or later. For operating income, too, the year’s results may ultimately undershoot our current projection of 240 billion yen, owing to the delay in booking net sales.

Concerning net income and free cash flow, we are holding to our interim forecasts of 100 billion yen for both profits attributable to owners of parent and FCF, on the strength largely of asset management initiatives. However, both figures do not take into account potential fluctuations to reflect the result of the arbitration relating to-steam generators delivered to the San Onofre Nuclear Generating Station.

## I. FY2016 Forecast: Net Sales and Operating Income by Segment

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(in billion yen)

| | FY2015 | | FY2016 | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Current forecast (A) | | 1Q-3Q Result (B) | | A-B | |
| | Net sales | Operating income | Net sales | Operating income | Net sales | Operating income | Net sales | Operating income |
| Energy & Environment | 1,542.7 | 154.6 | 1,550.0 | 160.0 | 993.2 | 44.5 | 556.8 | 115.5 |
| Commercial Aviation & Transportation Systems | 548.5 | 54.5 | 500.0 | -25.0 | 360.5 | -28.3 | 139.5 | 3.3 |
| Integrated Defense & Space Systems | 485.0 | 25.7 | 450.0 | 28.0 | 310.1 | 19.1 | 139.9 | 8.9 |
| Machinery, Equipment & Infrastructure | 1,432.3 | 80.0 | 1,450.0 | 85.0 | 1,015.4 | 37.8 | 434.6 | 47.2 |
| Others | 177.3 | 12.6 | 160.0 | 12.0 | 119.7 | 6.5 | 40.3 | 5.5 |
| Eliminations or Corporate | -139.2 | -18.1 | -110.0 | -20.0 | -104.8 | -11.3 | -5.2 | -8.7 |
| Total | 4,046.8 | 309.5 | 4,000.0 | 240.0 | 2,694.2 | 68.4 | 1,305.8 | 171.6 |

**Status of domains**

**Energy & Environment**
Slight risk of change in operating income due to booking of service-related construction, etc.

**Commercial Aviation & Transportation Systems**
Overall level unchanged from when 1H results were announced, although forex fluctuations, etc. may affect some businesses.

**Integrated Defense & Space Systems**
Unchanged from when 1H results were announced.

**Machinery, Equipment & Infrastructure**
Net sales and operating income may still decline in tandem with booking delays to next fiscal year.




Here we see fiscal 2016 net sales and operating income forecasts for each of our four business segments.

In the Commercial Aviation & Transportation Systems domain, the overall projected levels are unchanged from those announced at the interim, although fluctuations for forex factors may affect some businesses.

In the Integrated Defense & Space Systems domain, our forecasts remain unchanged from those issued at midyear.

Results may finish below forecast in two domains: Energy & Environment and Machinery, Equipment & Infrastructure. In the former, operating income may change due to the booking of service-related construction. In the latter, there is a possibility that booking of net sales and operating income may be delayed until fiscal 2017.

# II. Progress of Main Measures

1. Overall Evaluation
2. Reorganization of Domains
3. Commercial Aircraft Business
4. Radical Reform of Commercial Ship Business
5. Three Major Joint-Venture Businesses



Next, I will explain the progress we have achieved with the measures we have been taking.

## II. 1. Overall Evaluation -1

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| | Results | Challenges |
|---|---|---|
| Business scale | ・From original 3 trillion yen, expanded beyond 4 trillion yen thanks to proactive M&A initiatives | ・Some uncertainty around achieving 5 trillion yen scale<br>- Delayed growth in core businesses owing to market sluggishness<br>- Accelerating declines in orders for commercial aircraft (Tier1) and commercial ships |
| Earning capacity | ・Operating income/EBITDA have been lifted through structural reforms and advances in portfolio management<br>Operating income: 2012 5.8% → 2015 7.6%<br>EBITDA margin: 2012 10.0% → 2015 11.9% | ・Slow growth in operating income ratio (FY2016 forecast: 6% [vs. 8.0% target])<br>- Deterioration in earnings of Commercial Aviation & Transportation Systems domain, etc.<br>- Delayed growth in earnings from core products (power generation systems, etc.) |
| Financial foundation | ・Decreases in interest-bearing debt and D/E ratio, from thorough cash flow management and asset management (liquidation of non-core assets) | ・Challenges for achieving targeted increase in equity capital<br>- Deterioration exceeding factored-in cruise ship losses, MRJ development, etc. (recovery to require approx. 2 years) |
| Organizational efficiency | ・Promotion of BPO of service operations Printing & copying (FXSVL), Overseas salary/attendance management (IBM)<br>・17 business transfers completed (including minority investment JVs) (2013 through FY2016-3Q) * See p.25-26 | ・Delayed efficiency improvements in indirect management sectors<br>- One reason for delayed achievement of earning capacity enhancement target<br>・Insufficient strengthening of global response capability in tandem with clarification of local functions |

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M&A: Mergers & Acquisitions EBITDA: Earning Before Interest, Taxes, Depreciation and Amortization BPO: Business Process Outsourcing FXSVL: Fuji XEROX Service Link MRJ: Mitsubishi Regional Jet

As an overall evaluation of the progress achieved so far in carrying out our 2015 Medium-Term Business Plan, I will describe our results to date and the challenges remaining before us.

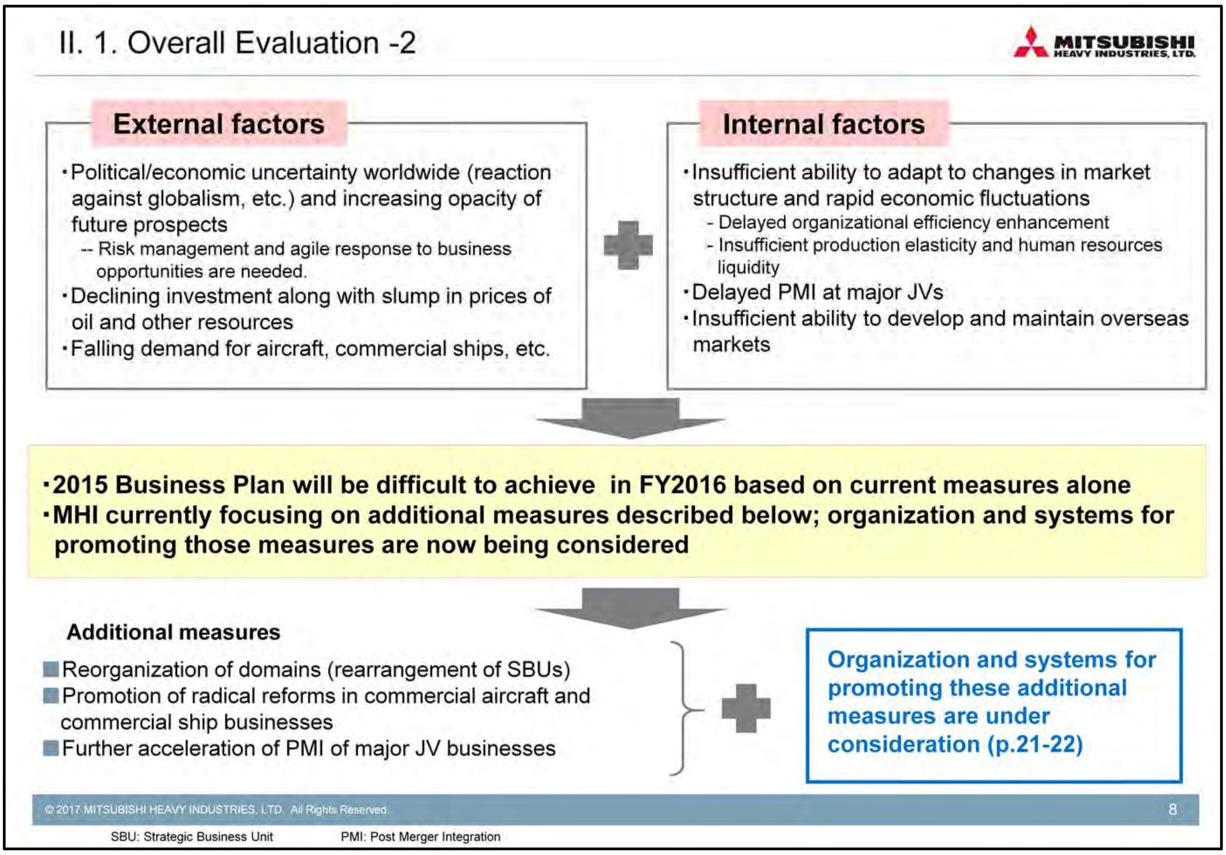
First, although we have been able to expand our business scale beyond 4 trillion yen as a result of proactive M&A initiatives, some uncertainty still lingers toward our ability to achieve a scale of 5 trillion yen. Specifically, growth in our core businesses is delayed because of sluggish market conditions. Also, reduced orders of components for Boeing’s large aircrafts are taking a toll – and Boeing is our main customer in the commercial aircraft business.

Second, in terms of earning capacity, our operating margin is marking only slow growth. On the one hand, operating income and EBITDA have been lifted through structural reforms and advances in portfolio management; on the other hand, earnings in our Commercial Aviation & Transportation Systems domain have deteriorated sharply and beyond our expectations. Growth in earnings from our core products – power generation systems, for example – has also been delayed.

Third, concerning our financial foundation, on the positive side, through cash flow management and asset management in the form of liquidation of our non-core assets, we succeeded in reducing our interest-bearing debt and D/E ratio. However, losses from our cruise ship construction business have worsened and other costs including the MRJ development have increased. As a result, our plans for building up shareholders' equity are behind schedule, and we now believe approximately 2 years will be needed to achieve recovery.

Fourth, with respect to organizational efficiency, we made progress in promoting BPO of our service operations. Specifically, we have outsourced our printing and copying processes to Fuji XEROX Service Link and our overseas salary and attendance management work to IBM; moreover, we completed 17 business transfers, including the establishment of minority-investment JVs. These positive points aside, we still need to further improve efficiency in our indirect management sectors; and we face challenges in terms of clarifying local functions – including those in Japan – and strengthening our global response capability.

All of the challenges enumerated here must be resolved as quickly as possible.



