

Status of 2015 Medium-Term Business Plan

October 31, 2016

Mitsubishi Heavy Industries, Ltd.

Shunichi Miyanaga, President and CEO

I.	FY2016 Forecast	- 3
II.	Interim Evaluation of 2015 Medium-Term Business Plan (First-half results and issues)	- 7
III.	Implementation Plan for Second Half of 2015 Medium-Term Business Plan	- 10
	1. Implementation Plan Overview	- 11
	2. Domain Configuration Reorganization	- 12
	3. Commercial Aircraft Business Reforms	- 13
	4. Strengthening of Core Businesses	- 17
	5. Enhanced Asset Management	- 19
	6. Modification of Global Management Base	- 22
	7. Summary	- 23
	(Appendix)	- 26
	• Concentration into Core Competencies	
	• Radical Reform of Commercial Ship Business	
	• Strengthening of Business Risk Management	

I. FY2016 Forecast

I. FY2016 Forecast - Overview

Forecast has been revised downward, based on projected profit/loss deterioration attributable to strong yen, weaker sales in all domains (except Integrated Defense & Space Systems), and factors relating to commercial aircraft and commercial ships

➔ Short- and medium-term earnings to improve through “Implementation Plan for Second Half of 2015 Medium-Term Business Plan” described below (page 10ff)

	FY2015 Actual	FY2016 Forecast (in billion yen)			
		Original	Previous*		Current
Orders received	4,485.5	5,000.0	5,000.0	Target factors in appreciation up to ¥100/US\$	4,800.0
Net sales	4,046.8	4,400.0	4,400.0	Decreasing sales in Energy & Environment, Commercial Aviation & Transportation Systems, and Machinery, Equipment & Infrastructure domains (from strong yen, etc.)	4,000.0
Operating income (Margin)	309.5 (7.6%)	350.0 (7.9%)	330.0 (7.7%)	Energy & Environment and Machinery, Equipment & Infrastructure: decreasing income from decreasing sales Commercial Aviation & Transport Systems: as above + domain earnings deterioration	240.0 (6.0%)
Net income	63.8	130.0	100.0	Reflecting asset management enhancements (Extraordinary profit 60.0billion yen, FCF 100.0 billion yen)	100.0
FCF	7.5	130.0	130.0		100.0
ROE	3.7%	7.5%	5.8%	No change	5.8%

Foreign exchange rates 119.7 yen/\$ 132.6 yen/€

110 yen/\$ 105 yen/\$
125 yen/€ 115 yen/€

* Upon release of FY2016 1Q results (July 2016)

FCF: Free cash flow
ROE: Return on equity

100 yen/\$
115 yen/€

I. FY2016 Forecast - Net sales and operating income, by domain

* Upon release of FY2016 1Q results (July 2016)

(in billion yen)

	FY2015		FY2016						Factors behind outlook change
	Net sales	Operating income	Previous forecast* (A)		Current forecast (B)		B-A		
			Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income	
Energy & Environment	1,542.7	154.6	1,650.0	185.0	1,550.0	160.0	-100.0	-25.0	Decreasing sales and operating income from thermal/chemical plants, some construction delays
Commercial Aviation & Transportation Systems	548.5	54.5	550.0	20.0	500.0	-25.0	-50.0	-45.0	See next page
Integrated Defense & Space Systems	485.0	25.7	400.0	26.0	450.0	28.0	50.0	2.0	Generally unchanged
Machinery, Equipment & Infrastructure	1,432.3	80.0	1,650.0	105.0	1,450.0	85.0	-200.0	-20.0	Decreasing sales and operating income from metals machinery, compressors (protracting slump in steel and oil & gas industries)
Others	177.3	12.6	160.0	14.0	160.0	12.0	0.0	-2.0	
Eliminations or Corporate	-139.2	-18.1	-110.0	-20.0	-110.0	-20.0	0.0	0.0	
Total	4,046.8	309.5	4,300.0	330.0	4,000.0	240.0	-300.0	-90.0	

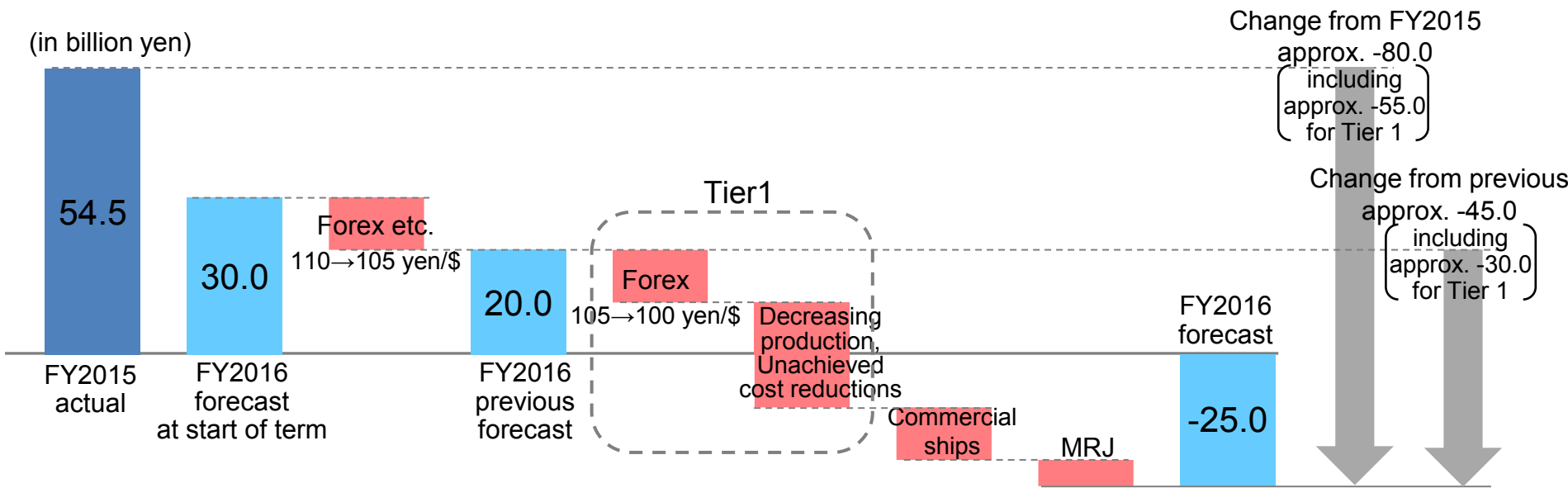
Factors behind earnings deterioration

Tier1: decreased production + forex impact + unachieved cost reductions in response to gradual contract price decreases
 → For Bombardier and Boeing (777)

