Status of 2015 Medium-Term Business Plan

October 31, 2016
Mitsubishi Heavy Industries, Ltd.

Shunichi Miyanaga, President and CEO

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

Contents

Having now completed the first half of fiscal year 2016, we have now passed the halfway mark in our three-year 2015 Medium-Term Business Plan. Here, I will describe the present outlook for fiscal 2016, our interim evaluation of the 2015 Business Plan, and our implementation plan for the period covering the second half of the Business Plan.

I. FY2016 Forecast

To begin, I will explain our earnings forecasts for the current fiscal year 2016.

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/$ 125 yen/€	105 yen/$ 115 yen/€	* Upon release of FY2016 1Q results (July 2016) FCF: Free cash flow ROE: Return on equity	100 yen/$ 115 yen/€

We have lowered our forecasts for orders received, net sales, and operating income in fiscal 2016. These downward revisions were made to reflect projected deterioration in our earnings caused by the strengthening of the yen, weaker-than-anticipated sales in all domains except Integrated Defense & Space Systems, and factors relating to our commercial aircraft and commercial ship businesses in the Commercial Aviation & Transportation Systems domain.
We have kept our net income forecast unchanged, however, at 100 billion yen, in reflection of progress achieved in asset management.

We had originally assumed that the situation in the Commercial Aviation & Transportation Systems domain would be severe from the start of the fiscal year. At the same time, we were expecting recovery in the Energy & Environment and Machinery, Equipment & Infrastructure domains. Ultimately, however, we had to lower our forecasts – indicating that our response measures were, to some extent, not enough.

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

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

(in billion yen)

	FY2015		FY2016						
	Net sales	Operating income	Previous forecast* (A) Net Sales	Previous forecast* (A) Operating Income	Current forecast (B) Net Sales	Current forecast (B) Operating Income	B-A Net Sales	B-A Operating Income	Factors behind outlook change
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	

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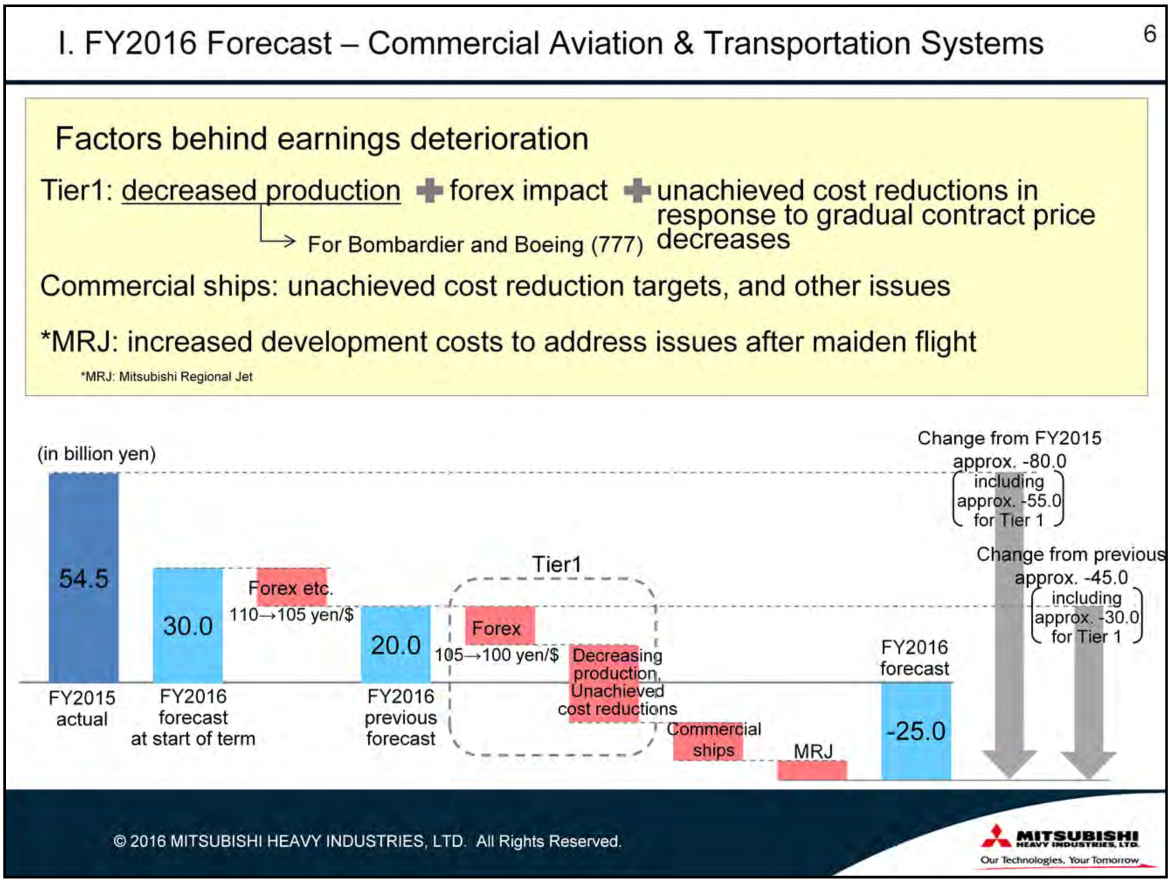
Here, I will describe our fiscal 2016 net sales and operating income forecasts for our various business domains.

In the Energy & Environment domain, we originally targeted operating income above 180 billion yen. This projection was revised downward owing to construction delays encountered with some thermal and chemical plant projects. Later I will explain what measures we are taking to achieve recovery in the second half and beyond.

In the Commercial Aviation & Transportation Systems domain, we lowered our operating income forecast significantly. I will explain this in detail on the next page.

In the Integrated Defense & Space Systems domain, we raised both our net sales and operating income forecasts. The new projections are close in line with our previous forecasts, however.

In the Machinery, Equipment & Infrastructure domain, we lowered our projected net sales and operating income from metals machinery and compressors primarily in reflection of the lengthening slump in the steel and oil-and-gas markets. Other areas are performing generally in line with our earlier forecasts.



