MOVE THE WORLD FORWARD MITSUBISHI HEAVY INDUSTRIES GROUP

# Status of 2015 Medium-Term Business Plan

May 9, 2017
Mitsubishi Heavy Industries, Ltd.

Shunichi Miyanaga, President and CEO

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As President and CEO, I am pleased to give this presentation on the current status of our 2015 Medium-Term Business Plan.

# Contents



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I will start with a review of our results for fiscal 2016 and targets for fiscal 2017. Next, I will give an update on the progress made so far in implementing the three-year Business Plan and in implementing specific measures. Finally, I will outline the organizational and system reinforcements underway toward completing of our reform agenda.

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# I. FY2016 Results

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I would like to start with a review of our business results in fiscal 2016.

## I. FY2016 Results

(※ Profit attributable to Owners of Parent) (billions of yen)

| | FY2015 Actual | FY2016 Actual | | |
|---|---|---|---|---|
| | | Actual | Main reasons for variance from FY2015 Actual | Previous Forecast |
| Orders received (Overseas ratio) | 4,485.5 (52%) | 4,275.6 (48%) | • Decline in Orders received from overseas markets, MHPS etc. (Decreased investment due to lower oil price) | 4,800.0 — |
| Net sales | 4,046.8 | 3,914.0 | • LNG carrier*1 • MRJ • Tier1*1 } Operating income △approx. ¥100 billion (*1 includes yen appreciation) | 4,000.0 *2 |
| Operating income (Margin) | 309.5 (7.6%) | 150.5 (3.8%) | • MHPS*1 △approx. ¥50 billion | 240.0 (6.0%) |
| Net income※ | 63.8 | 87.7 | • Asset management benefits (extraordinary profit + approx. ¥ 110 billion) | 100.0 |
| ROE | 3.7% | 5.1% | (FCF + approx. ¥ 200 billion) | 5.8% |
| FCF | 7.5 | 104.6 | | 100.0 |
| Debt/Equity ratio | 0.53 | 0.44 | (excl. impact fm South Africa PJ) 0.30 | — |
| Equity ratio | 30.5% | 32.5% | (excl. impact fm South Africa PJ) 34.4% | — |
| Interest-bearing debt | 1,052.1 | 925.5 | (excl. impact fm South Africa PJ) approx 625.5 | — |
| Dividend per share | 12 yen | 12yen | | 12yen |
| Foreign exchange rates: | 119.7yen/$ 132.6yen/€ | 108.2yen/$ 118.6yen/€ | | 110yen/$ 120yen/€ |

※2 Deterioration of MHPS and further deterioration of LNG Carriers/MRJ reflected from previous forecast

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ROE:Return On Equity FCF:Free Cash Flow D/E:Debt/Equity MHPS:Mitsubishi Hitachi Power Systems LNG:Liquefied Natural Gas MRJ:Mitsubishi Regional Jet

By most measures—orders received, net sales, operating income, and net income (profit attributable to owners of parent)—results undershot the corresponding forecasts that we announced on releasing our results for the first three quarters. One exception was free cash flow, which exceeded our projection.

Orders received, after growing to near 4.5 trillion yen in fiscal 2015, finished fiscal 2016 at slightly under 4.3 trillion yen, primarily due to a slowdown in overseas orders. The thermal power plant business experienced a slowdown in overseas orders, as well as a lull in domestic business negotiations, contributing to the year-on-year decrease. In the case of large-scale transportation systems, business talks and negotiations did take place, but they did not lead to any actual new orders.

## I. FY2016 Results (2)

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### Net Sales and Operating Income by Business Segment

After segment reorganization*

| Former segment | FY2015 Actual (A) Net sales | FY2015 Actual (A) Operating income | (B)-(A) Net sales | (B)-(A) Operating income | FY2016 Actual(B) Net sales | FY2016 Actual(B) Operating income | New segment | FY2016 Actual Net sales | FY2016 Actual Operating income |
|---|---|---|---|---|---|---|---|---|---|
| Energy & Environment | 1,542.7 | 154.6 | -72.3 | -44.1 | 1,470.4 | 110.5 | Power Systems | 1,448.4 | 108.1 |
| Commercial Aviation & Transportation Systems | 548.5 | 54.5 | -33.1 | -106.4 | 515.3 | -51.9 | Industry & Infrastructure | 1,747.0 | 50.0 |
| Integrated Defense & Space Systems | 485.0 | 25.7 | -14.4 | 2.1 | 470.6 | 27.9 | Aircraft, Defense & Space | 703.4 | 0.9 |
| Machinery, Equipment & Infrastructure | 1,432.3 | 80.0 | 5.6 | -7.5 | 1,438.0 | 72.5 | – | – | – |
| Others | 177.3 | 12.6 | -1.4 | -1.8 | 175.9 | 10.7 | Others | 175.9 | 10.7 |
| Eliminations or Corporate | -139.2 | -18.1 | -17.1 | -1.1 | -156.3 | -19.3 | Eliminations or Corporate | -160.7 | -19.3 |
| Total | 4,046.8 | 309.5 | -132.7 | -158.9 | 3,914.0 | 150.5 | Total | 3,914.0 | 150.5 |

(billions of yen)

* Use reorganization to integrate Commercial Aviation and Transportation Systems businesses (which face a challenging business environment, such as Commercial Aircraft and Commercial Ship) with other segments that have synergies, then accelerate measures.

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On this page, we see net sales and operating income results for fiscal 2016. They are calculated in two ways: on the left, by business segment in use through March before reorganization; and on the right, under the new segment structure, which was launched in April. One crucial aim in undertaking segment reorganization was to address areas of concern in the former Commercial Aviation & Transportation Systems domain: namely, operations involving commercial aircraft, the MRJ and commercial ships.

By integrating the commercial aircraft business and the MRJ business into the new Aircraft, Defense & Space segment, thereby placing them under the direct oversight of the CEO, and by placing commercial ship business within the new Industry & Infrastructure segment to build engineering synergies, we are working to resolve those issues accordingly.

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# II. Review of FY2017 Targets

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Next, I would like to describe the review of our fiscal 2017 targets.

## II. Review of FY2017 Targets -1

(billions of yen)

| | FY2015 Actual | FY2016 Actual | FY2017 Previous target | FY2017 New target | Factors behind target change |
|---|---|---|---|---|---|
| Orders received (Overseas ratio) | 4,485.5 (52%) | 4,275.6 (48%) | 5,500.0 (64%) | 4,500.0 (55%) | Reflects uncertainty of global economy and market forecasts<br>MHPS Δ350<br>Transportation Systems Δ220<br>Commercial Aircraft Δ200<br>PT(Metals Machinery) Δ120<br>Compressor Δ110<br>Total Δ1,000 |
| Net sales | 4,046.8 | 3,914.0 | 5,000.0 | 4,150.0 | |
| Operating income (Margin) | 309.5 (7.6%) | 150.5 (3.8%) | 450.0 (9.0%) | 230.0 (5.5%) | |
| Net income *1 | 63.8 | 87.7 | 200.0 | 100.0 | |
| ROE | 3.7% | 5.1% | 10.2% | 5.5% | |
| FCF | 7.5 | 104.6 | 200.0 | 100.0 | Reflects costs of measures to tackle challenges faced in 2016 |
| Debt/Equity ratio | 0.53 | 0.44 | 0.4 | 0.4 | |
| Equity ratio | 30.5% | 32.5% | 35% | 33% | |
| Interest-bearing debt | 1,052.1 | 925.5 | 900.0 | 850.0 | |
| Dividend per share | 12 yen | 12円 | *3 | *2 12円 | |
| Foreign Exchange Rates | 119.7 yen/\$ 132.6 yen/€ | 108.2 yen/\$ 118.6 yen/€ | 110 yen/\$ 130 yen/€ | 110 yen/\$ 120 yen/€ | *3:Payout Ratio 30%±5% |

*1: Profit attributable to Owners of Parent

∗2: MHI is to conduct consolidation of shares(10 shares →1 share) on October 1, 2017. Dividend per share on this material is based on the case before consolidation of shares to be comparable to FY2016.

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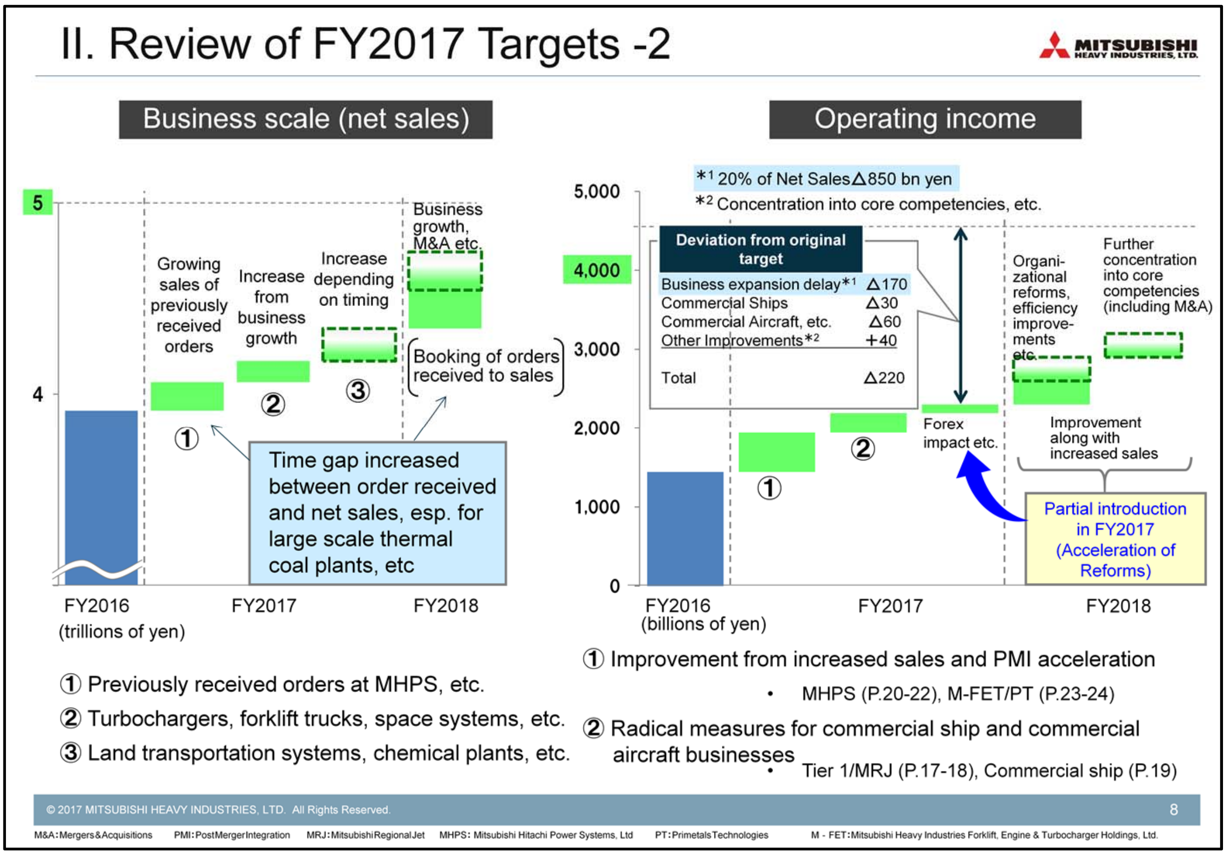
ROE:Return On Equity FCF:Free Cash Flow D/E:Debt/Equity MHPS:Mitsubishi Hitachi Power Systems MRJ:Mitsubishi Regional Jet PT:Primetals Technologies

We undertook a review of our numerical targets for fiscal 2017 in light of our current market outlook and the uncertainty surrounding the global economy.

Originally we had targeted robust growth at Mitsubishi Hitachi Power Systems (MHPS) by fiscal 2017, but for the reasons I will outline later, actual growth has undershot our projection. Orders for transportation systems, as I noted above, have not met our expectations, and our commercial aircraft Tier-1 business is being adversely impacted by production cutbacks at Boeing. Recovery in metals machinery is taking longer than we anticipated due to overcapacity in the steel industry, which is more entrenched than we had projected. At the same time, orders for compressors for the oil and gas industry are decreasing in the face of declining oil prices. In light of these various factors combined, we revised our orders received forecast for fiscal 2017 from 5.5 trillion yen to 4.5 trillion.

We have also revised our net sales forecast for fiscal 2017 to 4.15 trillion yen.

Finally, on the premise that sufficient measures will be taken to improve our business results, we are forecasting operating income of 230 billion yen and net income (profit attributable to owners of parent) of 100 billion yen in fiscal 2017.




Here we see step graphs showing the various factors behind our projected increases in net sales and operating income in fiscal 2017, based on comparisons against actual results posted in fiscal 2016.

In fiscal 2017 we are looking for net sales of 4.15 trillion yen, driven by three factors: 1) growth in booking to sales of order backlogs; 2) business growth; and 3) an increase depending on timing. The first point means that although we received approximately 4.5 trillion yen in new orders during fiscal 2015, the time gap between the receipt of orders for large-scale coal-fired power plants etc. and their full-fledged booking to net sales, has expanded to more than 3 years. Though sales in fiscal 2016 were weak, we believe that starting from fiscal 2017 sales will mark progress gradually, to the extent that in fiscal 2019 the gap between orders received and sales will have dissolved. The second point shows that increase will come from organic business growth. We anticipate growth in sales of turbochargers amid the implementation of regulations calling for improved automotive fuel efficiency and tightening exhaust gas emissions, and we also have solid expectation of growth for forklift trucks and other logistics equipment and space systems. The third point, which mostly applies to land transportation systems and chemical plants, is that because there is no fixed schedule for booking related sales, we have factored less than half of our anticipated sales increase into our numerical results forecast.

Turning to operating income, in fiscal 2017 we are now projecting income of 230 billion yen, which, in comparison with fiscal 2016, reflects 1) improvement from increased sales and PMI acceleration, and 2) improvement attributable to radical actions implemented for the commercial ship and commercial aircraft businesses. Whereas initially we had set an operating income target of 450 billion yen, one factor behind the downward revision is a delay in business expansion eroding income by 170 billion yen—the result of taking the 850 billion yen deviation between our initial sales target of 5 trillion yen and the current sales projection of 4.15 trillion yen, and multiplying it by our current gross margin, 20%. Even so, we are seeing sales recovery which will drive improvement in operating income. Other deviation factors include unrealized cost reductions for new model LNG carriers and delays in the timetable for developing the MRJ; but here too, we are taking radical corrective measures. Furthermore, going forward we will pursue income improvement through organizational reforms, efficiency enhancements, and further concentration into core competencies.