Commercial ships: unachieved cost reduction targets, and other issues

*MRJ: increased development costs to address issues after maiden flight

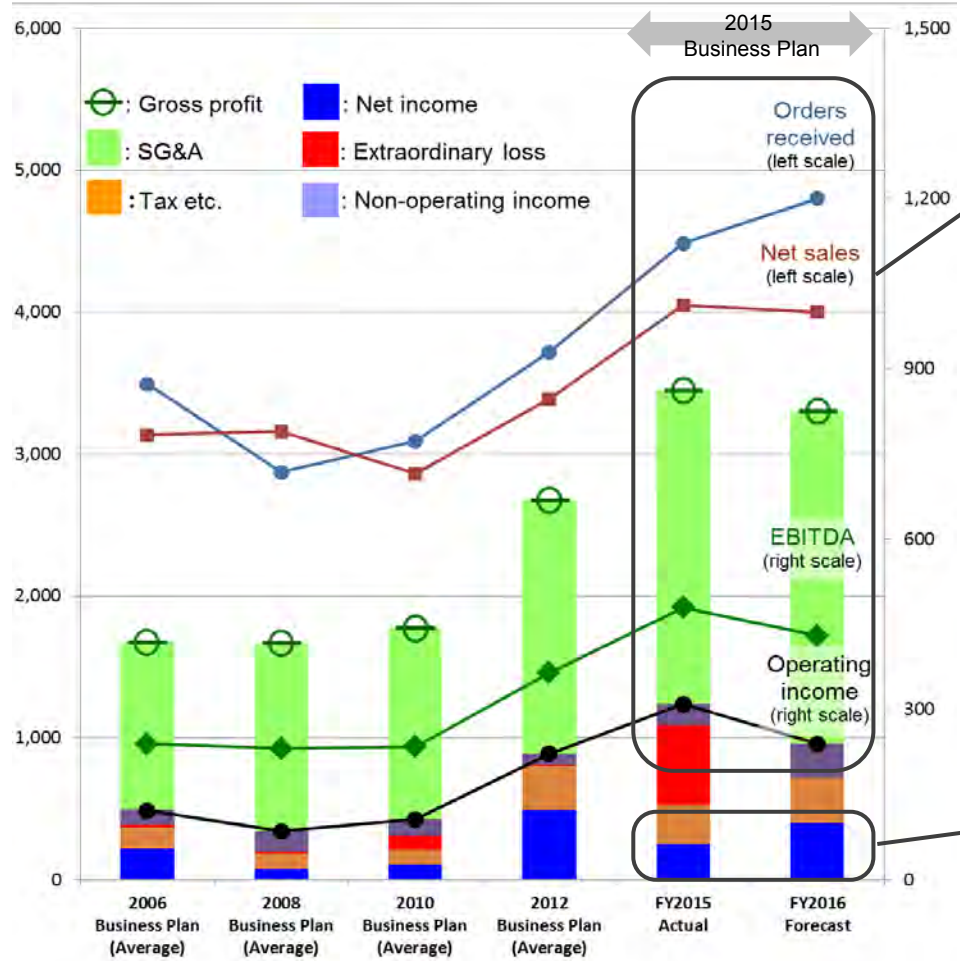
*MRJ: Mitsubishi Regional Jet



II. Interim Evaluation of 2015 Medium-Term Business Plan (First-half results and issues)

II. Interim Evaluation of 2015 Medium-Term Business Plan

– Earnings results and issues



Results:

- Expanded business scale and operating income, improved EBITDA, etc. with structural reforms and M&A

Issues:

- Significant deterioration in earnings from commercial ship and commercial aircraft businesses
- Manifestation of wide-ranging profit-squeezing factors (entrenched yen strength, market slowdown, intensified competition)

Radical measures will be taken in Second Half of 2015 Medium-Term Business Plan (page 10ff)

Net income issues:

- Need to promptly recover from unachieved income due to ship construction business losses and structural reform costs

M&A: Mergers & acquisitions EBITDA: Earning before interest, taxes, depreciation and amortization

II. Interim Evaluation of 2015 Medium -Term Business Plan

– Progress of measures and current issues

:Original measures
 :Additional measures
 P :Profitability
 F Financial foundation
 R Risk resilience
 T Technology foundation

[2015 Medium-Term Business Plan original and additional measures]

Promote domain-based targets with clear targets and strategies	P F	
Accelerate independent management and PMI*	P F T	
Reduce operating capital	P F R	
Strategically reconfigure product mix	P F	
Pursue optimum efficiency	P F	
Develop more advanced business processes and strengthen human resources	P F R	
Asset management	P F R	
Reform the corporate governance system	F R	
Radically reconsider risk management structure	P F R	
Strengthen relatively superior products and technologies	P F T	
Reform and create new businesses and business models for the next generation	P	T
Strengthen technology foundation and innovate	P F T	
Establish shared technology framework	P R T	

[Implementation status and issues]

Issues:

- Deterioration in commercial ship and commercial aircraft business environments
- Partial delay of PMI* at major JV businesses especially regarding effective use of facilities, human resources, and SCM*
- Manifestation of profit-squeezing factors in overseas markets (entrenched yen strength, market slowdown, intensified competition)

*PMI: Post merger integration *SCM: Supply chain management

Results:

Measures controllable by the MHI Group, including the following, are progressing smoothly:

- Reconsidering risk management structure (as announced on October 18)
- Concentration into core competencies (as reporting today)
- Asset management progress status (as reporting today)

III. Implementation Plan for Second Half of 2015 Medium-Term Business Plan

1. Implementation Plan Overview
2. Domain Configuration Reorganization
3. Commercial Aircraft Business Reforms
4. Strengthening of Core Businesses
5. Enhanced Asset Management
6. Modification of Global Management Base
7. Summary

} Key
measures*

* Radical reform of commercial ship business and reinforcement of business risk management are also included but are omitted here (already explained on October 18).

External environment

- Manifestation of profit-squeezing factors*
 - * entrenched yen strength, slowing trend and intensified competition in overseas markets
- Deterioration in Tier 1 customers' business environment (reduced sales for MHI), continuing slump in steel/oil & gas industries



Internal situation (implementation of measures)

- Measures, including reinforcement measures taken since end of FY2014, insufficient for achieving 2015 Business Plan targets
- Need for swift, additional measures



Second-half implementation plan

- 1) Focus on measures conducive to significant improvements in short- and medium-term earnings
- 2) Prevent risks and minimize losses from actual risks
- 3) Accelerate active use of organizations, facilities, assets and human resources
- 4) Undertake significant organizational restructuring to achieve items 1) through 3)

Key measures of second-half implementation plan

Besides the following, other key measures include radical reform of the commercial ship business and reinforcement of business risk management (as announced on October 18)

III.2. Review of organizational structures ... P.12

- Restore strength to the commercial ship and commercial aircraft businesses, and reorganize the domains and redistribute businesses in order to expedite key measures

III.3. Commercial aircraft business reforms ... P.13

- Current status of Tier 1 businesses, and reinforcement measures
- Current status of the MRJ, and near-term response measures

III.4. Strengthening of core businesses ... P.17

- Accelerate PMI of major JV businesses
- Further promote concentration into core competencies