Now I will explain the factors behind our downward revisions to our operating income forecast for the Commercial Aviation & Transportation Systems domain in fiscal 2016.

In fiscal 2015, operating income in the domain reached 54.5 billion yen, partly aided by the weakening of the yen to around 120 yen to the U.S. dollar. In fiscal 2016, the yen strengthened to near 100 yen to the dollar. Additionally, this year has seen decreases in production of commercial aircraft for both Bombardier and Boeing – specifically the 777 – and we have not achieved sufficient cost reductions to offset the gradual decreases that have occurred in the contract price of Boeing's 787. Similarly, our cost reduction target for commercial ships has gone unachieved, and development costs for the MRJ have increased to deal with issues that emerged after the aircraft's first flight. As a result largely of these factors, we have lowered our operating income forecast for this segment by approximately 80 billion yen year-on-year, and by some 45 billion yen compared to our forecast issued after the first quarter.

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

Now I would like to turn to our interim evaluation of the 2015 Medium-Term Business Plan. Specifically, I will explain the results and challenges during the first half of this three-year plan – namely, the period from April 2015 through September 2016.

II. Interim Evaluation of 2015 Medium-Term Business Plan – Earnings results and issues

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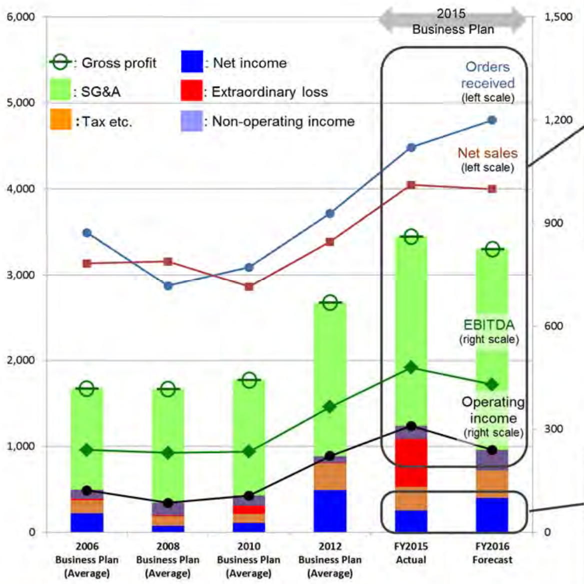

Results:

- 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

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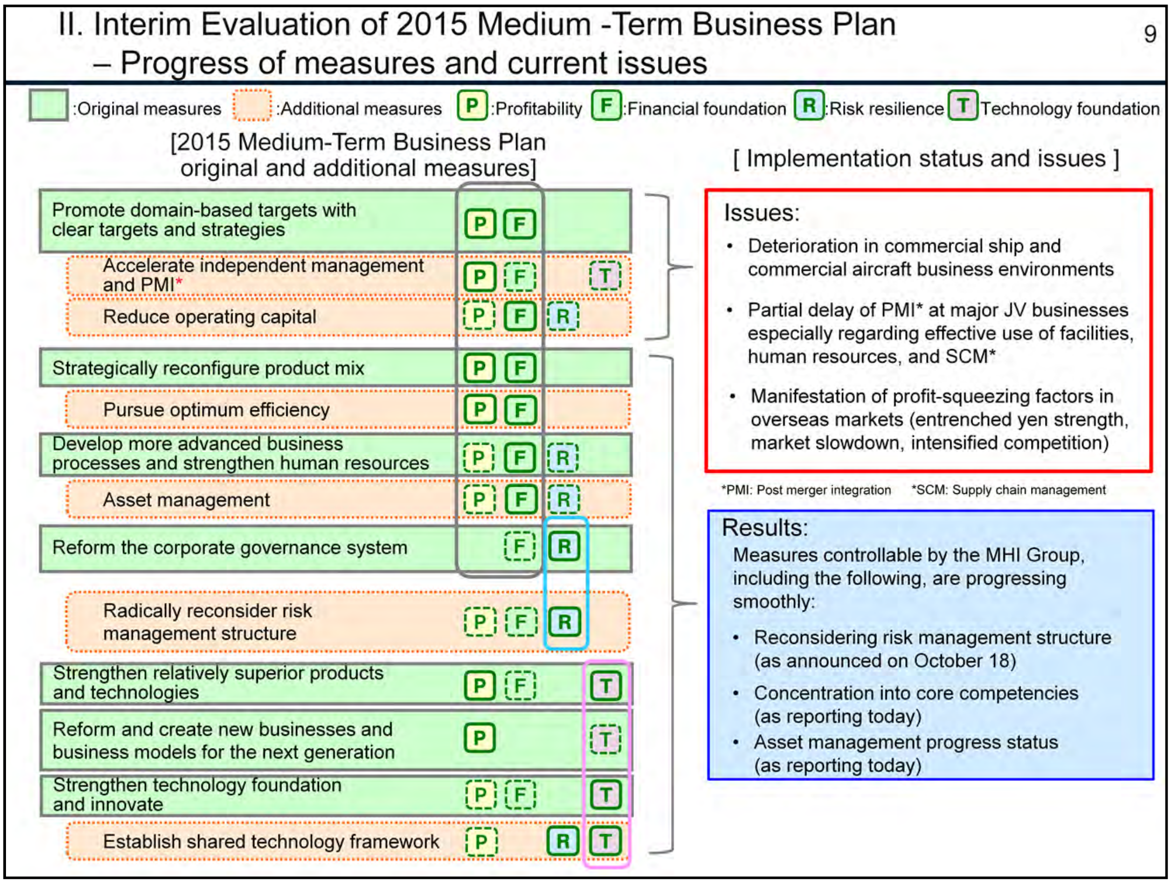
In this graph we see how the Company performed with respect to orders received, net sales, EBITDA and operating income in fiscal 2015, and how it is forecast to perform in fiscal 2016, compared to earlier results – specifically, compared to the respective averages of the two-year 2006, 2008 and 2010 Business Plans and of the three-year 2012 Business Plan.

