

2010 Medium-Term Business Plan

(2010 – 2014)

April 28, 2010

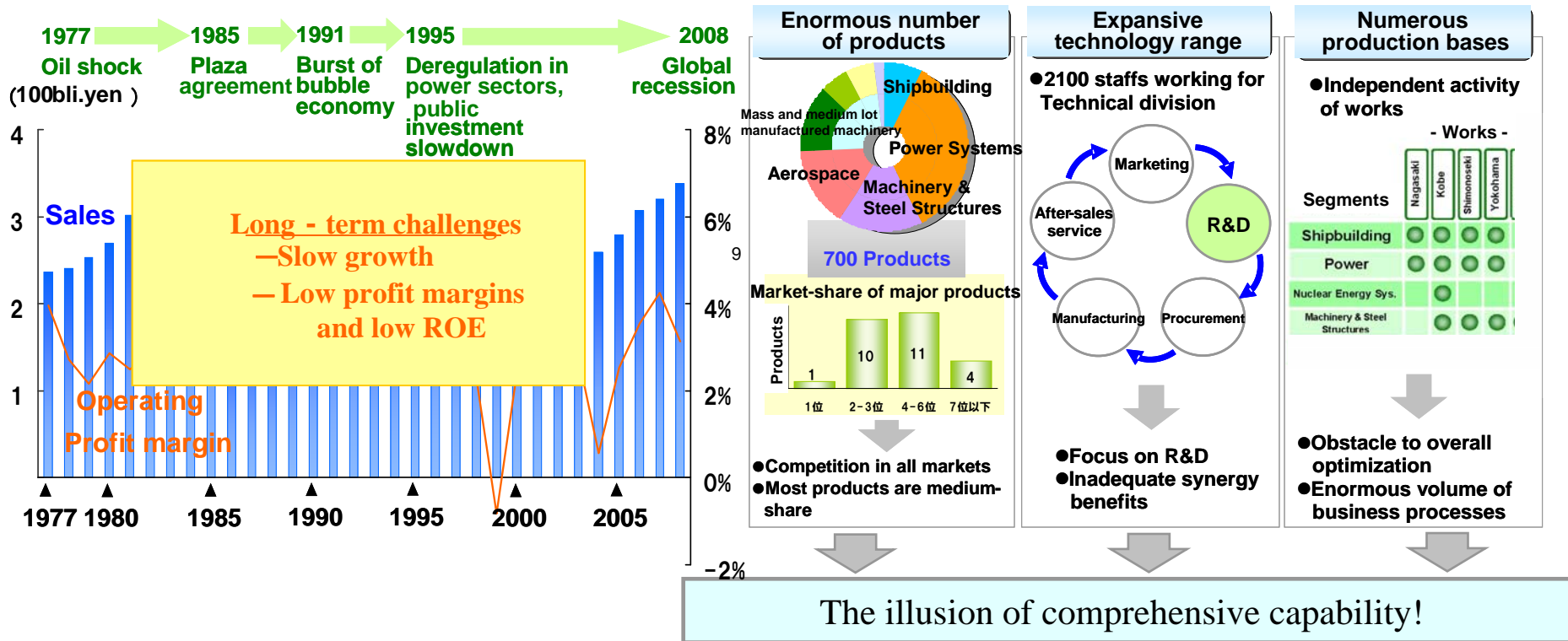


Hideaki Omiya, President

Index

1. Challenges Facing the Company	---	3
2. FY2008 Medium-Term Business Plan Summary	---	4
3. Our Challenges and 2010 Business Plan	---	6
4. Target	---	7
5. Resource Planning	---	11
6. Strategies in 2010 Business Plan	---	12
7. Promoting CSR Activities	---	32
Supplementary Information	---	34

1. Challenges Facing the Company

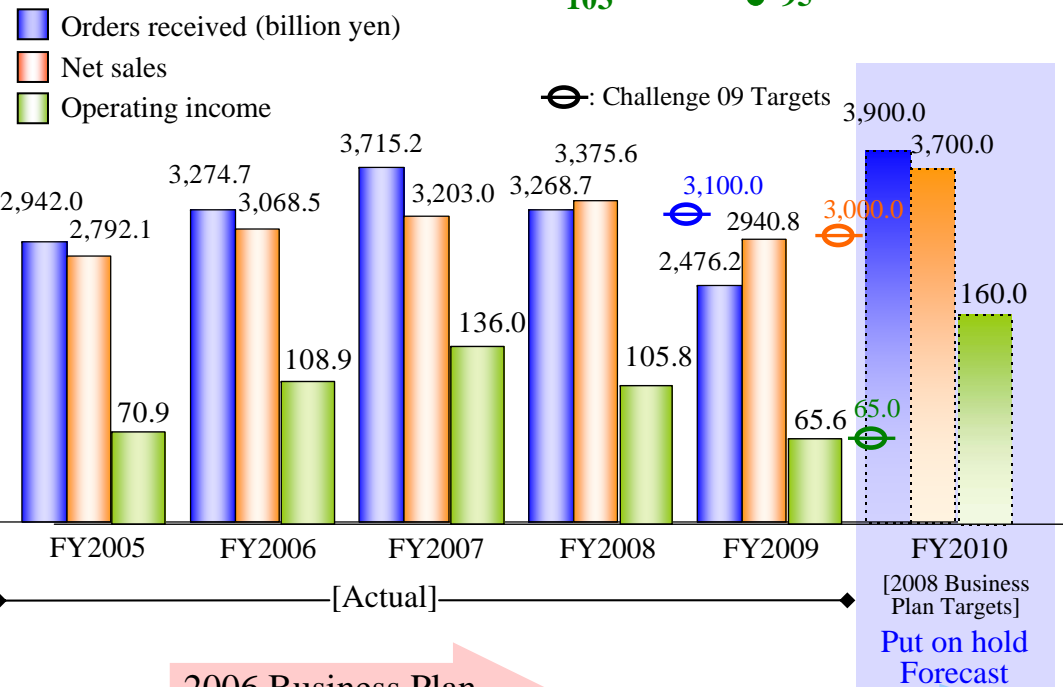
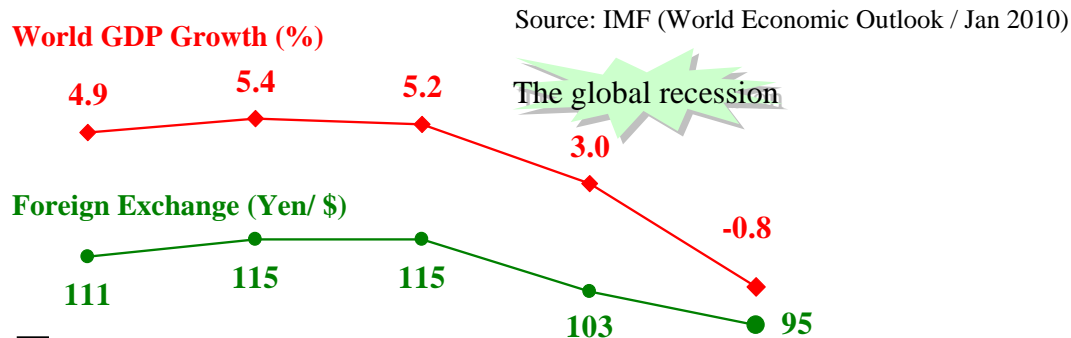


Promoting 2008 Medium-Term Business Plan

- ❑ Global growth in the production business
- ❑ Business process reform

(Acceleration of manufacturing reforms, Enhancement of risk management, & Bolstering of the business operation system)

2. FY2008 Medium-Term Business Plan Summary (1)



2006 Business Plan

2008 Business Plan

Challenge 09

* 2009 shows an initial estimate of orders, sales and profit in the interim report

❑ Demand declined with the global recession

❑ The yen remains strong

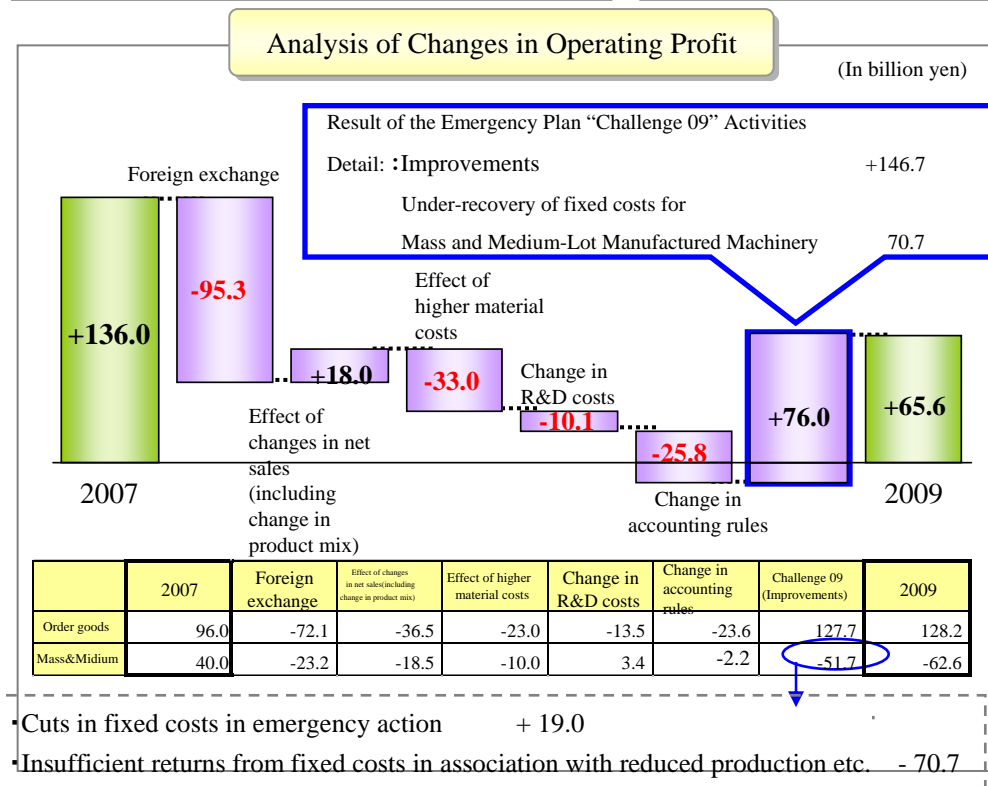
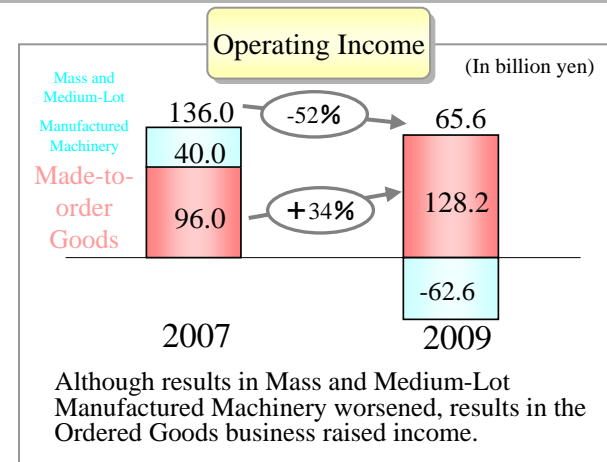
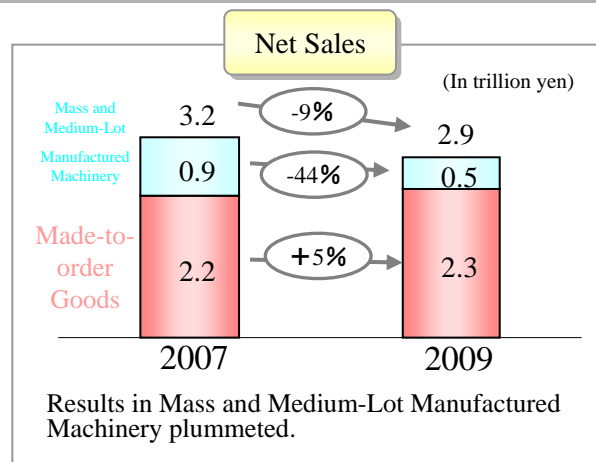
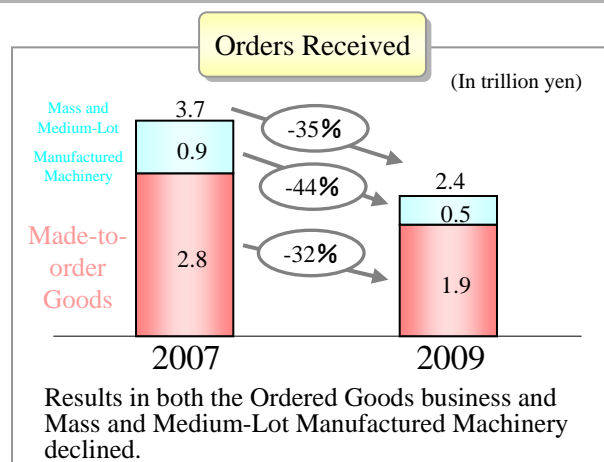
❑ FY2010 target values set out in the 2008 Business Plan are now put on hold

❑ Company-Wide Emergency Plan “Challenge 09” has been activated to ensure FY2009 profits

❑ The FY2009 orders received and net sales are both lower than expected but operating income reached its target.