III.5. Enhanced asset management ... P.19

- Create cash flows and improve efficient use of assets

III.6. Modification of global management base ... P.22

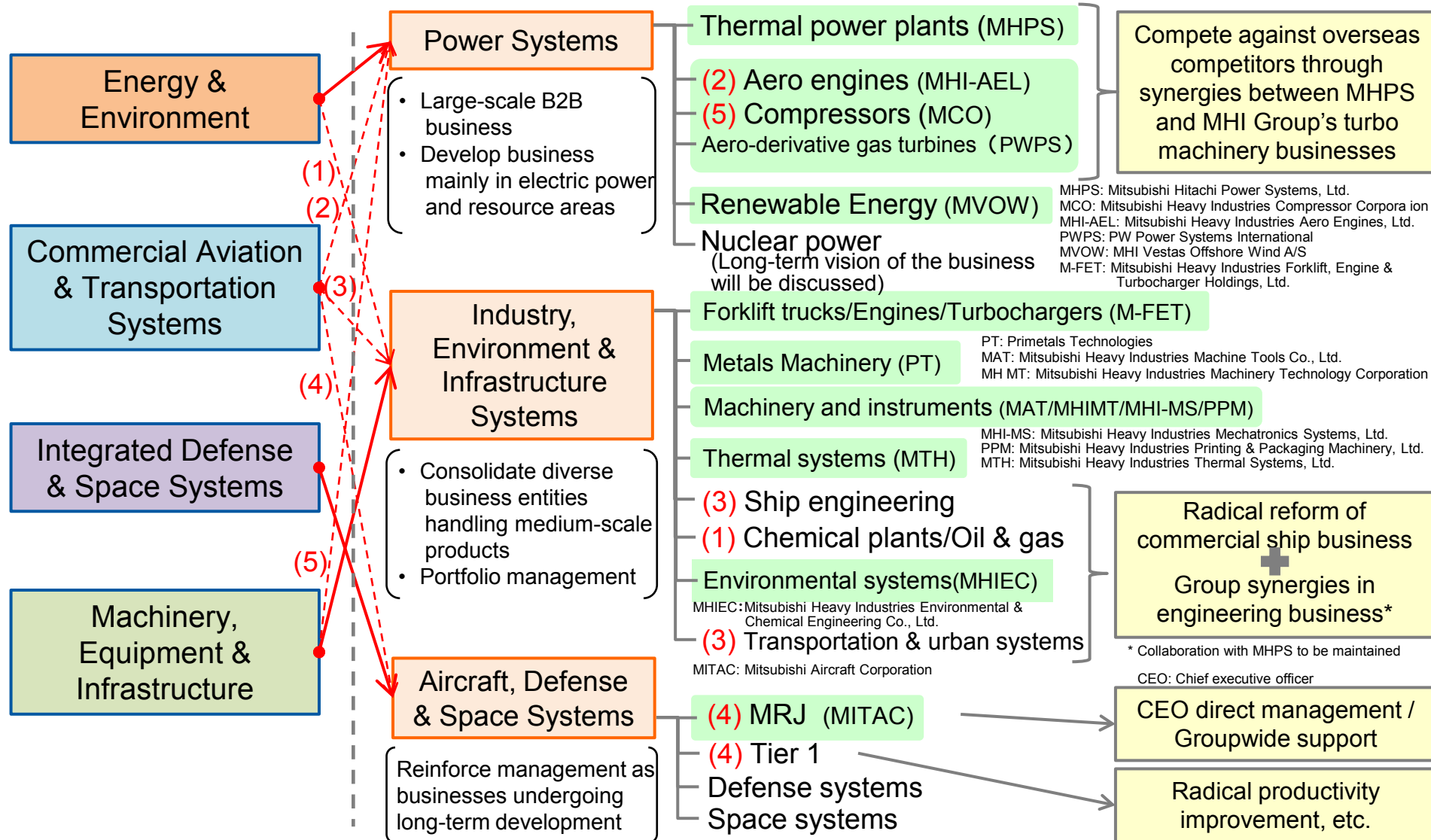
- Boost efficiency, etc. through focused concentration of functions into new base

Current

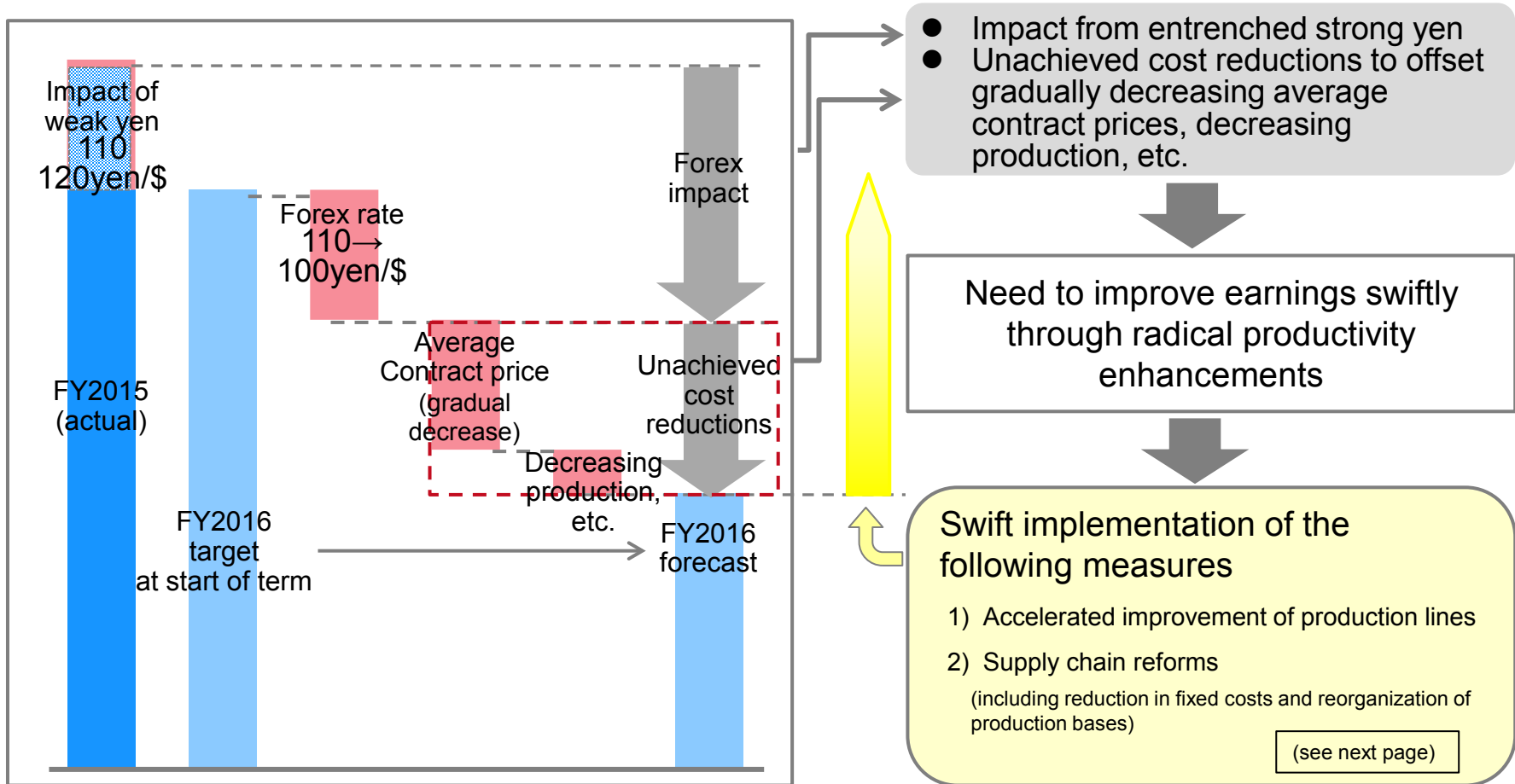


April 2017 onward (planned)

 : Operating company



Status and operating income of commercial aircraft Tier 1 business



Assuming the strong yen and reduced production will continue, strive to realize high earnings at ¥100/US\$1

Measures and their anticipated impact on operating income

- Accelerate measures to address age deterioration at Oye parts factory
→ Develop integrated production lines at Hiroshima and Kobe
- Boost efficiency* through IoT and use of production data
(* Streamline production, reduce inspection items, Conversion to digital factories, etc)

- Optimize internal/external production costs through equipment upgrades
- Modernize procurement segment (shift to shared technology framework)



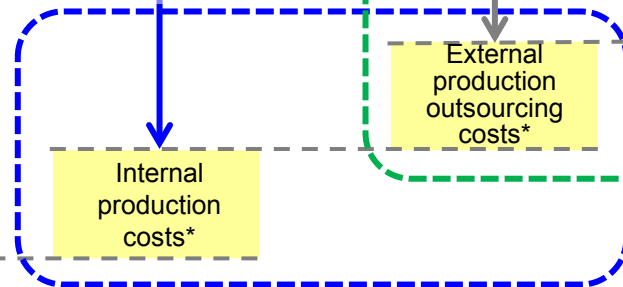
Matusaka Cluster Factory

- Reconfigure supply chain in line with change of bases
- Create ICT network inclusive of supply chain