In the first half of the period of the 2015 Business Plan, we succeeded in achieving increases in orders received, net sales, operating income and EBITDA on the back of structural reforms, portfolio management, and progress with respect to mergers and acquisitions. Net sales have entered a declining trend since the start of fiscal 2016, but orders received continue to increase, so we believe net sales will grow in fiscal 2017 and beyond.

Challenges at hand, however, are the significant deterioration in earnings from our commercial aircraft and commercial ship businesses, and the manifestation of various wide-ranging profit-squeezing factors – including the entrenched strength of the yen, slowdowns in our markets, and intensifying competition.

The main issue affecting our net income is the need to achieve early recovery from our unachieved income target, attributable to the losses we have suffered in our cruise ship construction business and structural reform costs. More vigorous initiatives will be carried out in these areas as we proceed forward.



Now, I will explain the progress we have achieved with various measures taken under the 2015 Medium-Term Business Plan – and the issues still before us.

Here we see the original measures set when we prepared the 2015 Business Plan, along with additional measures we announced at the end of the third quarter of fiscal 2015.

Measures we can largely control on our own are progressing smoothly. These include reconsideration of our risk management structure, concentrating into core competencies in terms of products, and promoting enhanced asset management.

Nevertheless, we still face a few challenges. These include deterioration in the business environments affecting our commercial aircraft and commercial ship operations, and delayed progress in achieving post-merger integration (PMI) at major joint-venture businesses.

Insofar as PMI is concerned, progress has been slow especially with respect to effective and efficient use of facilities and human resources, and streamlining of supply chain management (SCM). In addition, a number of profit-squeezing factors in our overseas markets have emerged – most notably the entrenchment of a strong yen, market slowdowns, and intensifying competition. Measures to deal with these factors are urgently needed.

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).

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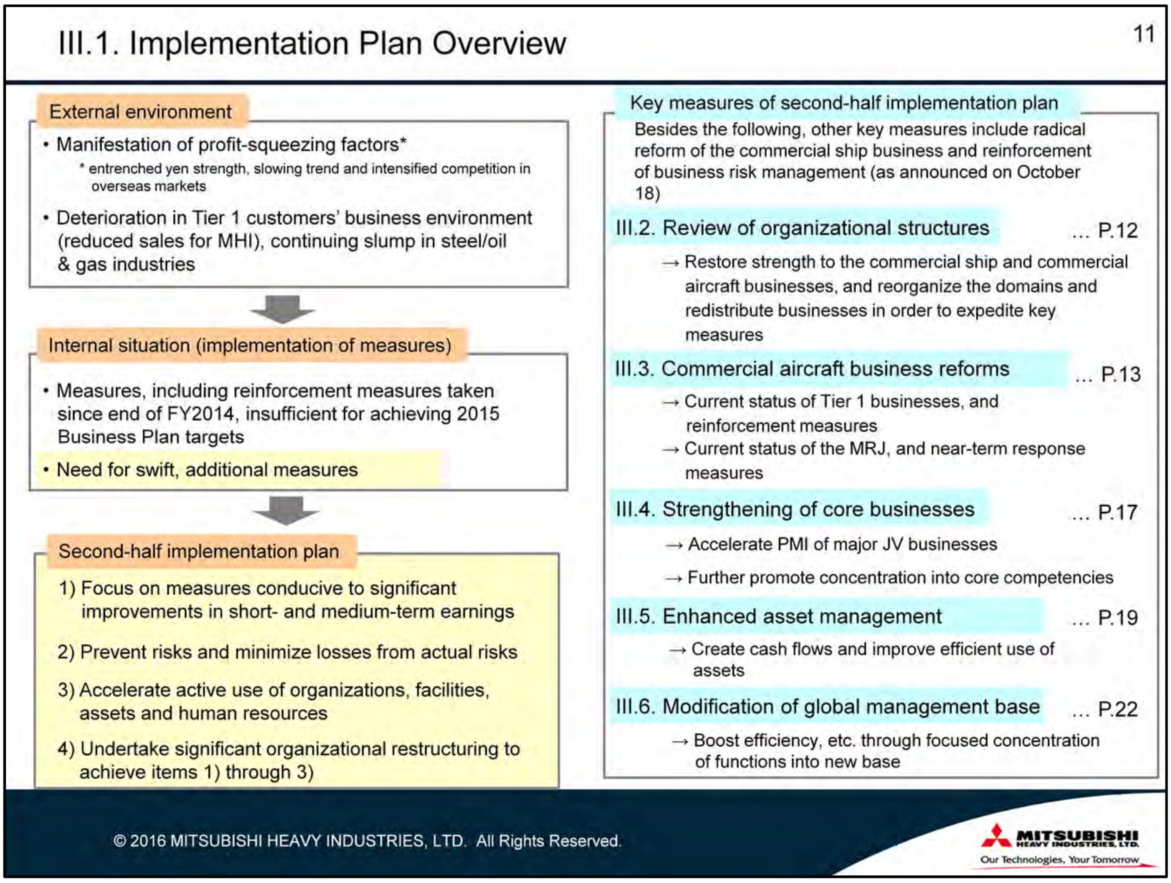
This completes my explanation of our interim evaluation of our 2015 Medium-Term Business Plan.

Now I will turn to an overview of our new implementation plan for the second half of the Business Plan period, aiming for achievement of our Business Plan's three-year targets.