<u>FY2009</u>	Challenge 09 ⇒	(Billion yen) Actual
Orders received	3,100 ⇒	2,476.2
Net sales	3,000 ⇒	2,940.8
Operating income	65 ⇒	65.6

2. FY2008 Medium-Term Business Plan Summary (2)



- ### Results and Challenges
- #### Results
- Cost improvement driven by the Modular Design Project at Technical Headquarters and Production System Innovation Planning Dept
 - Progress in the activities of Sustainability Energy & Environment Strategic Planning Dept.
 - Expanded network with governments and electric power companies
 - Enhanced proposals of Solution Business
 - Improvement in profitability of Machinery & Steel Structures Headquarters
- #### Challenges
- Increase orders in the Made-to-order Goods business
 - Fundamentally strengthen Mass and Medium-Lot Manufactured Machinery (Optimize the fixed cost structure to respond to demand fluctuations)
 - Reduce foreign exchange exposure

3. Our Challenges and 2010 Business Plan

Strategies in 2008 Business Plan

- ❑ Global growth in the production business
- ❑ Business process reform
 - Accelerating manufacturing reform
 - Enhancing risk management
 - Bolstering the business operation system

Continue &
Explore

2010 Business Plan

Promote “Reform”
and
Achieve “Global Growth”
to respond to the drastic changes
in the market

Our challenges exposed through a global recession

- ❑ Increase orders received in the Made-to-order Goods
- ❑ Fundamentally strengthen Mass and Medium-Lot Manufactured Machinery
(Optimize the fixed cost structure that can respond to demand fluctuations)
- ❑ Reduce foreign exchange exposure

Early
Solution

Market Environment

- ❑ The market is shifting from the three regions of North America, Europe and Japan to emerging nations
 - ◆ Intensified competition in emerging nations
 - ◆ Low-price offensive by manufacturers in emerging nations
- ❑ Yen remains strong
- ❑ Increased awareness worldwide of global environmental measures

-Exercise the Total Strengths-

[Reform] Establish a stable revenue structure

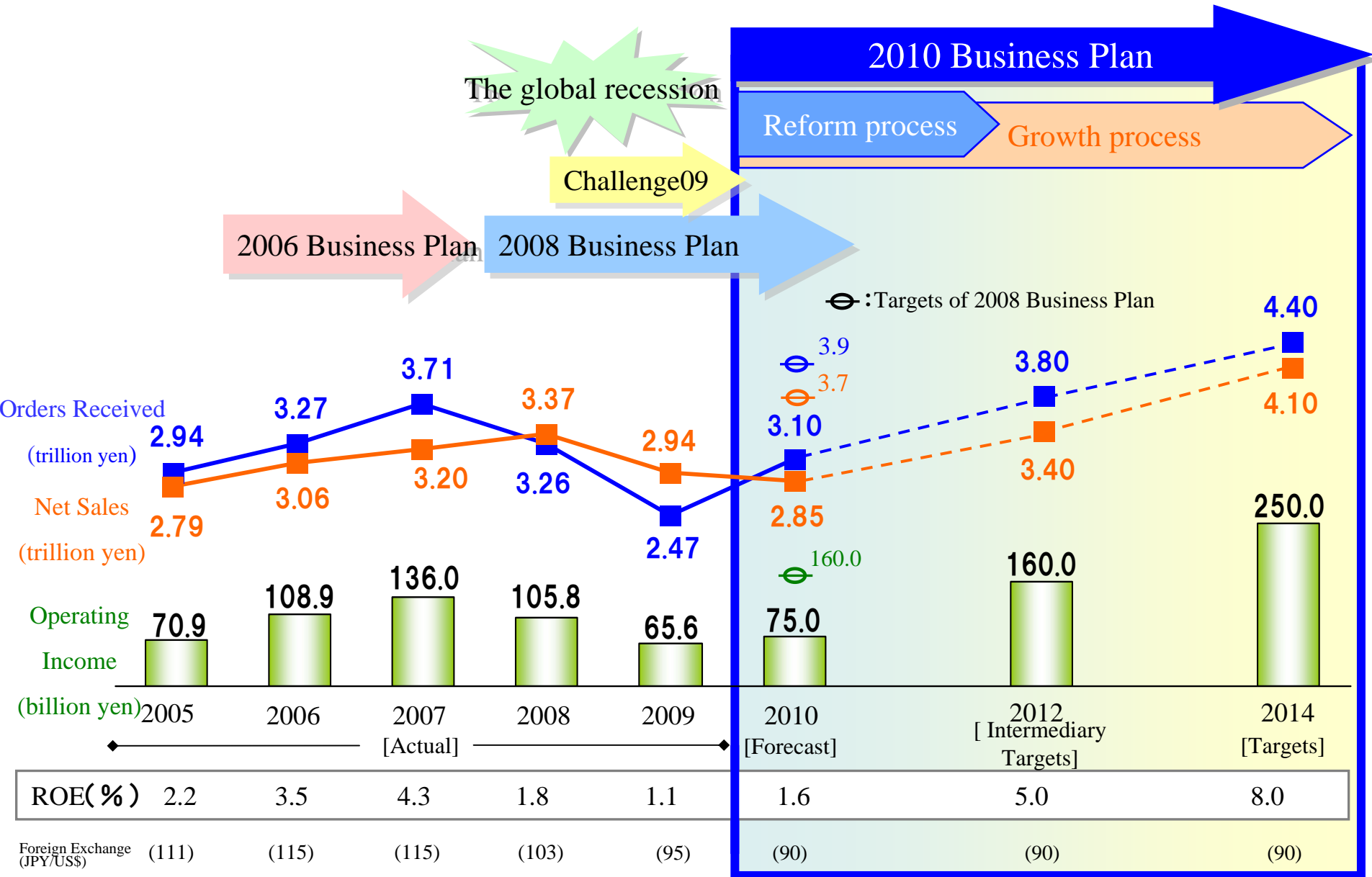
[Growth] Accelerate business growth globally

Establish an agile management system

Enhance company wide cross-sectional functions

Promote CSR activities globally

4.Target (1)



4.Target (2)

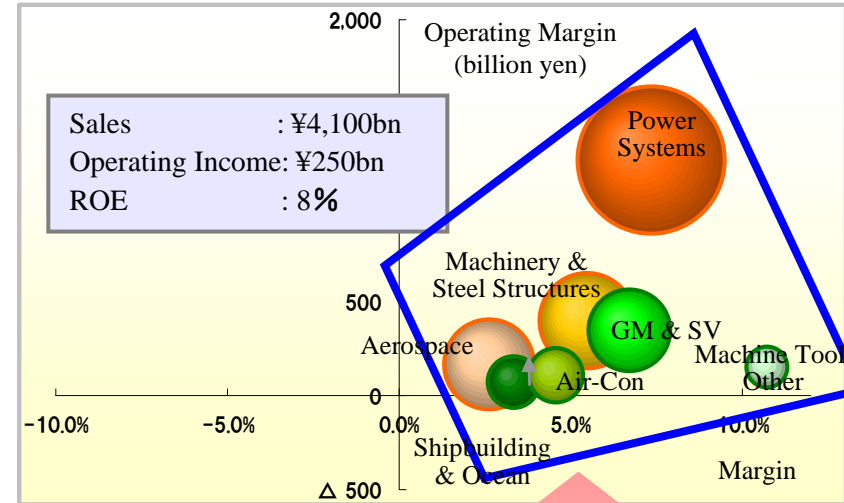
(In billion yen)

	2008 Actual	2009 Actual	2010 Forecast	2010 Business Plan	
				2012 Target	2014 Target
Orders received (shares of overseas sales)	3,268.7 (51%)	2,476.2 (38%)	3,100.0 (54%)	3,800.0 (61%)	4,400.0 (63%)
Net sales	3,375.6	2,940.8	2,850.0	3,400.0	4,100.0
Operating income	105.8	65.6	75.0	160.0	250.0
Ordinary income	75.3	24.0	35.0	110.0	200.0
ROE	1.8%	1.1%	1.6%	5%	8%
ROIC	1.8%	1.1%	1.4%	3%	5%
D/E ratio	1.3	1.1	1.1	0.9	0.8
Interest-bearing debt	1,612.8	1,495.3	1,500.0	1,300.0	1,200.0
Dividend per share	6JPY	4JPY	4JPY	6JPY	10JPY

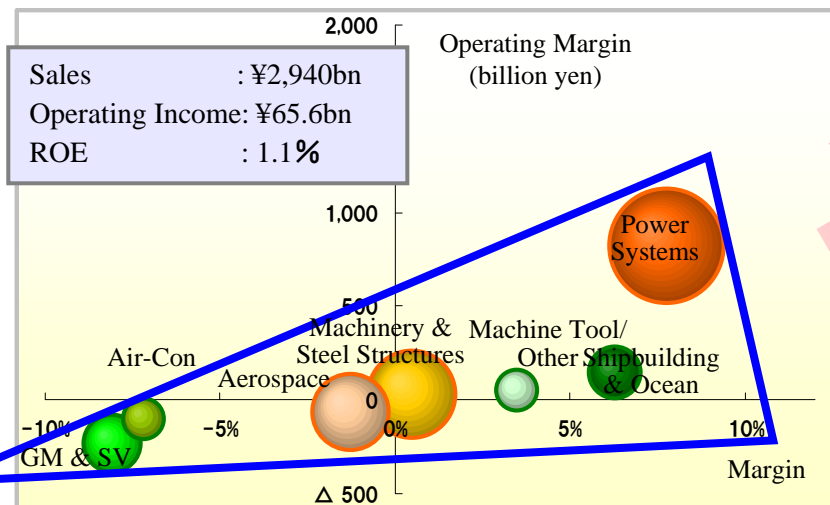
4.Target (3)

Category	Segment	Direction of Growth / Reform
Growth Business	Power Systems	With growing calls for global environmental measures and infrastructure demand in emerging nations, increase the size and profits of these businesses as MHI's core operations
	Machinery & Steel Structures	
	Aerospace	Strive to improve the earnings footing while increasing the size and profits of the businesses, against a backdrop of expanding demand for aircraft over the medium and long terms
Reform Business	Shipbuilding & Ocean Development	Reduce fixed costs, focus on specific areas and ensure stable revenues
	GM & SV	
	Air-Con	Flexibly review fixed costs early to move into the black
	Machine Tool	

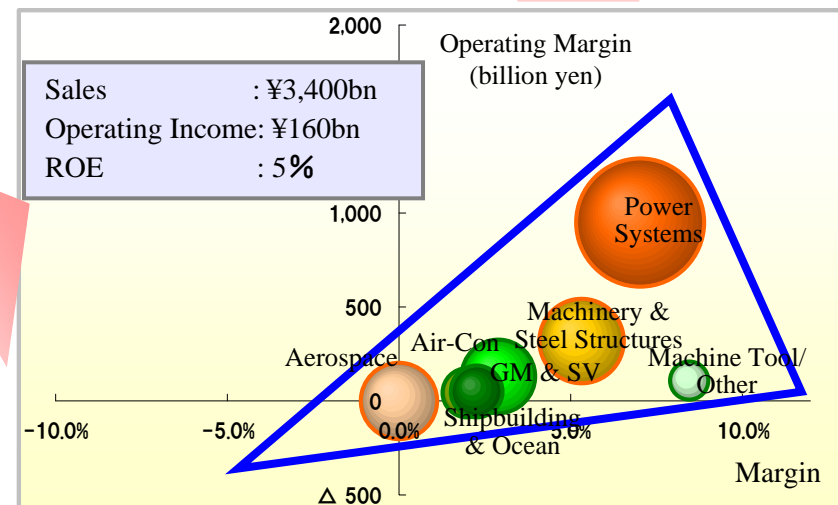
2014



2009



2012



* Size of bubble = size of sales

4.Target (4)

(In billion yen)

	Segment	Orders Received			Net Sales			Operating Income		
		2009 Actual	2012 Target	2014 Target	2009 Actual	2012 Target	2014 Target	2009 Actual	2012 Target	2014 Target
Growth Business	Power Systems	982.2	1,680.0	1,920.0	1,066.1	1,350.0	1,700.0	82.6	95.0	125.0
	Machinery & Steel Structures	404.3	640.0	810.0	625.7	600.0	730.0	3.0	32.0	40.0
	Aerospace	435.5	510.0	590.0	500.2	500.0	650.0	△ 6.4	0.0	17.0
	Total	1,822.0	2,830.0	3,320.0	2,192.0	2,450.0	3,080.0	79.2	127.0	182.0
Reform Business	Shipbuilding & Ocean Development	150.8	230.0	230.0	230.6	220.0	210.0	14.5	5.0	7.0
	GM & SV	291.0	450.0	520.0	286.8	450.0	520.0	△ 23.2	13.0	35.0
	Air-Con	138.4	200.0	240.0	137.4	200.0	240.0	△ 9.9	4.0	11.0
	Machine Tool·Others	113.4	150.0	160.0	146.8	130.0	140.0	5.1	11.0	15.0
	Total	693.6	1,030.0	1,150.0	801.6	1,000.0	1,110.0	△ 13.5	33.0	68.0
	Inter-group consolidation adjustments	△ 39.7	△ 60.0	△ 70.0	△ 53.2	△ 50.0	△ 90.0	0.0	0.0	0.0
	Total	2,476.2	3,800.0	4,400.0	2,940.8	3,400.0	4,100.0	65.6	160.0	250.0

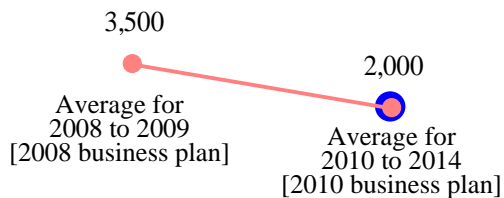
Note: From FY2010 onward, segment classification has changed with the application of the Financial Accounting Standard for Segment Information Disclosure and the organizational restructuring of MHI. FY2009 results shown in the above table have been reclassified based on the new segment classification.

5. Resource Planning

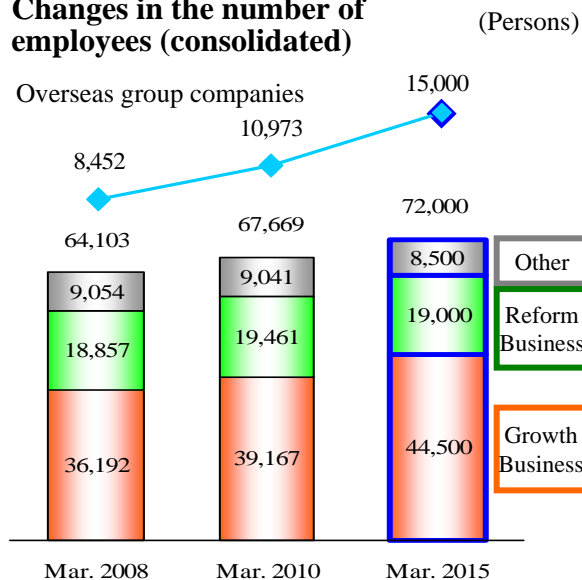
Human Resources

- Expand the workforce in growth business
- Carefully select new employees in Japan
- Increase the overseas workforce

New recruitment in Japan

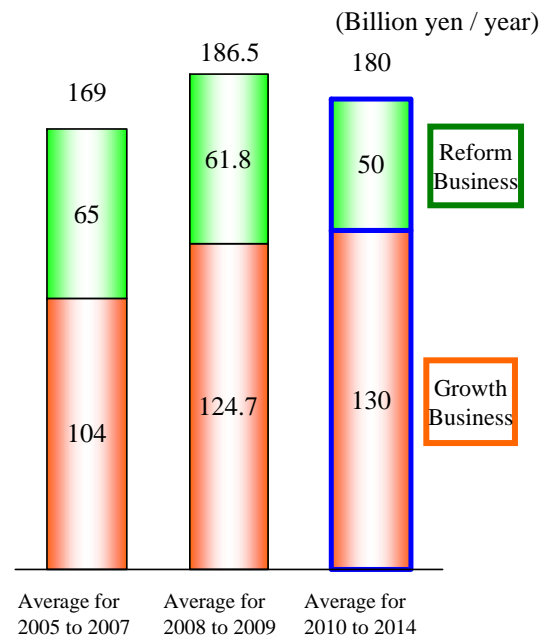


Changes in the number of employees (consolidated)



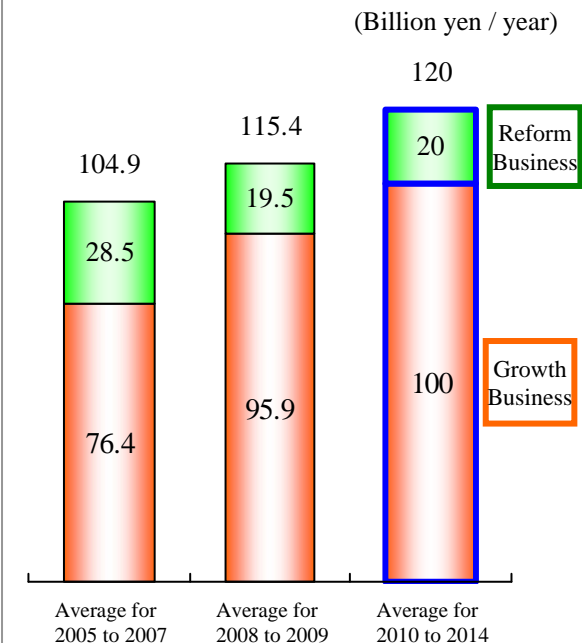
Capital Expenditure

- Continue investment mainly in growth business
- Replace products with those manufactured in-house, with improved efficiency (AC & refrigeration, etc.) to meet high community demands and reduce CO₂ emissions.