# II. Review of FY2017 Targets -3

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Net Sales and Operating Income by Business Segment

(billions of yen)

| | FY2016 Actual | | FY2017 forecasts | | |
|---|---|---|---|---|---|
| | Net Sales | Operating Income | Net Sales | Operating Income | Change from FY2016 |
| Power Systems | 1,448.4 | 108.1 | 1,650.0 | (8.8%) 145.0 | • Partial recovery in Net Sales and Operating Income of MHPS |
| Industry & Infrastructure | 1,747.0 | 50.0 | 1,850.0 | (4.6%) 85.0 | • Progress on Commercial Ship reforms<br>• PMI efforts at PT and M-FET |
| Aircraft, Defense & Space | 703.4 | 0.9 | 650.0 | (1.5%) 10.0 | • Reform measures for Tier 1 business<br>• Partial recovery of MRJ loss |
| Others | 175.9 | 10.7 | 150.0 | 10.0 | |
| Eliminations or Corporate | -160.7 | -19.3 | -150.0 | -20.0 | |
| Total | 3,914.0 | 150.5 | 4,150.0 | 230.0 | |

( ) Margin

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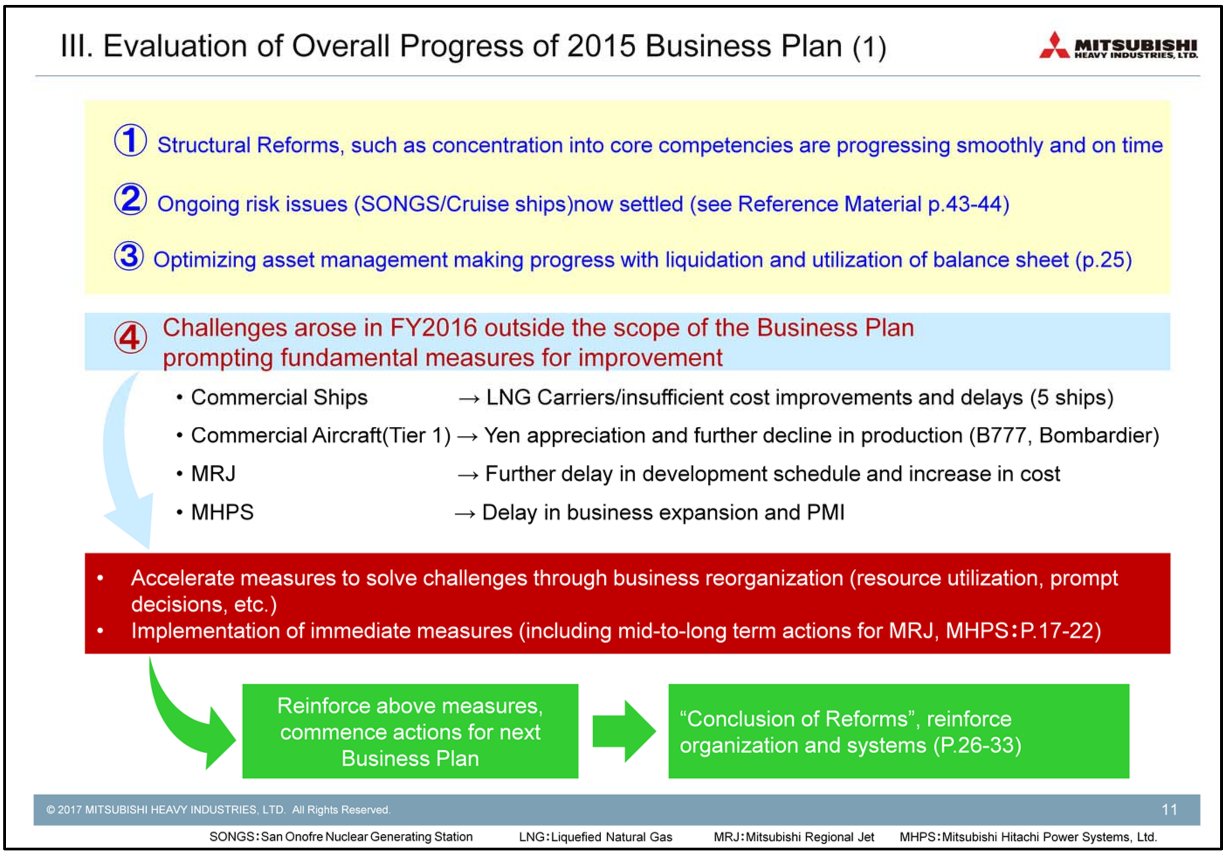
MHPS:Mitsubishi Hitachi Power Systems, Ltd. PT:Primetals Technologies M - FET:Mitsubishi Heavy Industries Forklift, Engine & Turbocharger Holdings, Ltd. PMI:Post Merger Integration MRJ:MitsubishiRegionalJet

Here you can find our net sales and operating income targets for fiscal 2017, by business segment. In addition to anticipated recovery in both sales and operating income, increases from fiscal 2016 are projected as a result of progress in implementing various measures.

# III. Evaluation of Overall Progress of 2015 Business Plan



Next is our evaluation of the overall progress made to date in carrying out our 2015 Medium-Term Business Plan.

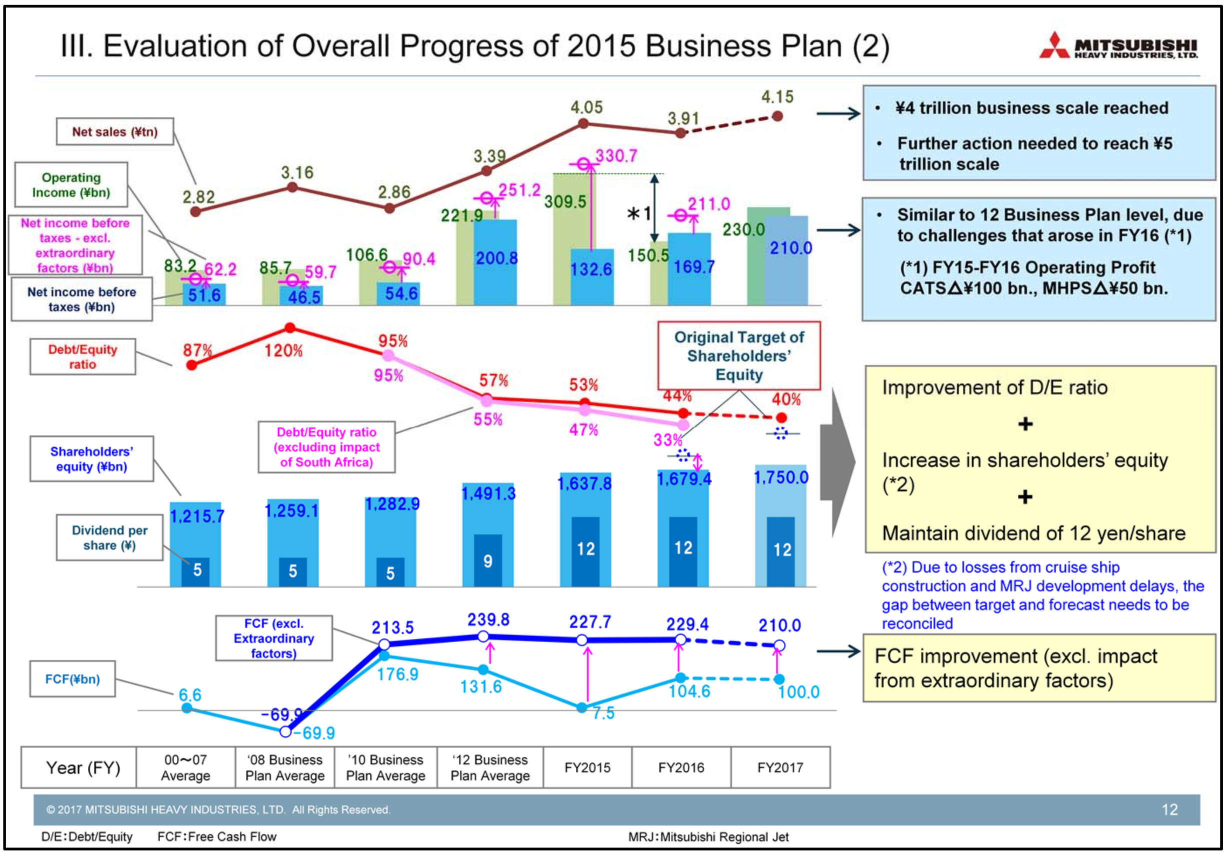



Here, I will give an overview of the progress achieved so far in carrying out our 2015 Medium-Term Business Plan.

First, with respect to structural reforms, concentration into core competencies and other reforms are generally progressing on schedule. I will explain this in more detail later on. Second, concerning ongoing major risk items, the arbitration case raised by Southern California Edison involving the San Onofre Nuclear Generating Station (SONGS) has come to a close, and the issue relating to our cruise ship business has also concluded with completion of delivery of the second ship. Third, with respect to optimizing our asset management, steady progress is being achieved in liquidating and making greater use of our assets. I will also touch on this in more detail later.

As indicated under point 4, however, a number of challenges arose in fiscal 2016 beyond our original assumptions, and radical measures to deal with those issues have been initiated. Concerning commercial ships, for example, LNG carrier cost reduction targets went unachieved and construction delays occurred. In fiscal 2016, provision was set aside against losses on construction orders, but we are now putting together additional measures to deal with the problem thoroughly. Regarding our commercial aircraft Tier1 business, it will be necessary to weather a decline in the number of units to be delivered for two to three years while the main production model undergoes a shift from the Boeing 777 to the 777X. However, we will use this period to consider how to go forward with our commercial aircraft operations. In the matter of the MRJ, we will strive to curb R&D costs which are increasing as a result of delays in our development schedule. As to MHPS, owing to delays in both business expansion and PMI, we intend to develop medium-term measures for improving productivity.

In order to achieve sustained growth by implementing these immediate measures, as the final phase of our reform agenda, we will take steps to reinforce our organizational structures and systems.

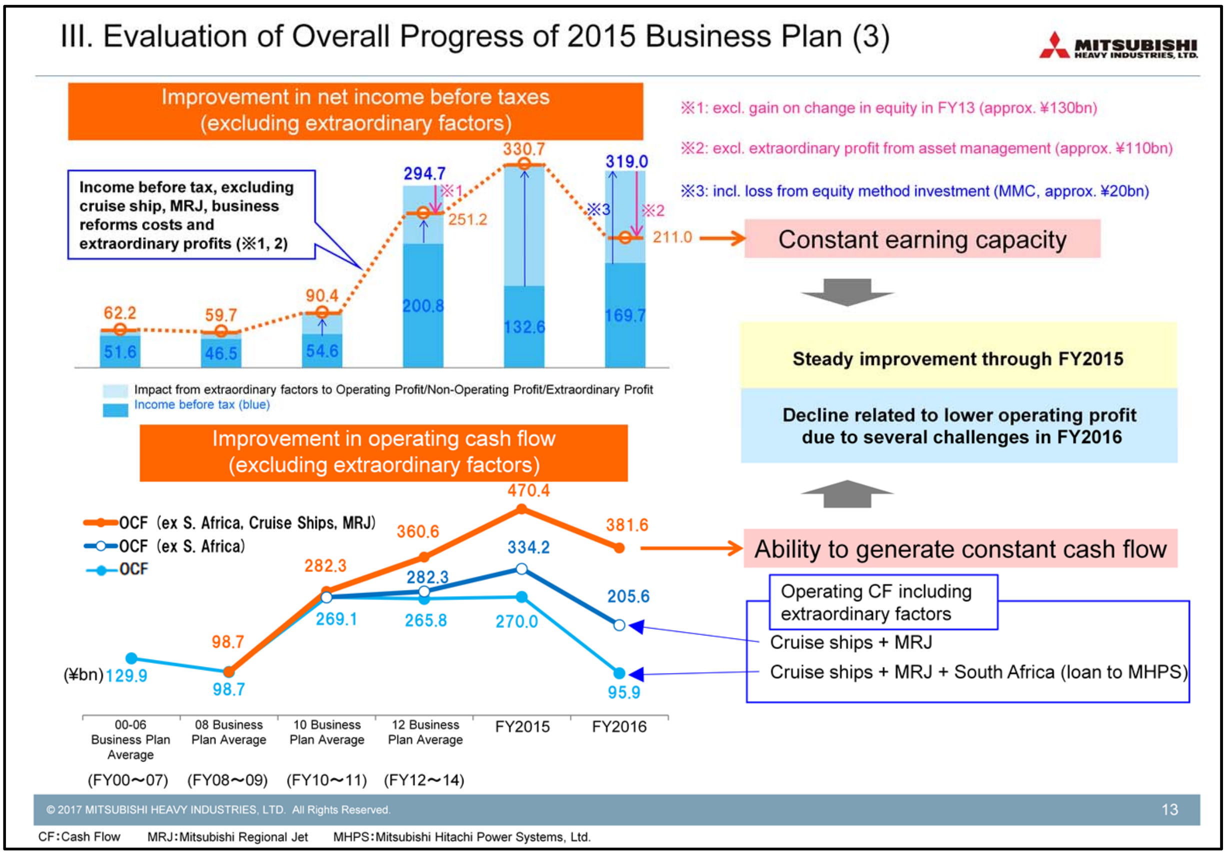



Here we see progressions of the key business parameters from the past several years.

Within the scope of the 2015 Business Plan launched in 2015, we have achieved net sales—in other words a business scale—of around four trillion yen. By fiscal 2019 we expect further sales growth as net sales catch up with orders received; but before the five trillion yen level can be reached, further measures are necessary. Net income before taxes, excluding extraordinary factors, earlier hovered between 60 and 90 billion yen, but since our 2012 Business Plan the figure has risen to nearly 250 billion yen.

Improvements are also underway with respect to our debt/equity ratio and other indicators. In the case of shareholders' equity, however, divergence has occurred with our initial target as a result of the losses incurred in our cruise ship construction business and delays in developing the MRJ. Going forward we will take steps to make a quick catch-up in this area.

Free cash flow has consistently stayed above 200 billion yen, when extraordinary factors are excluded, since fiscal 2010.




On this page, you can see how net income before taxes and operating cash flow have been improving in recent years. In the case of net income before taxes, when various extraordinary factors are excluded—the gain on change in equity interest accompanying the establishment of Mitsubishi Hitachi Power Systems in fiscal 2013, extraordinary profit through asset management accrued in fiscal 2016, loss from equity method investment in Mitsubishi Motors also in fiscal 2016, and so on—we find that our constant earning capacity steadily improved through fiscal 2015. After that, net income has declined due to newly arisen issues; but as the measures I noted earlier move ahead, we will strive for improvement. Operating cash flow also suggests a similar pattern.

## III. Evaluation of Overall Progress of 2015 Business Plan (4)

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**Progress in business structure reforms**

Business scale expansion and profitability measures are making steady progress as a result of business structure reforms (with the exception of certain challenging businesses, as shown below)

**Gap between FY12 and FY16**

| | Orders Received | Net Sales (A) | Total Assets (B) | (A)-(B) | Operating Income | FCF | Remarks |
|---|---|---|---|---|---|---|---|
| All Businesses (excl. those listed below) | + 890 | + 710 | + 480 | + 230 | + 120 | +120 | Steady progress in business scale and profitability improvement |
| Commercial ships + Commercial Aircraft | ▲ 320 | + 30 | + 300 | *1 ▲ 270 | ▲ 80 | ▲ 120 | *1 Cruise ship + MRJ (As already delivered, no further impact from Cruise ship #2 expected) |
| MHPS (excl. S. Africa) | + 670 (+ 620) | + 350 (+ 300) | + 780 (+ 450) | *2 ▲ 430 (▲ 150) | ▲ 50 (▲ 50) | ▲ 100 (+ 0) | *2 South Africa PJ + delay in reduction of fixed cost |
| Total (excl. S. Africa) | + 1240 (+1190) | + 1090 (+1040) | +1560 (+1230) | ▲ 470 (▲ 190) | ▲ 10 (▲ 10) | ▲ 100 (+ 0) | |

Accelerate improved profit-generating structure through immediate measures (P.17-22)

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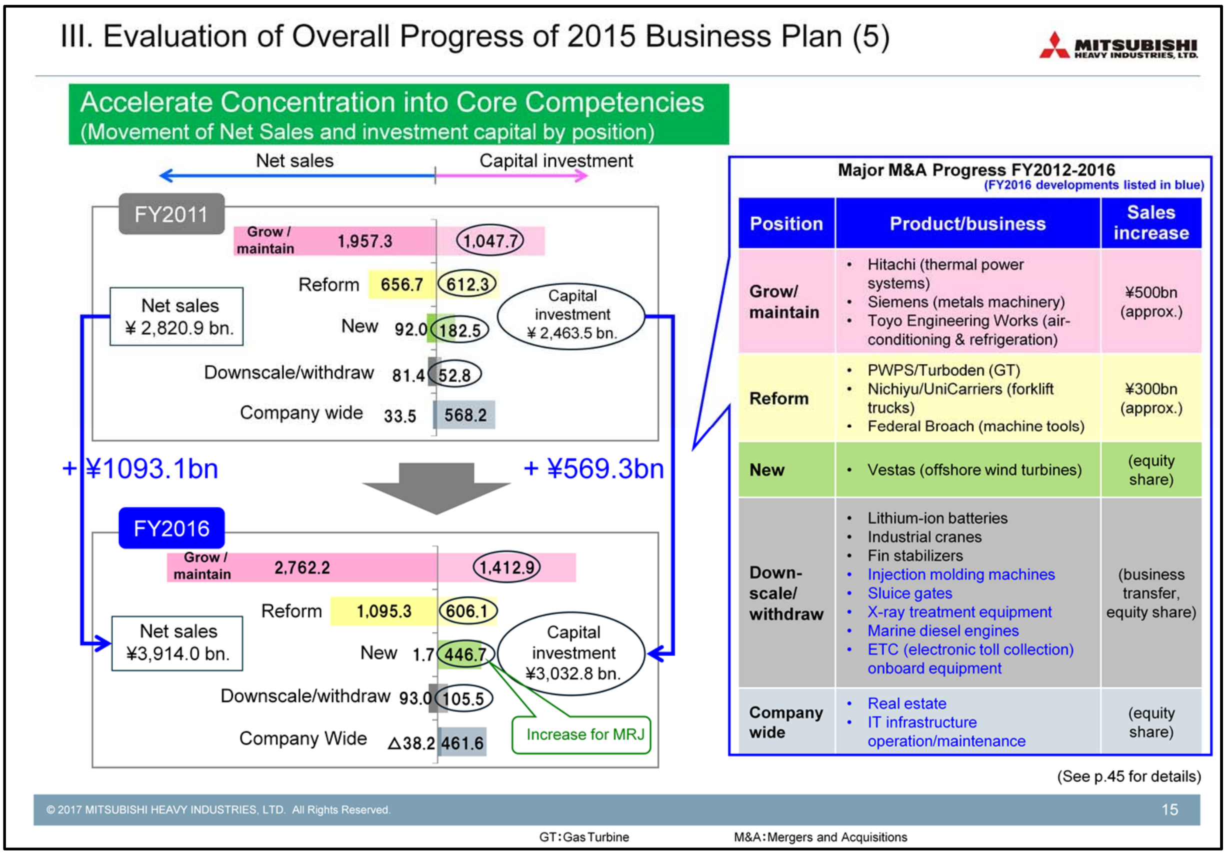
Here I will present the status of progress being made in carrying out business structure reforms.