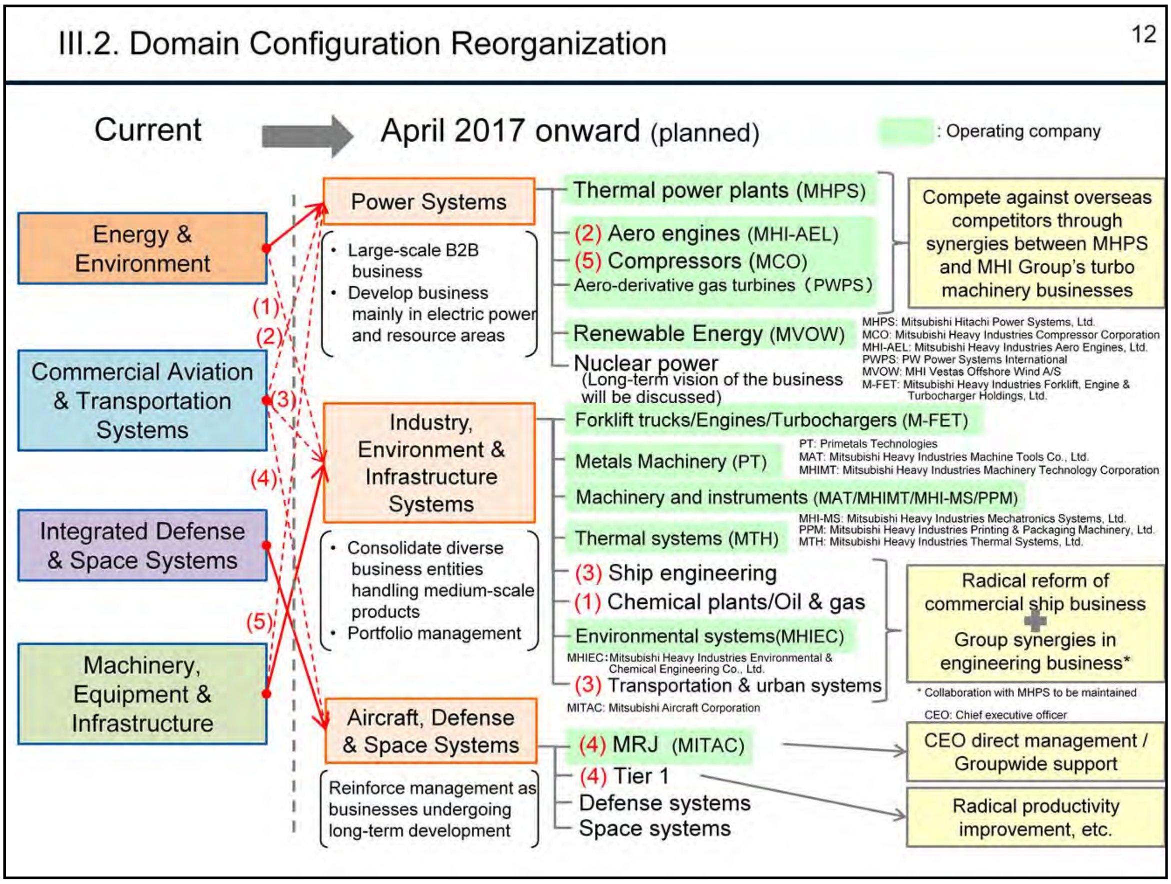
Here I will explain the overall concepts of our new implementation plan for the second half of the 2015 Business Plan period.

For the MHI Group, the external environment today is unfavorable. The strong yen and other profit-squeezing factors have emerged; the business environment of our Tier-1 customers has deteriorated; and the steel and oil-and-gas markets remain in a slump. As to the situation of our response measures within the framework of the 2015 Business Plan, measures we can largely control on our own are making steady progress, but there have been some delays in achieving PMI, and we have not kept pace with the changes in our external environment. For these reasons, we have concluded that even more vigorous measures must be taken swiftly.

Based on these foregoing circumstances, we have drawn up a new implementation plan for the second half of the three-year Business Plan period. Instead of measures that can be easily carried out, we will begin by focusing on measures we can expect to be highly effective in improving our earnings in the short and medium terms.

In addition, we will strive to prevent risks and minimize losses from actual risks; and we will take further steps to accelerate more active use of our organizations, facilities, assets and human resources. Moreover, to achieve those aims we will undertake robust organizational restructuring.

The major measures to be taken will be explained on the following pages.



First, I will explain how we plan to reorganize our domains.

Starting in April 2017, we will reorganize our present four domains into the following three: "Power Systems," "Industry, Environment & Infrastructure Systems," and "Aircraft, Defense & Space Systems." Simultaneously we will also reorganize our business structure.

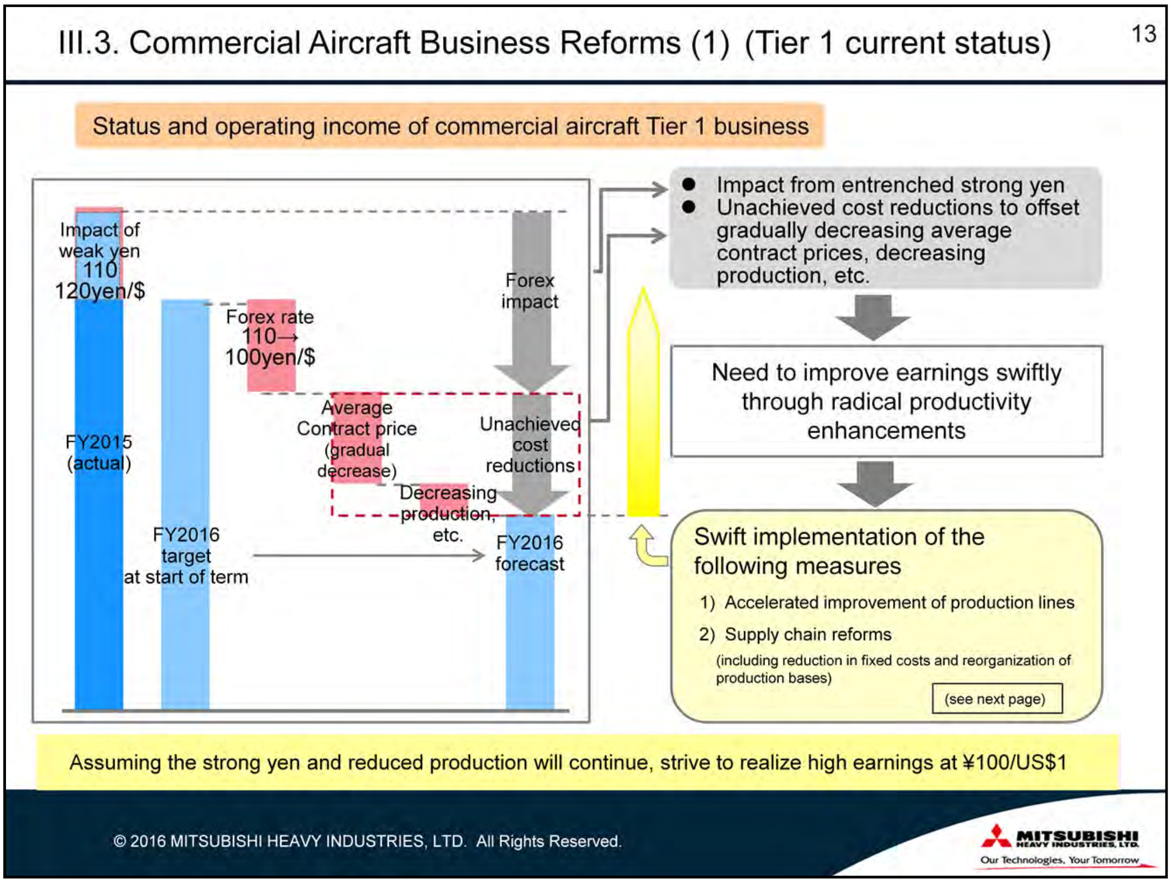
The Commercial Aviation & Transportation Systems domain will be eliminated in a positive quest for greater synergies. Aero engines will be subsumed into the new Power Systems domain to achieve synergy as a turbo machinery business. Ship engineering will be transferred to the new Industry, Environment & Infrastructure Systems domain – a domain that is to encompass numerous machinery business companies and is highly conducive to business restructuring. Transportation systems will also be shifted to the Industry, Environment & Infrastructure domain – in this case, in order to achieve group synergies in the engineering business. Commercial aviation operations will be transferred to the new Aircraft, Defense & Space Systems domain.