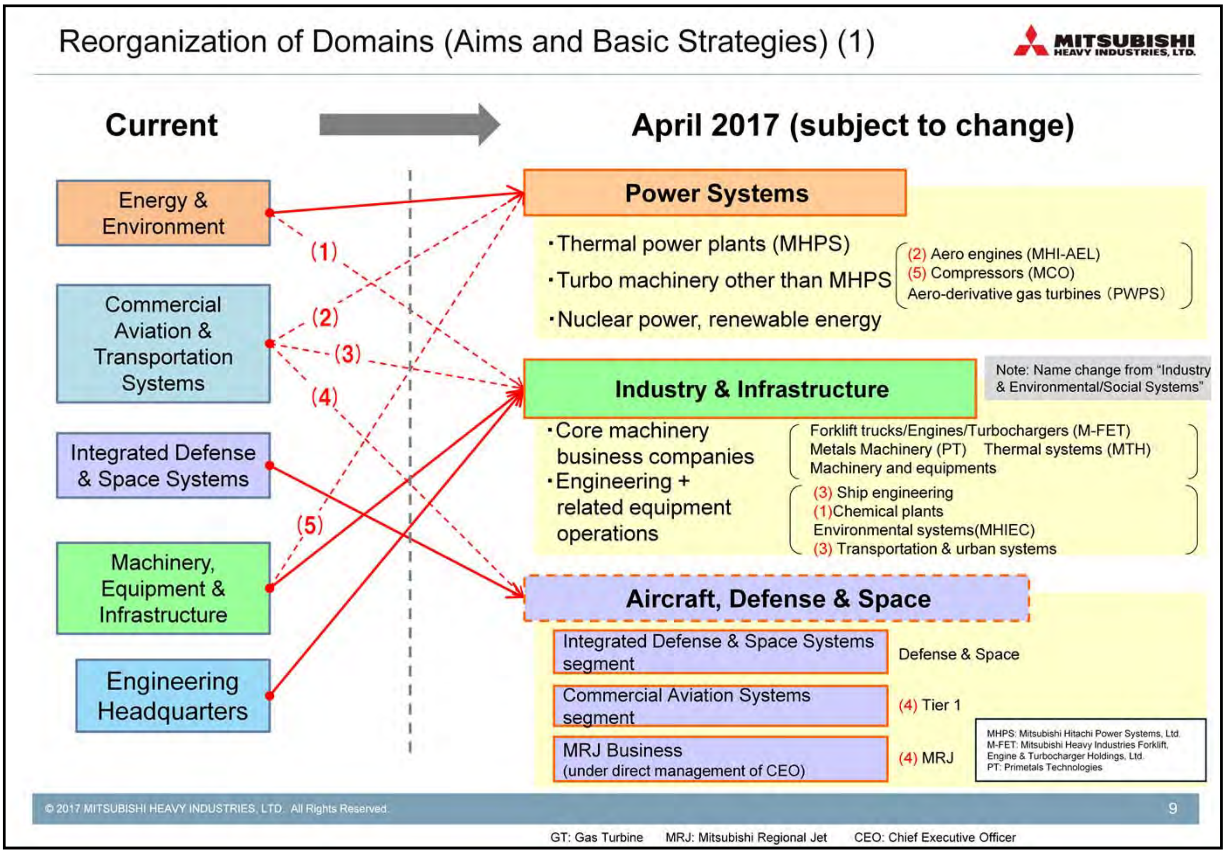

Next, I would like to present an overall evaluation of the external and internal issues we are currently facing.

As to external factors, today we are seeing increased political and economic uncertainty worldwide – for example, moves against globalization – and ever-greater opacity of future prospects. Together these factors demand risk management and agile response to business opportunities unlike those we have experienced before.

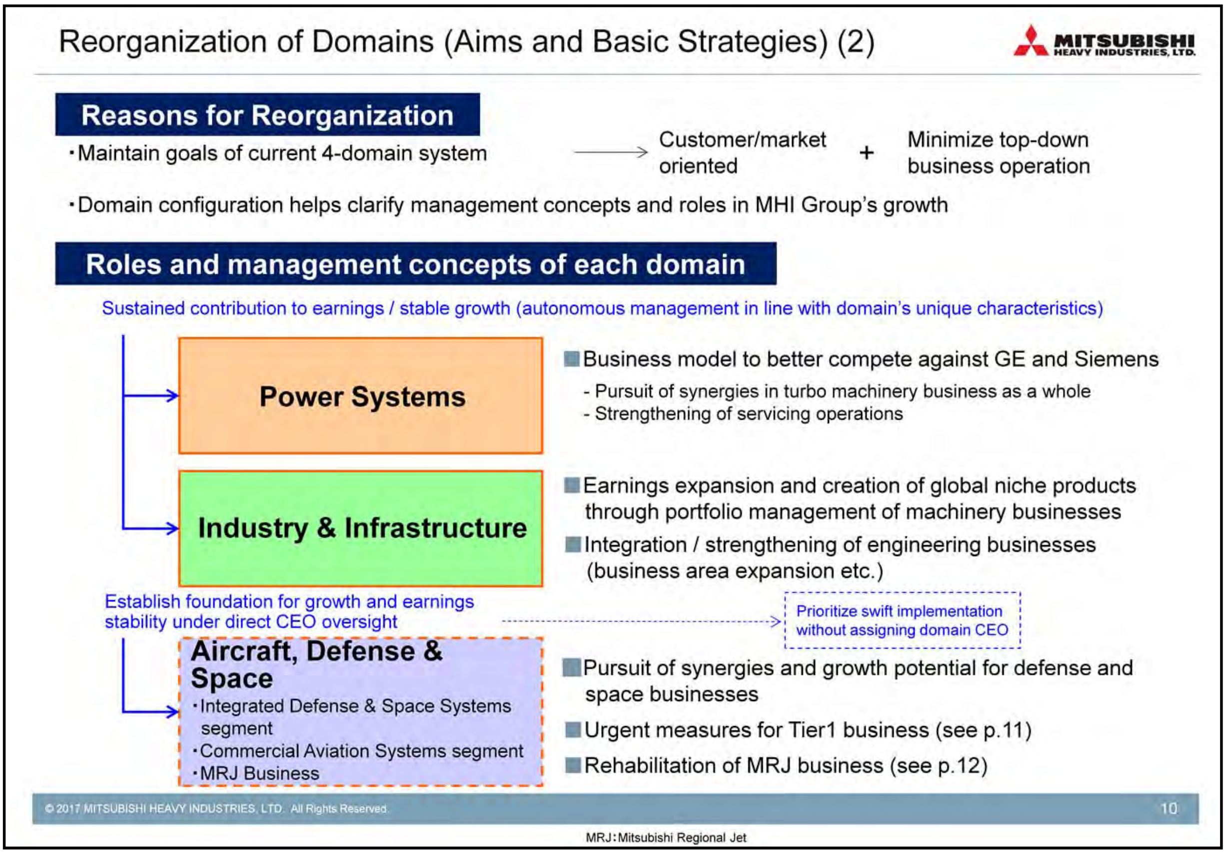
Regarding internal factors, we are hindered by inadequate ability to adapt to changes in market structure and rapid economic fluctuations. In order to respond to these changes, we must pursue greater organizational efficiency, production elasticity, and liquidity of human resources. Achieving these improvements is a task of great urgency.

When we announced our interim results of fiscal 2016, I pointed out that in order to achieve our 2015 Business Plan, in addition to the measures already underway, we had forged a number of additional measures: namely, reorganization of our domains, including rearrangement of our SBUs; promotion of radical reforms in our commercial aircraft and commercial ship businesses; and further acceleration of PMI at our major JV businesses.

To carry out these measures effectively, I believe we need a new organization and systems for driving them forward.




Now, I would like to turn to the additional measures now in focus. The first is reorganization of our domains. Currently, we have four domains: Energy & Environment; Commercial Aviation & Transportation Systems; Integrated Defense & Space Systems; and Machinery, Equipment & Infrastructure. In addition, we have the Engineering Headquarters, part of our corporate shared technology framework. In April 2017 we will undertake reorganization into three domains: Power Systems; Industry & Infrastructure; and Aircraft, Defense & Space.



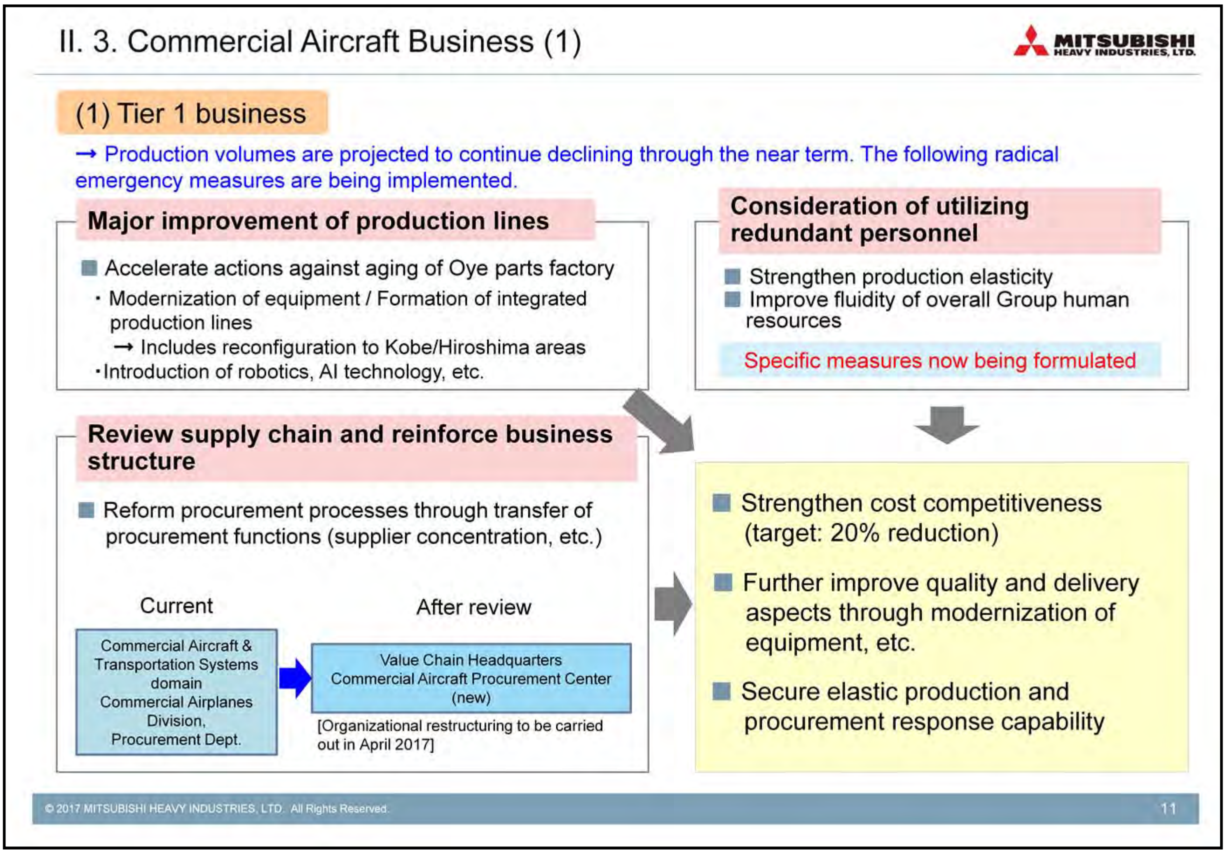

Some people may wonder why we are undertaking reorganization this way so soon after transitioning to our current 4-domain system. We are doing so because we believe organizational reforms should be carried out with speed. The reason behind the new reorganization is to clarify the roles and management concepts of each domain in the MHI Group's overall growth. Although we will be reducing the number of domains from 4 to 3, the goals of the domain system itself will remain unchanged: namely, to be customer and market oriented, and to minimize vertical silos within our businesses.