R&D Expenses

- Actively invest in growth businesses
- Continue investment to enhance the competitiveness of core products (technical innovation) and manufacturing capabilities (market, process and product innovation)



6. Strategies in 2010 Business Plan

Exercise truly comprehensive strengths

Strategies 1

Transform business models from customer perspectives

- 1 Strengthen the core businesses further
- 2 Expand the solution business
- 3 Expand business areas
- 4 Expand businesses primarily in a new market (emerging nations)

Strategies 2

Transform business processes for a strengthened structure

- 1 Commoditize/standardize and sophisticate the business processes
 - 2 Globally optimize the business process allocation
- Departure from vertical integration-

Establish a system that enables to exercise comprehensive strengths

Strategies 3

Establish a flexible and agile management system

- Clarify the structure and responsibility-
- Enhance horizontal cross-divisional functions-

Strategies 4

Introduce management indicators
for increased corporate value

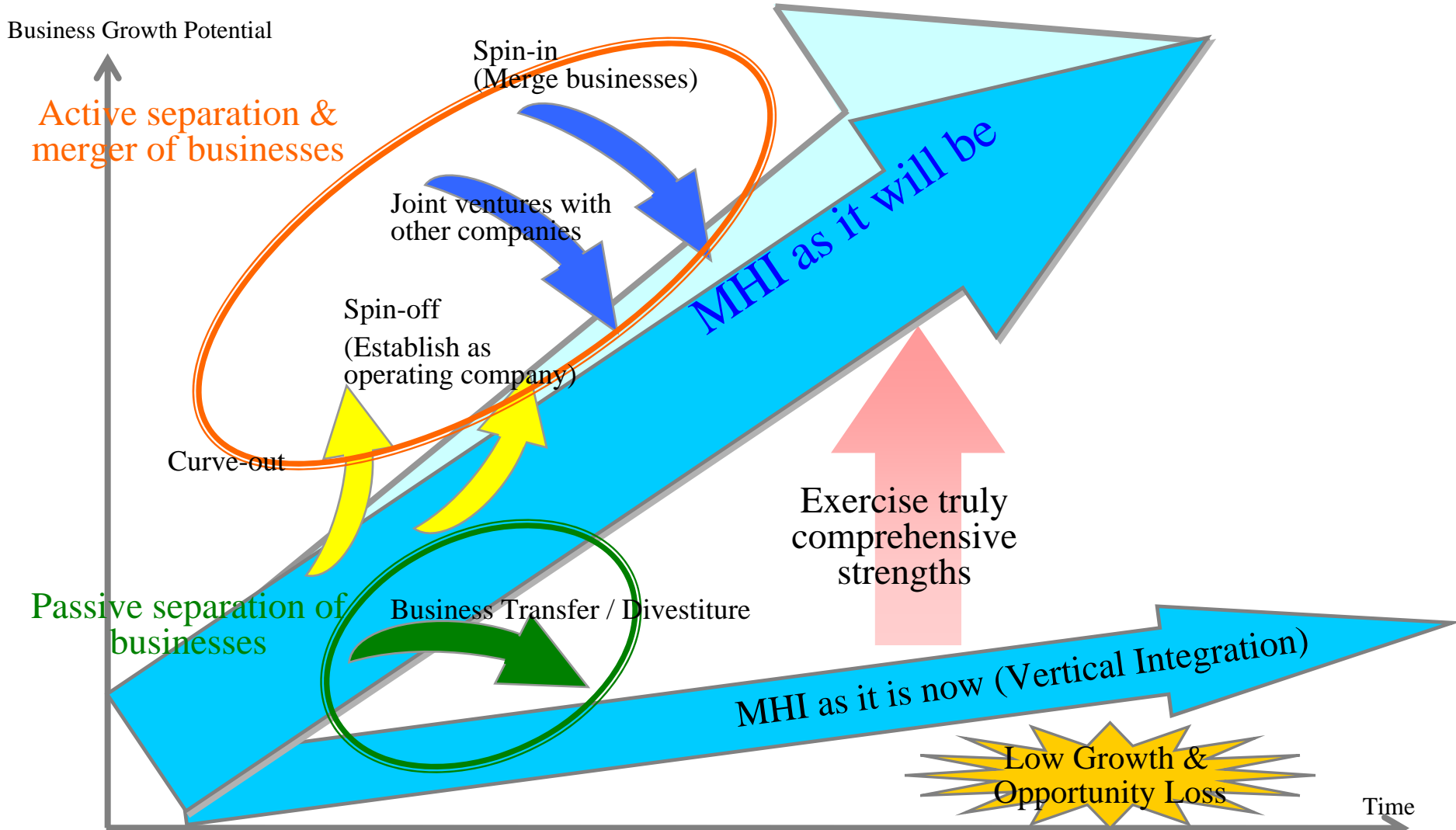
Strategies 5

Enhance human resources

Enhance the intellectual
property (IP) strategies

6. Strategies in 2010 Business Plan

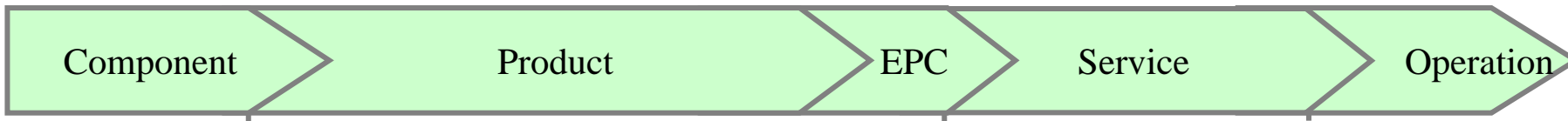
Exercise of Comprehensive Strengths and Departure from Vertical Integration



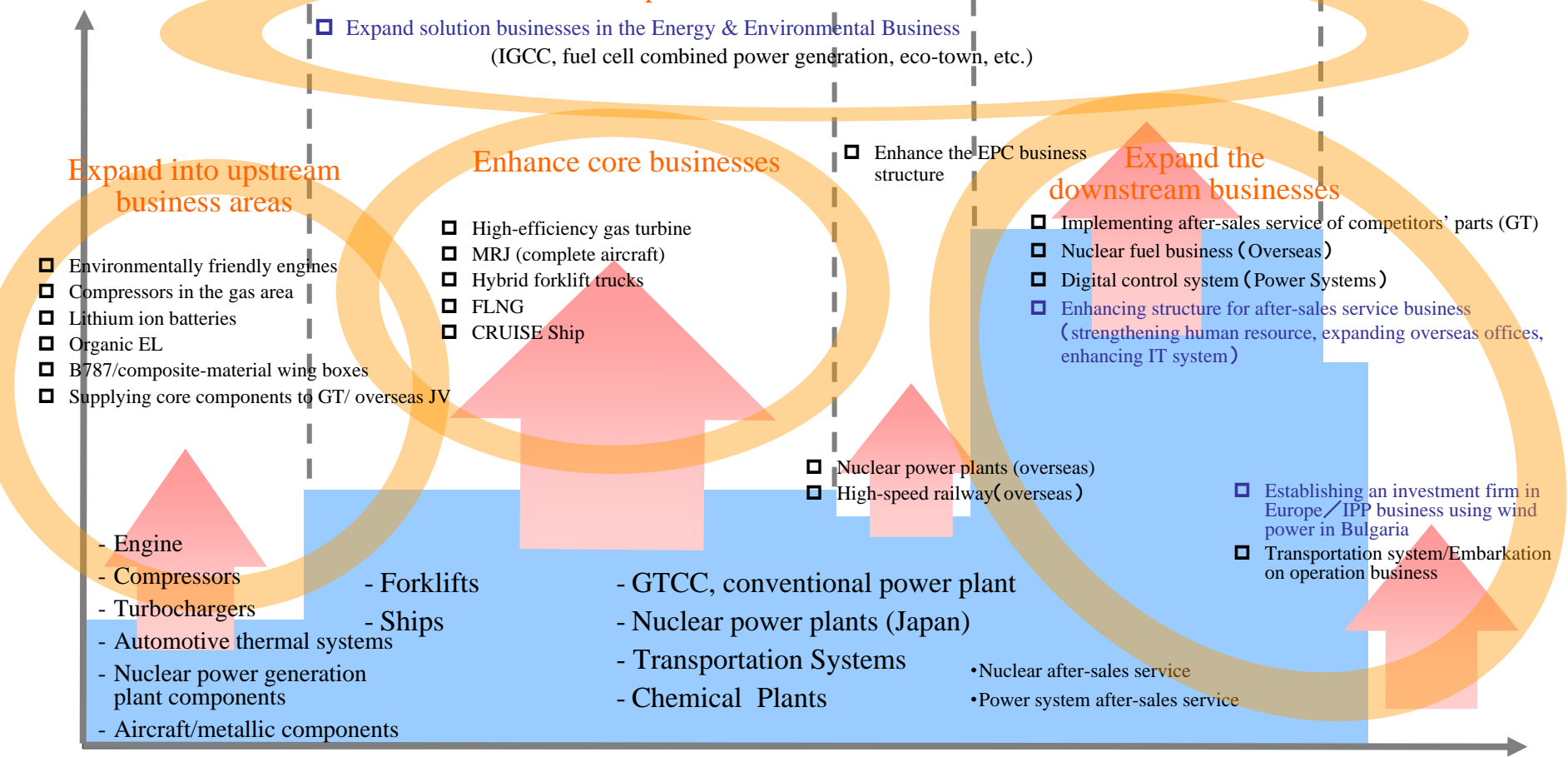
* Carve-out: Take technologies and products that are currently buried within MHI and turn them into businesses through third-party investment and participation in management decisions.

Strategy 1: Transform Business Models from the Customer Perspectives

<Business Value Chain>



(Rate of profit)



EL:Electro-luminescence, GT:Gas turbines, FLNG:Floating LNG, IGCC:integrated gasification combined cycle

Strategy 1-(1): Continue Strengthening the Core Businesses

Promote technical innovation in priority products that will drive MHI's future

Energy & Environment

(GTCC, wind turbines, nuclear energy, environment products)

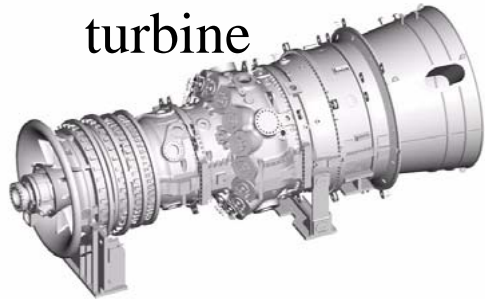
Transport & Social Infrastructure

(Transportation systems, chemical plants, aerospace)

- ❑ Development of key technology
- ❑ Development of prototype-less technology
- ❑ Development of advanced platform technology commonly used for multiple products
- ❑ Development of innovative manufacturing technologies that can counter low-cost overseas manufacturers
- ❑ Design of product-enhancing technology (MCMD, DFX)
- ❑ Use of Open Innovation

Strategy 1-(1): Continue Strengthening the Core Businesses

J-series gas turbine

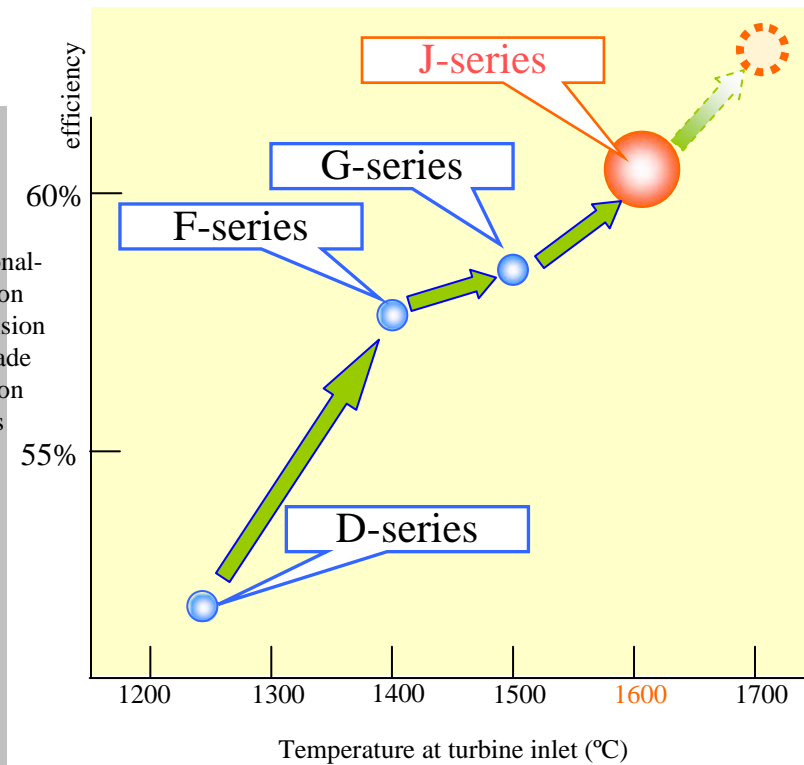
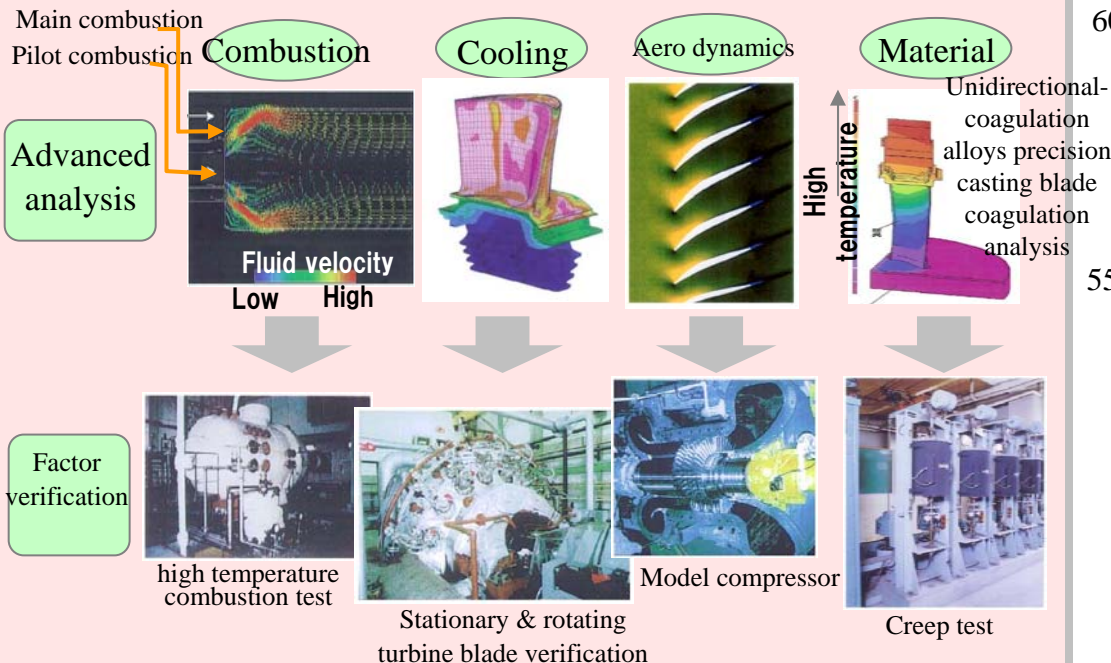