The Power Systems domain will center on large-scale B2B business and will develop business mainly in the areas of power generation and energy resources. The domain will strive to collectively strengthen the turbo machinery business from four components: the thermal power plants handled by Mitsubishi Hitachi Power Systems (MHPS), the largest in scale; the aero-derivative gas turbines of PW Power Systems (PWPS); aero engines; and compressors. In this way, we will compete against overseas competitors such as GE and Siemens. The nuclear power business today is extremely robust thanks to initiatives toward restarting Japan's nuclear power plants. Although this is a power-related industry, it has business characteristics different from those of turbo machinery; therefore, we believe that going forward we will need to take the matter of a long-range approach to this business under consideration.

The Industry, Environment & Infrastructure Systems domain will consolidate a variety of business entities handling medium-scale businesses, with attention paid to optimal portfolio management. Chemical plants will be transferred to this domain to achieve synergies in engineering, but efforts will also be made to achieve synergies with gas turbine combined cycle power plants and coal-fired thermal plants – both of which are to be incorporated into the Power Systems domain.

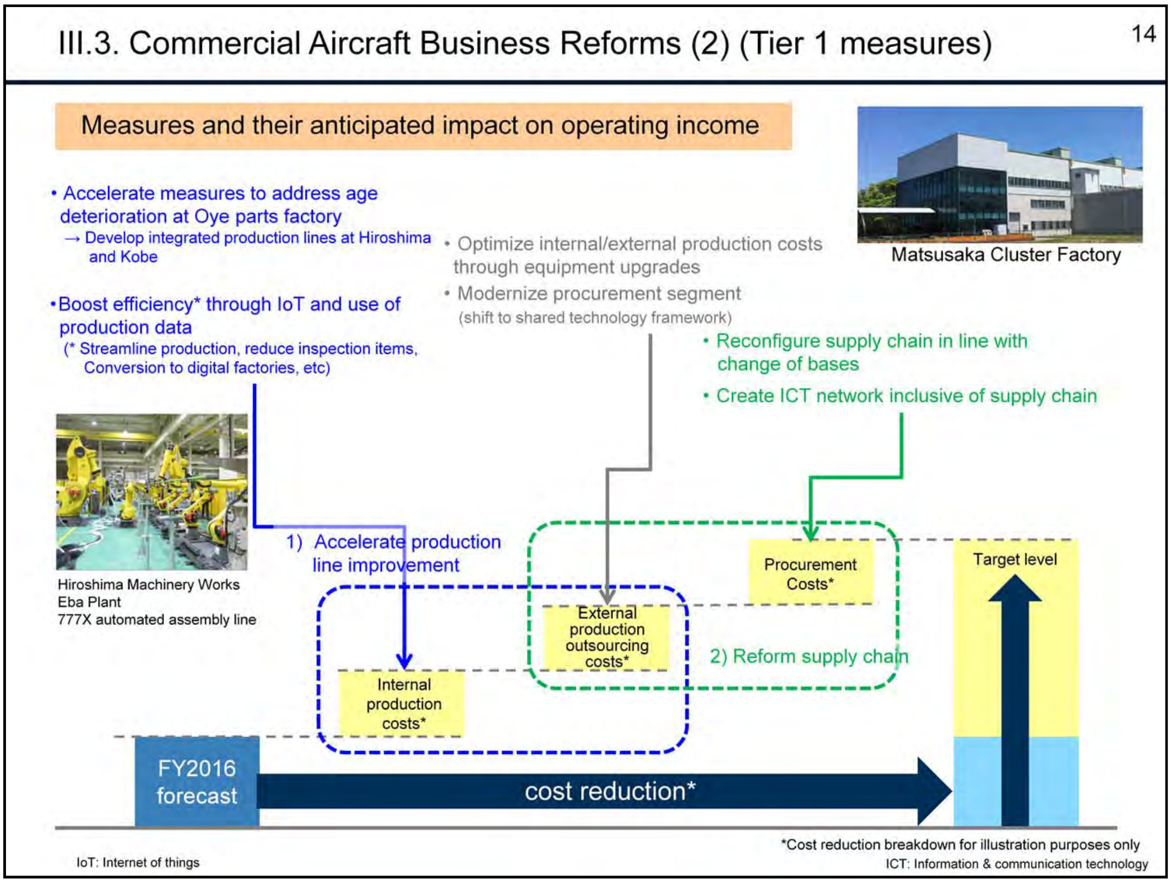
The new Aircraft, Defense & Space Systems domain will encompass operations that currently account for around 20 percent of the Company's total business scale, and our aim is to reinforce management as businesses cultivated for long-term development. The MRJ business will be under the direct oversight of the CEO, and development will go forward with support from all sectors of the Company. We will also pursue radical improvement in the productivity of our aircraft Tier-1 operations.