The roles and management concepts of the new Power Systems and Industry & Infrastructure domains will be to make sustained contributions to earnings and to achieve stable growth through autonomous management in line with the domain's unique characteristics. Each of these domains has a business scale of 2 trillion yen, and we anticipate that through further concentration into their core competencies they will achieve even greater improvement in profitability. On the back of those improvements, we intend to leverage the benefits of our reforms to foster what will become our long-term core businesses.

Insofar as the new Power Systems domain is concerned, we will build a business model enabling us to compete against GE and Siemens utilizing our unique advantages. To achieve that, we will pursue synergies in the turbo machinery business as a whole and strengthen our servicing operations.

As to the Industry & Infrastructure domain, we will seek earnings expansion through portfolio management of all machinery businesses, and also aim to reap benefits as an industry survivor through the creation of global niche products. In addition, we will strive to strengthen business by consolidating and integrating our engineering segment, which until now has served in a supporting role to our various businesses.

Regarding the other new domain – Aircraft, Defense & Space – its role and core management concept will be to swiftly establish a foundation for achieving growth and stable earnings. Although business in the current Integrated Defense & Space Systems segment has been stable, bold measures are needed to ensure future growth: this includes pursuing synergies with consumer products. In the Commercial Aviation Systems segment, urgent measures are needed to enable earnings recovery in our Tier1 business with Boeing. Concerning the MRJ, development is making steady strides forward, but as a still viable business, rehabilitation is needed. Initially, the Aircraft, Defense & Space domain will not have an appointed CEO. Instead, to enable swift decision-making and business advancement, I will oversee this domain directly.




Next, I will discuss the urgent measures being taken relating to our Tier1 business in commercial aircraft.

In our Tier1 business operations for Boeing, we expect that production volumes of the B777 will continue to decline in the near term. As radical urgent measures to cope, we will make significant improvements to our production lines, consider measures for utilizing redundant human resources, and review our supply chain as a way of reinforcing our business structure.

First, in terms of significantly improving our production lines, to enable renovations of our aging Oye parts factory, we will transfer production for some Boeing models to our Kobe and Hiroshima plants partially. We will also undertake equipment modernization, build integrated production lines, and introduce robotics and AI technology.

Second, in reference to considering how to make optimal use of redundant human resources, because conventional work tasks are decreasing along with the introduction of robotics and AI technology, it’s necessary to shift employees to other types of work or other professional skills, and also to secure production elasticity. For these purposes, we are currently considering putting programs together for promoting the liquidity of the MHI Group’s human resources as a whole.

Concerning the third item – reviewing our supply chain and reinforcing our business structure – this provides a good opportunity for reforming our procurement processes. Specifically, procurement that until now has been performed by the Commercial Airplanes Division’s Procurement Department in Nagoya, will be transferred to the Value Chain Headquarters, and a “Commercial Aircraft Procurement Center” will be established.

Through the various measures I have described here, we will strengthen our cost competitiveness, improve quality and delivery through modernization of equipment, and achieve elastic production and more effective procurement response capabilities.

## II. 3. Commercial Aircraft Business (2)

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### (2) MRJ Business (Outline announced on January 23)

- Changes to delivery schedule of first aircraft
  → Target: end-2019 Outlook: mid-2020 (previous outlook: mid-2018)
- Complete the development of the world's most sophisticated regional jet by strengthening business promotion structure
  → Under direct management of CEO, expand use of international experts, innovate production processes, create specialized development teams and implement future differentiation technologies
- Strengthen relations (customer, partner, relevant institutions), marketing strategies and market responses
- Building sufficient response capability as a Group to increasing development costs and longer investment return periods
- Determination to undertake commercial aircraft business as a Group

Airframe in final assembly stage

Flight test in Japan

Test aircraft parked at Moses Lake

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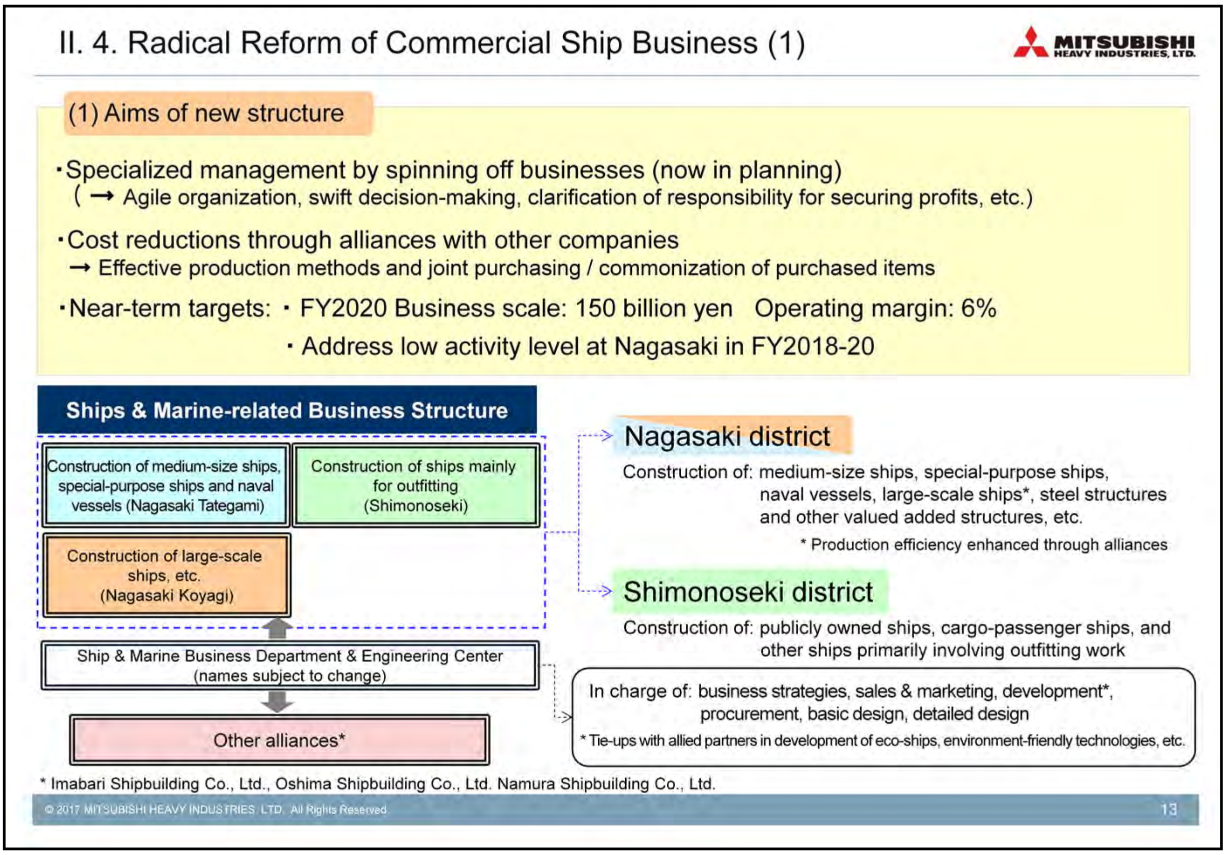
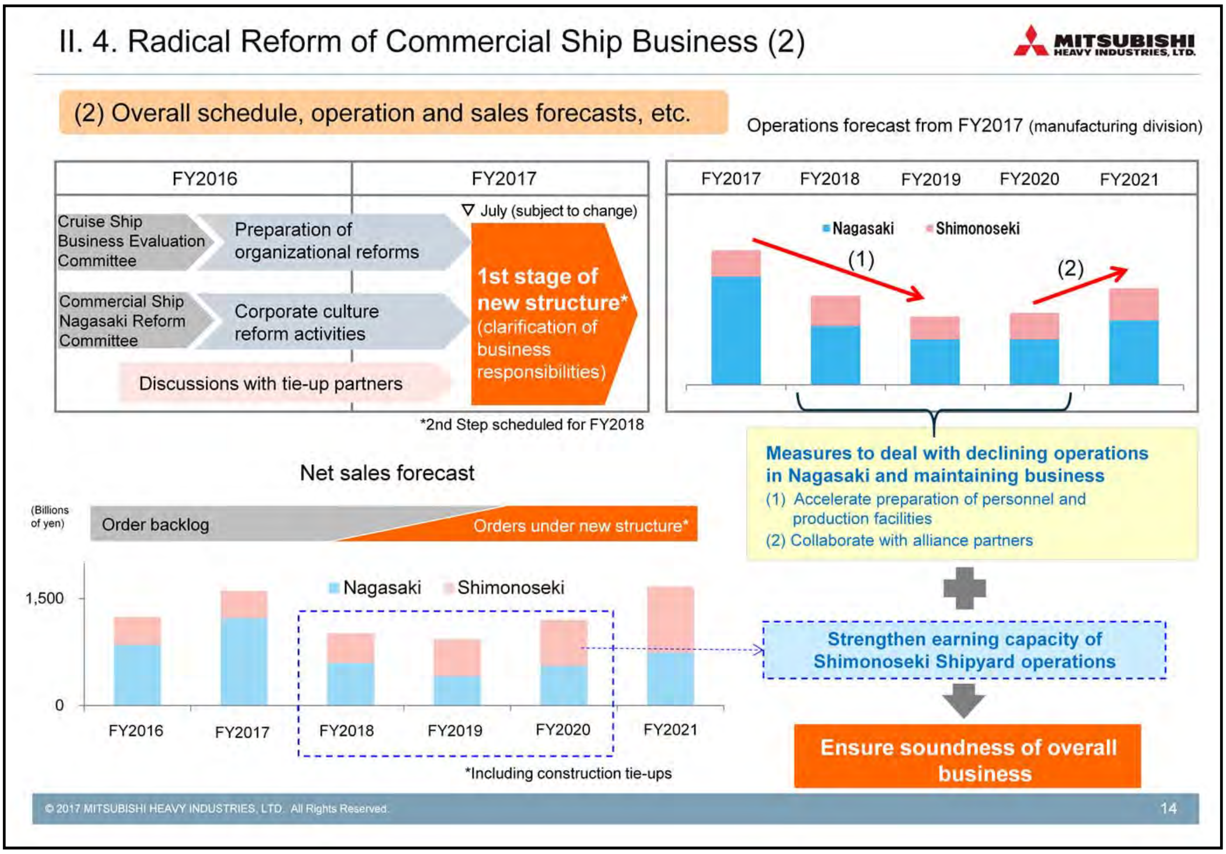
MRJ：Mitsubishi Regional Jet CEO：Chief Executive Officer

Concerning our MRJ business, as announced on January 23rd, we have pushed back the delivery schedule of our first aircraft to mid-2020. Despite this change, by strengthening our business promotion structure we are moving toward completion of development of the world's most sophisticated regional jet. In the long-term, we believe there is great significance in the MHI Group taking the business initiative to develop and produce commercial aircraft.