If you look at how orders received, net sales, total assets, operating income and free cash flow fluctuate in the major businesses between fiscal 2012 and fiscal 2016, it reveals that all businesses—excluding commercial ships, commercial aircraft and MHPS—posted greater growth in net sales than in total assets. Increases have also been seen in operating income and free cash flow. This indicates that steady progress is being made in expanding our business scale and increasing our earnings.

Meanwhile, however, when we focus on our commercial ships and commercial aircraft businesses, the gap is widening between net sales and total assets, due to losses from the cruise ship business, delayed development of the MRJ, and delay in taking steps to deal with declining aircraft (Tier1) production volumes. For reference, the cruise ship issue has now been resolved with the completed delivery of the second ship.

With respect to MHPS, even excluding impact on total assets and FCF from the project in South Africa, fixed cost reductions are proceeding slowly. To address this earnings structure, we are accelerating improvement through the immediate measures described on pages 17 through 22.




To complete the review of the overall progress made so far in our 2015 Business Plan, here we see how net sales and investment capital have changed in each of the business positions as a result of accelerating our concentration into core competencies. In spite of impact from sluggish growth in business scale at MHPS, delayed development of the MRJ, reduced production of commercial aircraft (Tier1) and insufficient cost reductions, we assess that concentration into our core competencies is proceeding well.

Capital investment into “New” position businesses is increasing significantly to meet the need of the MRJ’s development, but as smooth progress is being made in other aspects, we are again made aware of the importance of fully devoting efforts toward overcoming the challenges surrounding the MRJ.

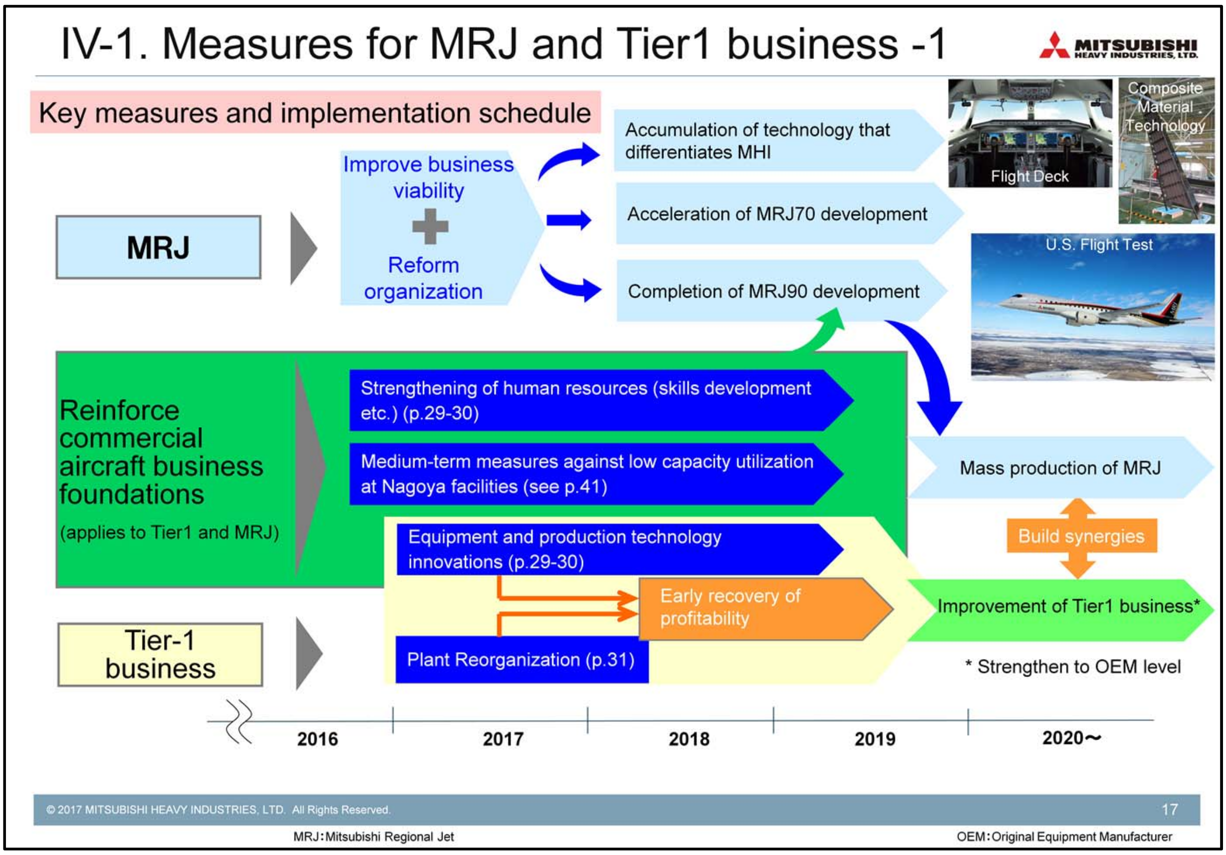
# IV. Progress of Individual Measures

1. Measures for MRJ and Tier1 business
2. Reinforcement of commercial ship business structure reforms
3. Improvement of MHPS management
4. PMI at M-FET
5. PMI at Primetals Technologies (PT)
6. Asset Management Progress

Immediate measures



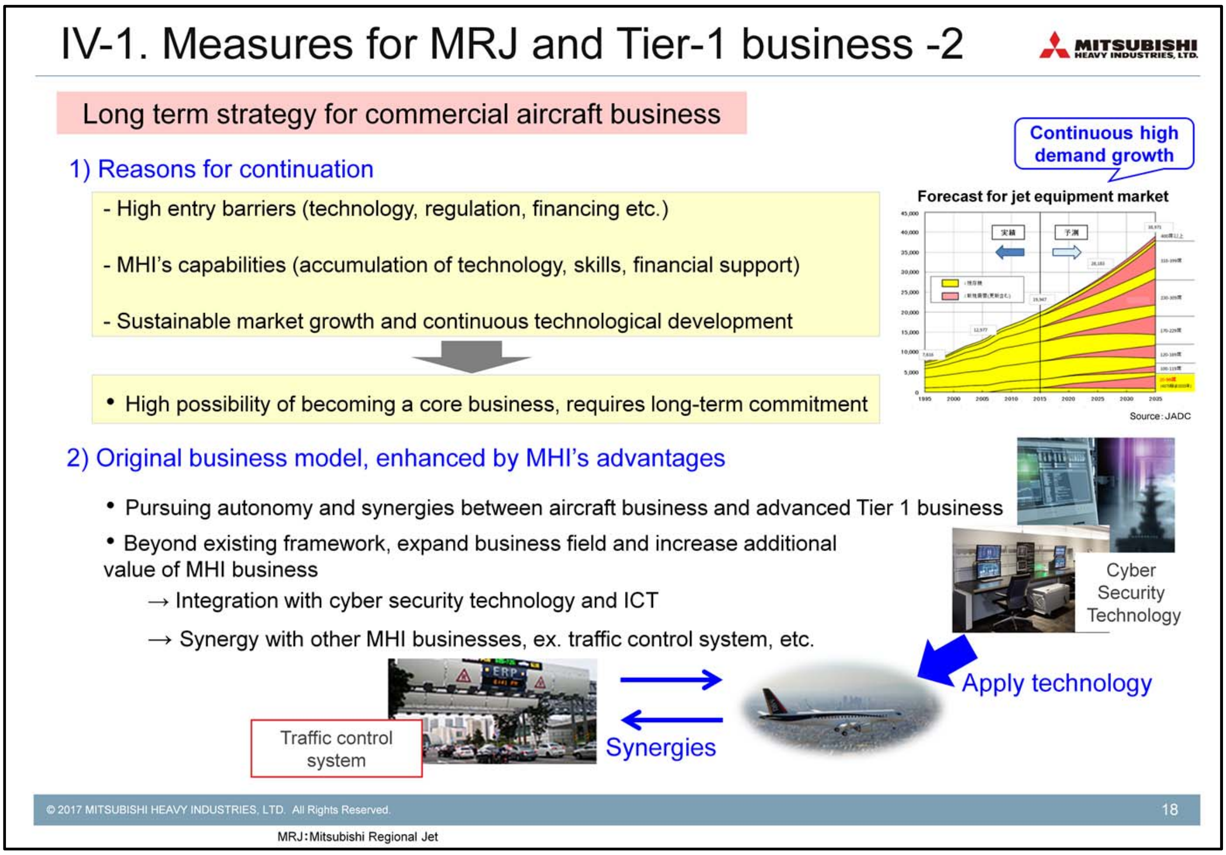
Now, I would like to turn to the progress that has been made in carrying out specific measures.




I will begin with our measures for the MRJ and the Tier1 business.

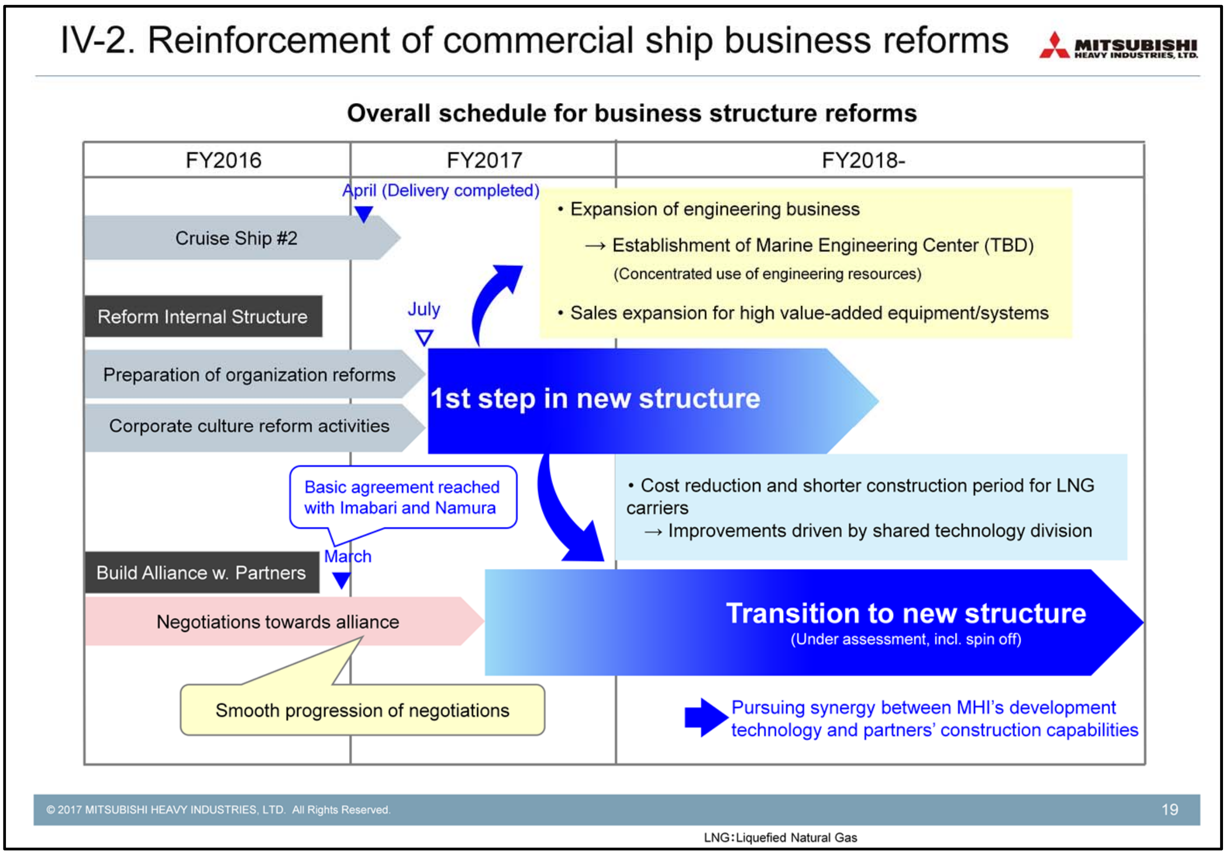
We are taking steps to improve the commercial viability of the MRJ and to carry out organizational reform. Besides focusing on development of the MRJ90, acquisition of type certification, and start of deliveries, we will accelerate development of the MRJ70 and strive for its early launch in the U.S. market. Because costs have increased as development has been delayed, we need to further improve the MRJ's business viability. For that purpose, we have created a task force and are accumulating differentiation technologies: for example, by modifying the design in order to reduce weight, and establishing a flexible supply chain. In addition, we will strengthen the foundations of our commercial aircraft business shared by our Tier1 program and MRJ.

Specifically we will aim, through training and education, to raise the professional level of our personnel; and through factory reorganization and innovations in production facilities and technologies, we will seek early improvement in the earning capacity of our Tier1 business. By enhancing the added value of our Company in its Tier1 business—in terms of technology, solution providing and planning capabilities—and applying these to commercial production of the MRJ, we will seek new synergies.