Hiroshima Machinery Works Eba Plant
777X automated assembly line

1) Accelerate production line improvement



Target level



2) Reform supply chain

FY2016 forecast

cost reduction*

*Cost reduction breakdown for illustration purposes only
ICT: Information & communication technology

Current status

1) Development

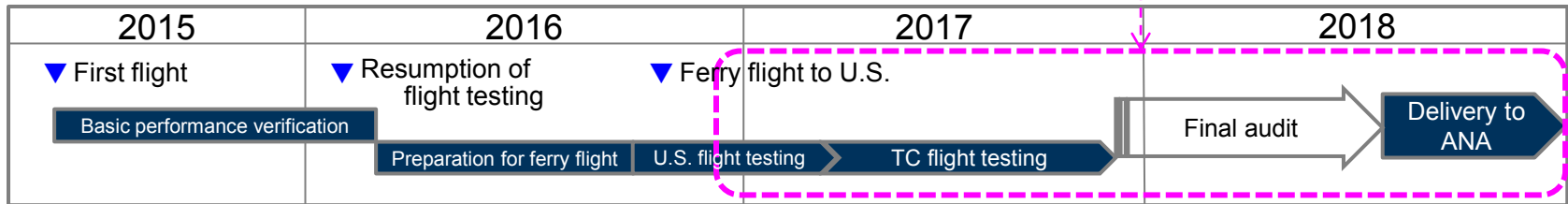
- 1 Full-scale flight testing under way in Japan and U.S. (see schedule below)
- 2 Further time and manpower needed to perform verification tasks and prepare technical materials to acquire type certification (TC)
- 3 Currently responding to various changes that have arisen during TC procedure

➔ These steps have revealed inexperience in certain areas

Currently boosting U.S. (and other) manpower experienced in TC procedures

Schedule as of now

➔ 2017-2018 schedule currently under consideration



TC: Type certificate



2nd flight test aircraft (FTA-2)



Arrival at Moses Lake Flight Test Center (Sept. 29)

2) Preparations for production

- Basic planning has been completed for factory production allocation and initial plant installations.
- Detailed study of customer support system, etc. is underway in preparation for commercialization.
- Currently in the process of negotiating and confirming major system/purchased parts suppliers' delivery schedules, costs, etc.

MRJ Future Measures

- 1) Establish “MRJ Business Promotion Committee” under direct management of CEO (to be launched in November 2016)
- 2) Background on MRJ Business Promotion Committee
It is now acknowledged that the MRJ is a large-scale, complex business development project, requiring strong response capacity from its business segment. Going forward, companywide management resources* will be utilized and a shift will be made to a long-term development system * Inclusion of more young employees
- 3) Action points
 1. Manage issues related to final stage of development, steadily implement response measures (includes re-assessment of schedule/costs of TC acquisition and delivery of first aircraft)
 2. Assess schedule and framework of shift into production phase (includes assessment of capital investment and other costs for plants and systems from production launch to regular operations)

The committee will facilitate swift decision-making on urgent matters.
(Measures now in progress will be continued.)

CEO: Chief executive officer TC: Type certificate

III.4. Strengthening of Core Businesses (1) - Accelerate PMI at Key JV Businesses

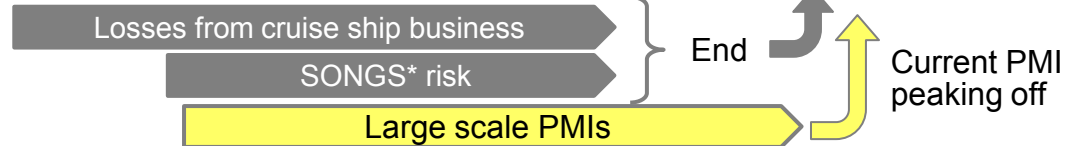
		Mitsubishi Hitachi Power Systems (MHPS)	Primetals Technologies (PT)	Mitsubishi Heavy Industries Forklift, Engine & Turbocharger Holdings (M-FET)
PMI Status		<ul style="list-style-type: none"> ● Human resource exchanges, wage system unification, etc. proceeding smoothly ● Delayed progress in reducing SG&A and other shared expenses, and in consolidating bases 	<ul style="list-style-type: none"> ● Reduction of personnel after JV launch proceeding on schedule ● Further organizational streamlining necessary due to protracted steel industry slump 	<ul style="list-style-type: none"> ● Forklift truck business integration making smooth progress <p>PMI planning is moving ahead at accelerated pace</p>
Acceleration measures	<p>Enhancing efficiency</p> <p>Review of organization and systems + Consolidation/reorganization</p>	<ul style="list-style-type: none"> ● Consolidation of overseas bases has started. → Accelerate ● Domestic facilities also undergoing reorganization/consolidation of functions and product portfolios in order to compete globally 	<ul style="list-style-type: none"> ● Acceleration underway in behind-schedule restructuring of overseas plants ● Commence reorganization/consolidation of overseas engineering segment 	<ul style="list-style-type: none"> ● Additional efficiency enhancement measures: active use of MHI Group's shared services, etc.
	<p>Increasing added value</p> <p>Reinforcement of solutions/servicing operations + SCM* reforms, etc.</p>	<ul style="list-style-type: none"> ● Accelerate remote monitoring services and reinforcement of overseas service bases ● Accelerate SCM* reform leveraging reorganization/consolidation of product portfolios (actively use shared services) ● Pursue overall synergies in all turbo machinery businesses 	<ul style="list-style-type: none"> ● Expand control systems and solutions business targets <p>Pursue synergies with other MHI Group product businesses</p>	

*SCM: Supply chain management

6) Further concentration into core competencies

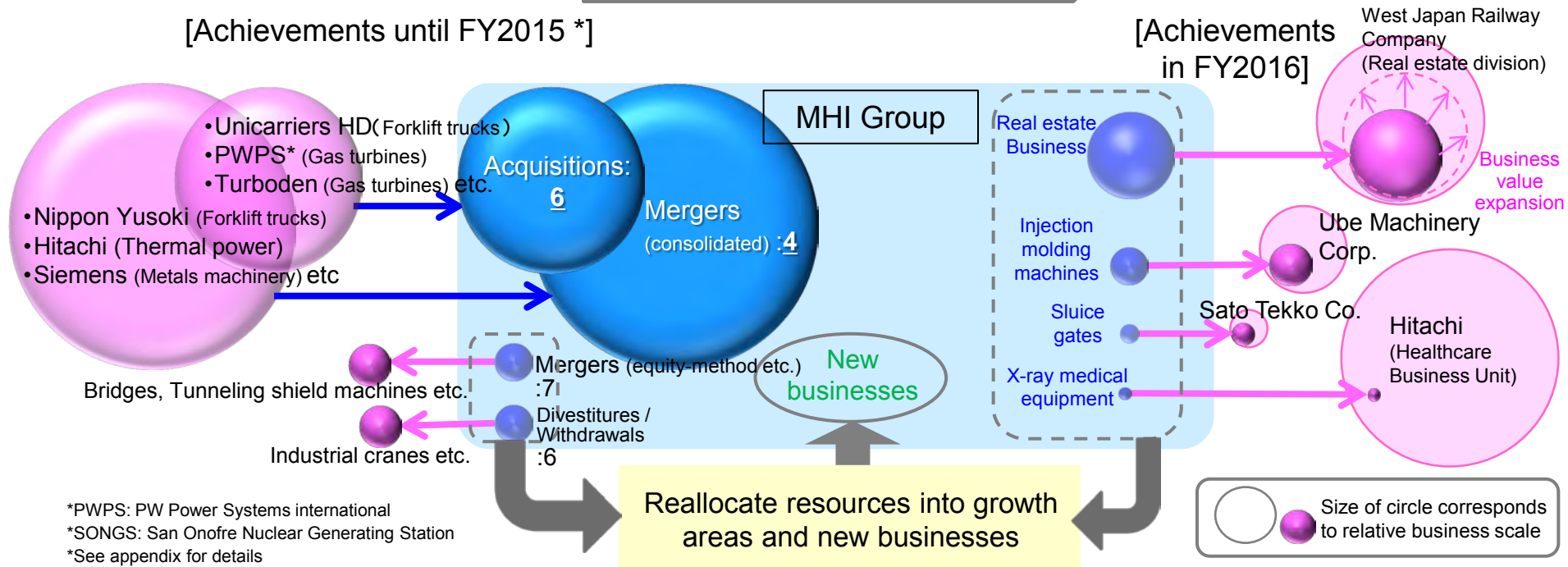
FY2012 - FY2015*			FY2016	
Acquisitions	6	Sales increase by ¥290bn	Acquisitions	0
Mergers (consolidated)	4	Sales increase by ¥590bn	Mergers (consolidated)	0
(equity-method)	6	-	(equity-method)	1
(other)	1	-	(other)	1
Divestitures	5	-	Divestitures	2
Withdrawals	1	-	Withdrawals	0