Next, I will explain the radical reform of our commercial ship business.

We are currently planning to carry out specialized management of our commercial ship business by spinning off units as a whole. In addition to clarifying the roles of the various plants, we will pursue cost reductions by enhancing production efficiency and engaging in joint purchasing and communization of purchased items through alliances with other companies: for example, Imabari Shipbuilding, Oshima Shipbuilding and Namura Shipbuilding. Through such measures, we will gradually transition to a configuration suited to specialized management.




Here we see our overall schedule for radically reforming our commercial ship business. For the first stage, this July we will put in place the business structure for ships and marine-related products described on page 13, and undertake clarification of business responsibilities. For the second stage, in fiscal 2018 we will focus on organizing the business structure.

Our operations forecast and net sales forecast are shown in the two graphs. As you can see, operations and net sales will both decline sharply starting in fiscal 2018, but recovery is projected from around fiscal 2021. While operations and net sales will hold relatively steady at the Shimonoseki Shipyard, Nagasaki is expected to slip into a declining trend. As such, we will take proactive measures to deal with declining operations at Nagasaki and simultaneously seek to strengthen the earning capacity of Shimonoseki's operations. By driving these reforms forward, we aim to realize a business structure that will generate earnings even amid a severe business environment.

## II. 5. Three Major Joint-Venture Businesses (1) -- MHPS

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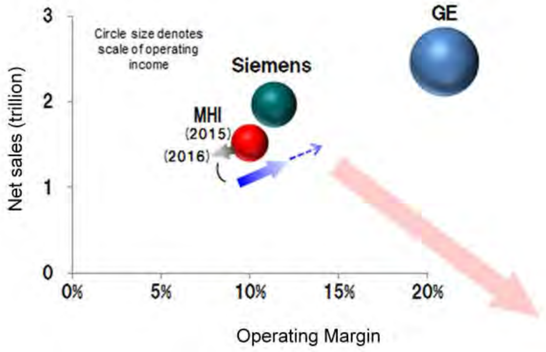
### (1) MHPS (1/2)

Comparisons with power divisions of competing companies (net sales, earning capacity)

MHI (Power Systems business + MHPS) continues to lag behind GE and Siemens in business scale and earning capacity




| | MHI | Siemens | GE |
|---|---|---|---|
| Period | Apr 2015-Mar 2016 | Oct 2015-Sep 2016 | Jan-Dec 2015 |
| Exchange rate | — | ¥120/€ | ¥115/$ |

Areas in which MHI should learn from competitors, to be improved and strengthened

- Management that enables sustained growth, even while focusing on short-term profits
  → Consider examples from GE
- Diversified and dynamic local sales strength
  → Especially servicing operations
- Highly efficient global production and procurement systems
  → Response measures described on next page

Numerical targets for improvement (MHPS)

| | 2016 outlook | 2018 target | 2020 target |
|---|---|---|---|
| Net sales (trillion) | 1.1 | 1.3 | Over 1.5 |
| Operating income (margin) (billion) | 100 (9%) | 150 (12%) | 200 (14%) |

MHPS: Mitsubishi Hitachi Power Systems, Ltd.

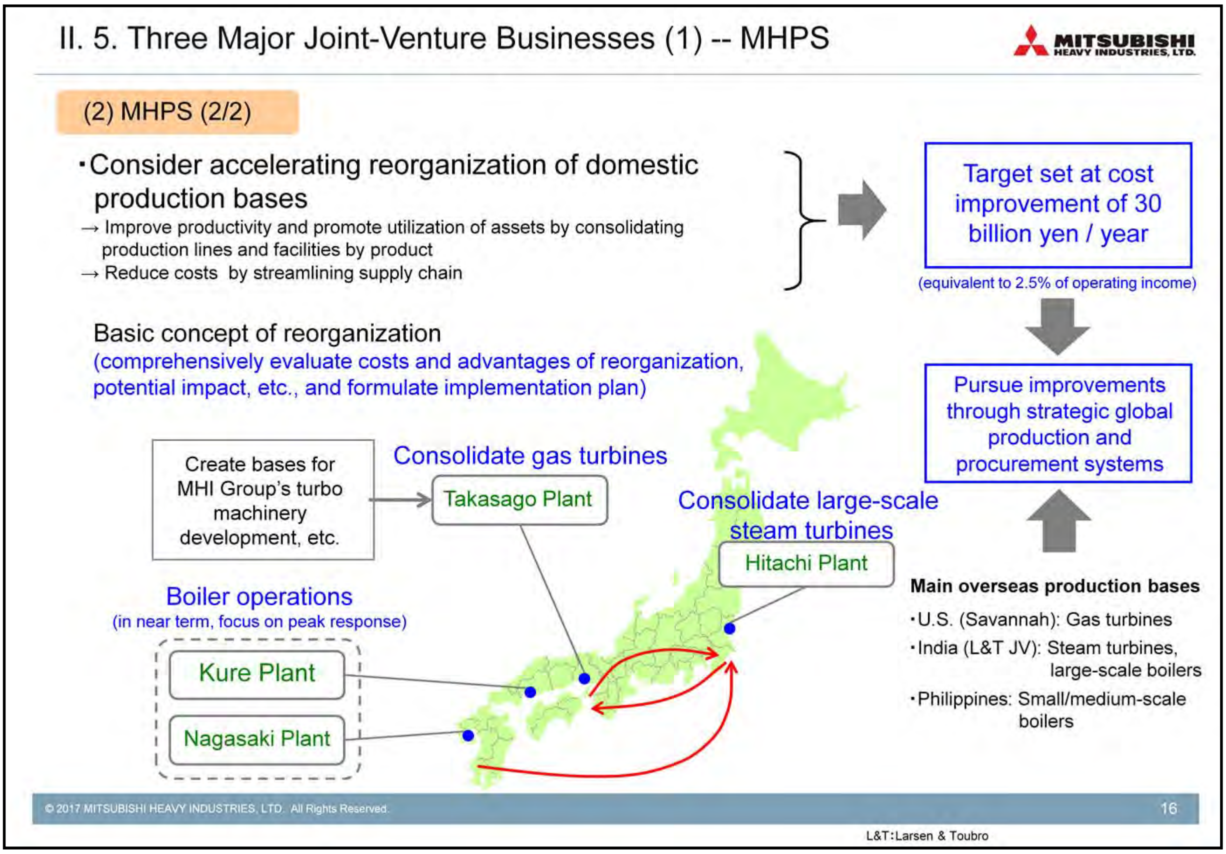
Next, I will introduce the initiatives being taken at our three major joint-venture businesses.

First, I will explain about Mitsubishi Hitachi Power Systems, or MHPS, a JV in our Power Systems domain. A comparison with the net sales and earning capacity of the power divisions of competing companies – namely, GE and Siemens – shows that whereas both GE and Siemens are posting net sales near the equivalent of 2 trillion yen, MHPS is projected to register 1.1 trillion yen in sales in fiscal 2016. When other Power Systems business is added to MHPS's net sales, and MHI's power division is compared as a whole, we still find a lag behind GE and Siemens with respect to both business scale and earning capacity. For this reason, MHI needs to learn from its competitors and take steps to improve and strengthen its operations.

Specifically, while focusing on short-term profits, we will pursue management enabling sustained growth. In particular we will study the initiatives taken by GE, which boasts outstanding profitability even though the operating ratios of its factories seem not to be particularly high.

Next, another area that we believe needs reinforcing is diverse and dynamic local sales strength. Although we already possess strengths at home in Japan and in Southeast Asia, our local sales capabilities in other regions need to be improved and strengthened quickly.

One further need is for us to put together highly efficient global production and procurement systems. Although MHI doesn't appear to differ greatly from GE and Siemens with respect to orders received or factory operating ratios, GE is able to maintain outstanding earnings. This suggests that GE outstrips MHI in terms of the efficiency of its global production and procurement systems, and we must therefore draw up measures to respond. Our response measures are described on the next page.