Through the achievement of synergies and skillful portfolio management, we will substantially grow net sales and operating income in the Power Systems and Industry, Environment & Infrastructure Systems domains while simultaneously driving steadily forward the Aircraft, Defense & Space Systems domain, which involves businesses undergoing long-term development. Through these various initiatives, we believe our Group management will achieve utmost stability in the medium term, and for this reason we will undertake reorganization of our domains as quickly as possible.



In reference to carrying forward reforms of our commercial aircraft business, I would like to describe the current status of Tier-1 business.

Operating income in fiscal 2016 is projected to deteriorate from the level of fiscal 2015, due first to impact from the strong yen, and second to unachieved cost reductions to offset factors including gradually decreasing contract prices and decreasing production. What is needed therefore is to improve earnings from this business swiftly through radical improvements in productivity. To do so, we will accelerate improvement of our production lines and swiftly implement reforms in our supply chain – including reduction in fixed costs and reorganization of production bases.



Next, as measures for reforming our commercial aircraft business, I will explain what measures we will take and what impact we expect them to have on our operating income.

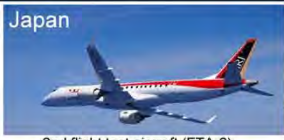
First, insofar as the Oye parts factory in Nagoya is concerned, due to its age deterioration no impact will come from our improvement measures. For that reason, we will strive to cut our in-house production costs 1) by establishing new integrated production lines at the Hiroshima Machinery Works and Kobe Shipyard & Machinery Works, and 2) by boosting efficiency through active use of IoT and production data at our various production bases in Hiroshima, Komaki and Shimonoseki.

Through these measures, we will optimize both our internal and external production costs, revamp our procurement method – which until now has been the responsibility solely of the commercial aircraft segment – and transfer procurement to the Value Chain Headquarters within our shared technology framework. In these ways, we will totally reconfigure our supply chain and pursue reductions in both our external production outsourcing costs and procurement costs.

III.3. Commercial Aircraft Business Reforms (3) (Current status of MRJ)

Current status

1) Development



2nd flight test aircraft (FTA-2)

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

-1 Full-scale flight testing under way in Japan and U.S. (see schedule below)

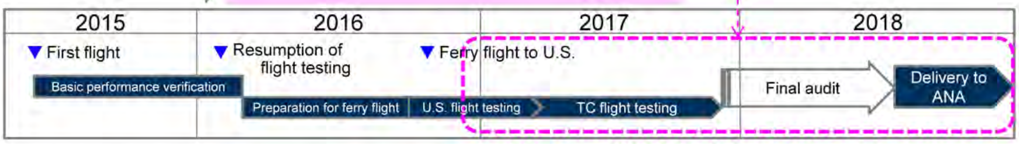
-2 Further time and manpower needed to perform verification tasks and prepare technical materials to acquire type certification (TC)

-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

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.

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Next, I will turn to the current status of development of the MRJ and preparations for the MRJ's production.

Full-scale flight testing is now underway in both Japan and the U.S. Further time and manpower are necessary, however, to perform the verification tasks and prepare the technical materials required to acquire type certification, and we are also now responding to various changes that have arisen during these procedures.

These various tasks have revealed our inexperience in certain areas, so in response we are now boosting our local manpower in the United States with experience in type certification procedures. At present we are closely examining and considering what schedule would enable the production of the best and most commercially attractive aircraft for the customer.

As to preparations for the MRJ’s production, we have already completed our basic planning of how production is to be allocated at our various factories and of their initial plant installations. Today, in preparation for commercialization we are undertaking a detailed study of a customer support system. We also continue to negotiate and confirm various terms with our major suppliers, including delivery schedules and costs.

Next, I would like to describe our future measures for the MRJ.

Today, although we are in the final stage of the MRJ's development, issues still need to be dealt with and response measures must be steadily implemented. Currently we are closely re-assessing both our schedule and costs for the period between acquisition of type certification and delivery of the first aircraft. We are also assessing a schedule and framework for shifting into the MRJ's production stage.

As the MRJ has become a business development project of a scale and complexity exceeding the level of a single business segment, we have newly established an "MRJ Business Promotion Committee," under the direct oversight of the CEO, to make active use of Company-wide management resources and shift to a system conducive to this business's long-term development. Going forward, the committee will make swift decisions on matters of urgent importance.

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		● Human resource exchanges, wage system unification, etc. proceeding smoothly ● Delayed progress in reducing SG&A and other shared expenses, and in consolidating bases	● Reduction of personnel after JV launch proceeding on schedule ● Further organizational streamlining necessary due to protracted steel industry slump	● Forklift truck business integration making smooth progress PMI planning is moving ahead at accelerated pace
Acceleration measures	Enhancing efficiency Review of organization and systems + Consolidation/ reorganization	● Consolidation of overseas bases has started. → Accelerate ● Domestic facilities also undergoing reorganization/ consolidation of functions and product portfolios in order to compete globally	● Acceleration underway in behind-schedule restructuring of overseas plants ● Commence reorganization/ consolidation of overseas engineering segment	● Additional efficiency enhancement measures: active use of MHI Group's shared services, etc.
	Increasing added value Reinforcement of solutions/servicing operations + SCM* reforms, etc.	● 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	● Expand control systems and solutions business targets Pursue synergies with other MHI Group product businesses	