- Promote M&A to strengthen core businesses and develop mid-tier businesses
- Accelerate mergers (equity-method) and divestitures in businesses that are difficult for MHI Group to grow independently → See diagram below



[Achievements until FY2015*]

[Achievements in FY2016]



*PWPS: PW Power Systems international
*SONGS: San Onofre Nuclear Generating Station
*See appendix for details

Policies of 2015 Business Plan

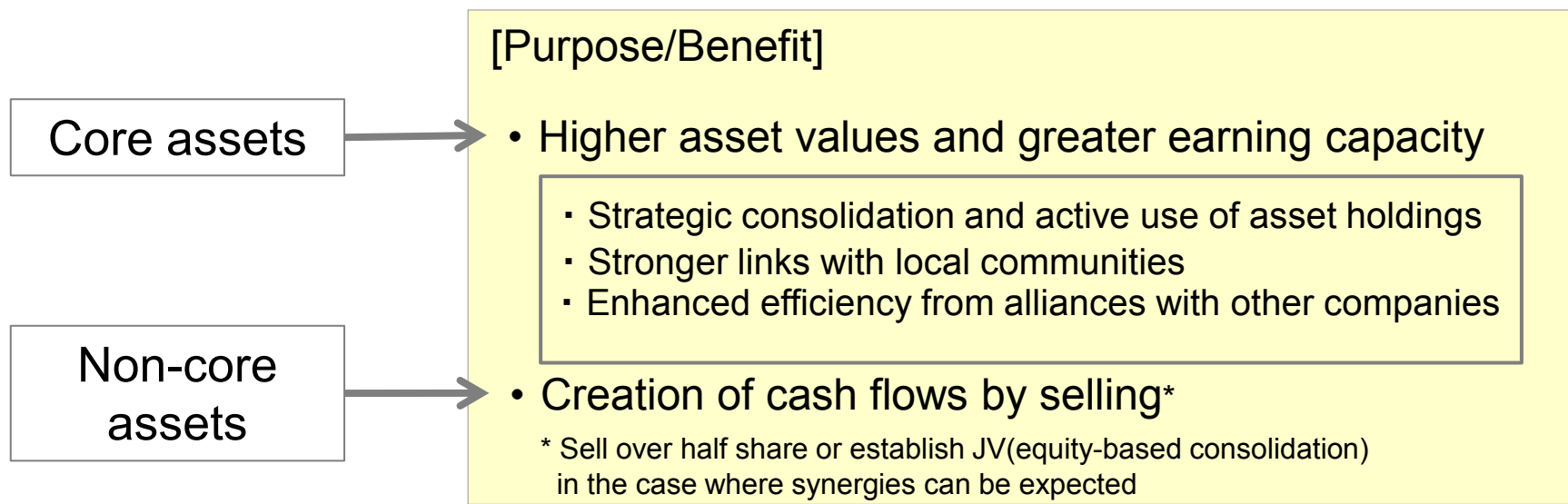
a) Limit asset holdings, in principle, to the following:

- Assets necessary for strengthening businesses and corporate competitiveness
- Assets held in preparation against possible risks arising from global competition

➔ P.20
(Example 1)

b) Eliminate risks of holding non-core assets, maximize their value, and improve their liquidity

➔ P.21
(Example 2)



Redevelopment of Dai-Ichi Tamachi Building

- MHI and its partners will redevelop the Dai-Ichi Tamachi Building (owned by MHI), creating a new building with functions that bring public benefits
 - Substantially improve the property's profitability by enhancing convenience and increasing total floor area.
 - Make the new building a strategic base (offices for MHI's own base and rental property) for MHI Group

Characteristics

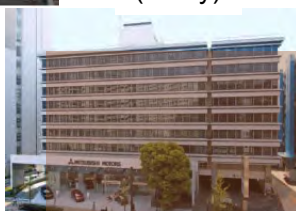
- Provides venue for international business exchanges and dissemination of cutting-edge technology information
- Incorporates low-carbon and energy-saving technologies, and disaster-prevention functions



(image)



(today)

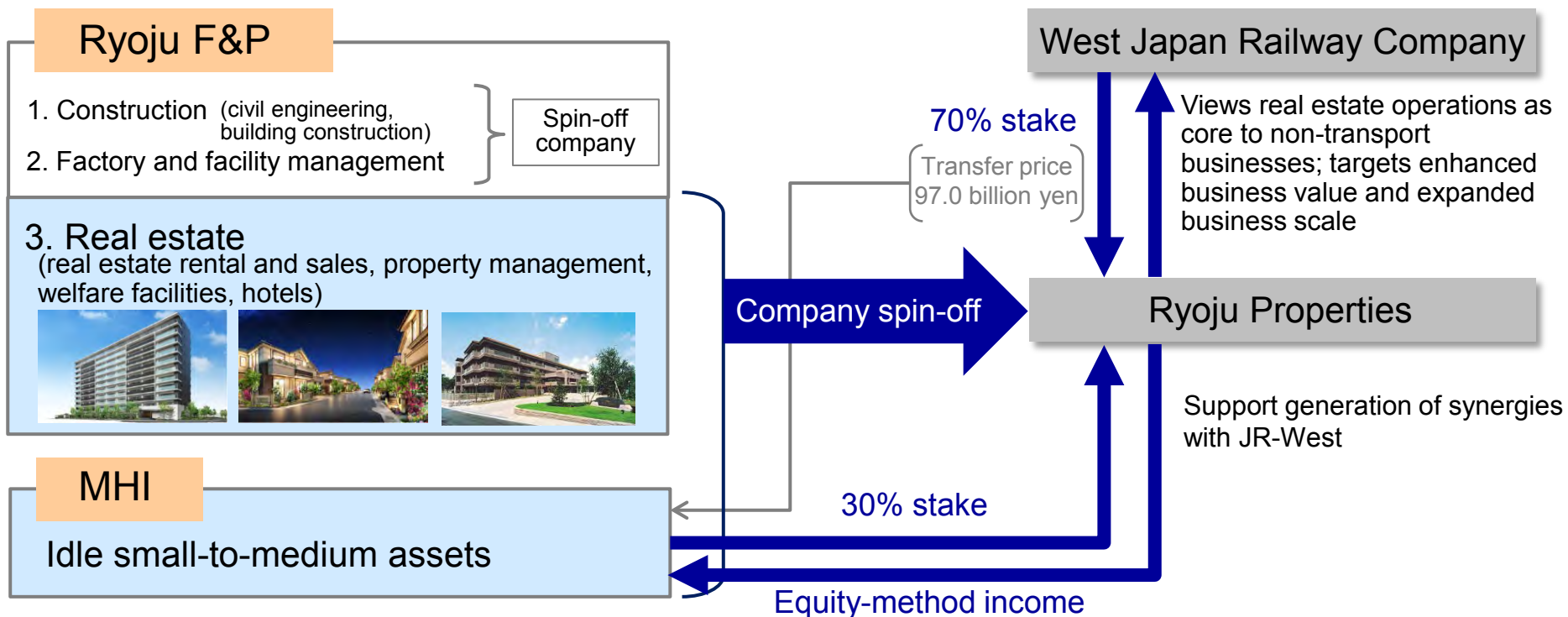


Basic concept (proposal)