Kansai Electric Power Co.
Himeji Power Station # 2
Adopted M501J x 6
First commercial operation is set for October 2013 (plan)



- Contribute to the prevention of global warming with highly efficient gas turbines.
- Achieve more than 60% efficiency (the highest level in the world).
- Reduce CO₂ emissions by 50% from that of MHI's conventional coal-fired power plants.

<J-series Gas Turbine Elemental Technology Development>



Strategy 1-(1): Continue Strengthening the Core Businesses – Prototype-Less Technology

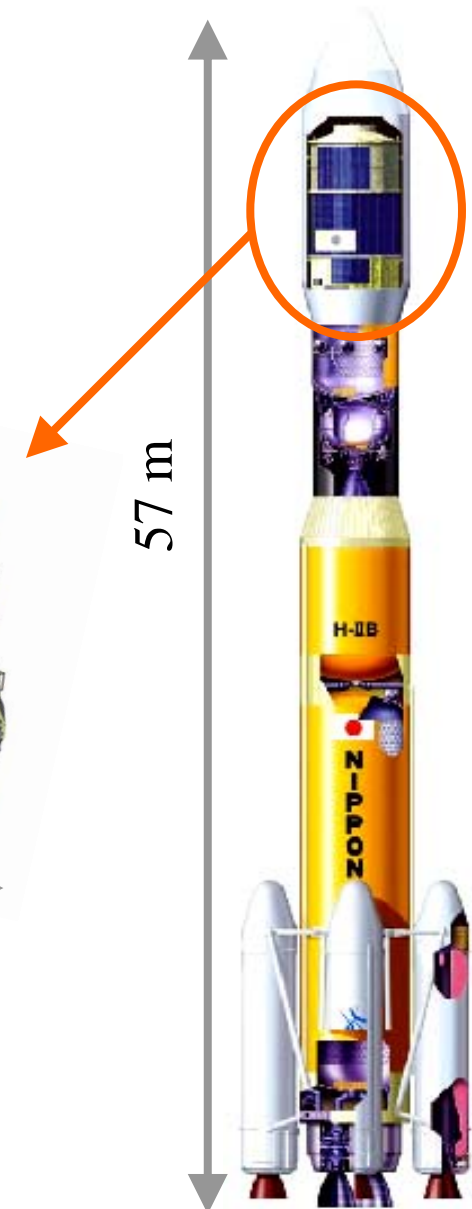
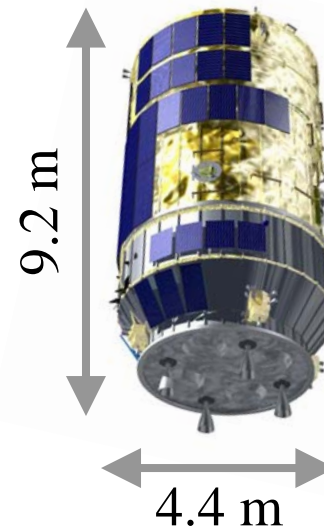
Case 1: H-IIB Rocket

Fluid-structural analysis using
ultrafast mesh generator



September 11, 2009

Successfully launched the H-IIB rocket equipped
with HTV (H-II Transfer Vehicle)



Strategy 1-(1): Continue Strengthening the Core Businesses – Prototype-Less Technology

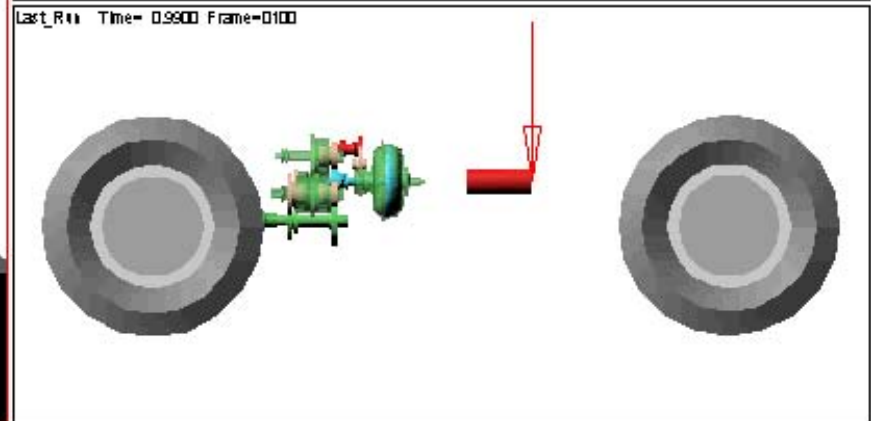
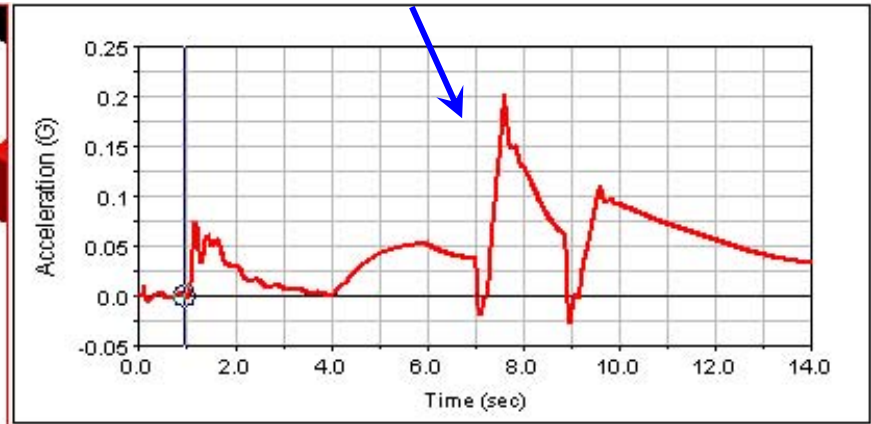
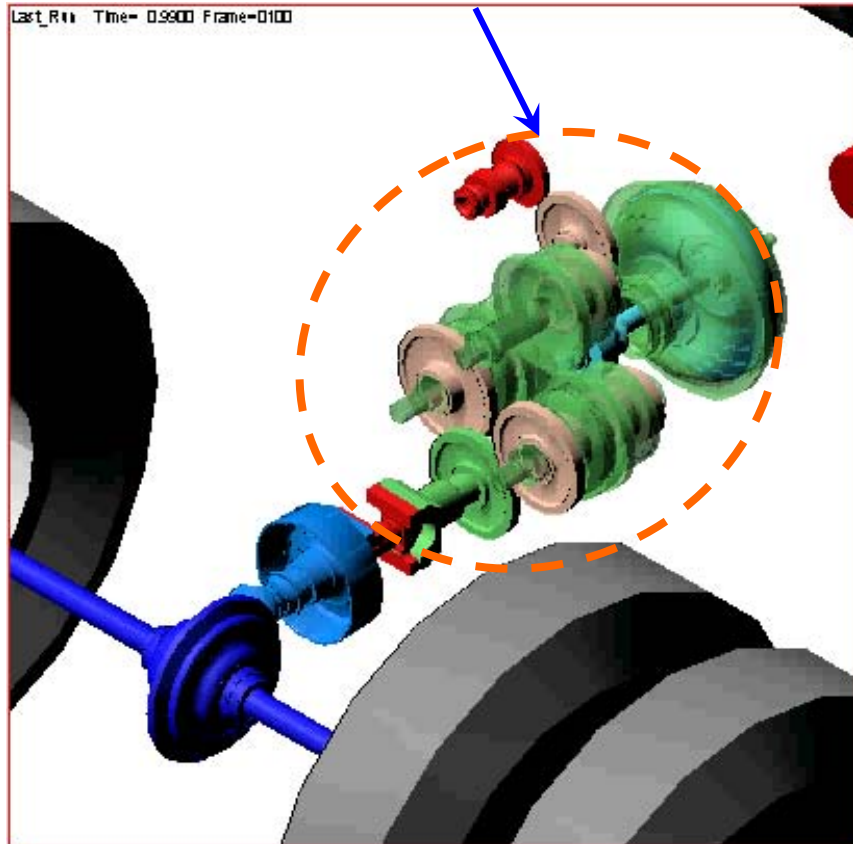
Case 2: Forklift Truck Development

Transmission gear-shifting shock

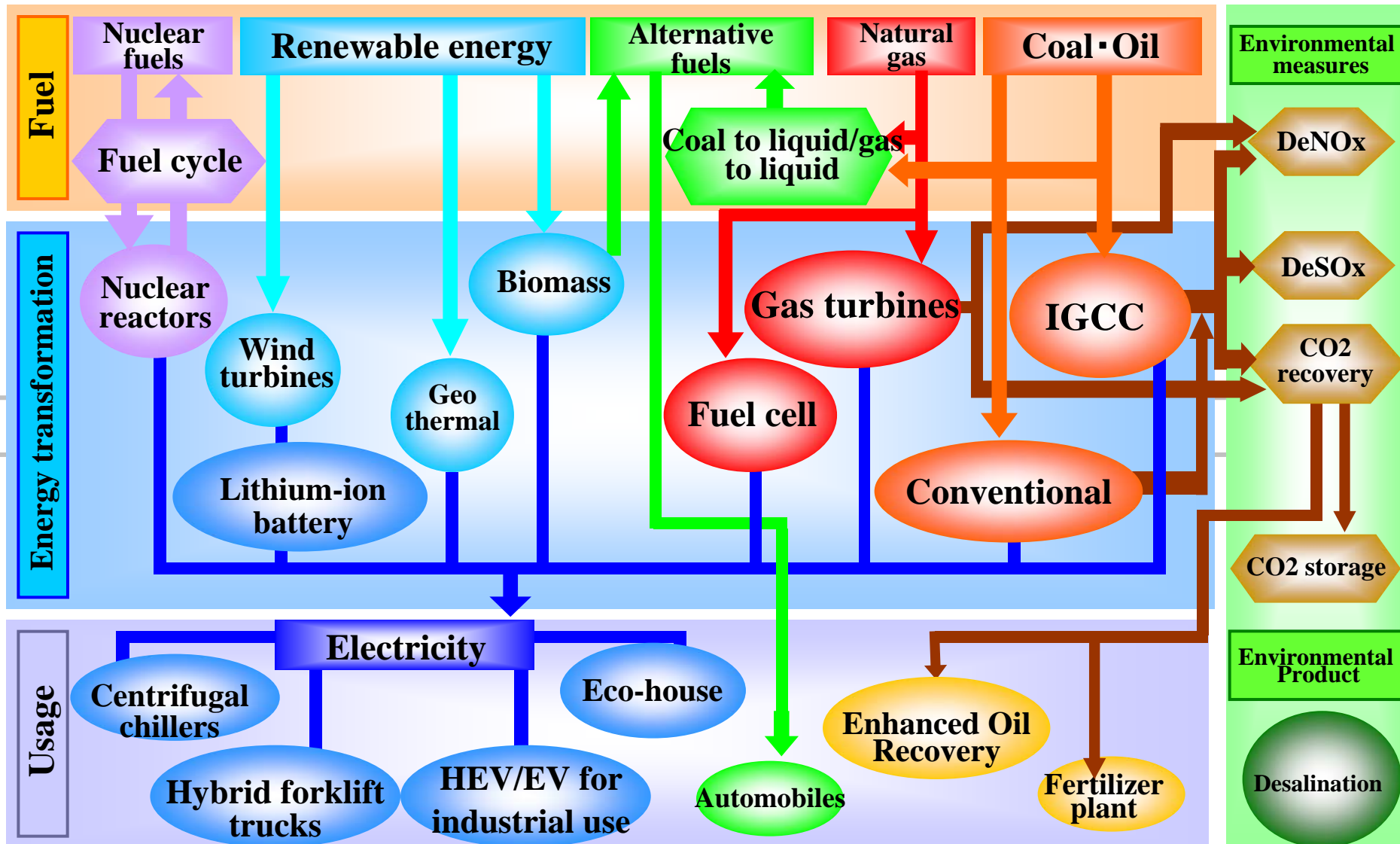


Shock transmitted to vehicle body during acceleration (vibration value)

Source of gear-shifting shock



Strategy 1-(2): Manifestations of Comprehensive Capability -Energy and Environment Business