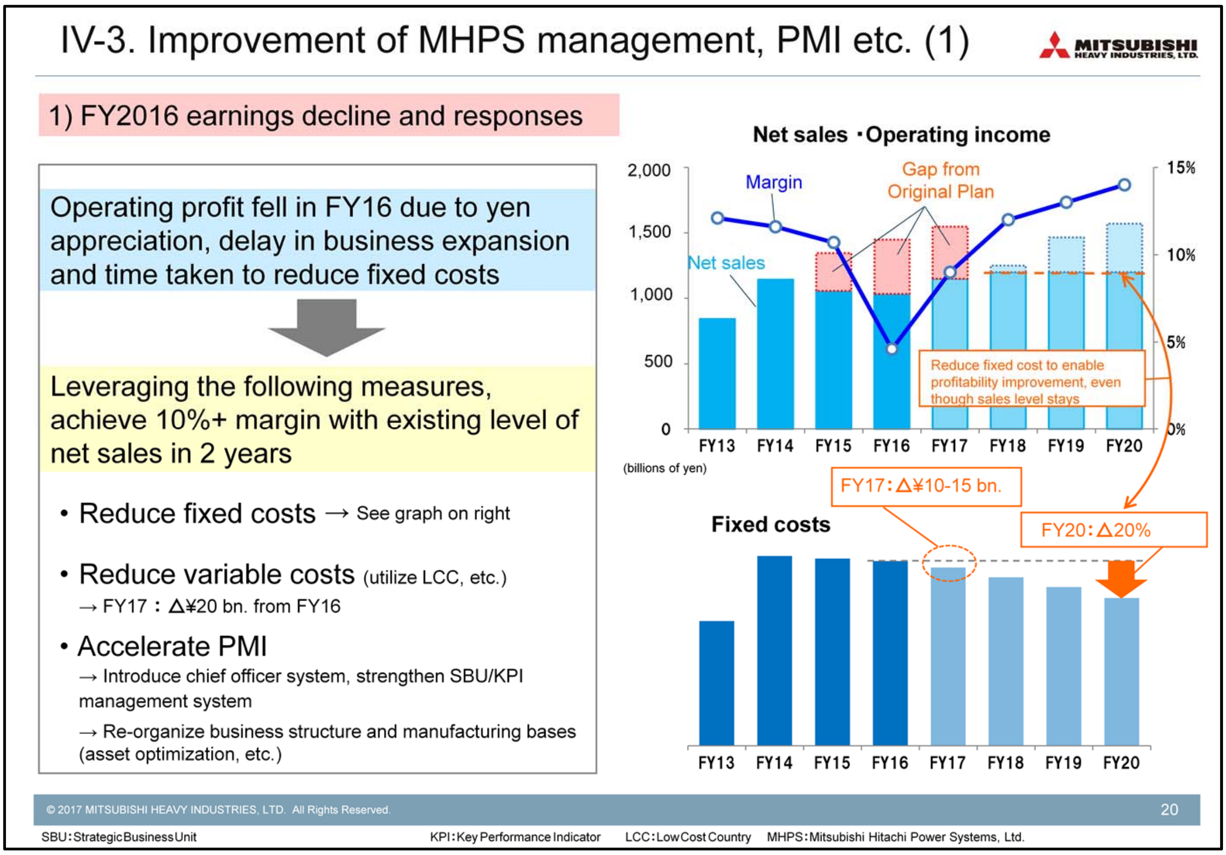

The commercial aircraft business has the potential to become a strong and stable business once we succeed, through our competitive strength, in overcoming the high hurdles to entering this business. These hurdles include technology, regulations, financing and so on. Furthermore, our capabilities are improving, we are accumulating relevant technologies, and we have increased our experience and resources in this field. Aviation is a market in which continuity is anticipated in terms of technology evolution, involving changes in materials and electrification. We therefore believe it has great growth potential over the long term, and we want to develop it into one of our next major pillars of business.

At the same time, as MHI isn't exclusively a manufacturer of aircraft, we aim to form a unique business model that makes full use of our Group strengths. By forming a new business model, of a kind not seen anywhere in the world, that realizes business in finished aircraft as well as a highly advanced Tier1 business, we seek a multitude of synergies. Through application of technologies integrating cybersecurity and ICT, and creating synergies with other MHI product technologies—for example, traffic control systems—we will develop a business scope that goes beyond conventional frameworks and realize higher added value from our business operations.




Next, I would like to present our plans for strengthening reforms of our commercial ship business structure.

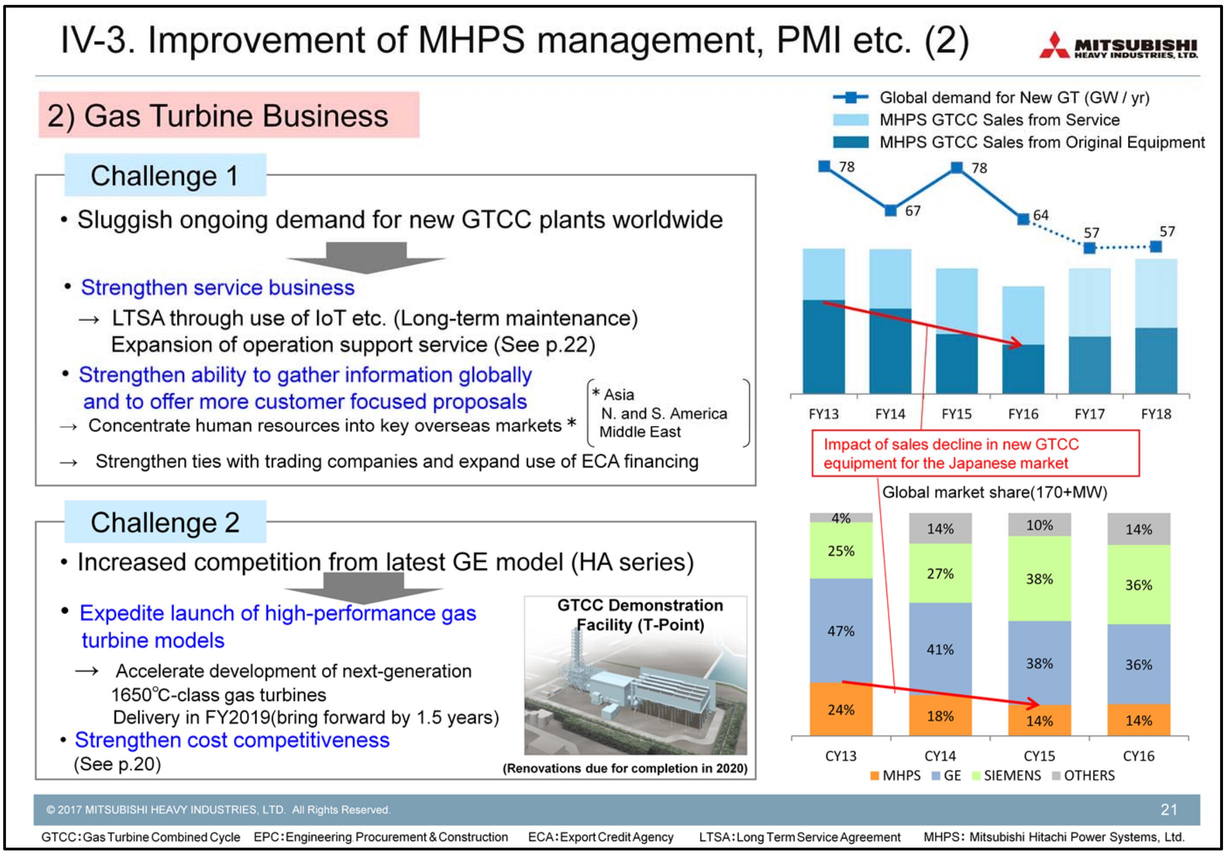
As we have now completed delivery of the second cruise ship, we will expand our engineering operations and reduce the more physical construction aspects that can only bring low added value. This is the first step in transitioning to a new commercial ship business structure. By expanding external marketing of our environmentally friendly technologies and high value-added equipment and systems such as MALS—the Mitsubishi Air Lubrication System, a unique system that produces a carpet of bubbles beneath a ship, reducing resistance between the hull and the water—we aim to transition to a global and flexibly resilient business. In the area of LNG carriers, with support from our shared technology framework, we will reduce costs and shorten construction periods, and determine the directions we should proceed going forward. Also, in order to transition to a new structure in our commercial ship business, we are considering a possible spin-off, and we are now in discussions to form alliances with other companies. We hope to complete our transition to the new structure, between fiscal 2017 and fiscal 2019.




Now, I would like to turn to how the management situation at MHPS is being improved.

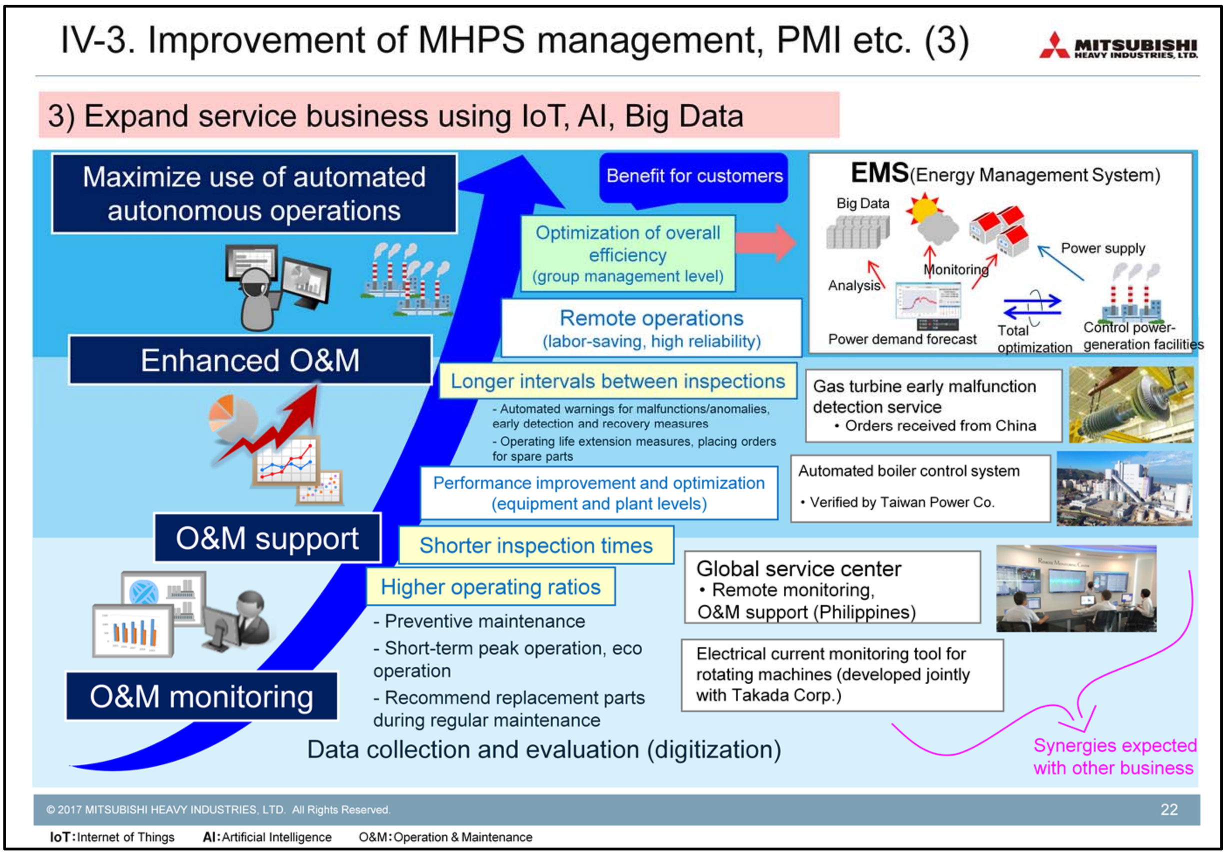
As shown in the graph at the upper right, net sales at MHPS have not grown to our original target levels and have been virtually flat since fiscal 2014. Orders are in a severe situation, with service-related construction work in decline.

Operating margin is also slipping significantly, and therefore, while we will strive to boost sales higher, we will work to reduce both fixed and variable costs, to enable us to secure operating margin above 10% even if sales hold at the current level. Until now, fixed costs were set at levels predicated on increased sales; going forward, we will accelerate PMI and also pursue cost reductions—for example through use of low-cost overseas manufacturers—to bring fixed costs to levels at which profitability will recover, even assuming flat sales. The graph at lower right shows how much we expect to reduce our fixed costs in the time frame indicated.

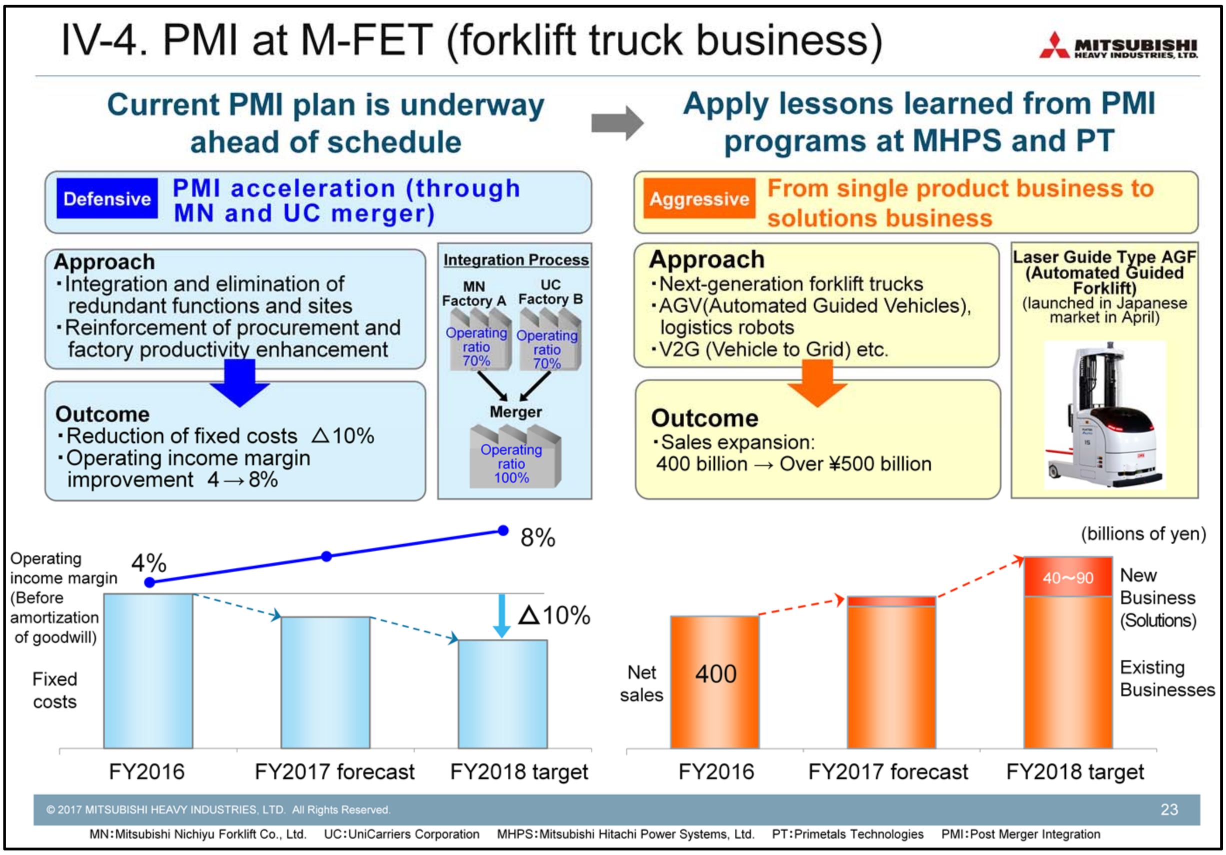



Globally, we expect the the gas turbine market to remain sluggish for some time. Our demand projections are shown in the graph at the upper right.

With respect to share of the global market for gas turbines with outputs of 170 megawatts and higher, whereas Siemens has posted growth reflecting orders from Egypt, MHPS's market share is decreasing due to lower demand in the Japanese market. In response, we will aim to increase sales and also work to strengthen our services operations through expansion of LTSAs—long-term service agreements—by applying IoT and such, and expansion of operation support services. Also, in order to increase orders for new plants, we must strengthen our global information gathering capability and our ability to offer more customer-focused proposals. To that end, we will concentrate our human resources into key overseas markets—Asia; North, Central and South America; and the Middle East, for example—boost our ties with trading companies, and expand use of ECA (export credit agency) type financing. In terms of performance, I believe our J-Series models are still superior, but now that GE has launched its newest HA Series, market competition is intensifying. For this reason, we have decided to aim for initial delivery of our next-generation 1650 degrees Centigrade gas turbines, now under development, in fiscal 2019, a year and a half earlier than we originally planned.