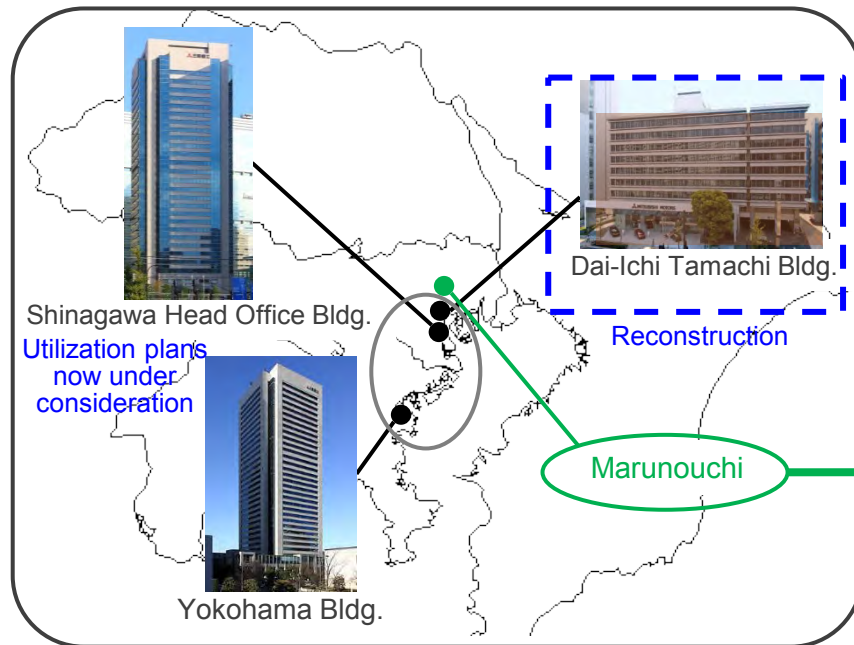
Land area: Approx. 8,600m²
 Scale: 150m height
 Completion: 2023 (subject to change)

- Combine MHI's idle small-to-medium real estate assets with the operations of Ryoju F&P, establish a new company ("Ryoju P") dedicated to real estate operations, sell 70% stake to JR-West
 - Seek enhanced corporate value for "Ryoju P" through partnership with JR-West
 - Generate cash flow through (70%) share transfer

JR-West: West Japan Railway Company
 Ryoju F&P: Ryoju Facility & Properties Co., Ltd.
 Ryoju P: Ryoju Properties Co., Ltd.

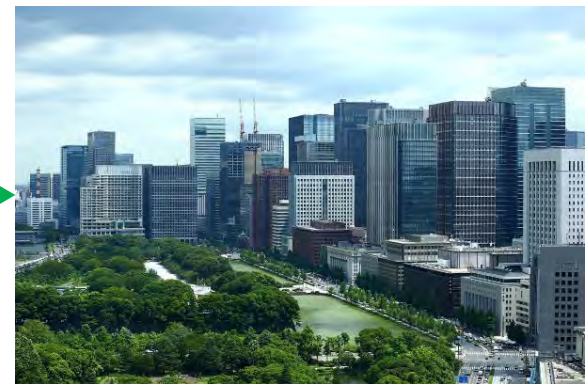


- Consolidate global head office functions into Tokyo's Marunouchi business district, accelerate strengthening of global management through streamlining and enhancement of business processes → Target: 2nd half of FY2018
- Taking consolidation and asset management into consideration, pursue consolidation/reorganization of offices/facilities in Tokyo metropolitan area (Shinagawa, Yokohama, Tamachi) based on functionality (including possible sale of assets)