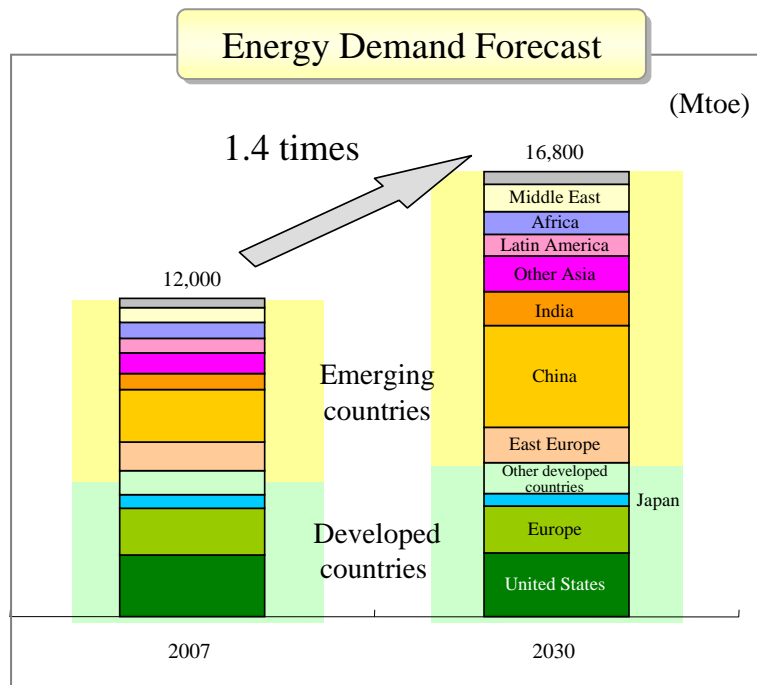
CTL:Coal to liquid, GTL:Gas to liquid, GTCC:Gas turbine combined cycle, IGCC:integrated gasification combined cycle, EOR:Enhanced oil recovery

Strategy 1-(2): Expand the Solution Business

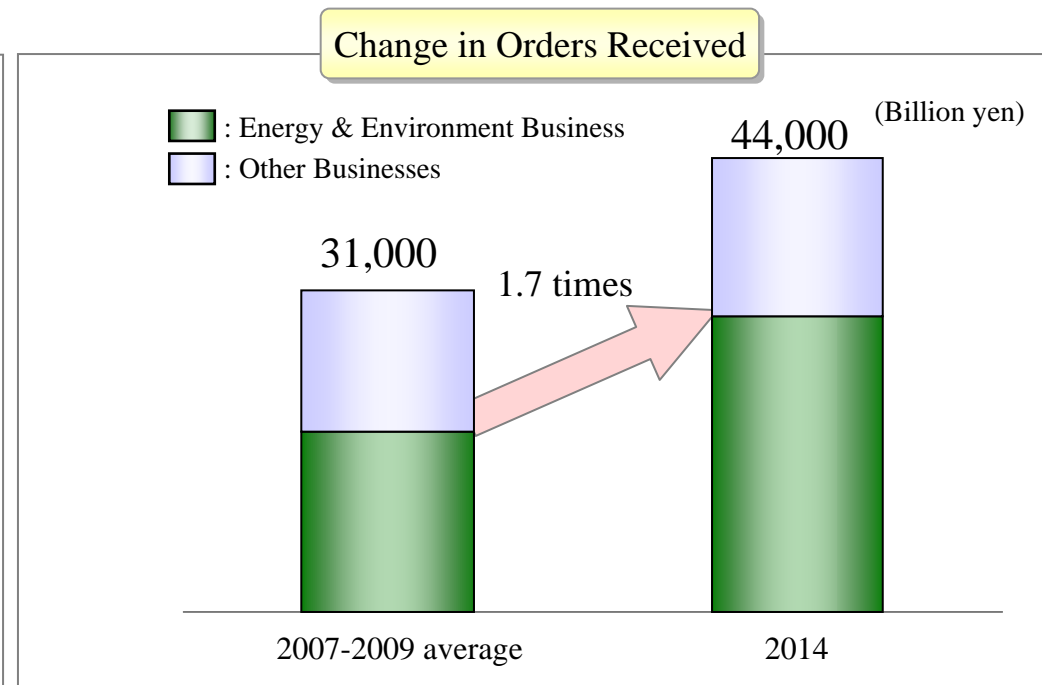
– Energy & Environment Business

Becoming a leading company in the energy & environment sector

- ❑ Commercialize highly efficient and environmentally friendly products,
- ❑ Expand the solution business, which combines products and advanced technology in broad areas.
 - Make recommendations to governments and industries to expand opportunities and create new business.
- ❑ Expand strategic alliances with overseas partners.



Mtoe: million tons of oil equivalent



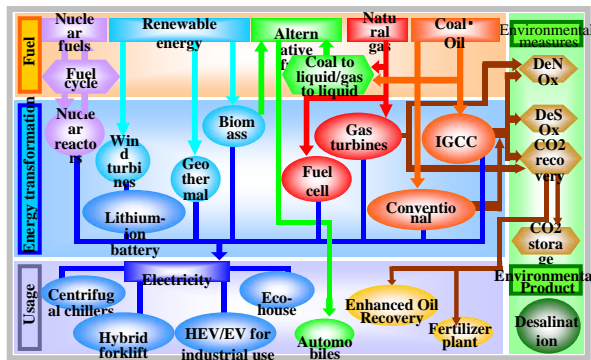
Strategy 1-(2): Expand the Solution Business

- Synergies

High-end Products



Energy and Environment



**IGCC plant
+
CO2 recovery/storage facility**

**Energy-self-sufficient
smart community**

Lithium-ion battery

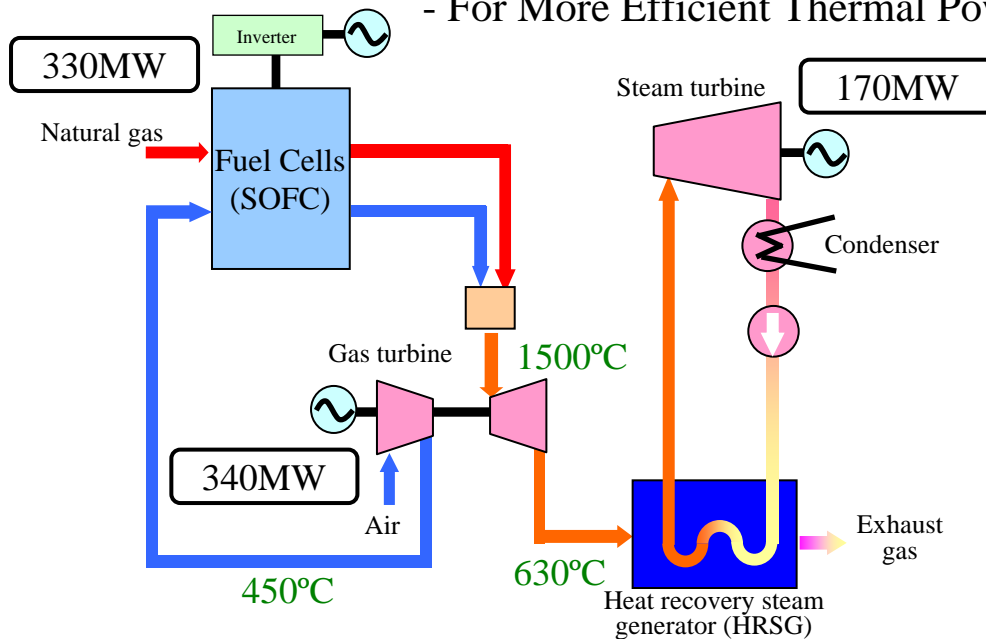
SOFC combined-cycle power plant

Strategy 1-(2): Expand the Solution Business - Synergies

A solid-oxide fuel cell (SOFC) combined-cycle power generation system for large business use

A triple combined system that combines conventional GTCC and solid-oxide fuel cell (SOFC)

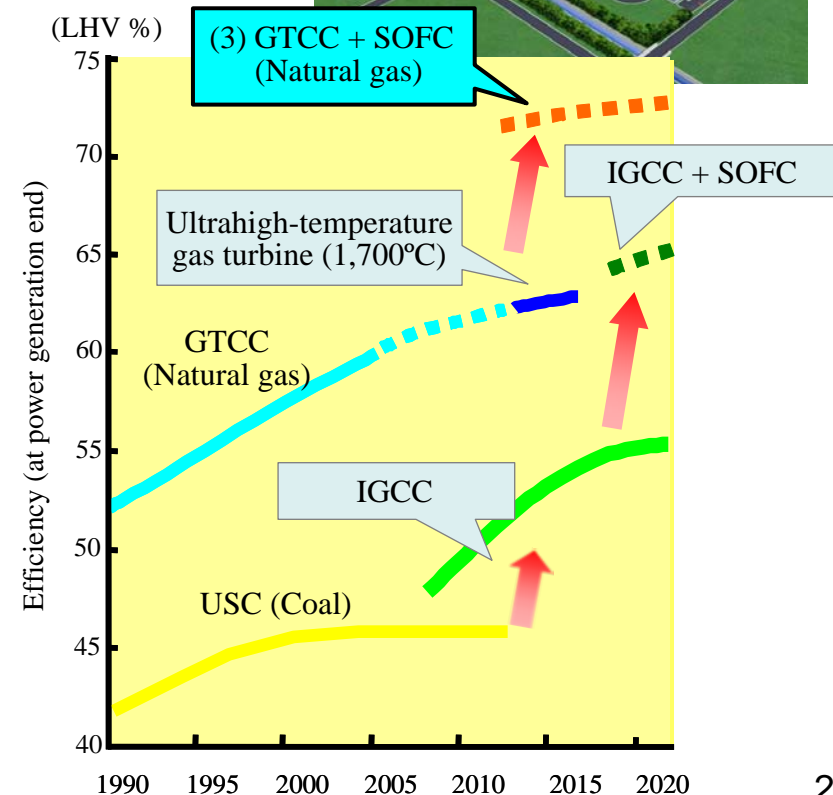
- For More Efficient Thermal Power Generation -



Heat Balance (Example)

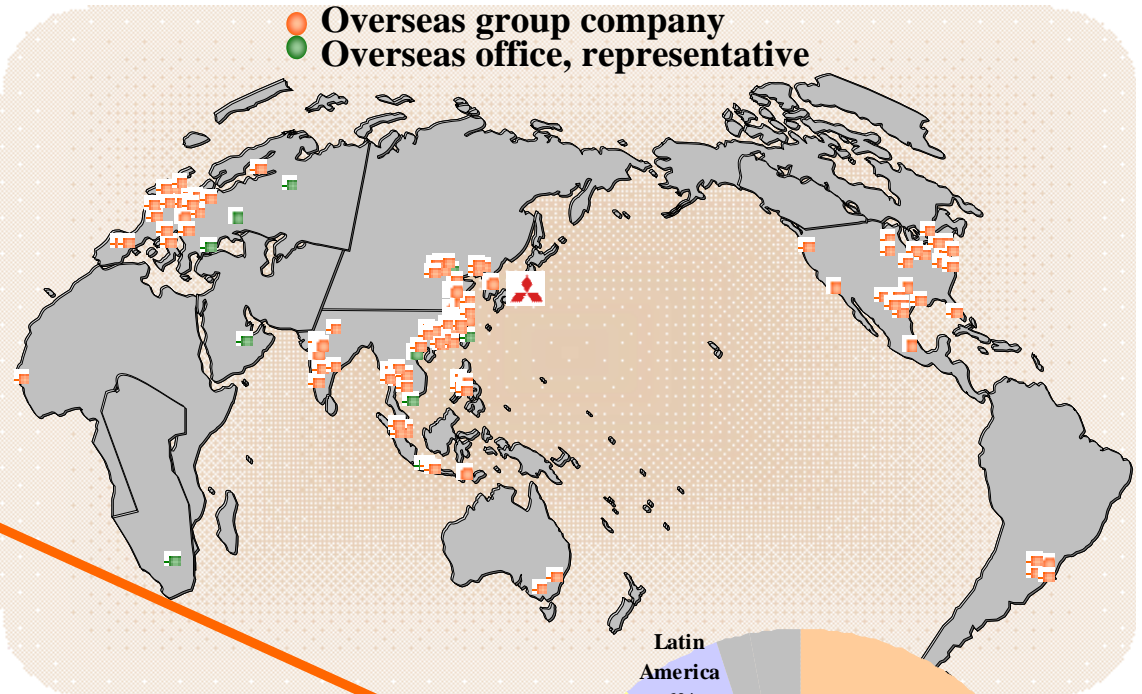
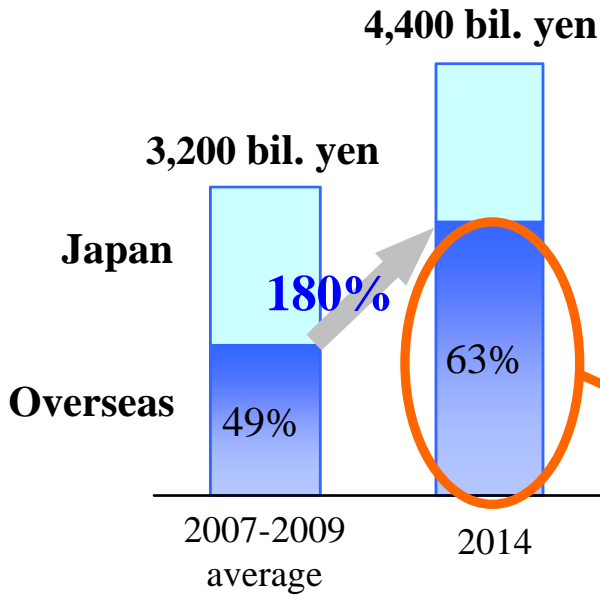
Gross output: 840MW
Efficiency (transmission end): 70%-LHV
[Current GTCC: 60%-LHV]

SOFC: Solid oxide fuel cell
IGCC: Integrated coal gasification combined cycle
GTCC: Gas turbine combined cycle
USC: Ultra super critical pressure coal-fired plant
LHV: Lower heating value