*SCM: Supply chain management

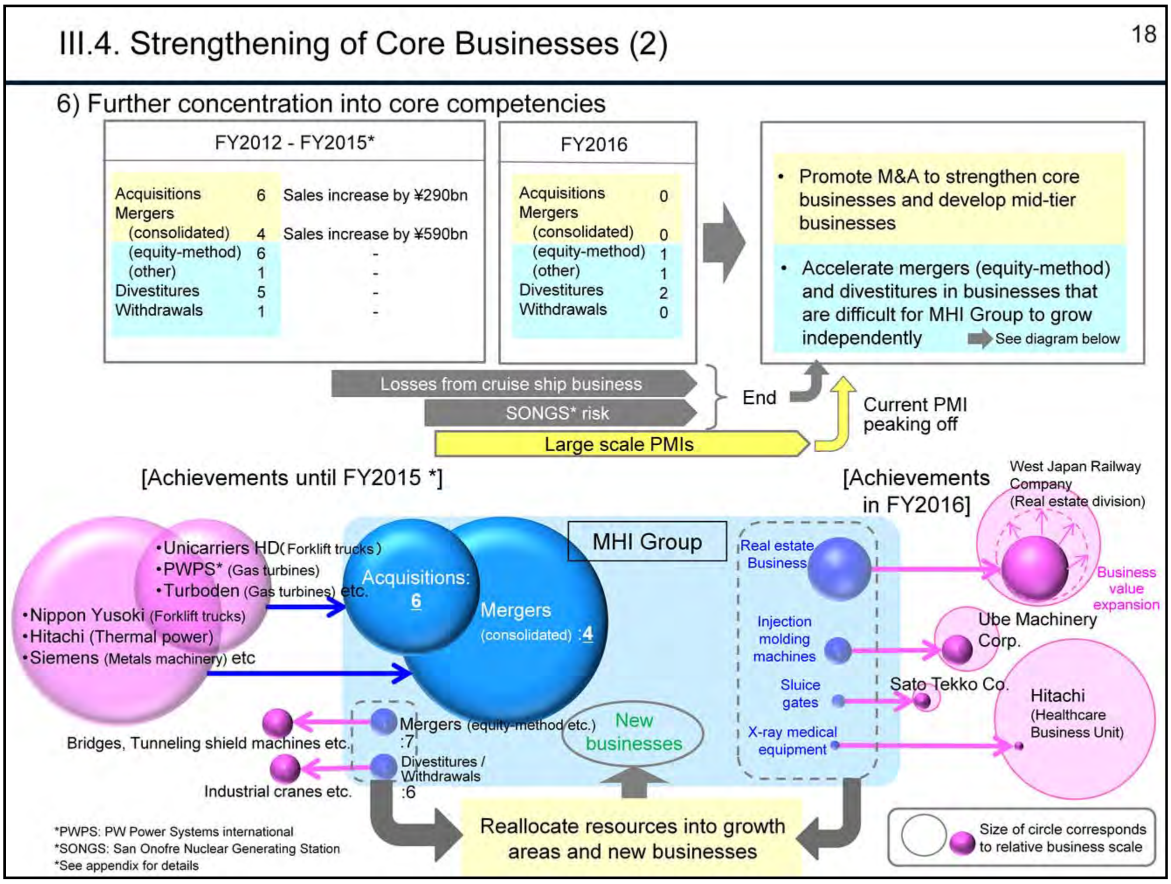
Now, I will turn to our measures for strengthening our core businesses. The first measure is to accelerate post-merger integration at our key joint-venture businesses.

Three major JV businesses support MHI in terms of net sales and operating income. In descending order of business scale, they are Mitsubishi Hitachi Power Systems (MHPS), Mitsubishi Heavy Industries Forklift, Engine & Turbocharger Holdings (M-FET), and Primetals Technologies (PT). Here I would like to explain their respective progress in integration.

At MHPS, steady progress is being made with respect to human resource exchanges and wage system unification. Progress is delayed, however, in reducing SG&A and other shared expenses, and in consolidating bases. In response, we will accelerate consolidation already underway at overseas bases, and we will reorganize and consolidate the functions and product portfolios of our domestic bases so they can compete globally.

At Primetals Technologies, reduction in personnel following the JV’s launch is proceeding on schedule, but because of the protracted slump in the steel industry, demand is falling, making it necessary for us to undertake further organizational streamlining. In addition to pursuing greater efficiency through reorganization and consolidation of the overseas engineering segment, we will strive to increase the JV’s added value by expanding businesses for its control systems and solutions businesses.

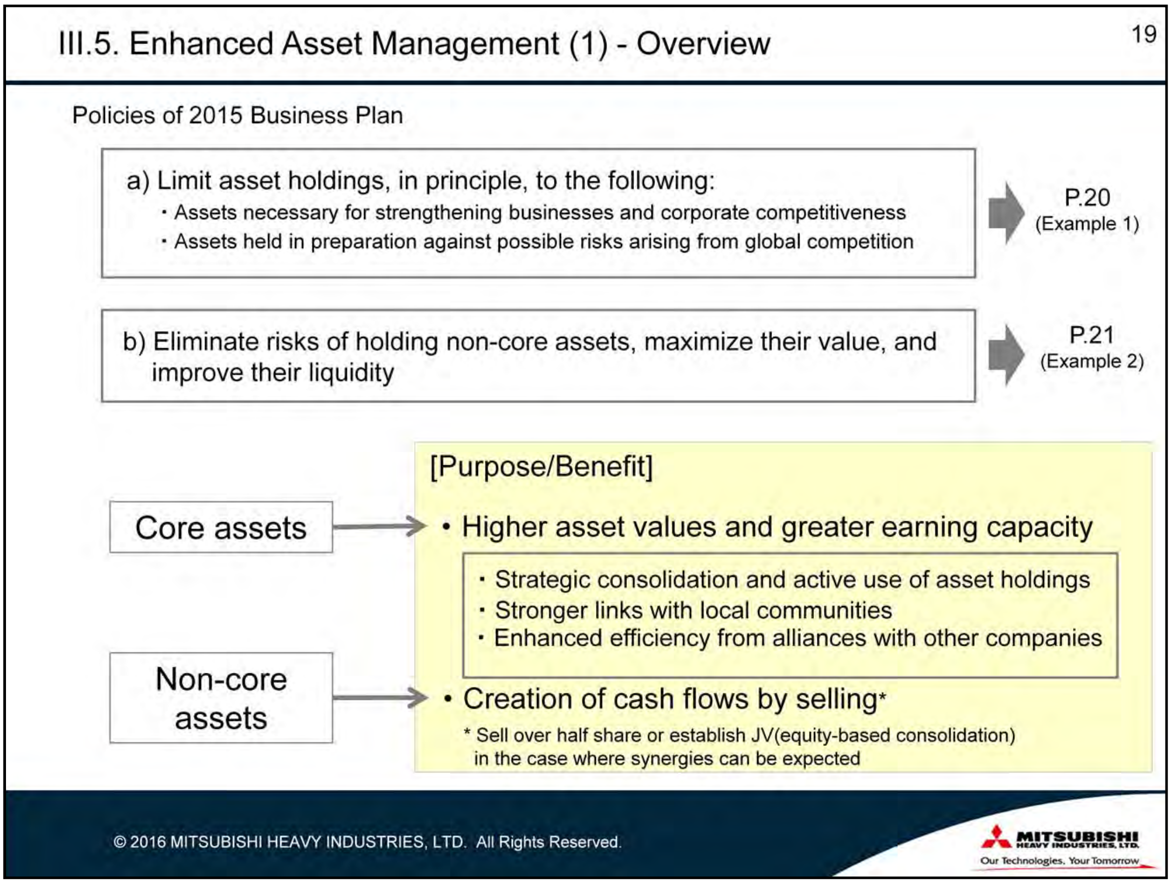
At M-FET, integration of the forklift truck business is progressing smoothly, and I have instructed the company to accelerate the integration process further.