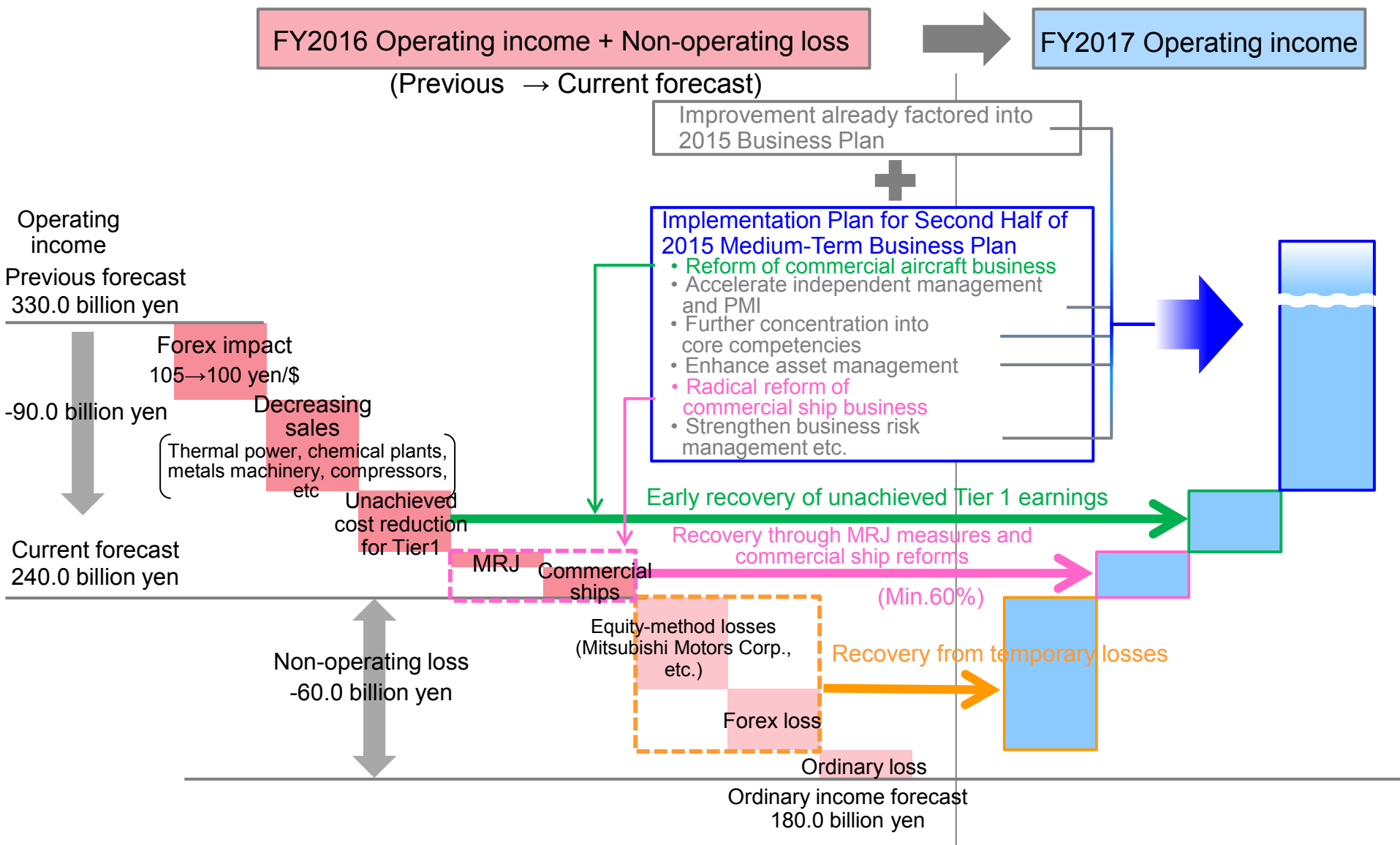


Functional consolidation and reorganization in Tokyo metropolitan area

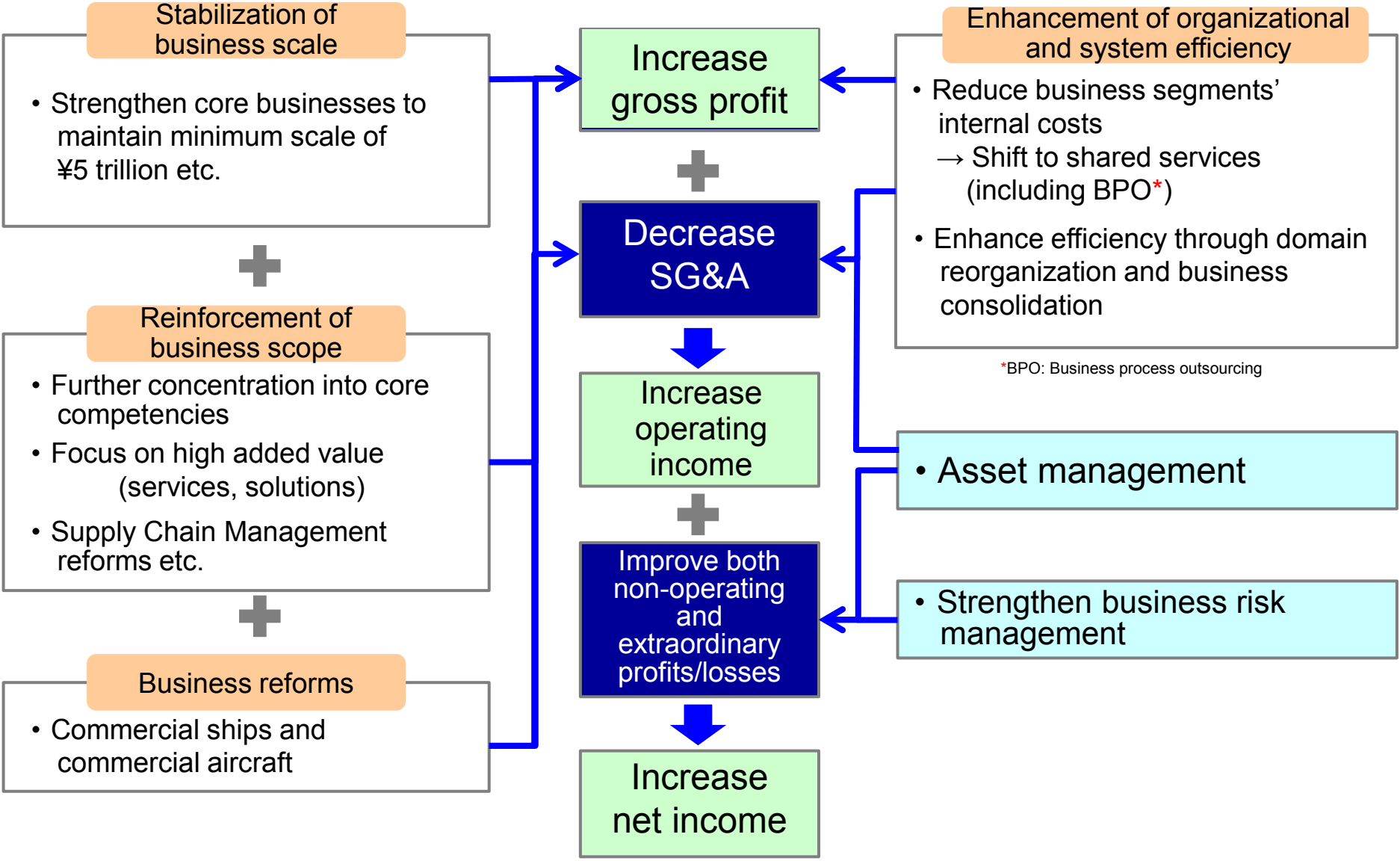
- Reinforcement of global management
 - Separation and efficiency enhancement of local management
- Simultaneous promotion



Marunouchi district



Earnings Improvement Outlook
 → Implement quantitative analysis and evaluation, compile results by end of Q3



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MOVE THE WORLD FORWARD



Appendix

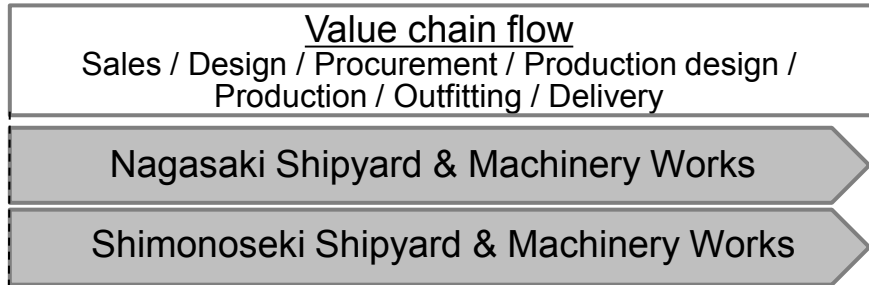
- Concentration into Core Competencies - P.27
- Radical Reform of Commercial Ship Business - P.28
- Strengthening of Business Risk Management - P.29

		Company	Product/Business	PMI Status and Results to Date		
■ : Overseas ■ : FY2016 initiatives				Agreement date	Net sales contribution (FY2014)	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 (brown coal combustion, IGCC)
		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	
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	
Withdrawal	Ecovix (Brazil)	Shipbuilding	Jan 2016	(equity-based)	Promotion of business concentration into core competence	

1. Structural Reforms

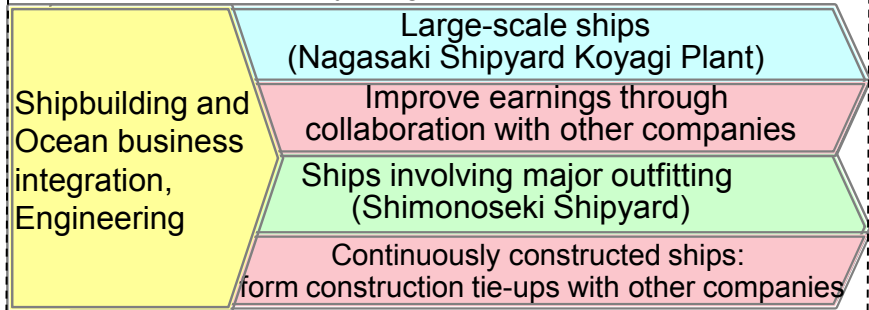
- Shift away from vertically integrated businesses at each factory
 - Move towards horizontally integrated businesses, working with other companies (maximize efficiency through division of areas of expertise)

Until now (vertically integrated)