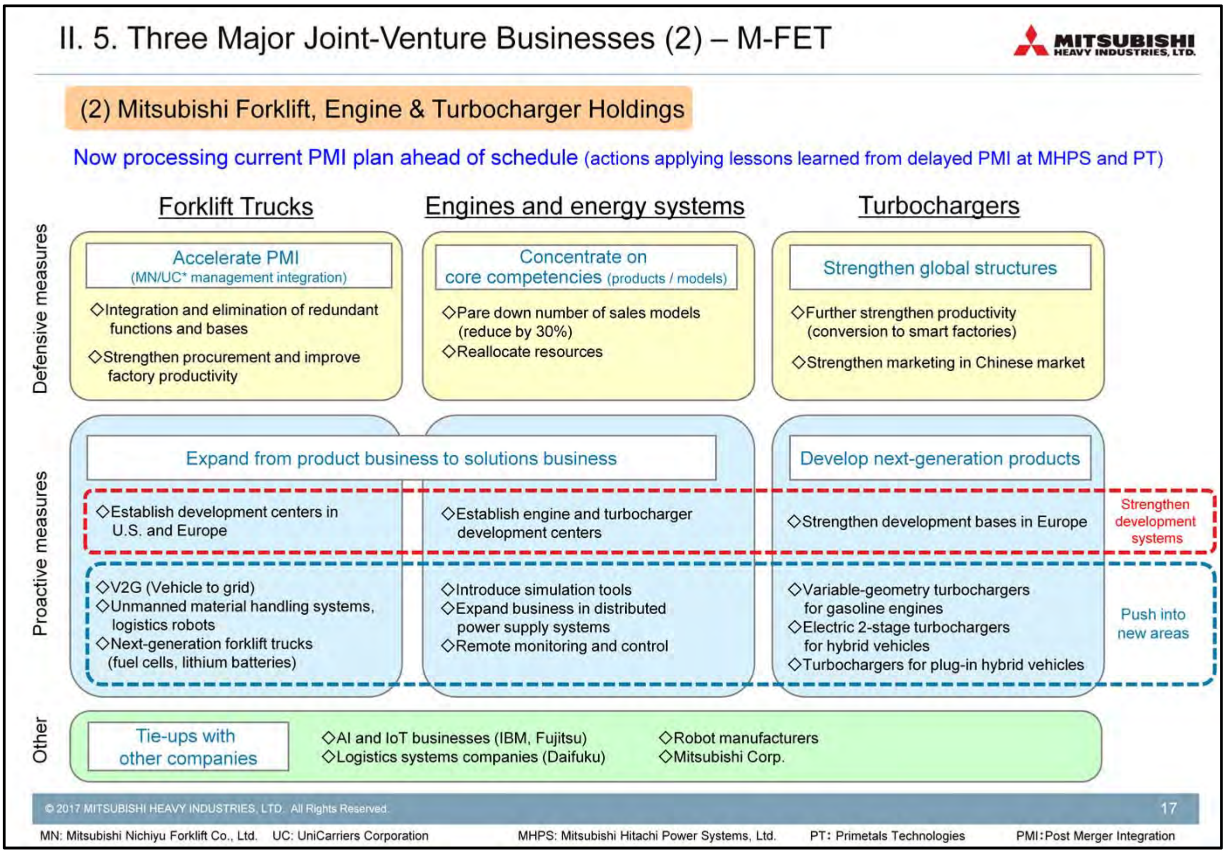



Here, we describe the steps to accelerate the reorganization of MHPS's domestic production bases. Compared to its competitors, MHPS has more production plants and produces more types of products. What is needed therefore is to improve productivity and promote greater use of assets through consolidation of production lines and plants by product.

Specifically, we will consolidate gas turbine operations to the Takasago Plant and large-scale steam turbines to the Hitachi Plant. As to boilers, a product involving an extremely heavy workload, we will respond to peak demand through unified operation of all related plants, including those at Kure and Nagasaki as well as in India, the Philippines and so on.

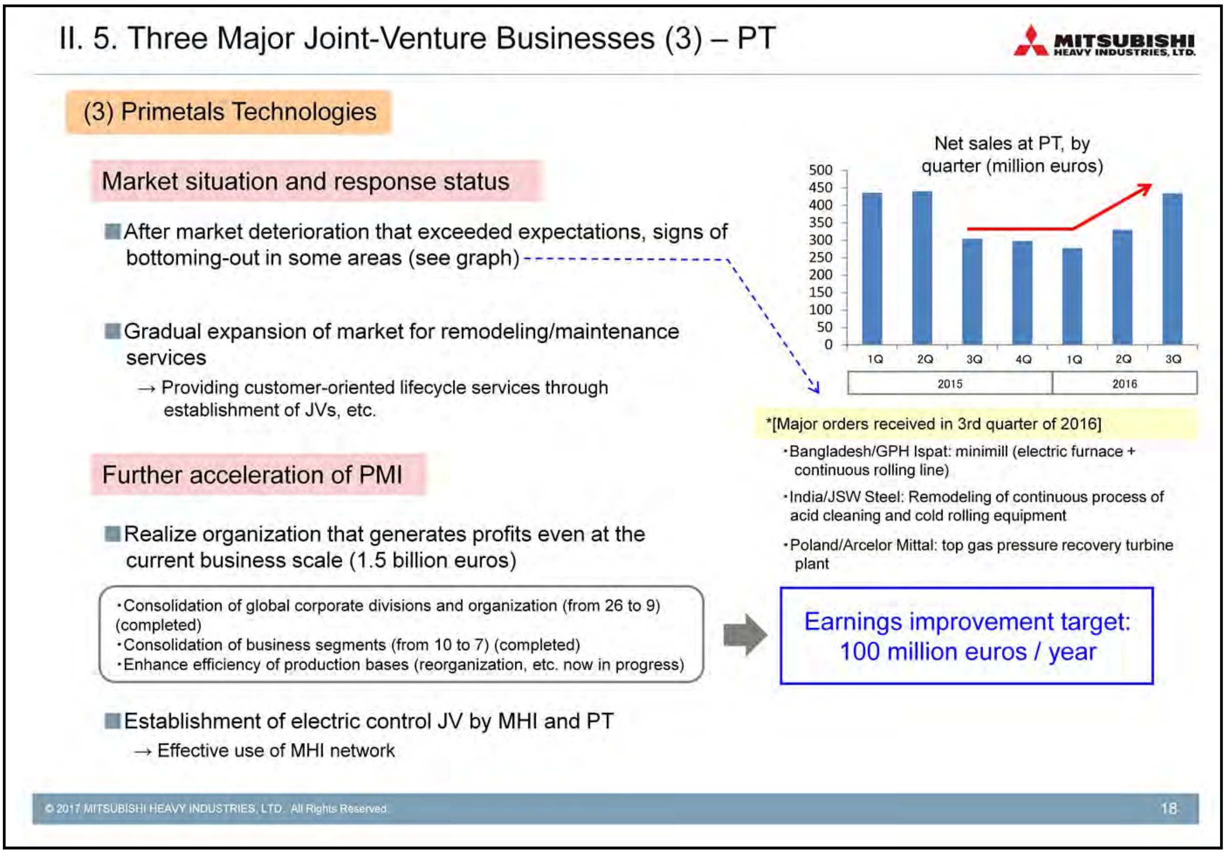
We will also strive to reduce costs through streamlining of our supply chain.

Currently, we are comprehensively evaluating the costs and advantages of this reorganization scheme and the potential impact it will have in various ways, and we are now preparing an implementation plan. Our target is set at a cost improvement of 30 billion yen per year. In terms of operating margin, we expect an increase of about 2.5 points, to over 12%. Even at that level, however, it will still not reach the levels of GE or Siemens; so we aim to further approach these competitors' levels by putting in place strategic global production and procurement systems.




Now I will turn the situation at our second major JV business: Mitsubishi Forklift, Engine & Turbocharger Holdings, or M-FET.

Today, applying the lessons we have learned from the cases of MHPS and Primetals Technologies, or PT, we are moving forward with a post-merger integration, i.e. PMI, plan ahead of our original schedule. As defensive measures, we will pursue the integration and elimination of redundant functions and bases. As proactive measures, we will strengthen our development systems and push into new areas. Additionally, we will actively move to form tie-ups with other companies.

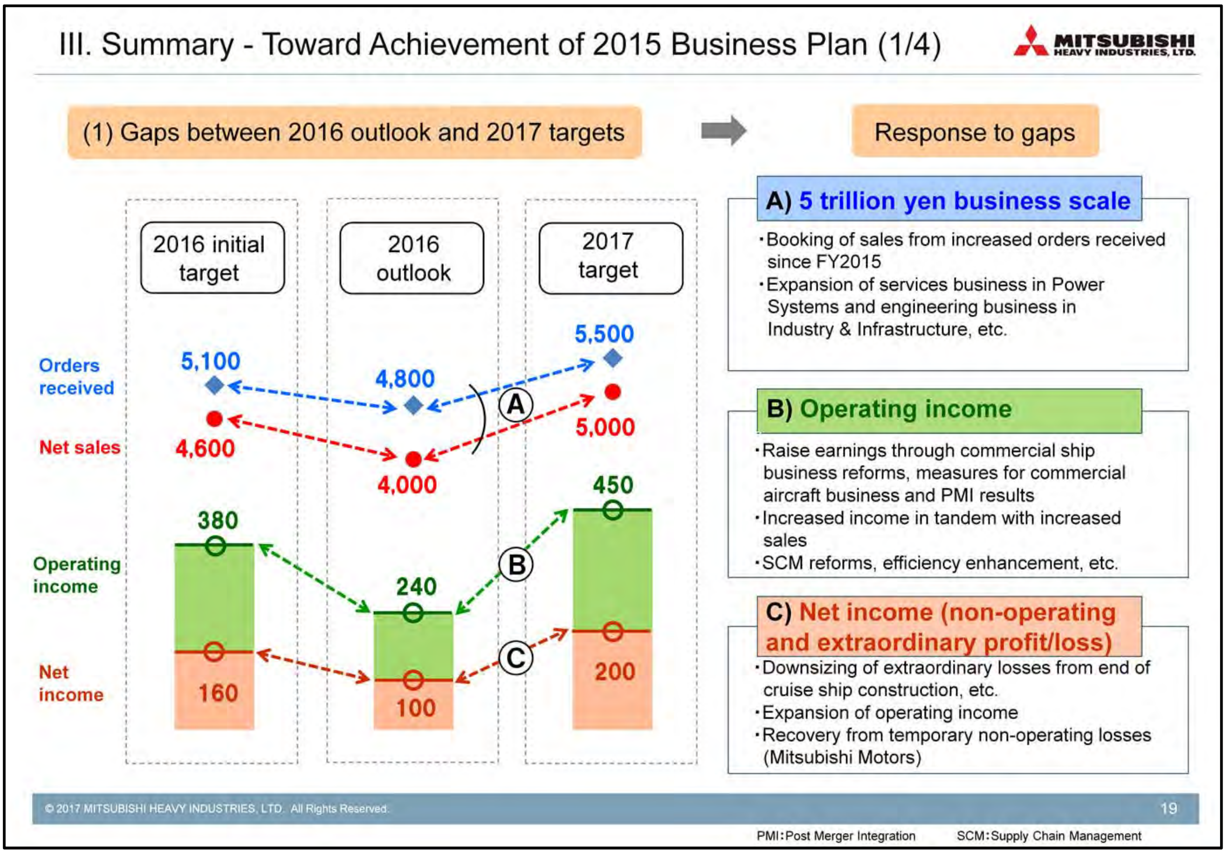



Now, I will explain regarding our third major JV business, Primetals Technologies.