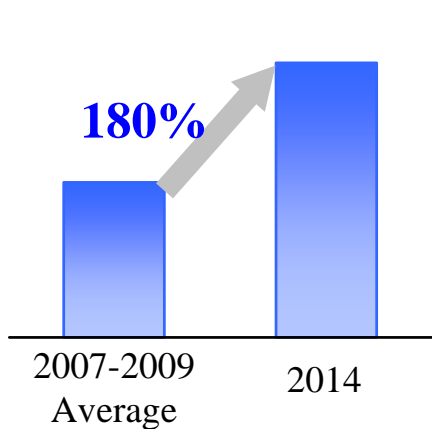


Strategy 1-(4): Global Business Operation

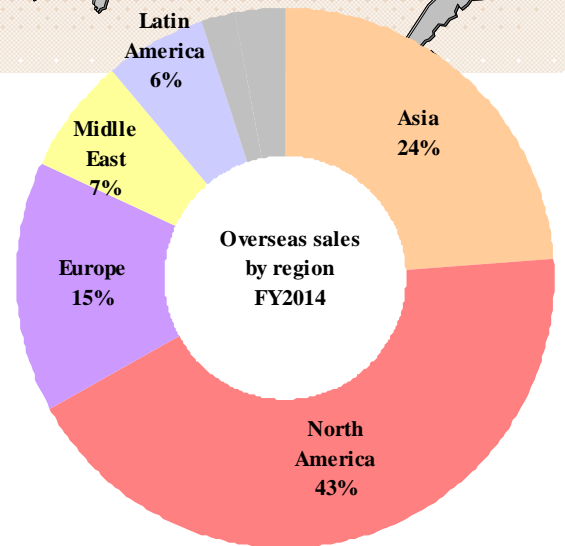
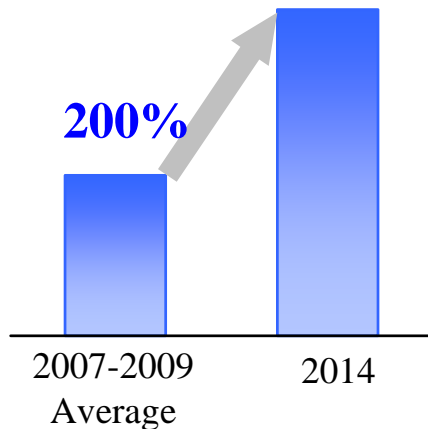
Overseas sales



Overseas procurement



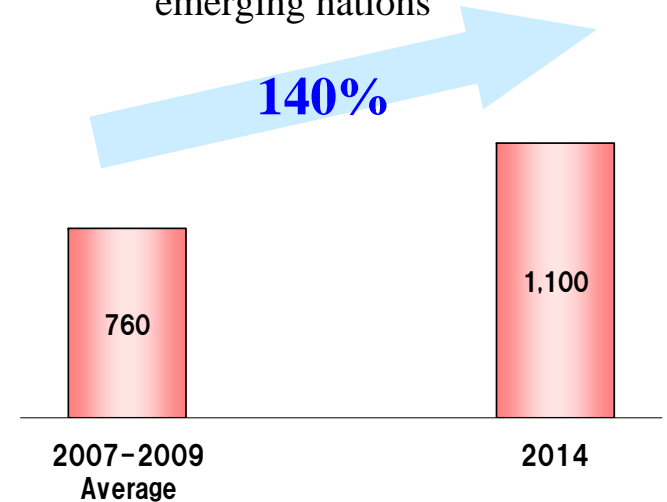
Overseas manufacturing



Strategy 1-(4), 2-(2): Enhance Businesses in Emerging Countries

- ❑ Cultivate markets through joint ventures with leading companies in emerging nations
 - Secure licensing fees
 - Supply core components from Japan
 - Retrench investments
- ❑ Develop value chain business on a global basis (optimize the process allocation)
 - Expand the active procurement of low-cost products & components

Orders received for emerging nations (Billion yen)



China

Alliances with leading companies in China

- Power Systems: Dongfang Group, Hangzhou Steam Turbine
- Nuclear Energy: Harbin Group
- Machinery & Steel Structures: Baoshan Iron & Steel
- Air-Con: Haier Group

India

JVs with leading companies in India

- Power Systems: L&T (Boilers & steam turbines)

Manufacturing site

- Machinery & Steel Structures: Metals machinery, transfer systems, rubber tire machinery, compressors

Thailand

Low-cost manufacturing

- Turbochargers: move into the market with suppliers
- Air-conditioners: cell manufacturing system

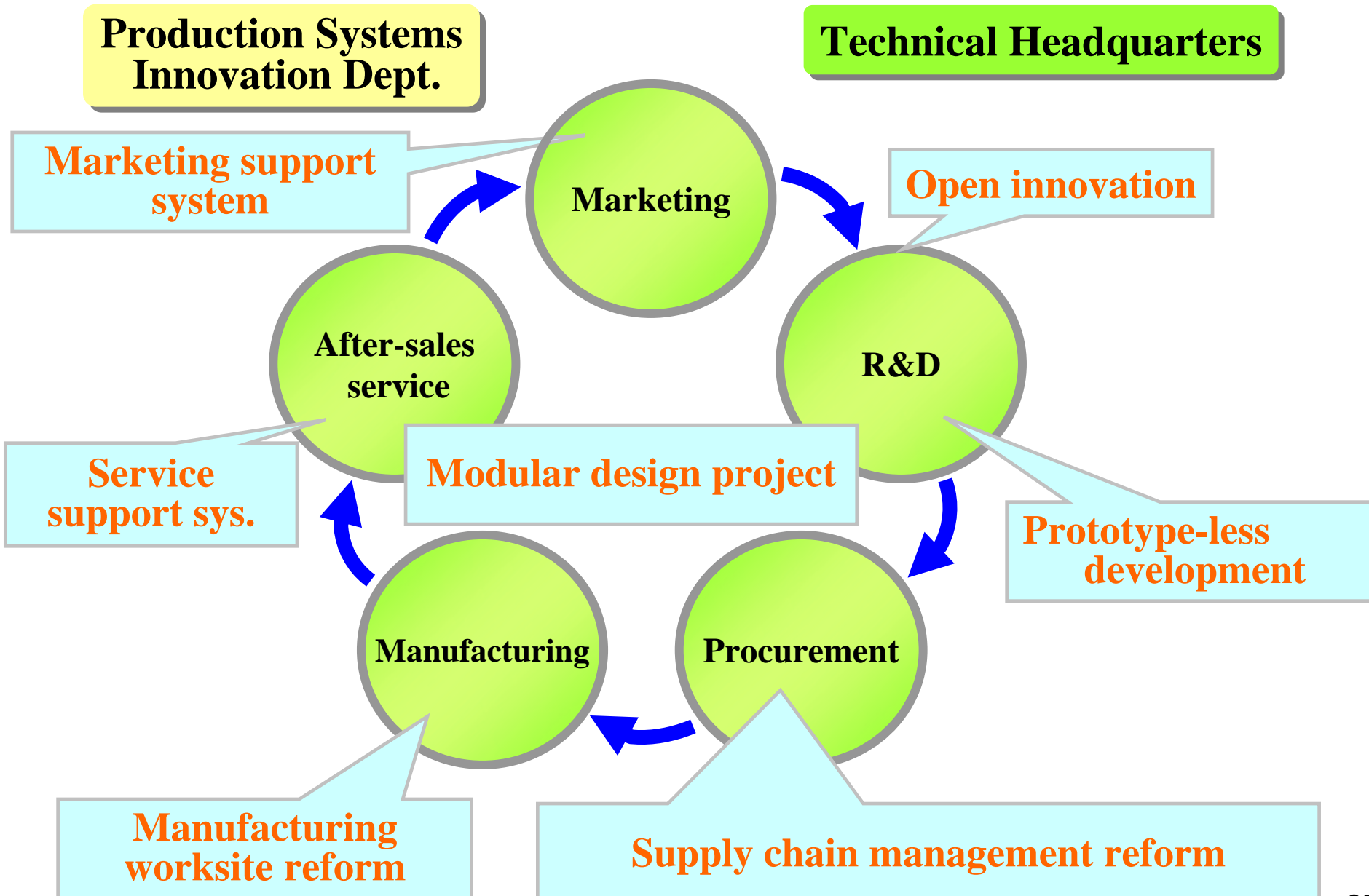
Brazil

- Boiler Business - CBC
- Bullet trains in Brazil – Japanese consortium

Vietnam

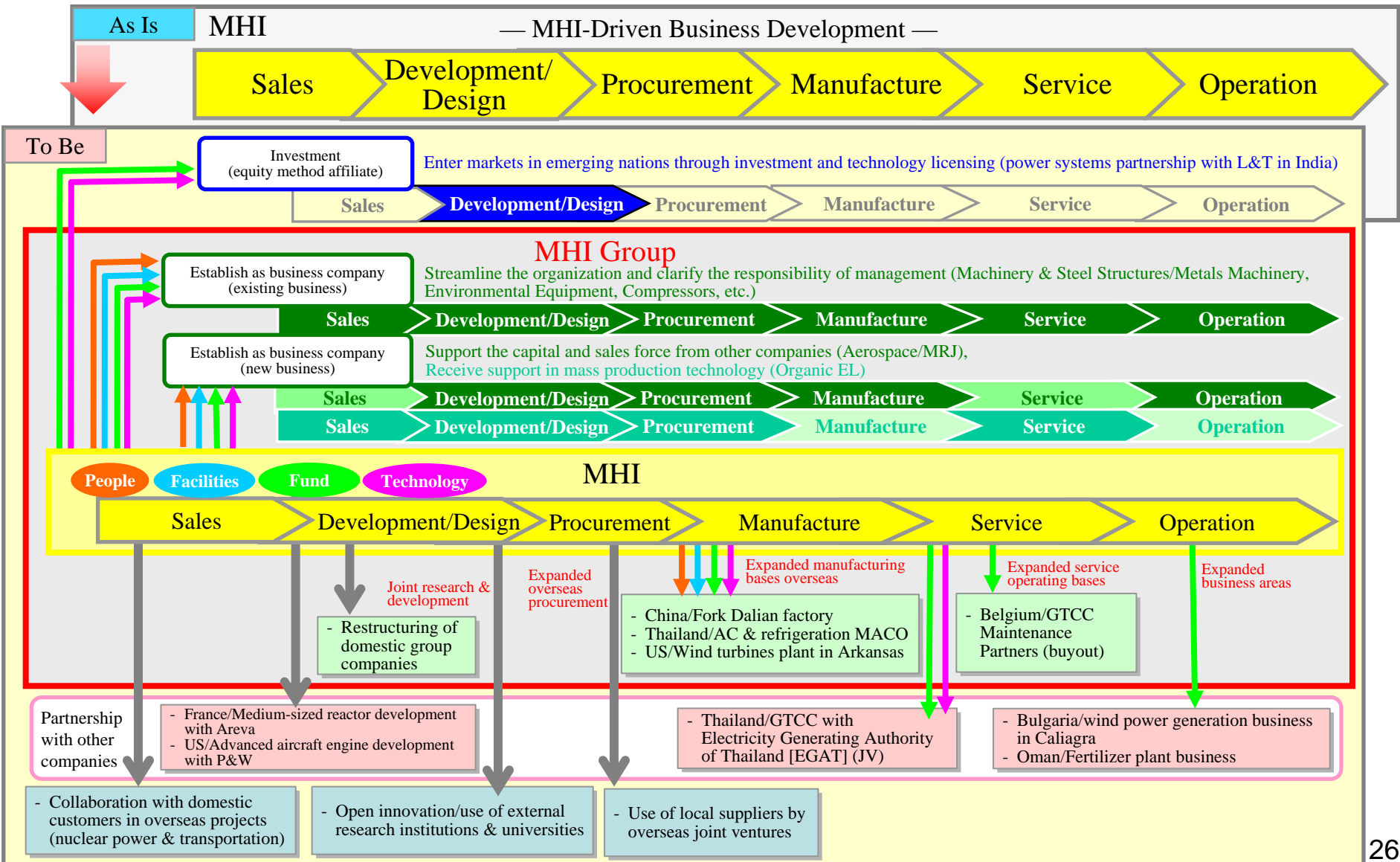
- Low-cost production
- Commercial aircraft: producing components for Boeing
- Ship diesel engines: technological transfer to Vietnam Shipbuilding Industry Corporation

Strategy 2-(1): Reform in the Manufacturing Industry Value Chain



Strategy 2-(2): Value Chain Reform

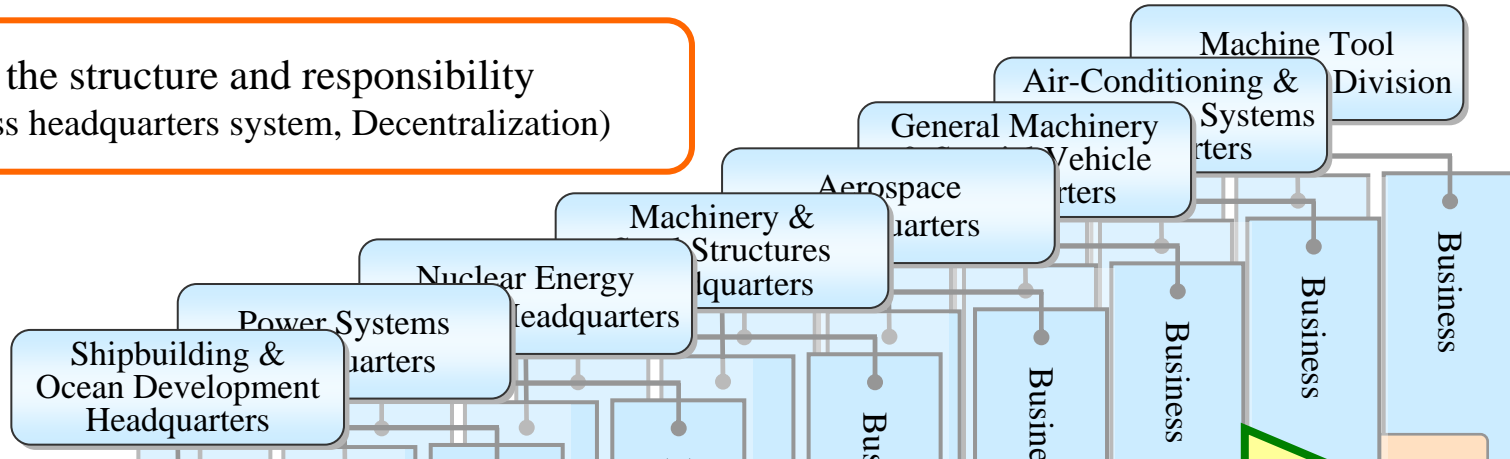
Efficient allocation of management resources, departure from vertical integration and use of external resources



Strategy 3: Establish A System that Allows Us to Exercise Comprehensive Strengths

Establish a flexible and agile management system

Clarify the structure and responsibility
(Business headquarters system, Decentralization)