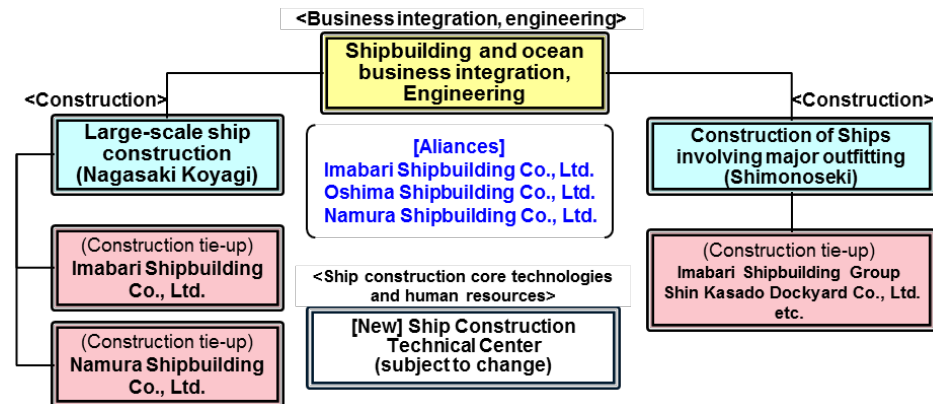
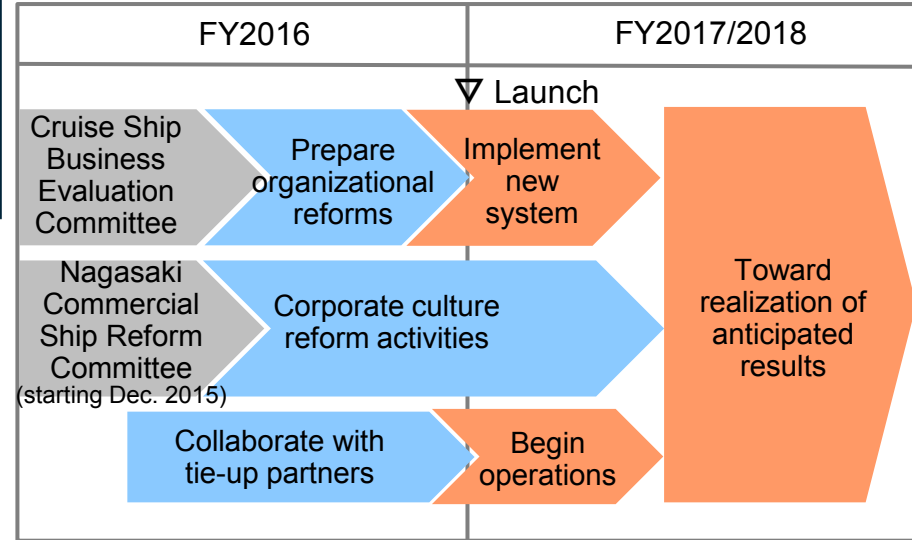


Specialize in areas of expertise and make effective use of alliances

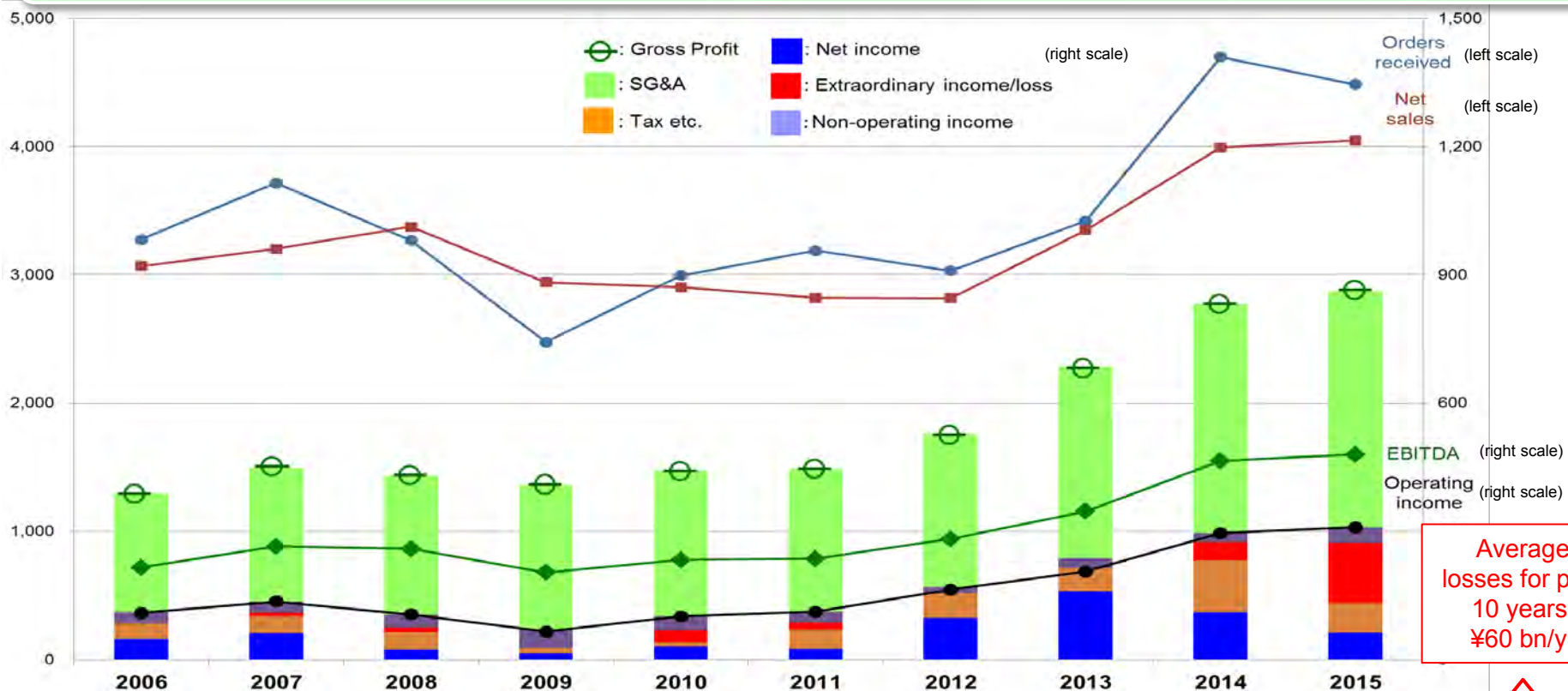
After reforms (horizontally integrated)



2. Reform Schedule



By accelerating 2015 Medium-Term Plan activities, we will improve profits/losses from the next Mid-Term Plan onwards, reducing extraordinary losses by at least 50% (approx. ¥30 billion) from their average over the past 10 years.



Average losses for past 10 years: ¥60 bn/yr

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Extraordinary loss (in billion yen)	18.0	30.0	65.0	16.0	44.0	45.0	6.0	130.0	86.0	155.0



	FY2016	FY2017	FY2018-
Implementation measures	<ul style="list-style-type: none"> ▼ Establish organization under direct CEO management ▼ Establish Cruise Ship Business Evaluation Committee ▼ Develop "Business Risk Management Charter" ▼ Establish Business Risk Management Committee <p style="text-align: center;">Early stable achievement of all measures (see p.10) and further upgrade</p>		
Current large-scale risks	<p>SONGS arbitration</p> <p>Cruise ship business</p> <p>General settlement by end of FY2016</p>		
(Commercial ship structural reforms)	<p>Assessment and preparation</p> <p>Shift to new system</p> <p>Achieve anticipated results</p>		
Future risk measures	<p>Review of commercialization implementation system</p> <p>Implement special measures for MRJ commercialization</p>		

CEO: Chief executive officer

SONGS: San Onofre Nuclear Generating Station

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