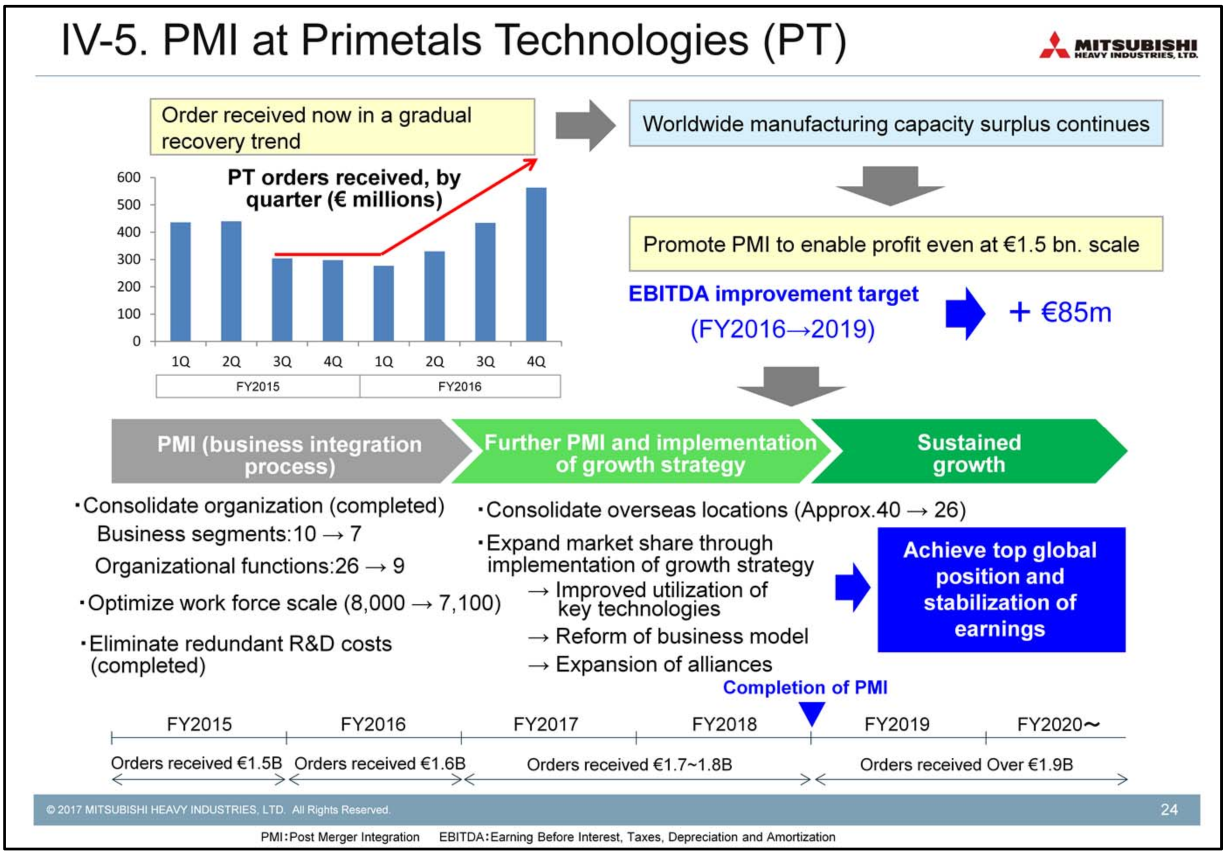



Our competitors like GE and Siemens today are developing their services businesses making use of IoT, AI and big data; and MHPS is also working to expand its services business—operation support services, for example—the same way. MHPS is developing a portfolio of services of benefit to the customer in all aspects: from O&M monitoring to maximization of automated and autonomous operations, for plants of all kinds—gas turbine, coal-fired and so on.



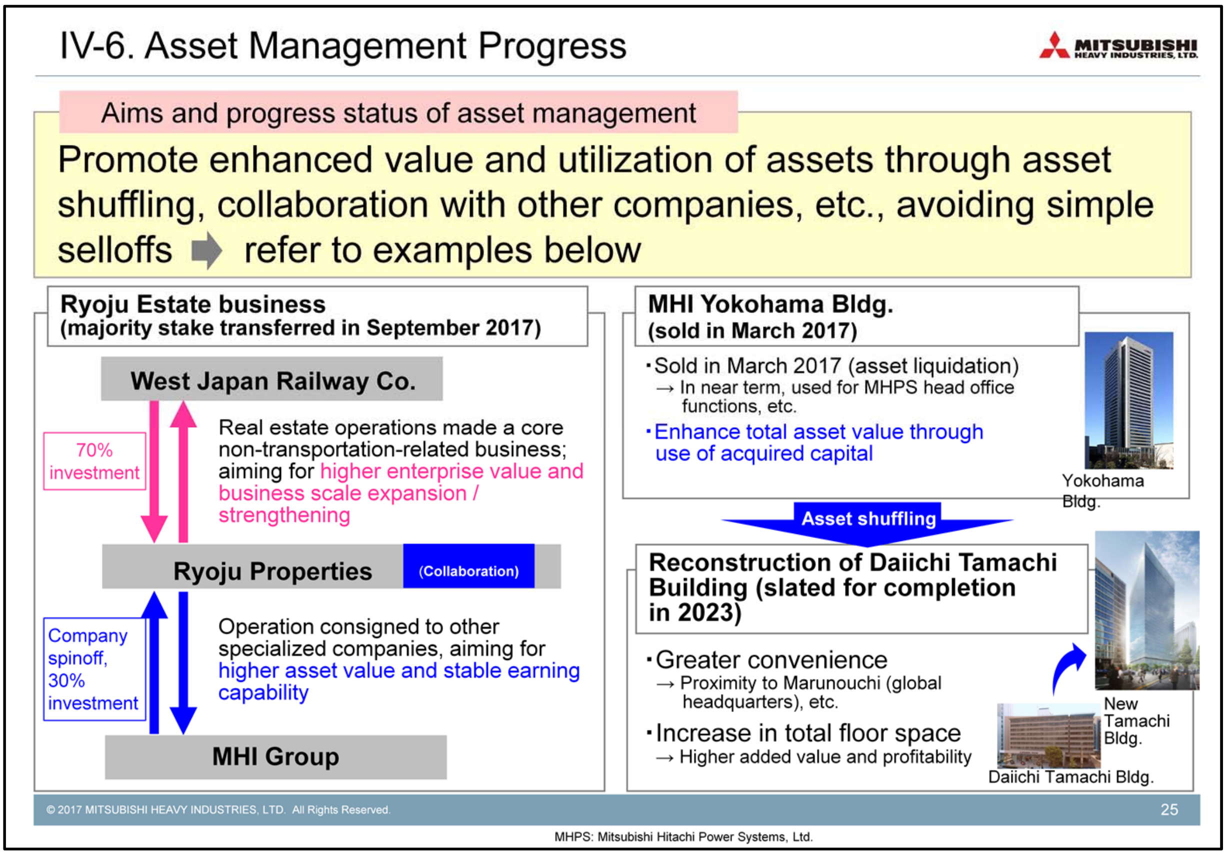

Next, I would like to present the status of our PMI advancement agenda at M-FET—Mitsubishi Heavy Industries Forklift, Engine & Turbocharger Holdings—in particular, its forklift truck business, which has a substantial business scale. M-FET's forklift truck operations are performed by Mitsubishi Nichiyu Forklift, a company established together with Nippon Yusoki that subsequently acquired UniCarriers Corporation.

Applying the experience gained through the merger and acquisition activities involving MHPS and Primetals Technologies, M-FET is pursuing early PMI through the integration and elimination of redundant functions and bases, reinforcement of procurement, and enhancement of factory productivity. Targets set for fiscal 2018 aim for a 10% reduction in fixed costs and an 8% operating margin. Meanwhile, as an aggressive move, instead of dealing only in individual products, M-FET is also taking steps to develop business in comprehensive solutions. Through this initiative, we are aiming to expand the company's business scale from the current 400 billion yen, to over 500 billion yen.




Next, I will discuss how PMI is progressing at Primetals Technologies.

Although demand for metals machinery is gradually recovering, global overcapacity, particularly in China, may continue. Therefore, we are now taking a variety of steps to improve management at Primetals Technologies to enable the company to secure adequate earnings even with a business scale of 1.5 billion euros. PMI was nearly completed by the end of fiscal 2016, but today we are forging new measures in order to consolidate the company's overseas bases and expand its market share. Through implementation of these growth strategies, we aim for Primetals Technologies to become the top global contender and to achieve stable earnings by fiscal 2020.




As the final point of this progress update, I would now like to show what has been achieved in improving asset management.

Today, we are aiming to increase the value of our assets and how we use them not by just selling our holdings in the form of simple exchanges of equivalents, but rather through measures such as asset shuffling and collaboration with other companies.

In fiscal 2016, we transferred the real estate operations of Ryoju Estate, consolidated them within Ryoju Properties, and then sold a 70% stake in Ryoju Properties to West Japan Railway Company. MHI retained a 30% investment stake of Ryoju Properties. This reconfiguration of valued assets enabled both companies to acquire value on a win-win basis.

We also sold our MHI Yokohama Building, and we plan to use the funds we acquired to reconstruct our Daiichi Tamachi Building. With the increased floor space to come from building a new high-rise office tower, we look for greater added value and enhanced profitability, which will boost the property’s asset value. Moreover, by relocating to the new Daiichi Tamachi Building, we will consolidate our offices close to the Marunouchi district, where our global headquarters is located—bringing added convenience.

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# V. Organization and system reinforcements toward "Conclusion of Reforms"

- Preparations for "big leap" in 2018 Business Plan

1. Global and Local Management Optimization
2. Production Innovation
3. Asset Management Reinforcement
4. Innovation Laboratory (tentative name)

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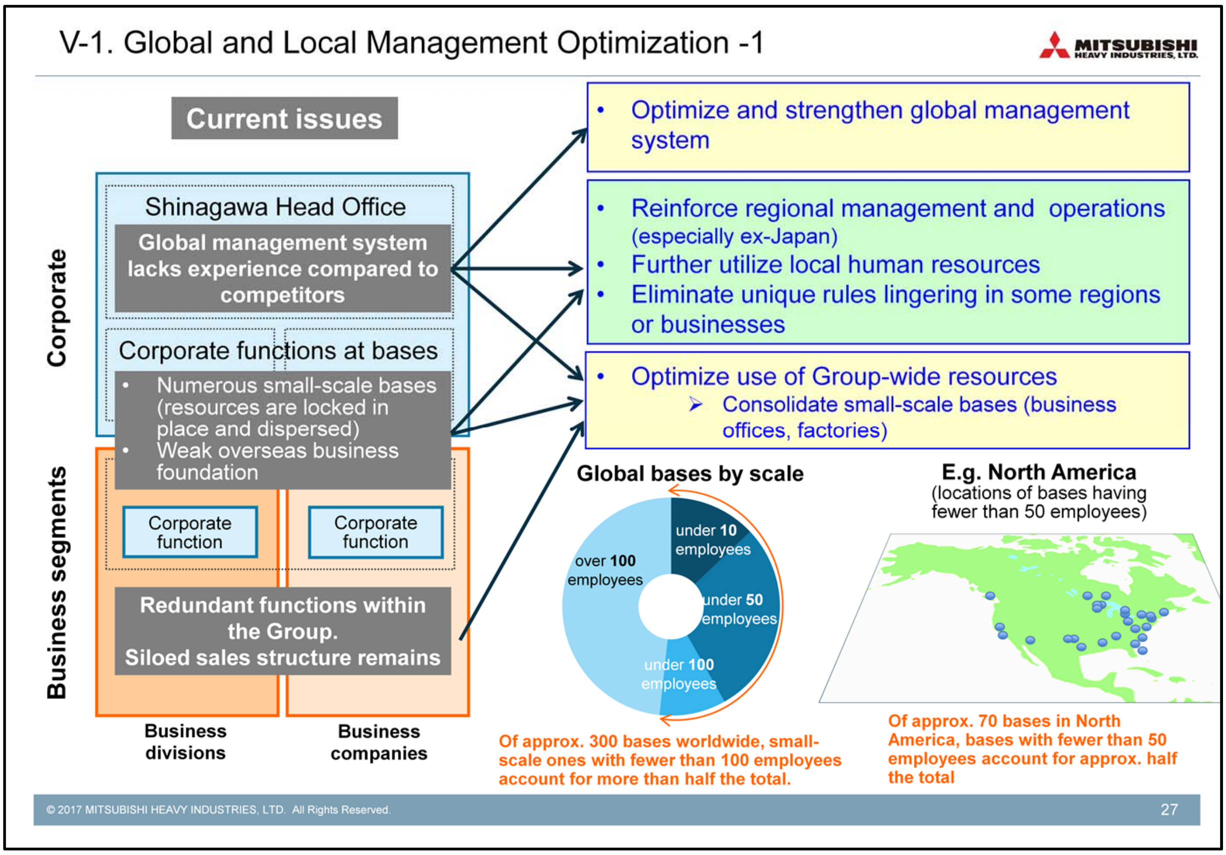
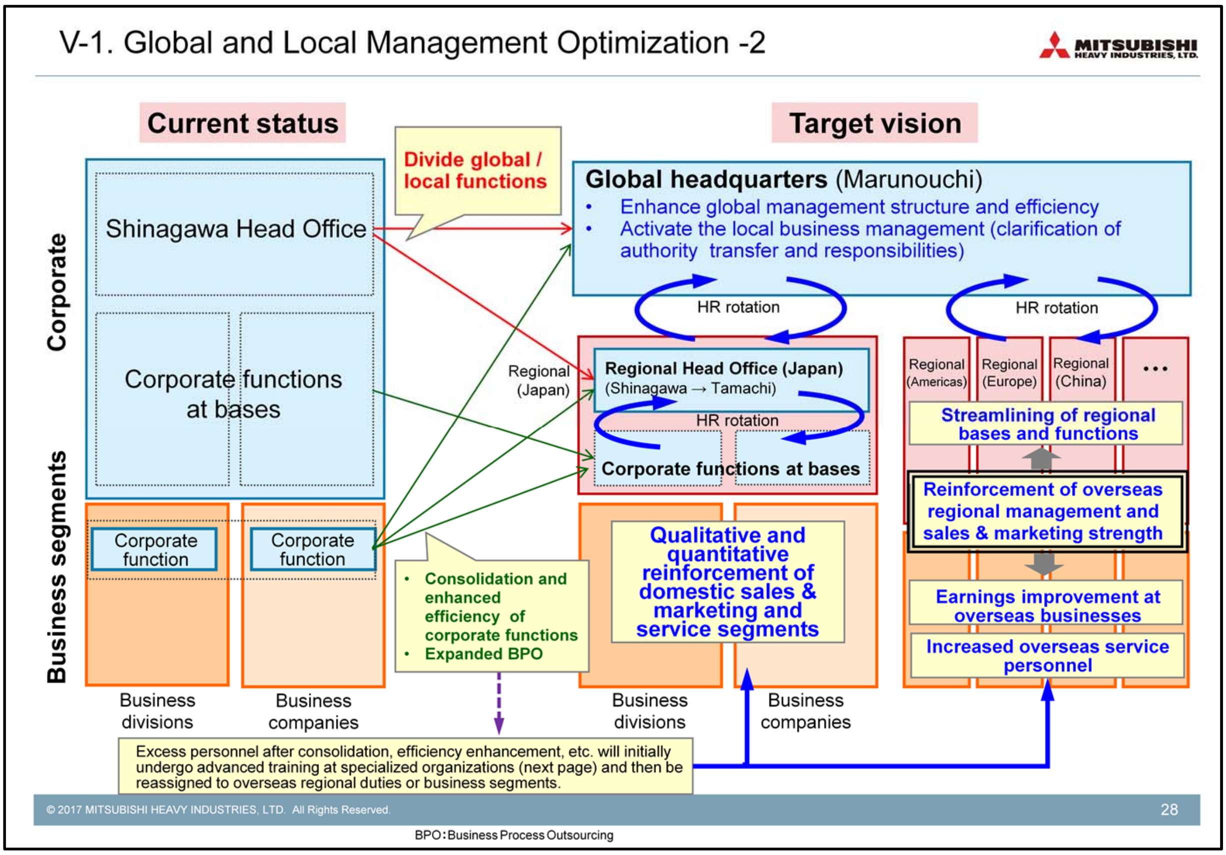
Next, I will highlight the organizational and system reinforcements we are making as the conclusion of our reform agenda, in preparation for achieving a big leap within the scope of our forthcoming 2018 Medium-Term Business Plan.