Focus more on the customer perspectives

Enhance functions to promote global business

Enhance functions to promote solution businesses

Enhance the horizontal functions

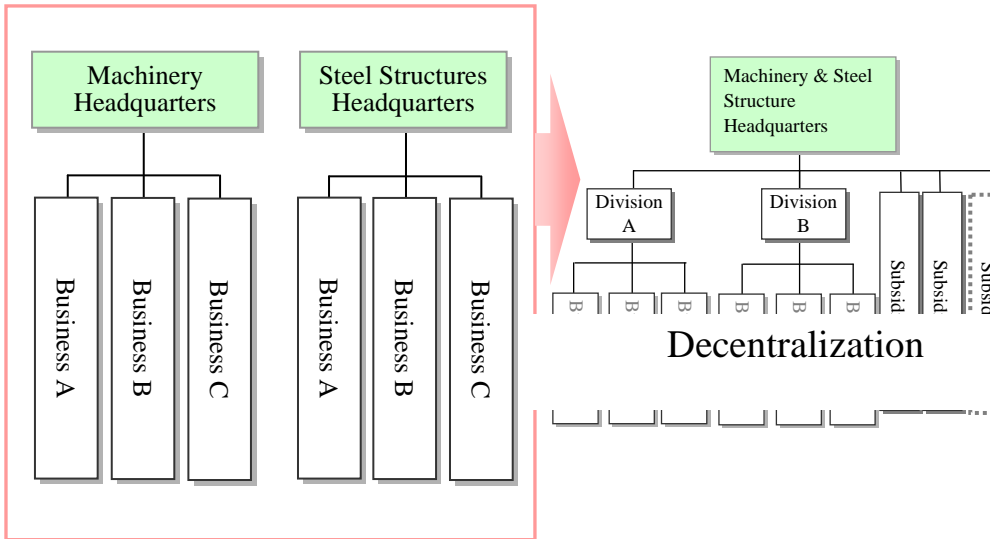
Enhance corporate strategy functions/Integrate business support functions

Enhance and expand functions to transform business processes

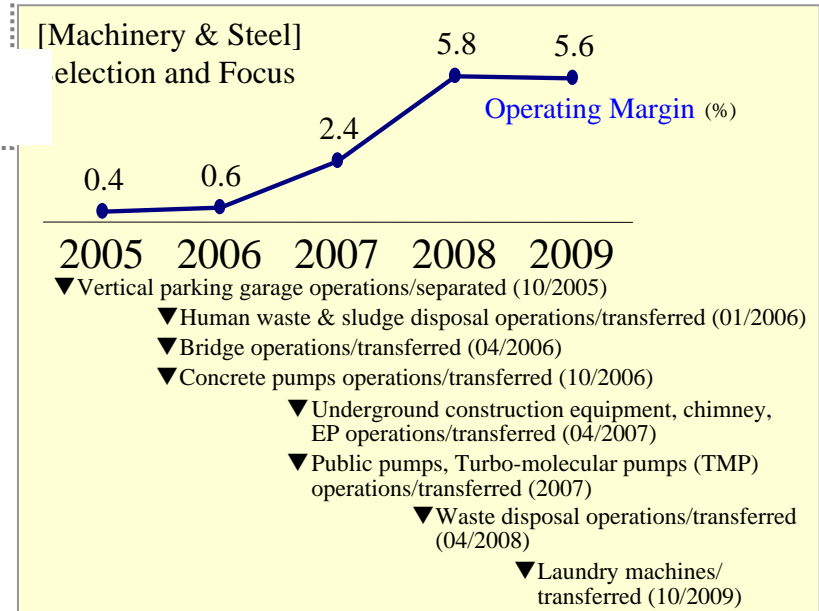
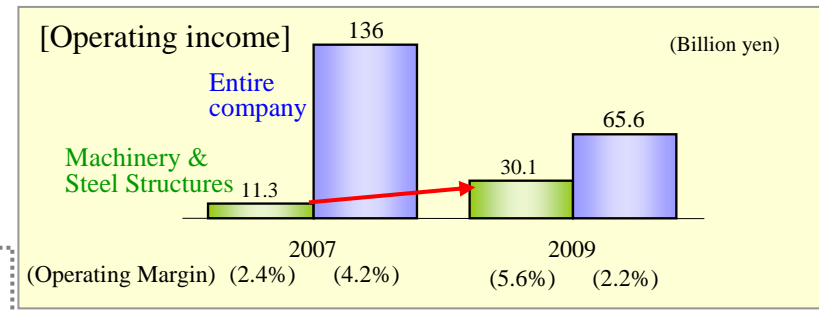
Enhance and expand quality management functions (safety/ high quality)

Strategy 3: Establish A System that Allows Us to Exercise Comprehensive Strengths

<Decentralization of Machinery & Steel Structures Headquarters>



- ① Refined focus (withdrawing from and transferring businesses)
- ② Growth businesses are operated using micromanagement
 - Building highly agile organizations capable of competing with dedicated manufacturers
 - Increase customers' confidence with top sales forces who are expert in respective businesses

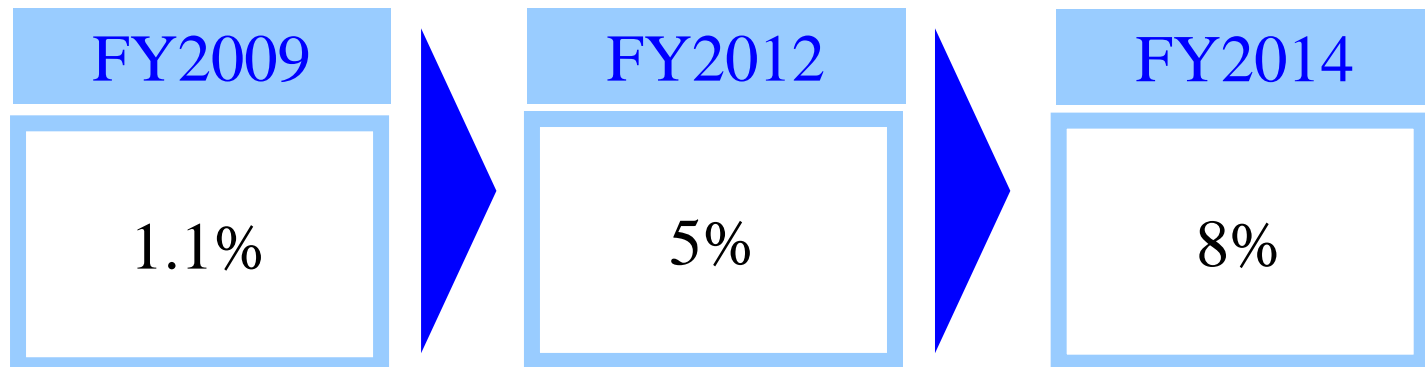


- ❑ Complete decentralization of the Machinery & Steel Structures Headquarters
- ❑ Horizontally transfer best practices to other businesses

Strategy 4: Introduce the Management Indicators to Increased Corporate Value

Pursue Investment Efficiency

- Introduce ROE as a business management indicator and set target values



- Introduce ROIC as a business-specific or product-specific management indicator to achieve the target values of the company-wide ROE

Strategy 4: Introduce Management Indicators to Increased Corporate Value

For sustainable growth

Pursuit of investment efficiency:
FY2014 ROE 8%

Appropriate returns to shareholders
And effective use of shareholders' equity:
Dividend ¥10/year by FY2014

Reinforcement of the financial strength
D/E ratio 0.8 by FY2014

Strategy 5: Enhance Human Resources / Enhance the Intellectual Property (IP) Strategies

Enhancing Human Resources for Globalization and Process Innovation

- ❑ Training global managers of MHI Group
- ❑ Introducing job rotation-based career path
- ❑ Educating employees for global business
- ❑ Implementing educational program for affiliate companies

Enhance IP Strategies in Terms of Both “Defense” and “Offense” - Protect the business with patents and survive the global competition -

- ❑ Proactively apply primarily to products with higher IP risks in a planned manner
 - Set up a new IP enhancement team for each area of technology
 - Promote application campaigns across the company
 - Enhance company wide education for IP
- ❑ Securing loyalty by licensing

7. Promoting CSR Activities

As A Manufacturing Company, Engage in CSR Activities through Global Manufacturing Activities

Promote CSR activities through manufacturing

- ❑ Provide superior technologies & products to contribute to the “Future of the earth and humankind”
 - Contribute to solve the global-scale problems (global warming, depletion of energy resources, shortage of water resources) by providing the technologies and products of a wide array of MHI Group companies
- ❑ Minimizing the environmental burden from production activities
- ❑ Appropriately distribute the generated profits to stakeholders



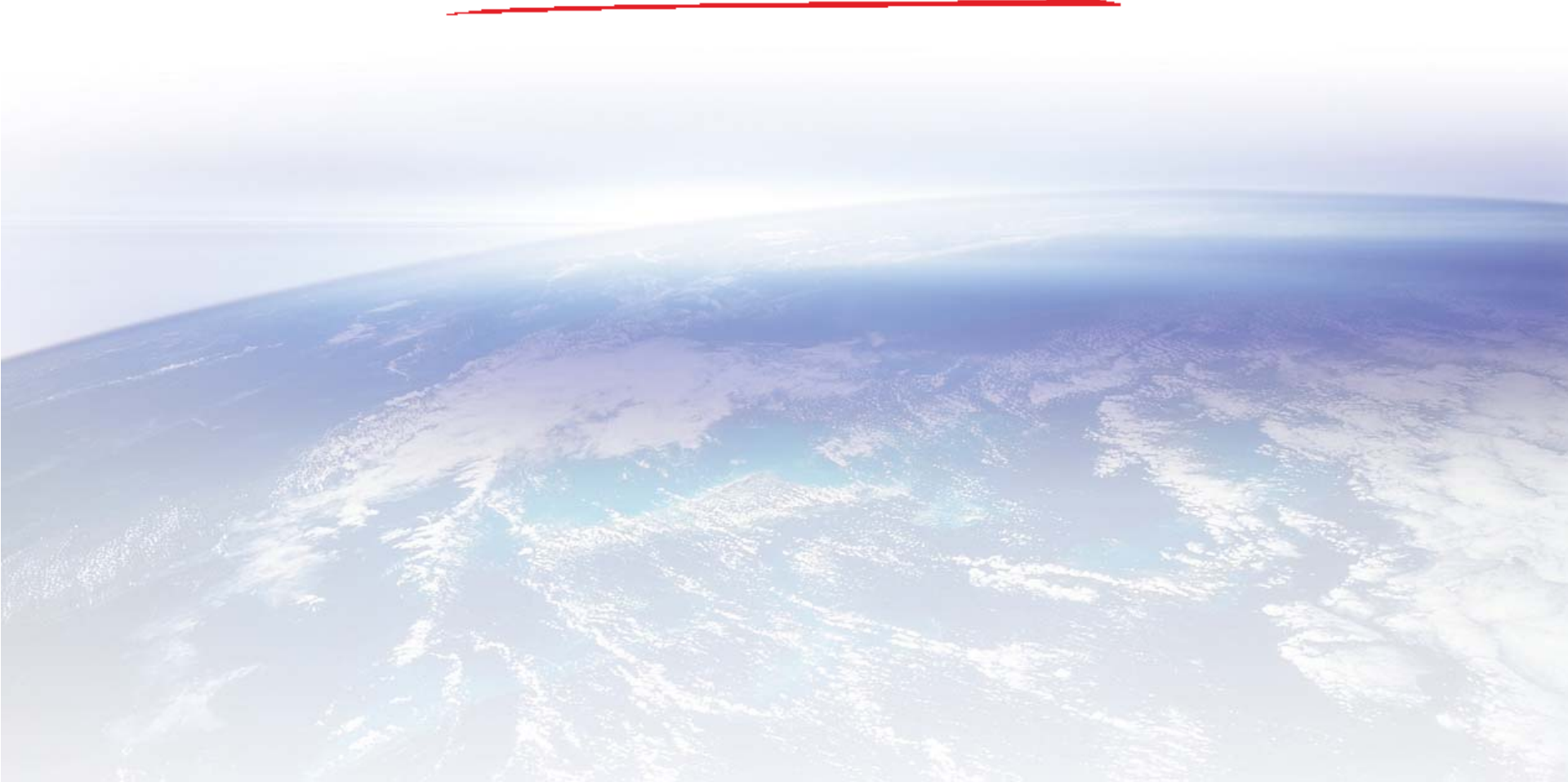
Reforming the corporate culture through CSR activities

- ❑ Promote the CSR awareness
 - Promote and deepen awareness through activities based on the CSR action guidelines.
- ❑ Producing Open Minded Atmosphere for Free Discussion and Continuous Improvement
 - “President Town Meeting” : President visits offices and factories.
 - “Forum 35” : Selected Employees in their mid-30ies gather, discuss and propose ideas to improve corporate culture openly.
 - “Nursery School” : Nagasaki Shipyard and Machinery Works open a nursery school for children of the employees.





Our Technologies, Your Tomorrow



Supplementary Information

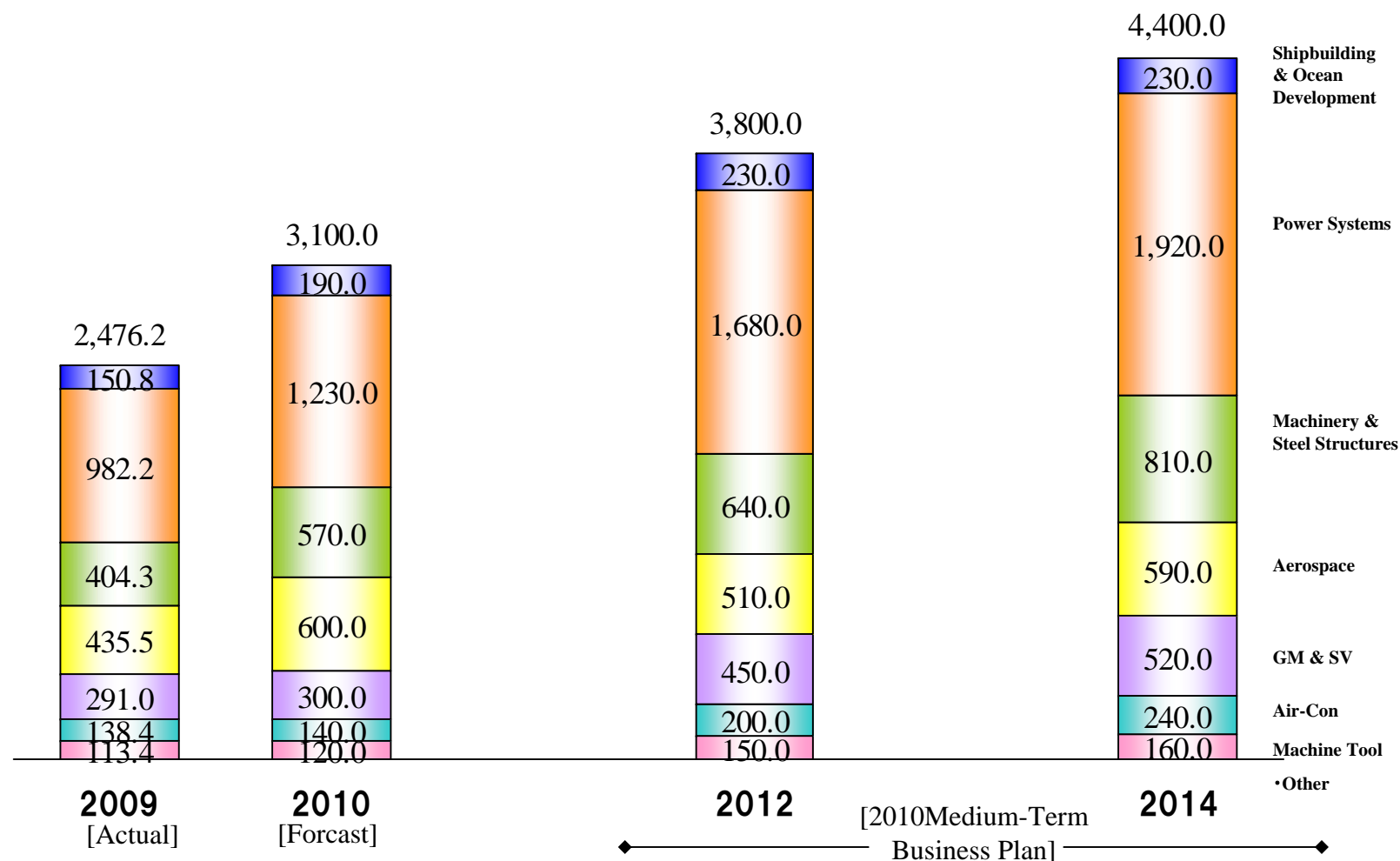
- Targets by Segment

(Orders, Net sales, Operating income)