Since PT was established in January 2015, the environment surrounding the global market for metals machinery has deteriorated sharply, mainly due to production overcapacity in China. However, there are signs of a bottoming-out, in places like Southeast Asia, India and Poland. Also the market for remodeling and maintenance services is gradually expanding, and going forward we expect business to increase from the U.S. and elsewhere.

Concerning PMI at PT, consolidation has already been completed of the global corporate divisions and organization and the business segments. The resulting improvement in efficiency will enable a transformation to an organization that can generate profits even at the current business scale of 1.5 billion euros – or 180 billion yen, converted at a rate of 120 yen to the euro.

Also, through the establishment of a JV between MHI and PT, which has a solid presence in electric control in Europe and the U.S., we look to increase the added value of this business.



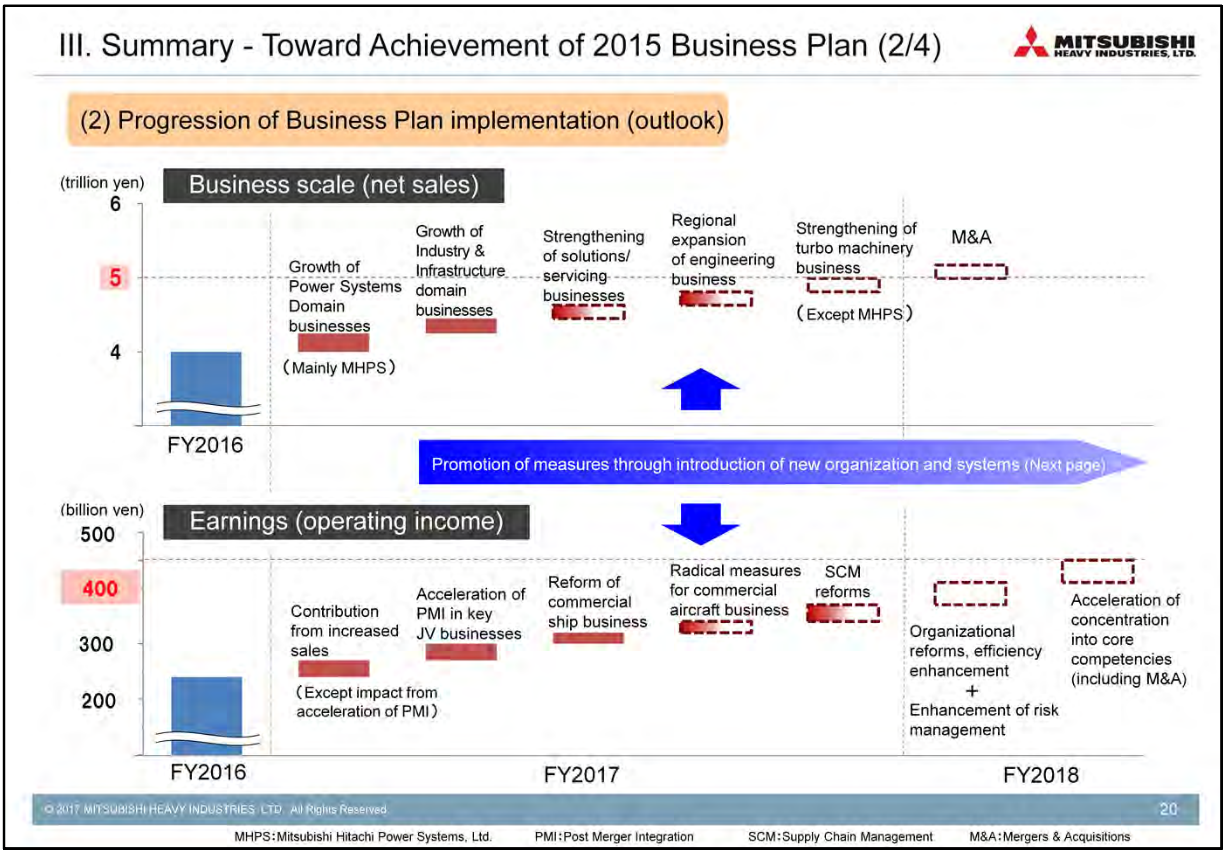

As a summary of where we currently stand toward achieving our 2015 Business Plan, here we present what gaps exist between the 2016 outlook and our 2017 targets.

Mid way through fiscal 2016, we revised our earnings outlook for 2016 downward from our initial targets. The current outlook for 2016 now estimates orders received of 4,800 billion yen, net sales of 4,000 billion yen, operating income of 240 billion yen, and net income of 100 billion yen.

Although we face difficulties achieving the 2017 targets that were set when the 2015 Business Plan was formulated in May 2015, we believe achieving over 5 trillion yen in orders received should still be possible. With regard to net sales, in light of the backlog of orders received until now, we think the way toward achieving a target of 5 trillion yen will come into view depending on two factors: how quickly those back orders will be booked to sales, and the extent to which expansion is possible in the Power Systems' services business and the Industry & Infrastructure's engineering business.

Regarding operating income, in our quest to achieve the 2017 target we will pursue increased earnings compared to 2016 from various sources. These will include: recovery from 2016's decreased income, which stemmed largely from the commercial ship business; increased sales; reforms in supply chain management in the commercial aircraft business; and enhanced efficiency to come from PMI progress and other factors.

Concerning net income, we believe it should be possible to post results close to our 200 billion yen target, primarily for two reasons. Extraordinary losses will be downsized as cruise ship constructions draw to a close, and the temporary non-operating losses largely attributable to Mitsubishi Motors will be eliminated in 2017.

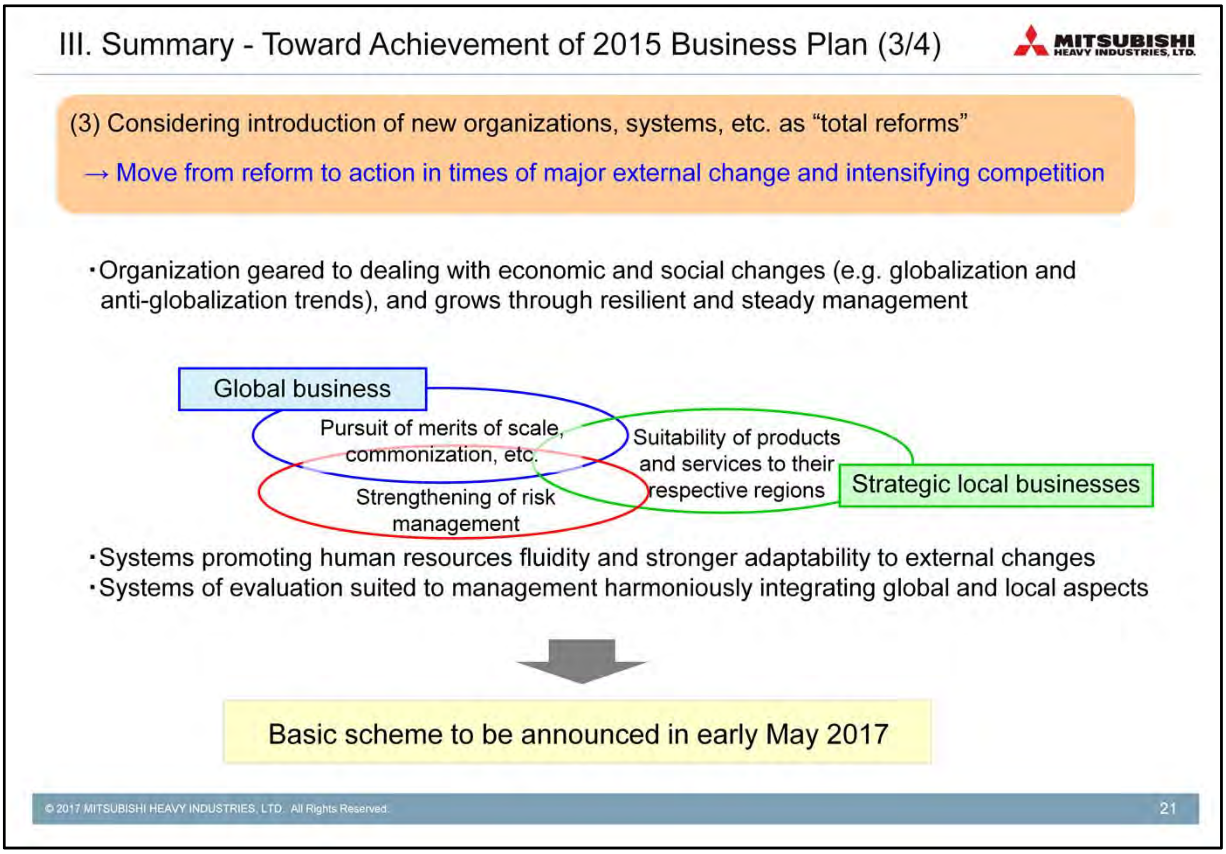



Next, I will explain how we envisage towards achieving our 2015 Business Plan by taking various measures. The graphs indicate how, through various measures, we expect net sales and operating income to increase starting in fiscal 2017, compared to the current earnings outlook for 2016.

With respect to measures being taken to expand our business scale, i.e. net sales, we anticipate solid business growth in the Power Systems and Industry & Infrastructure domains.

As to the strengthening of our solutions and servicing businesses and regional expansion of our engineering business, we believe we are already approaching the halfway mark toward reaching our targets. The Doha Metro project will be at peak level, and negotiations are underway on high-speed railway systems for India, Malaysia and Singapore. To drive growth even further, we will strengthen our turbo machinery business – other than MHPS – and pursue further mergers and acquisitions.