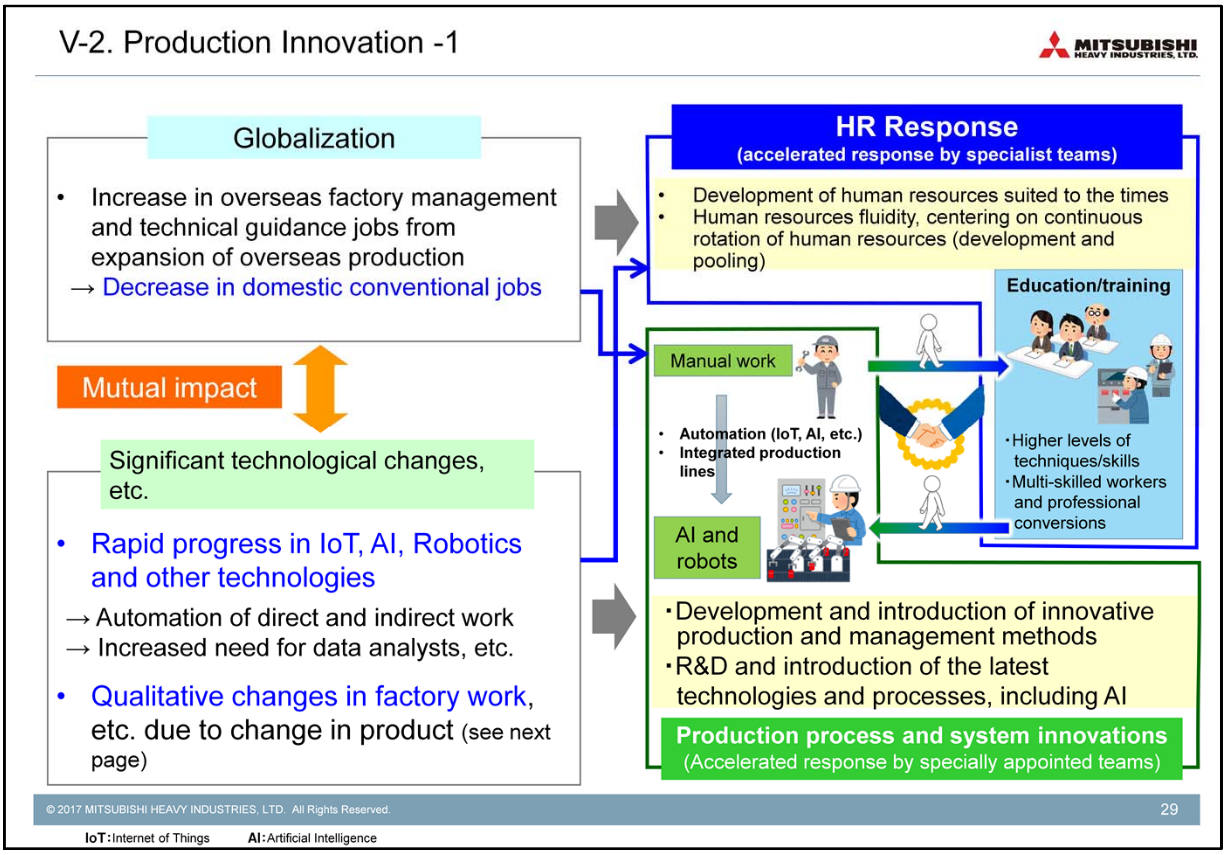

To begin, I would like to show our first measure: optimization of our global and local management systems.

Compared to our competitors, our experience in global management is underdeveloped. To rectify this situation, we will implement the measures shown at the right.

Specifically, we intend to strengthen our global management system; reinforce our region-based management and operation systems; and promote consolidation of small-scale bases that, until now, have been dispersed in Japan and abroad with each handling their own business individually. In this way we will optimize our Group-wide resources and enhance their overall efficiency.

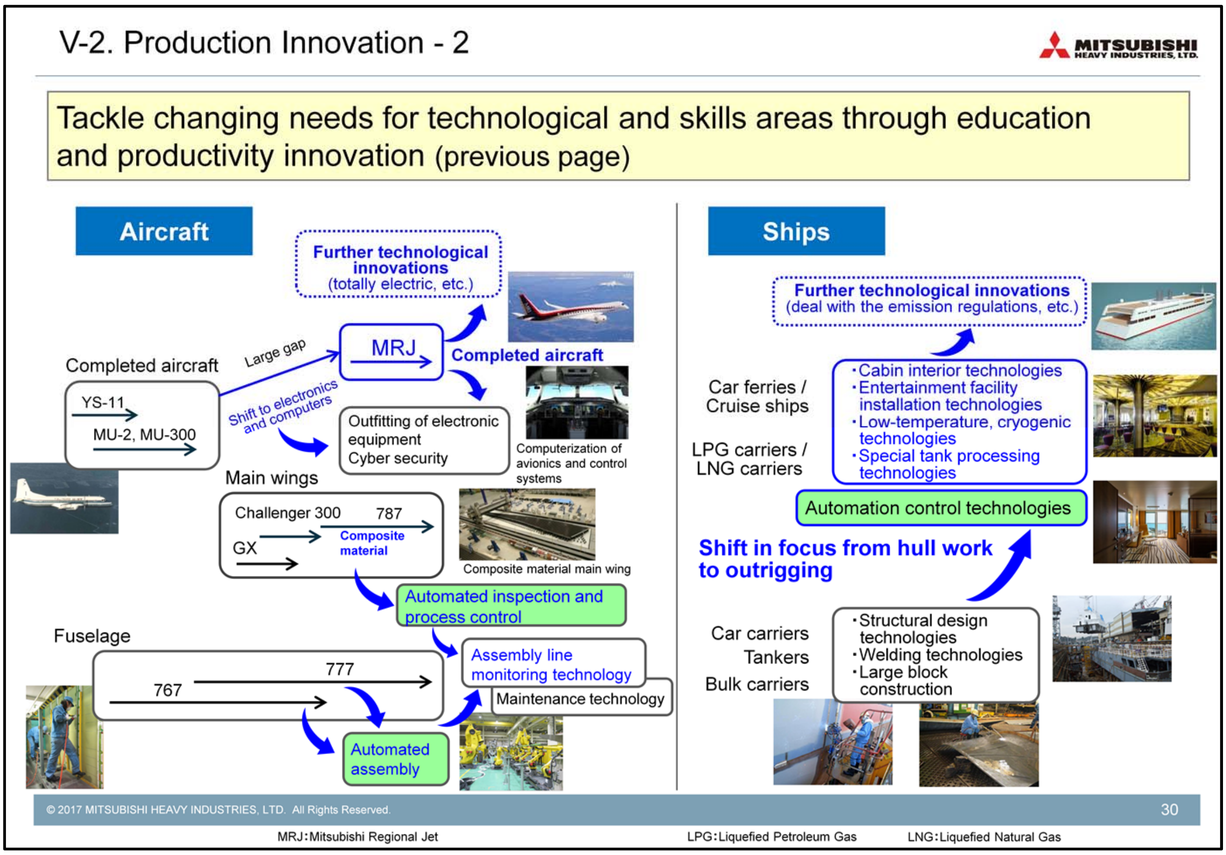



Along with consolidation of our bases, we will also seek to activate management of local businesses by thoroughly delegating authority and clarifying responsibilities within the overall global management structure. Concerning any excess personnel resulting from these consolidation and efficiency initiatives, some employees will be reassigned to sales or servicing divisions and provided with advanced training at specialized organizations.



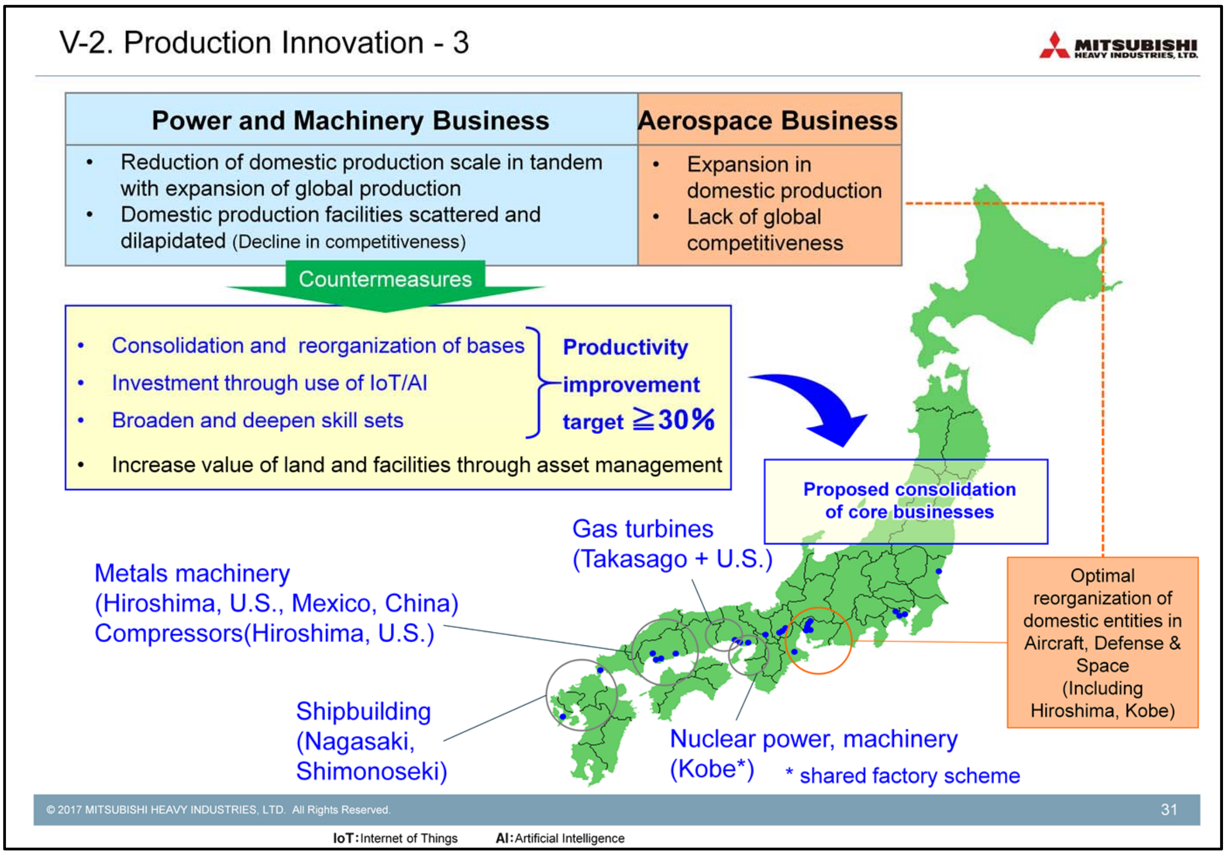

Next, I would like to outline improvements to be carried out in our production divisions.

As globalization leads to expansion of overseas production and increases in work involving overseas factory management and technical support, we are seeing a decrease in work that has conventionally been performed in Japan. In addition, with the rapid progress being achieved today in technologies such as IoT, AI and robotics, factory automation is expanding. Amid these trends, the skills demanded for our resources have been changing; and in response, through education and training, we aim to raise the level of our employees' technical skills and remold them into multi-skilled professionals. In addition, through the introduction of innovative methods and the newest technologies, we will bring new innovations to our production processing and overall production systems. A special task team comprised of members from our shared technology framework is now leading preparation of these improvements.




Here, I will show how the skills in demand have changed along with advances in technology. To give an example, in manufacturing airframes in Hiroshima, until now workers have performed riveting work by hand; today, all such work is performed automatically by robots, without human involvement. As these changes have taken place, equipment maintenance skills are increasingly in demand, along with technical skills to monitor for production line malfunctions. Workers need to be educated in these new areas, and to acquire higher levels of technical skills.

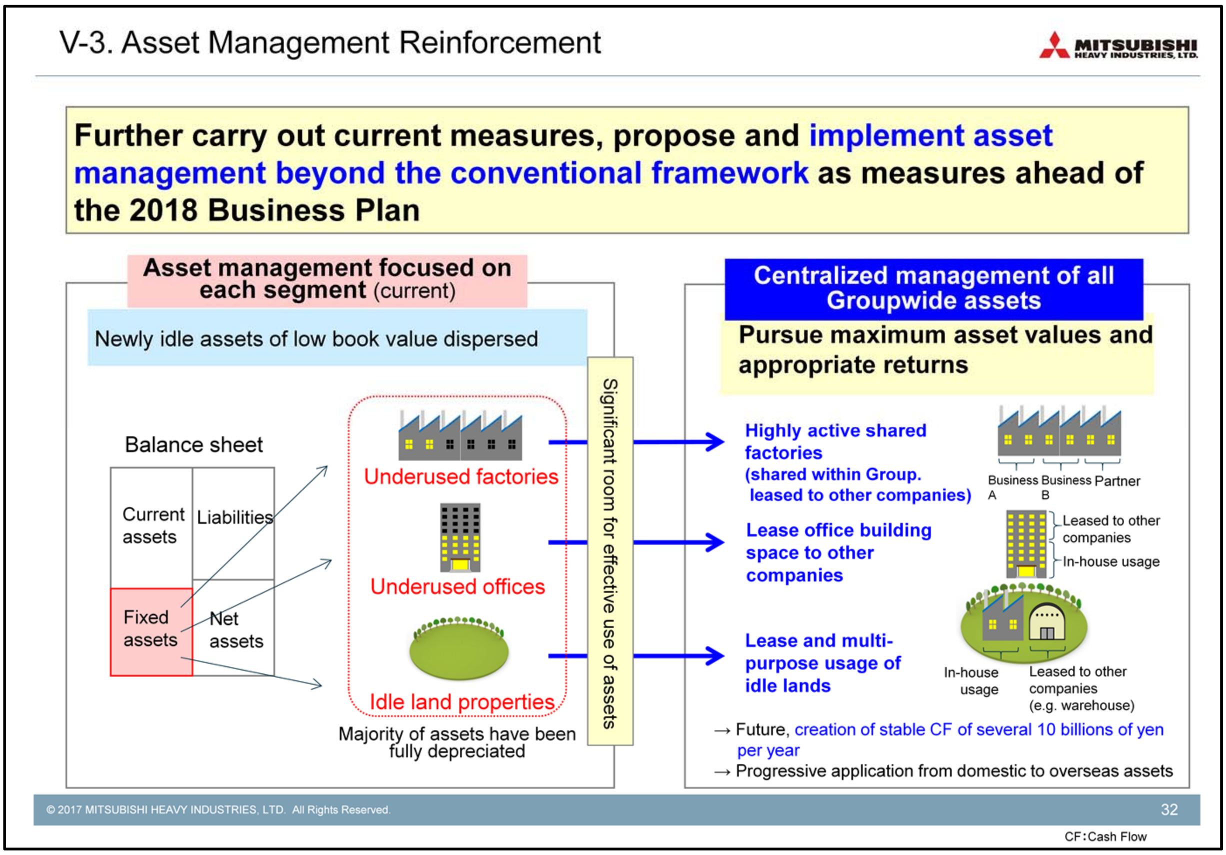
Similarly, the skills demanded are also changing regarding production of the MRJ and commercial ships. In response, we will take steps to develop the human resources capable of responding to such changes.