- Expand the Solution Business

1. Orders Targets by Segment (Consolidated)

(In billion yen)

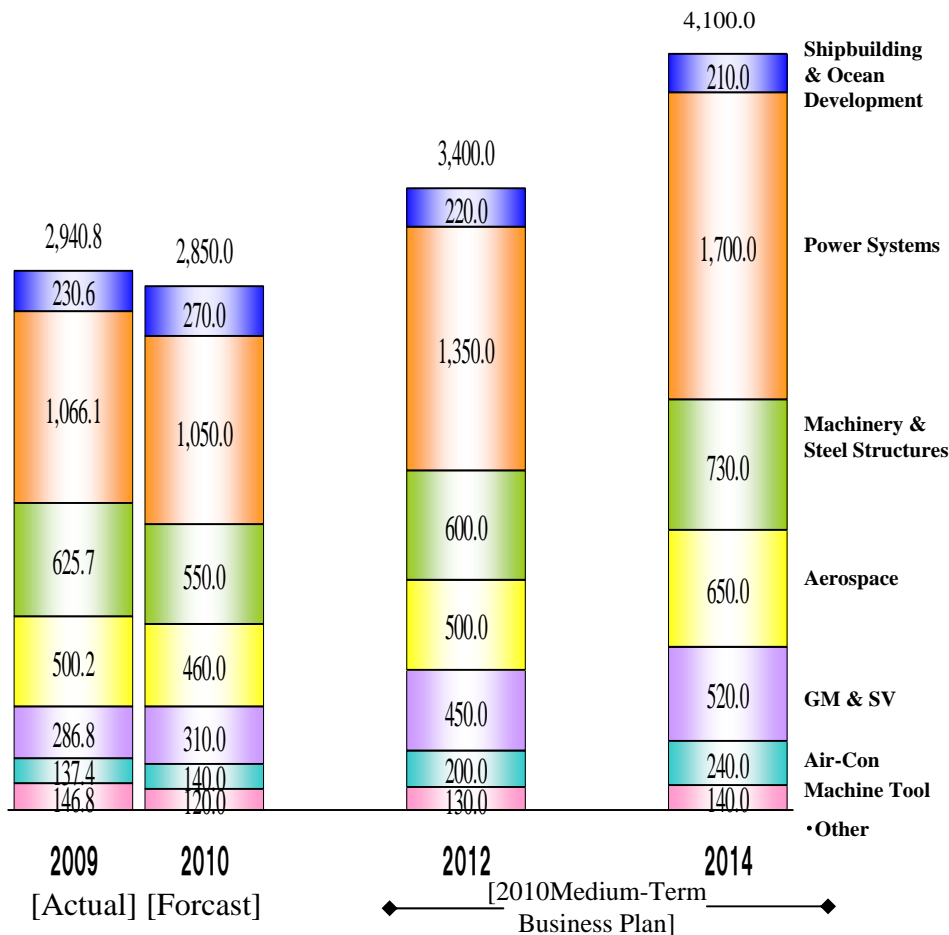


Note: From FY2010 onward, segment classification has changed with the application of the Financial Accounting Standard for Segment Information Disclosure and the organizational restructuring of MHI. FY2009 results shown in the above table have been reclassified based on the new segment classification.

1. Sales and Income Targets by Segment (Consolidated)

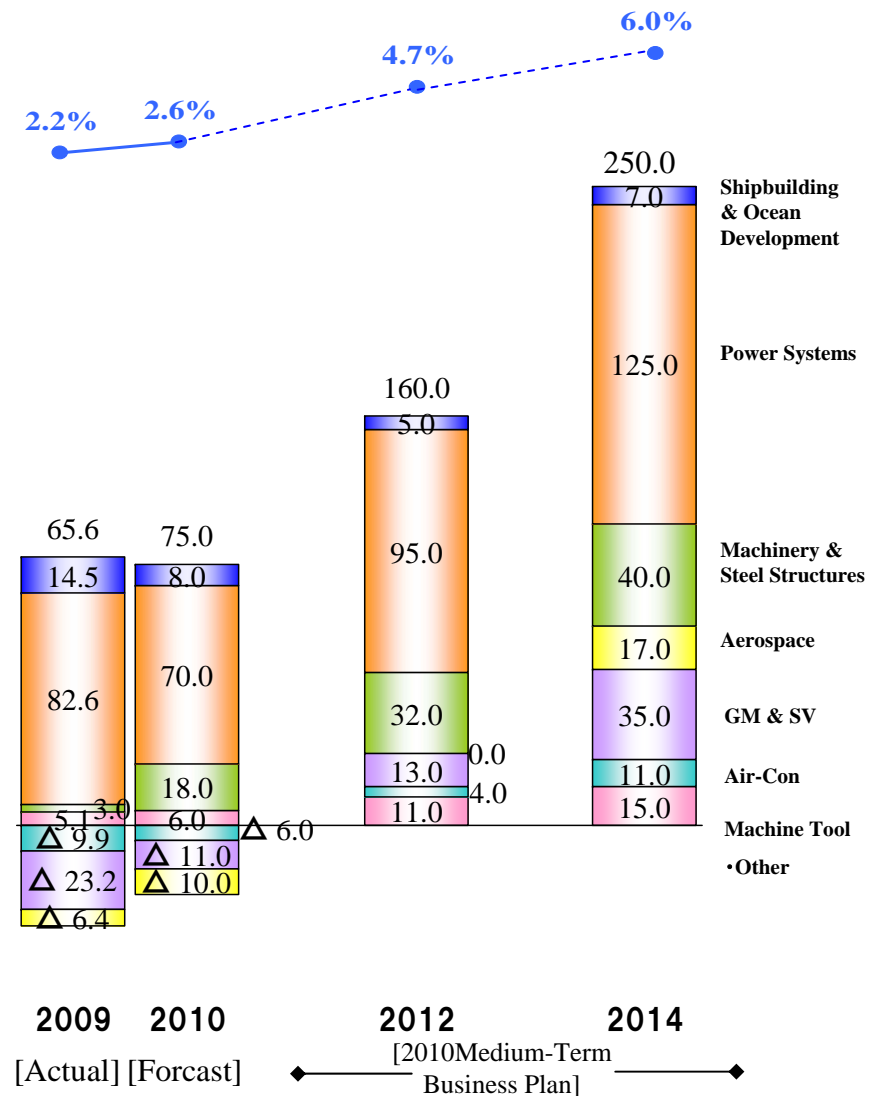
Net Sales

(In billion yen)

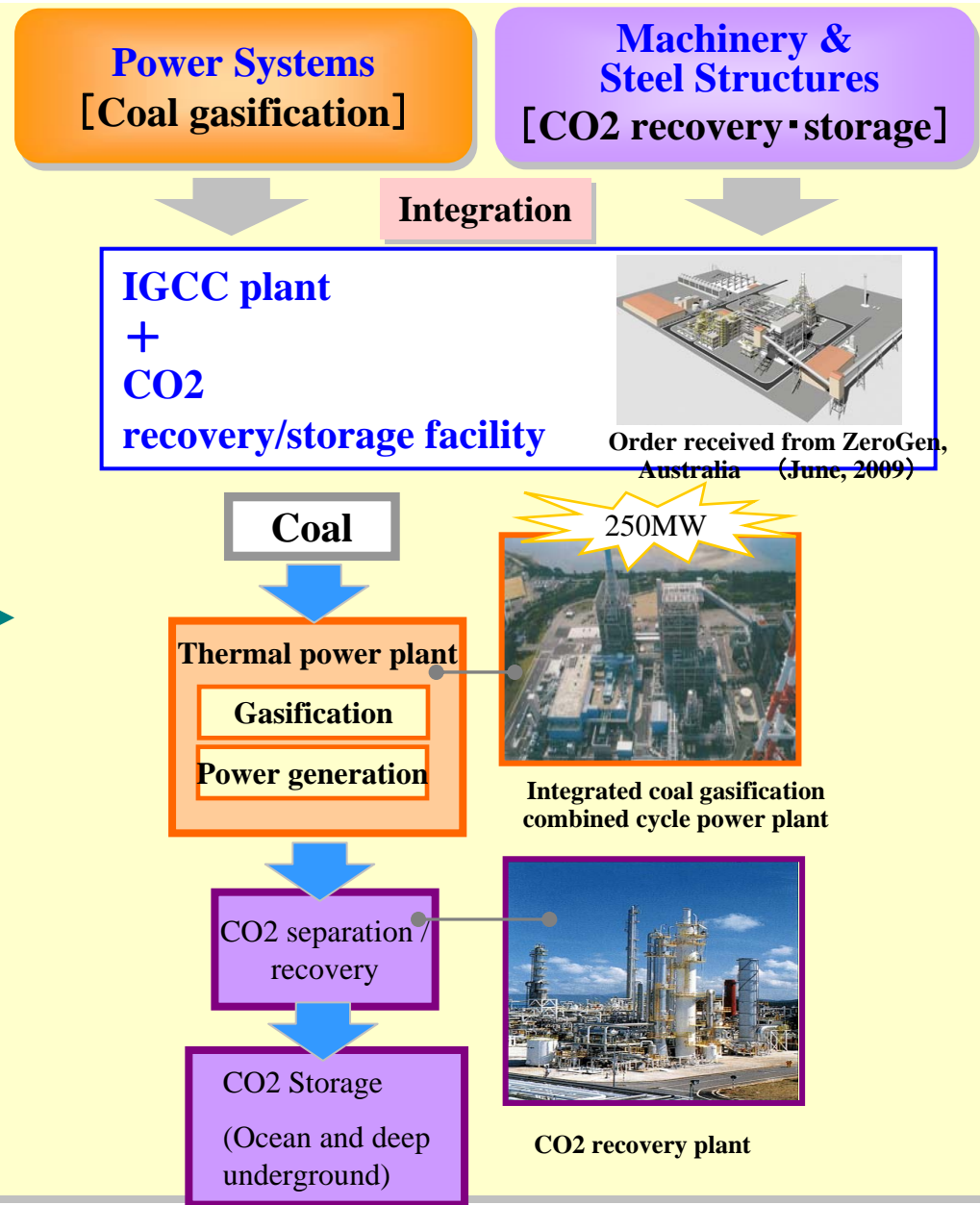
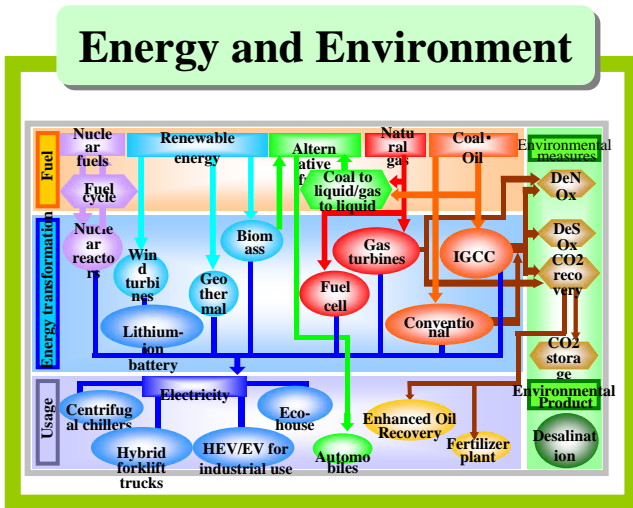
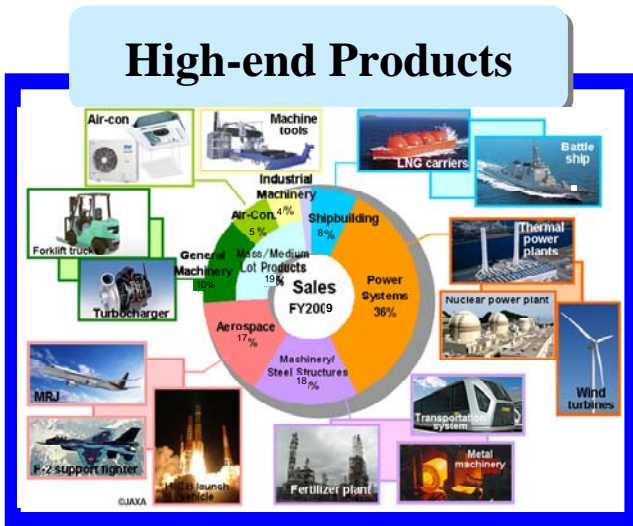


Operating income

(In billion yen)



2. Expand the Solution Business -Synergy (1)



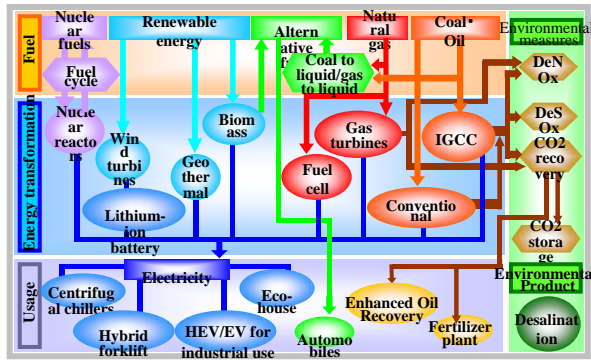
2. Expand the Solution Business

-Synergy (2)

High-end Products



Energy and Environment



Energy-self-sufficient smart community

Offshore wind turbines

Wind turbine

Power storage

Heat pump

PV Cells

Smart control center

Next gen. LRT

EV related business (Battery station)

Hydroelectric

Eco-house

2. Expand the Solution Business

-Synergy (3)