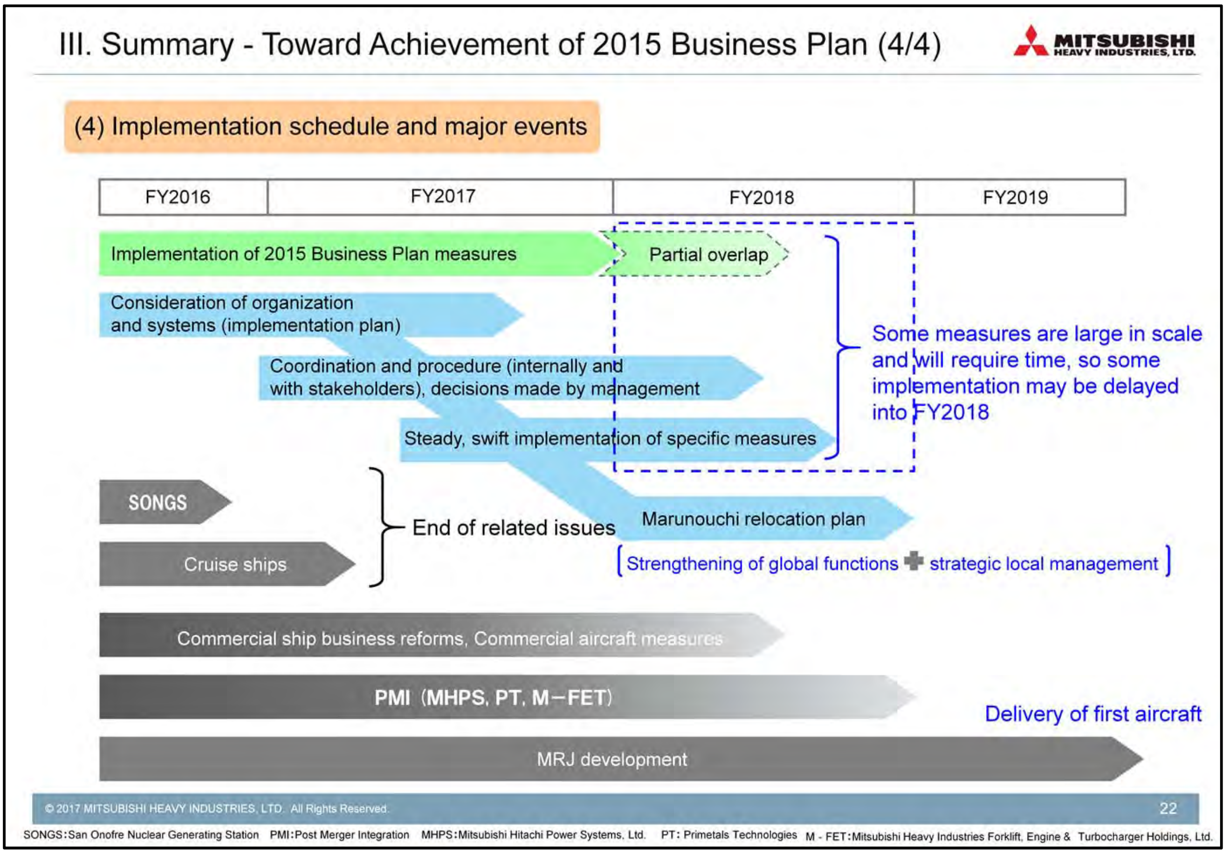
Concerning measures being taken to expand our operating income, prospects are relatively bright for achieving positive contributions from increased sales, acceleration of PMI at our major JV businesses – MHPS, PT and M-FET – and reforming our commercial ship business. Insofar as radically reforming our commercial aircraft Tier1 business is concerned, however, we are only halfway toward our target owing to impact from a sharp slowdown in production volume. The same level of achievement holds true for our SCM reforms. But through organizational reforms, efficiency enhancement, stronger risk management, plus acceleration of concentration into core competencies, including M&A activity, we aim toward achievement of the targets set out in our 2015 Business Plan.




In order to drive forward these various measures and transition from a phase focused on reforms to a phase of proactive action in these times of great changes in our external environment and intensifying competition, we believe we must introduce new organizations and new systems as the culmination of our reforms.

As being a global business in times of economic and social rifts between pro- and anti- globalization forces, it’s necessary not only to pursue merits of scale, communization and so on; we must also strengthen risk management to prevent risks from proliferating and expanding. Furthermore, as being strategic local businesses, it’s necessary to pursue good matching of products and services to each specific region.

In order to move forward in these ways, we will be transitioning to systems that promote human resources fluidity and stronger adaptability to external changes, as well as systems suited to management that harmoniously integrates global and local aspects. We intend to announce our basic scheme in early May, simultaneous with the release of our 2016 earnings results.




As the last part of our summary, I would like to explain the implementation schedule and major events in the run-up toward achieving our 2015 Business Plan.

Among the various measures being taken toward achieving our 2015 Business Plan, including additional reinforcement measures, some are large in scale and require considerable time, thus giving rise to the possibility of a partial delay in their implementation into fiscal 2018. We will continue to make every effort to enable achievement of our goals. We will also strive to strengthen our global functions and build a strategic local management framework. At the same time, preparations will go forward toward moving our global headquarters functions to Marunouchi.

Concerning arbitration relating to SONGS, this issue is expected to draw to a close within the fiscal 2016 term. With reference to the second cruise ship under construction for AIDA Cruises, delivery is now scheduled for the first quarter of fiscal 2017.

Commercial ship business reforms and commercial aircraft measures will be completed in fiscal 2017 and 2018, so we expect to reap benefits from these improvements thereafter.

As to PMI at MHPS, PT and M-FET, we anticipate related measures will take until the end of fiscal 2018 to be completed.

As for the MRJ, development will peak between fiscal 2017 and 2019. Plans now call for delivery of the first aircraft, to All Nippon Airways, in fiscal 2020.

By fully implementing our various reform initiatives in 2017 and 2018, we believe it will become possible to move forward under completely different growth strategies starting from fiscal 2019.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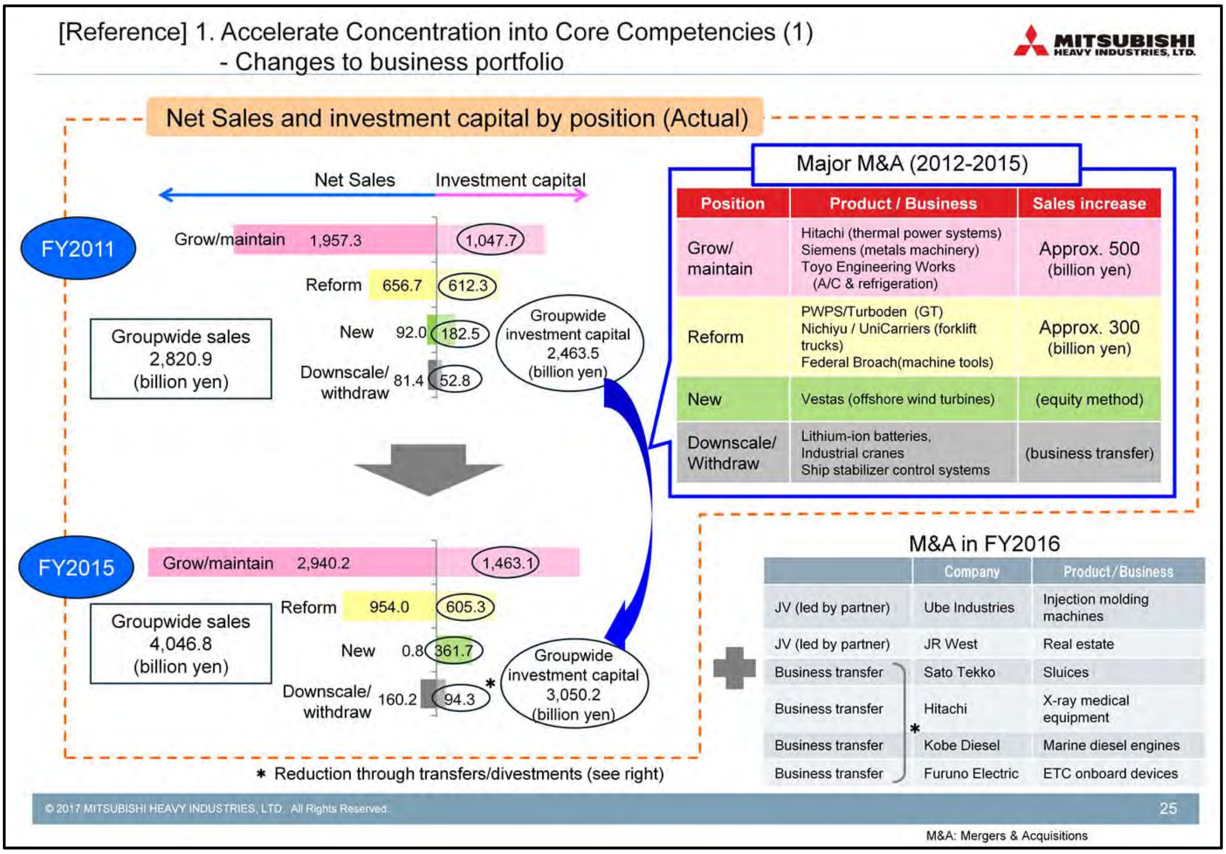
# Reference Materials




| Position | Product / Business | Sales increase |
|---|---|---|
| Grow/ maintain | Hitachi (thermal power systems) Siemens (metals machinery) Toyo Engineering Works (A/C & refrigeration) | Approx. 500 (billion yen) |
| Reform | PWPS/Turboden (GT) Nichiyu / UniCarriers (forklift trucks) Federal Broach(machine tools) | Approx. 300 (billion yen) |
| New | Vestas (offshore wind turbines) | (equity method) |
| Downscale/ Withdraw | Lithium-ion batteries, Industrial cranes Ship stabilizer control systems | (business transfer) |

| | Company | Product/Business |
|---|---|---|
| JV (led by partner) | Ube Industries | Injection molding machines |
| JV (led by partner) | JR West | Real estate |
| Business transfer | Sato Tekko | Sluices |
| Business transfer | Hitachi | X-ray medical equipment |
| Business transfer | Kobe Diesel | Marine diesel engines |
| Business transfer | Furuno Electric | ETC onboard devices |

This completes the main part of my presentation. As reference materials, however, we have added two pages introducing how concentration into core competencies is being accelerated. Here, I will explain briefly what changes are taking place in our business portfolio.

Here we see the net sales and investment capital figures for fiscal 2011 and 2015, broken down by strategic business evaluation. We are striving to expand net sales in businesses in the grow/maintain position that are set to grow through focused investments of capital.

The increased investment into downscale/withdraw businesses is due to accelerated concentration into core competencies, with a number of businesses newly earmarked for downscale/withdraw: for example, injection molding machines and sluices.