Here, we describe our agenda for consolidating and reorganizing our bases as a means of achieving production improvements.

As our global production expands, domestic production of power systems and machinery is decreasing. Meanwhile, our domestic production bases, which are widely dispersed, are becoming increasingly obsolete with age, eroding our competitiveness. In response, going forward we will undertake all-out consolidation and reorganization of our bases, in spite of the costs involved. In addition to these changes and introducing facilities that make active use of IoT and AI, we also aim to improve our productivity by 30% or more by developing our human resources, as noted earlier. Along with those moves, we will also carry out asset management of redundant buildings and facilities.

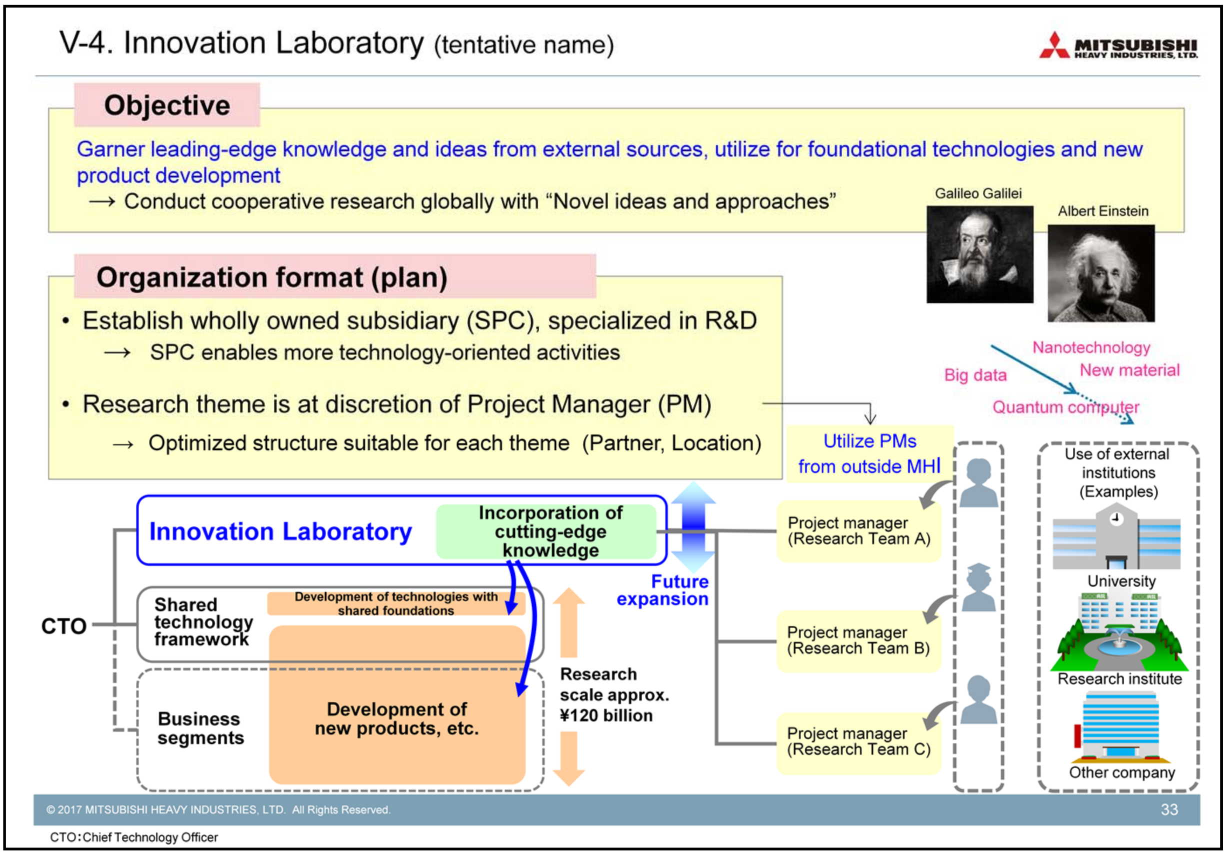
While we believe the scale of our aerospace business will expand going forward, we will need to introduce further innovative production technologies in order to boost our global cost competitiveness. Once these innovations are achieved in our domestic production bases, we will then carry out similar improvements at our overseas bases.




To deal with the newly idle assets resulting from the consolidation of our bases and production innovations, we will manage as a part of all Groupwide assets, in pursuit of maximizing asset values and gaining appropriate returns.

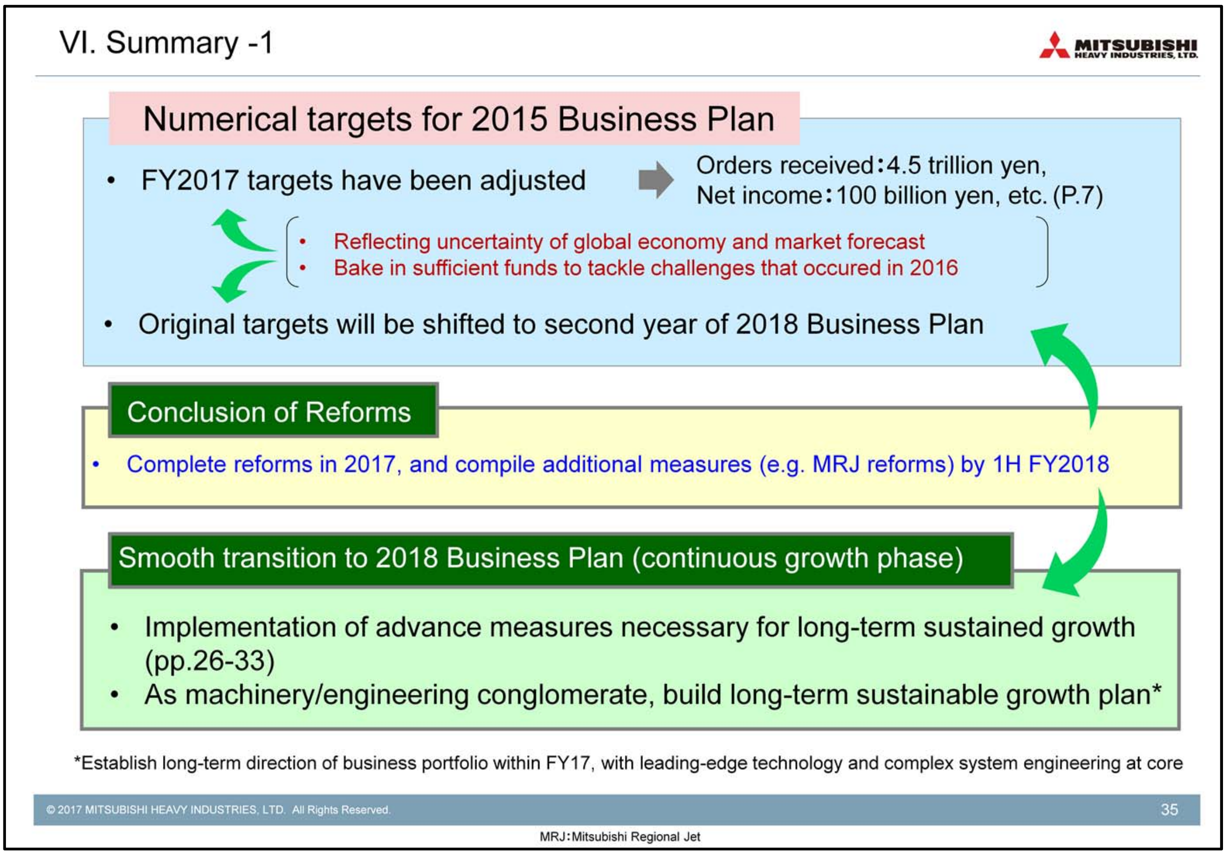
Specifically, we will lease some of our factories to other companies, as well as unused space within our office buildings. For example, we intend to close our Saiwaimachi Plant in Nagasaki and relocate its facilities to our Isahaya Plant, so today we are considering how we can use the ex-factory property after it becomes idle.

By making efficient use of our assets in this way, we hope to create a stable cash flow of several billions of yen per year from these assets. We will begin with our domestic assets and then address our overseas assets. As a result, we will further reinforce our financial foundation—which, we believe, will enable us to proceed forward with new business developments starting in fiscal 2018.



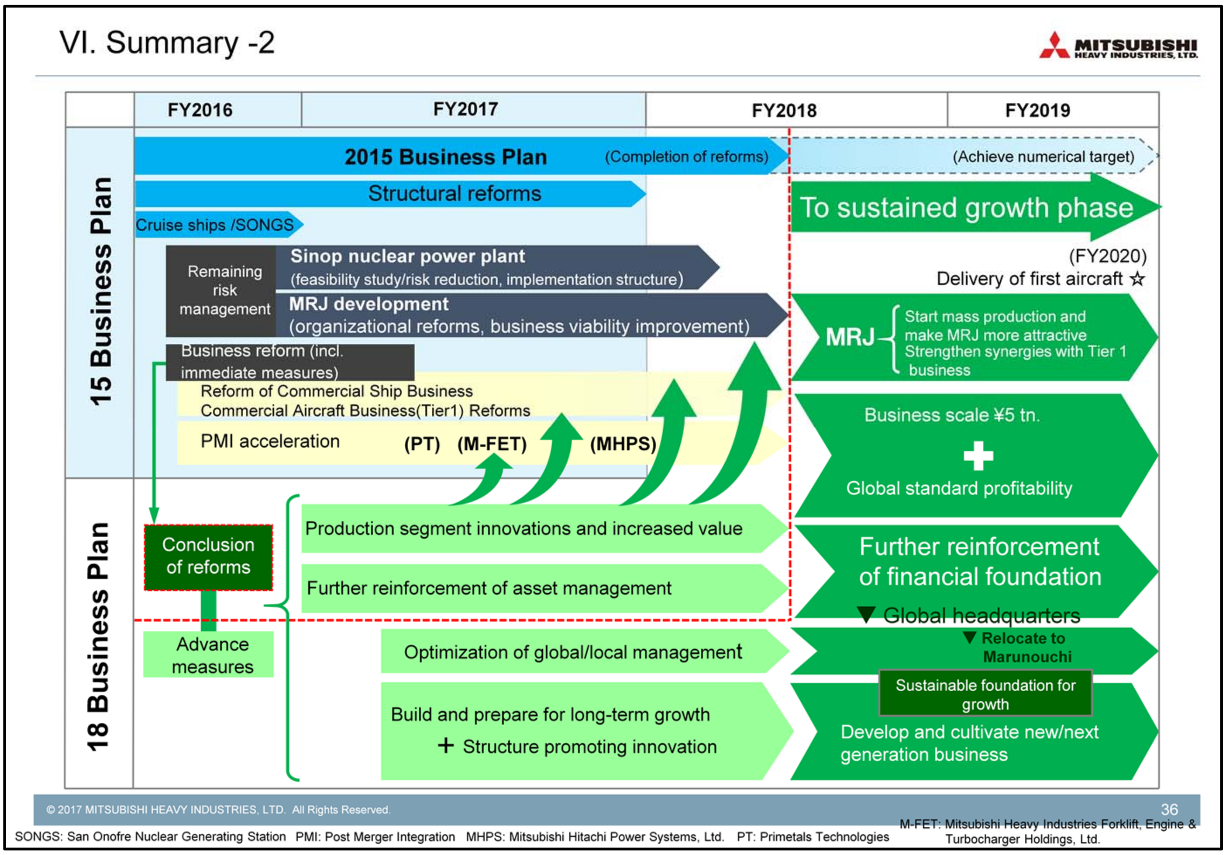

Up to this point I have presented our initiatives relating to management streamlining and efficiency enhancement. We do, of course, believe it is also necessary to improve our competitiveness by strengthening our technological capabilities. In order to garner leading-edge knowledge and ideas from external sources, and to absorb novel ideas and approaches and apply them to the development of fundamental technologies and new products, we are planning to establish what we are tentatively calling a new “Innovation Laboratory,” to conduct joint research both in Japan and abroad. Although the facility is still in the conceptual stage, we intend for the new Innovation Laboratory to be a wholly owned subsidiary dedicated to R&D, where research activities will be conducted largely at the discretion of project managers.

# Ⅵ. Summary

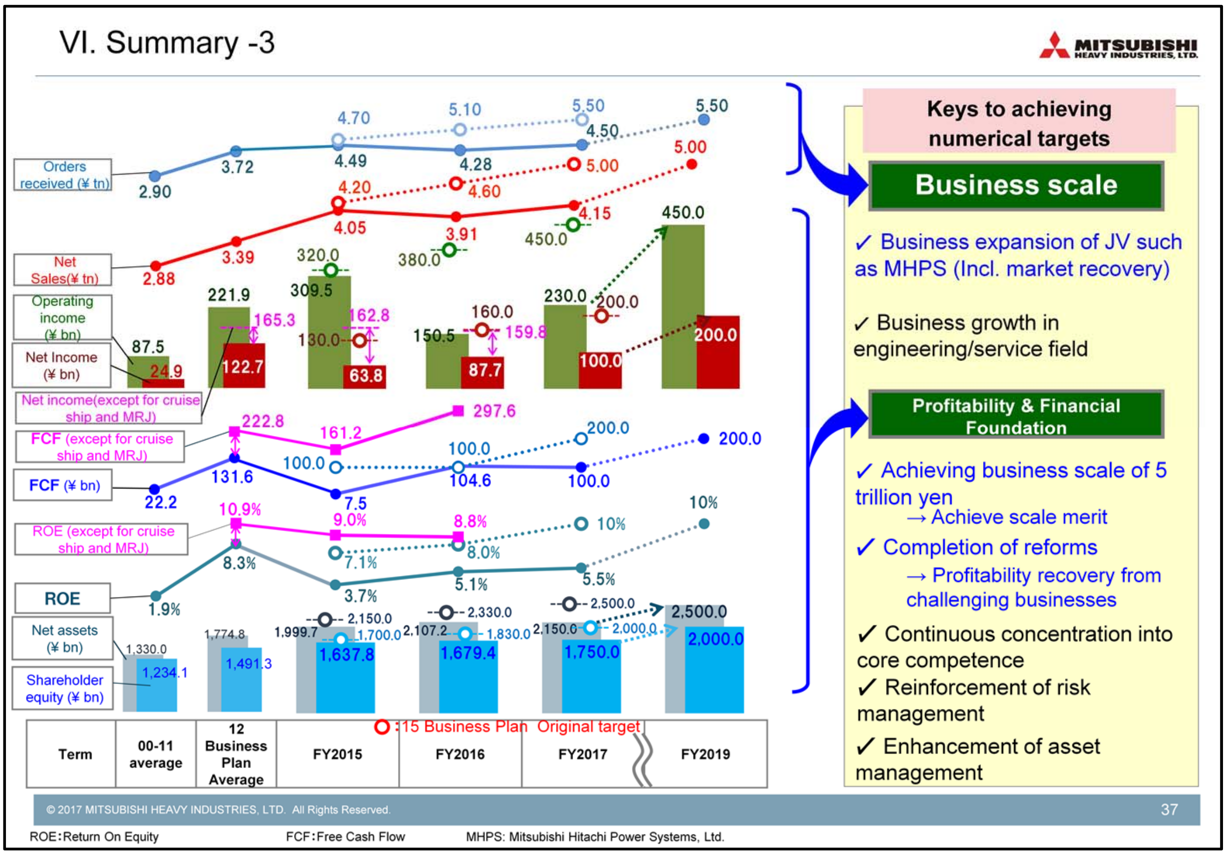



Reflecting uncertainty in the global economy and market outlook, and also factoring in costs for dealing with the challenges that arose in fiscal 2016, our forecasts for fiscal 2017 now anticipate 4.5 trillion yen in orders received and net income of 100 billion yen. The targets we initially set to achieve within the scope of our 2015 Medium-Term Business Plan, we will now seek to achieve in fiscal 2019.

By focusing our efforts into resolving the challenges currently at hand, and bringing our reform agenda to full completion, we will then shift to a sustainable growth stage starting in fiscal 2018.




Here, we see a timetable for the major initiatives underway under the current 2015 Business Plan, and those to be implemented in the forthcoming 2018 Business Plan. The reforms indicated within the red dotted lines have been nearly completed, and by putting in place further initiatives we aim to achieve our long-term targets.




Here we see our key numerical targets for fiscal 2017 and fiscal 2019. In order to achieve our fiscal 2019 targets—business scale of 5 trillion yen, operating income of 450 billion yen, and net income of 200 billion yen—it is imperative that we further improve our earning capacity and our financial foundation.

Going forward, we will pursue the achievement of scale merit along with reaching a business scale of 5 trillion yen, and aim for recovery in earning capacity by completing our reforms for dealing with the aforementioned challenges.


That completes our presentation. Thank you for your attention.

# Reference Materials

## Reference 1: Technology topics in FY2016

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### Completion of world's largest $CO_2$ capture plant in Texas, USA

- Captures 4,776 tons per day of $CO_2$ from coal-fired power plant
- MHI Group has delivered 11 commercial $CO_2$ capture systems worldwide. (top share of global market)

### Large-output Organic Rankine Cycle 5-stage axial turbine

- "5-stage 16MW" multi-stage large-scale axial turbine resolving vibration and other issues and achieving outstanding efficiency

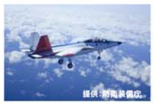
### Start of operation of new electric steelmaking furnace (Mexico)

- World's most efficient electric furnace, cuts power consumption and $CO_2$ emissions by 25% and reduces production costs by near 20%

### Advanced AGV (automated guided vehicle) employing laser guidance

- Material handling capacity increased by more than 20% by laser guidance and proprietary optimized operation algorithms applying onboard AI

### Stealth and high-maneuverability technologies enabling realization of Advanced Technology Demonstrator (X-2)



- Extremely high stealth capability and outstanding maneuverability with flying capability not possible with conventional aircraft
  → Airframe system and advanced engine system integration

### Combustion stabilization technology for H3 rocket engine (LE-9)

- Development of key technologies to control high-frequency combustion vibrations
- In March 2016, applicability has been demonstrated in full-size proto-type firing tests

### Exhaust pulsation energy-using technology for high-performance vehicle-use turbochargers

- World's first nonstationary performance evaluation technology for turbochargers, factoring in intermittent engine exhaust gas flow

### Mobile combat vehicle (production launched in FY2016)

- Combat vehicle featuring outstanding mobility and air transport capability
- World's highest level of firing accuracy while traveling and outstanding mobility

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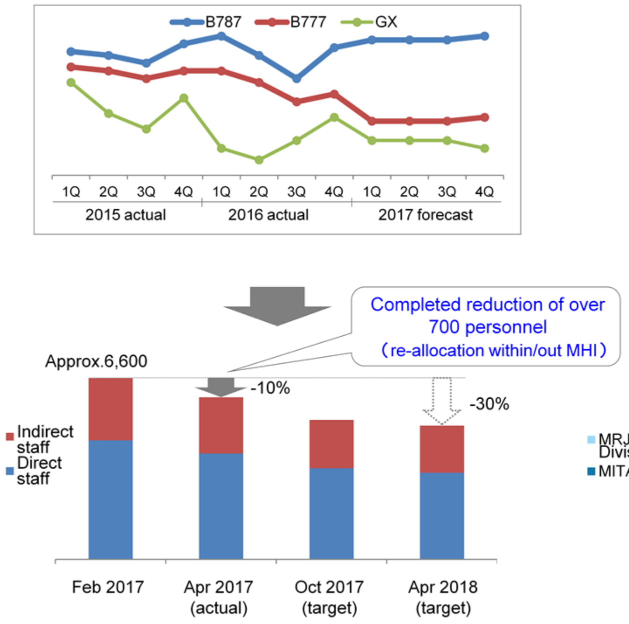
AGV:Automated Guided Vehicles

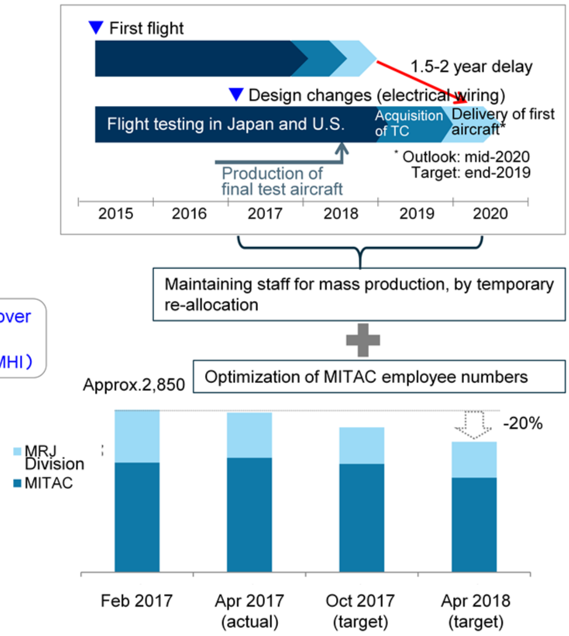
## Reference 2: Medium-term measures against low capacity utilization at Nagoya facilities

MITSUBISHI HEAVY INDUSTRIES, LTD.

### Measures for Tier1 production volume and staff




### Measures for MRJ timetable and staff

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MRJ：Mitsubishi Regional Jet
TC：Type Certificate

## Reference 3: Investments relating to AREVA of France

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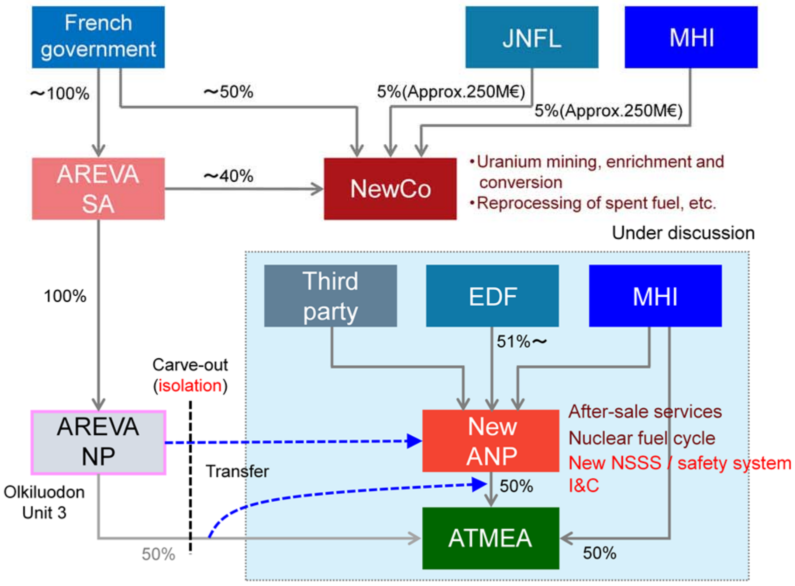
- Investment into stable earnings businesses after separation of existing risks
- Creation and expansion of business opportunities through strengthening of strategic relationships with EDF and New AREVA




**Purpose of investment into NewCo**

- Reinforce collaboration with global leader (AREVA) in field of nuclear fuel cycle

Strengthen MHI's response capability to reactor decommissioning and fuel cycle

**Purposes of investment into New ANP**

- Increase business opportunities, including ATMEA, through expanded collaboration with EDF
- Achieve stable profitability at New ANP
  -- After-sale services and fuel cycle
  -- Reactor-related engineering business (no EPC risk)

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JNFL：Japan Nuclear Fuel Limited NSSS：Nuclear Steam Supply System I&C：Instrumentation＆Control EPC：Engineering, Procurement＆ Construction

## Reference 4: SONGS arbitration

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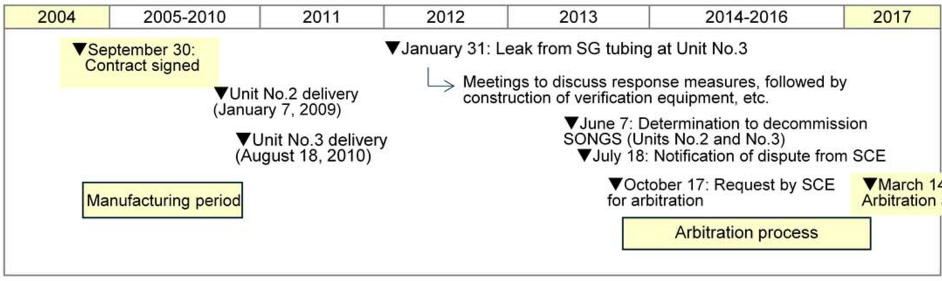
### Chronology from contract signing to passage of arbitration award




* SONGS comprises 3 units; MHI supplied SGs to Units No.2 and No.3.
(The decision to decommission Unit No.1 was made in 1992.)

### Arbitration award

- Upper limit of responsibility stipulated in contract (approx. US$137 million) is valid. ← As claimed by MHI
- MHI to pay approx. US$118 million, after adjustments for expenses already paid, interest, etc.
- Rejection of SCE and other claimants' allegation of fraud and gross negligence by MHI (award sought: US$6.667 billion)
- SCE and other claimants to bear majority (approx. US$58 million) of MHI's arbitration expenses

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SONGS: San Onofre Nuclear Generating Station SCE: Southern California Edison SG: Steam Generator

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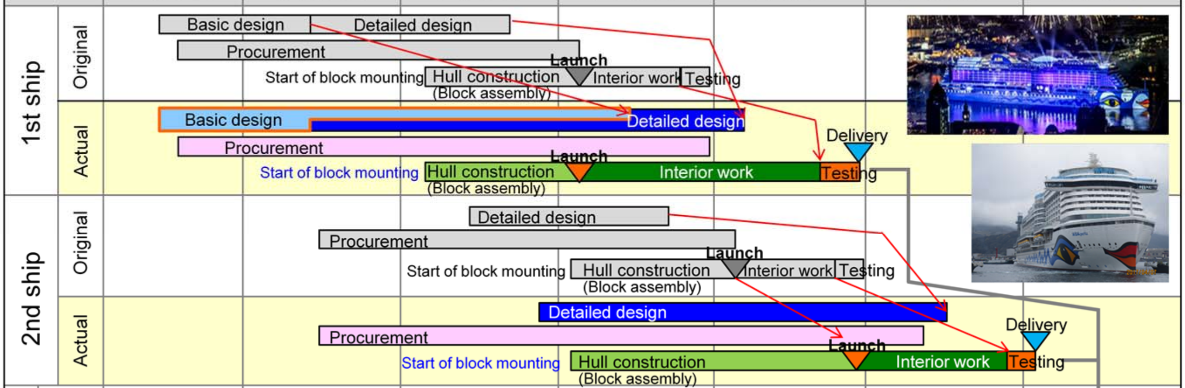
## Construction and gain/loss record

(in billion yen)




| Gain / Loss | FY2011 | FY2012 | FY2013 | FY2014 | FY2015 | FY2016 | FY2017 |
|---|---|---|---|---|---|---|---|
| Operating income | -9.3 | 6.0 | -0.1 | 0 | 0 | 0 | |
| Extraordinary loss | - | - | -64.1 | -69.5 | -103.9 | -34.3 | **Finished except for normal warranty** |
| Cumulative to date | -9.3 | -3.3 | -67.5 | -136.0 | -239.9 | -274.2 | |

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## Reference 6: Acceleration of concentration into core competencies: M&A

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■ :Overseas
Blue :FY2016 initiatives

| | | Company | Product/Business | PMI Status and Results to Date: Agreement date | PMI Status and Results to Date: Net sales contribution | PMI Status and Results to Date: Other results, |
|---|---|---|---|---|---|---|
| Acquisition | | Federal Broach (USA) | Machine tools | Apr 2012 | Approx. JPY 5bn | Business expansion and stabilization from lineup integration |
| Acquisition | | PWPS(USA) , Turboden(Italy) | Gas turbines | Dec 2012 | Approx. JPY 80bn | Business expansion from added lineup in small/medium GT |
| Acquisition | | Daily Equipment (USA) | Forklift trucks | Jan 2012 | Approx. JPY 1.5bn | Expansion of after-sale servicing business |
| Acquisition | | Concast (India) | Metals machinery | Jun 2012 | Approx. JPY 2.5bn | Strengthening of upstream product lineup |
| Acquisition | | Toyo Engineering Works | Refrigeration systems | Jan 2014 | Approx. JPY 16bn | Strengthening of engineering business |
| Acquisition | | 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 |
| JV | MHI -led | Hitachi | Thermal power generation systems | Nov 2012 | Approx. JPY 300bn | Business expansion from full GT lineup (small to large), expansion of unique technologies |
| JV | MHI -led | Siemens (Germany) | Metals machinery | May 2014 | Approx. JPY 150bn | Business expansion from achievement of full lineup |
| JV | MHI -led | IHI Metaltech | Metals machinery | Jul 2013 | Approx. JPY 10bn | Strengthened lineups of aluminum rolling mills, etc. |
| JV | MHI -led | Mahindra & Mahindra (India) | Agricultural machinery | May 2015 | (equity-based) | Stronger competitiveness in domestic and global markets |
| JV | Equal | Vestas (Denmark) | Wind turbines | Sep 2013 | (equity-based) | Early achievement of strategic model (8MW) development and order receipt targets |
| JV | partner-led | Ryobi | Commercial printing machinery | Jun 2013 | (equity-based) | Business strengthening from product lineup and production integration |
| JV | partner-led | Fuji Xerox | Document-related | Oct 2013 | - | Reductions in direct/indirect costs from standardization and effective document-related processes |
| JV | partner-led | Miyaji Engineering | Bridges | Nov 2014 | (equity-based) | Scale merits, Market share increase |
| JV | partner-led | Japan Tunnel Systems | Tunneling shield machine | May 2015 | (equity-based) | Assured capture of domestic demand and accelerate business expansion overseas |
| JV | partner-led | Fuji Oozx | Automobile engine valves | Jan 2016 | (equity-based) | Market share expansion and enhanced market presence |
| JV | partner-led | Ube Machinery | Injection molding machines | Jul 2016 | - | Expansion of product lineup and sales network, reductions in production costs |
| JV | partner-led | JR West | Real estate | Oct 2016 | (equity-based) | Boost corporate value through partnership with JR West |
| JV | partner-led | NTT Data | Operation and maintenance of IT | Mar 2017 | - | Sophistication of IT service and strengthening global readiness |
| Transfer | | HIDROMEK (Turkey) | Motor graders | Nov 2013 | - | Promotion of business concentration into core competence |
| Transfer | | Delta Electronics (Taiwan) | Lithium rechargeable batteries | Apr 2014 | - | Promotion of business concentration into core competence |
| Transfer | | Sumitomo Heavy Industries Material Handling Systems | Industrial cranes | May 2015 | - | Promotion of business concentration into core competence |
| Transfer | | Michinori Holdings | Shonan Monorail | May 2015 | - | Promotion of business concentration into core competence |
| Transfer | | Tohmei Industries | Ship stabilizers | Mar 2016 | - | Promotion of business concentration into core competence |
| Transfer | | Sato Tekko | Sluice gates | May 2016 | - | Promotion of business concentration into core competence |
| Transfer | | Hitachi | X-ray medical equipment | Aug 2016 | - | Promotion of business concentration into core competence |
| Transfer | | Kobe Diesel | Marine diesel engines | Dec 2016 | – | Promotion of business concentration into core competence |
| Transfer | | 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 |

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

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