## [Reference] 1. Acceleration of Concentration into Core Competencies (2) – M&As

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| ■ :Overseas<br>Blue :FY2016 initiatives | | Company | Product/Business | PMI Status and Results to Date | | |
|---|---|---|---|---|---|---|
| | | | | Agreement date | Net sales contribution | Other results, etc. |
| Acquisition | | Federal Broach (USA) | Machine tools | Apr 2012 | Approx. JPY 5.0bn | Business expansion and stabilization from lineup integration |
| | | PWPS(USA) , Turboden(Italy) | Gas turbines | Dec 2012 | Approx. JPY 80bn | Business expansion from added lineup in small/medium GT |
| | | Daily Equipment (USA) | Forklift trucks | Jan 2012 | Approx. JPY 1.5bn | Expansion of after-sale servicing business |
| | | Concast (India) | Metals machinery | Jun 2012 | Approx. JPY 2.5bn | Strengthening of upstream product lineup |
| | | Toyo Engineering Works | Refrigeration systems | Jan 2014 | Approx. JPY 16bn | Strengthening of engineering business |
| | | UniCarriers Holdings | Forklift trucks | Jul 2015 | Approx. JPY 185bn | Further business scale growth and expanded global market share |
| JV | MHI-led | Nippon Yusoki | Forklift trucks | Nov 2012 | Approx. JPY 130bn | Business expansion from achievement of full lineup |
| | | Hitachi | Thermal power generation systems | Nov 2012 | Approx. JPY 300bn | Business expansion from full GT lineup (small to large), expansion of unique technologies |
| | | Siemens (Germany) | Metals machinery | May 2014 | Approx. JPY 150bn | Business expansion from achievement of full lineup |
| | | IHI Metaltech | Metals machinery | Jul 2013 | Approx. JPY 10bn | Strengthened lineups of aluminum rolling mills, etc. |
| | | Mahindra & Mahindra (India) | Agricultural machinery | May 2015 | (equity-based) | Stronger competitiveness in domestic and global markets |
| | Equal | Vestas (Denmark) | Wind turbines | Sep 2013 | (equity-based) | Early achievement of strategic model (8MW) development and order receipt targets |
| | partner -led | Ryobi | Commercial printing machinery | Jun 2013 | (equity-based) | Business strengthening from product lineup and production integration |
| | | Fuji Xerox | Document-related | Oct 2013 | - | Reductions in direct/indirect costs from standardization and effective document-related processes |
| | | Miyaji Engineering | Bridges | Nov 2014 | (equity-based) | Scale merits, Market share increase |
| | | Japan Tunnel Systems | Tunneling shield machine | May 2015 | (equity-based) | Assured capture of domestic demand and accelerate business expansion overseas |
| | | Fuji Oozx | Automobile engine valves | Jan 2016 | (equity-based) | Market share expansion and enhanced market presence |
| | | **Ube Machinery** | **Injection molding machines** | **Jul 2016** | - | **Expansion of product lineup and sales network, reductions in production costs** |
| | | **JR West** | **Real estate** | **Oct 2016** | (equity-based) | **Boost corporate value through partnership with JR West** |
| Transfer | | HIDROMEK (Turkey) | Motor graders | Nov 2013 | - | Promotion of business concentration into core competence |
| | | Delta Electronics (Taiwan) | Lithium rechargeable batteries | Apr 2014 | - | Promotion of business concentration into core competence |
| | | Sumitomo Heavy Industries Material Handling Systems | Industrial cranes | May 2015 | - | Promotion of business concentration into core competence |
| | | Michinori Holdings | Shonan Monorail | May 2015 | - | Promotion of business concentration into core competence |
| | | Tohmei Industries | Ship stabilizers | Mar 2016 | - | Promotion of business concentration into core competence |
| | | **Sato Tekko** | **Sluice gates** | **May 2016** | - | **Promotion of business concentration into core competence** |
| | | **Hitachi** | **X-ray medical equipment** | **Aug 2016** | - | **Promotion of business concentration into core competence** |
| | | **Kobe Diesel** | **Marine diesel engines** | **Dec 2016** | – | **Promotion of business concentration into core competence** |
| | | **Furuno Electric** | **ETC onboard devices** | **Jan 2017** | – | **Promotion of business concentration into core competence** |
| Withdrawal | | Ecovix (Brazil) | Shipbuilding | Jan 2016 | (equity-based) | Promotion of business concentration into core competence |

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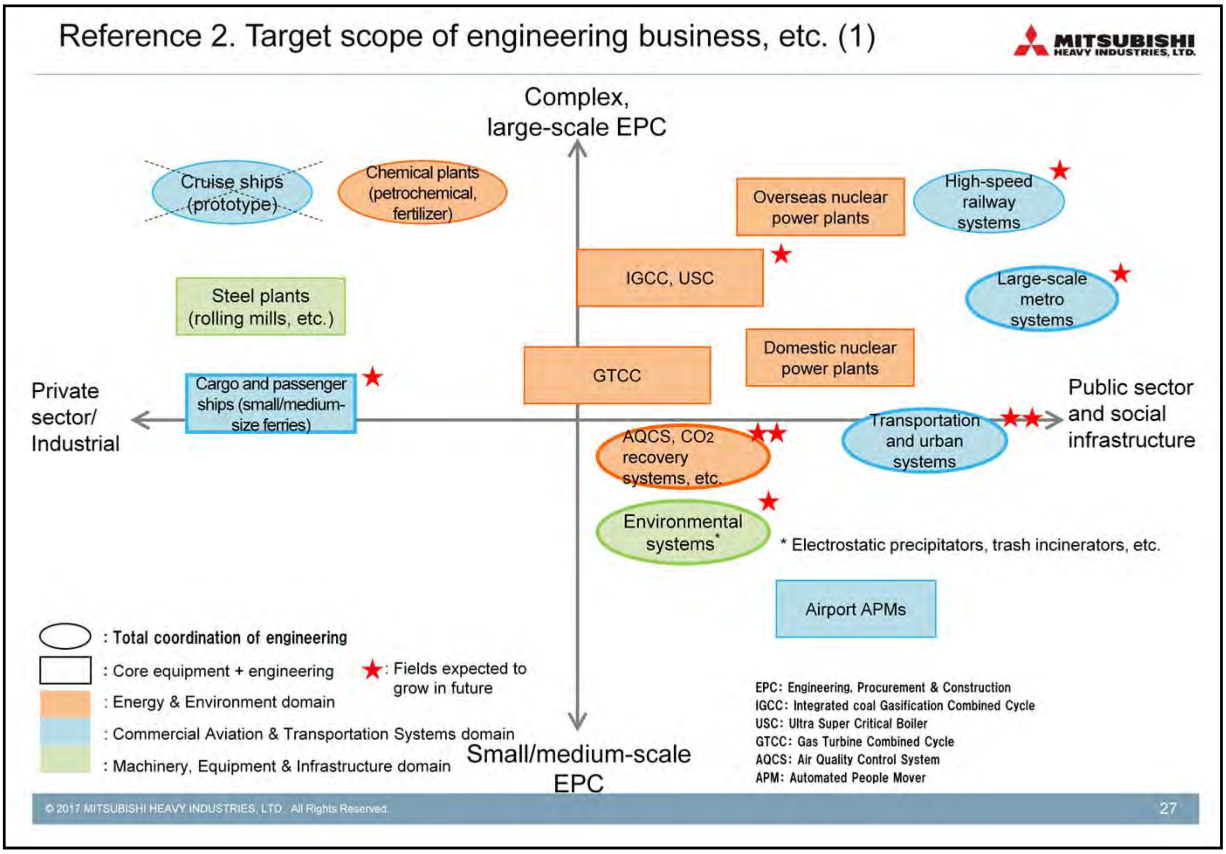
PMI:Post Merger Integration PWPS:Pratt & Whitney Power Systems

Here we present a list of changes we have made in our business portfolio since 2011, largely through mergers and acquisitions.




On this page we show the MHI Group's engineering business in its various categories. Items shown with a red star indicate those we expect to mark solid growth going forward.

We aim to reorganize into the industry's most advanced EPC business, to be achieved by consolidating the outstanding human resources that have been concentrated into chemical plants and other aspects of engineering business until now, and combining the hardware and software aspects together with IoT.

From April 2017 the engineering business will become part of the new Industry & Infrastructure domain. Through the addition of life-cycle management, we hope to post further growth in the years ahead.

# [Reference] 2. Target scope of engineering business, etc. (2)

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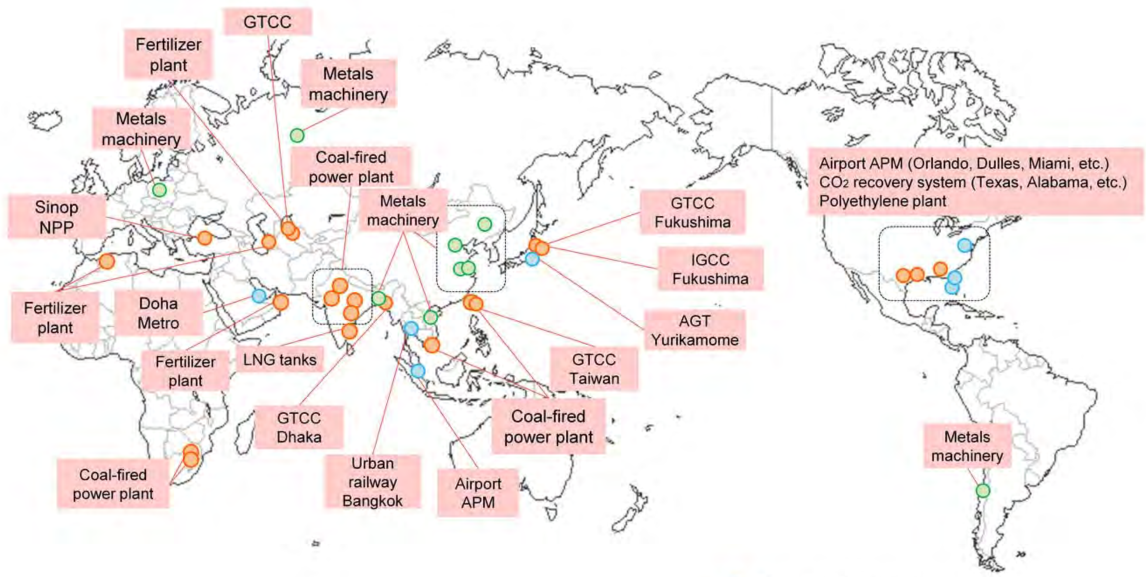


○ : Energy & Environment
○ : Commercial Aviation & Transportation Systems
○ : Machinery, Equipment & Infrastructure

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GTCC: Gas Turbine Combined Cycle IGCC: Integrated coal Gasification Combined Cycle AGT: Automated Guideway Transit APM: Automated People Mover


That completes my presentation today. Thank you for your kind attention.