The second measure for strengthening our core businesses is further concentration into our core competencies.

As of the end of fiscal 2015, our acquisition of UniCarriers Holdings and our establishment of a joint venture in thermal power generation systems with Hitachi, Ltd. drove up our net sales figures substantially. During this period we also set up seven equity-method joint ventures and either divested or withdrew from six businesses.

In fiscal 2016, we have partially sold off our real estate operations and founded a new joint venture in injection molding machines. Although no further opportunities arose for large-scale M&A activity as a result, from fiscal 2017 and onward we expect the aforementioned risk-laden issues, such as the losses in our cruise ship business and SONGS-related risk, to come to an end and the PMI activities now underway to peak off. We will therefore promote M&A initiatives necessary for strengthening our core businesses and developing our mid-tier businesses. We will also accelerate the establishment of equity-method joint ventures in, or divestitures of, business that are difficult for the MHI Group to grow independently.

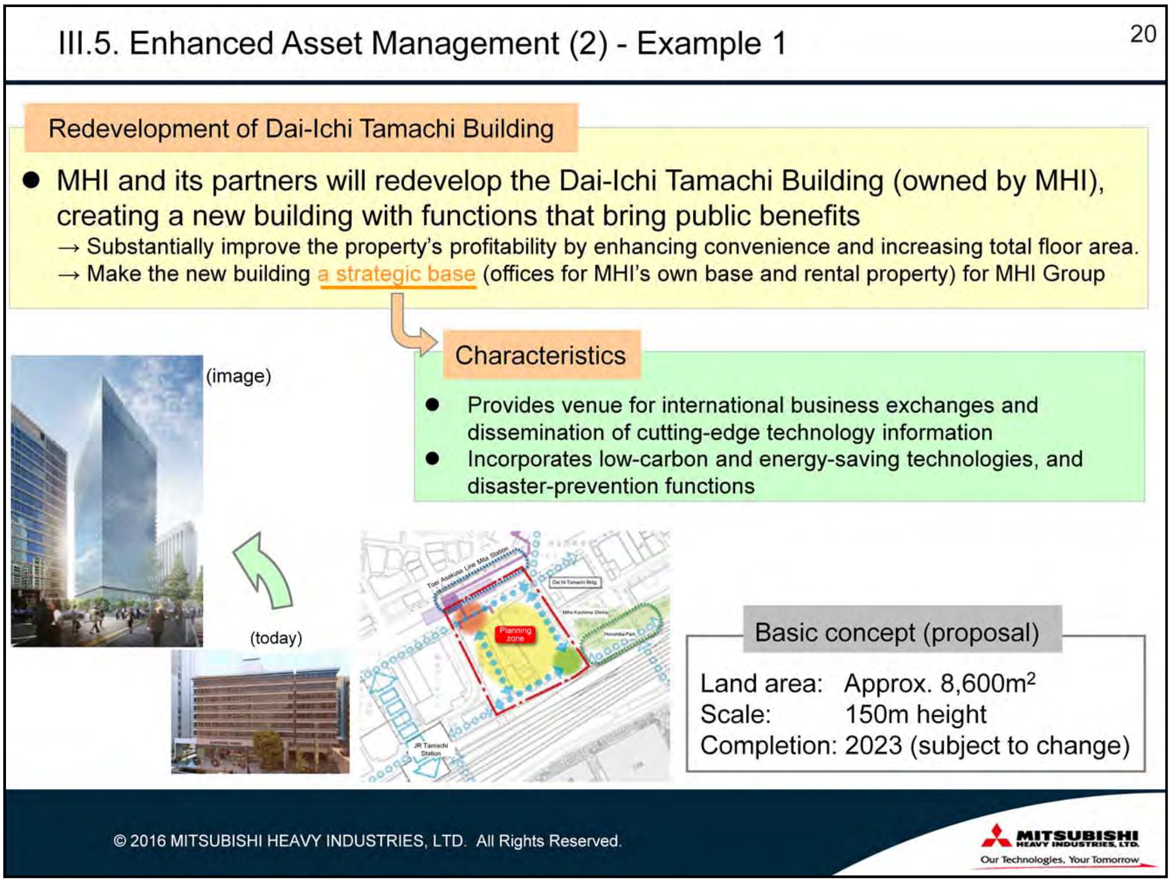


Next, I would like to discuss our measures for further enhancing asset management.

Until now, we have held large numbers of broadly distributed land properties and real estate, with little attention paid to whether they were core or non-core assets. In carrying out reforms to our business structure, however, we have come to recognize that many of our assets are unnecessary.

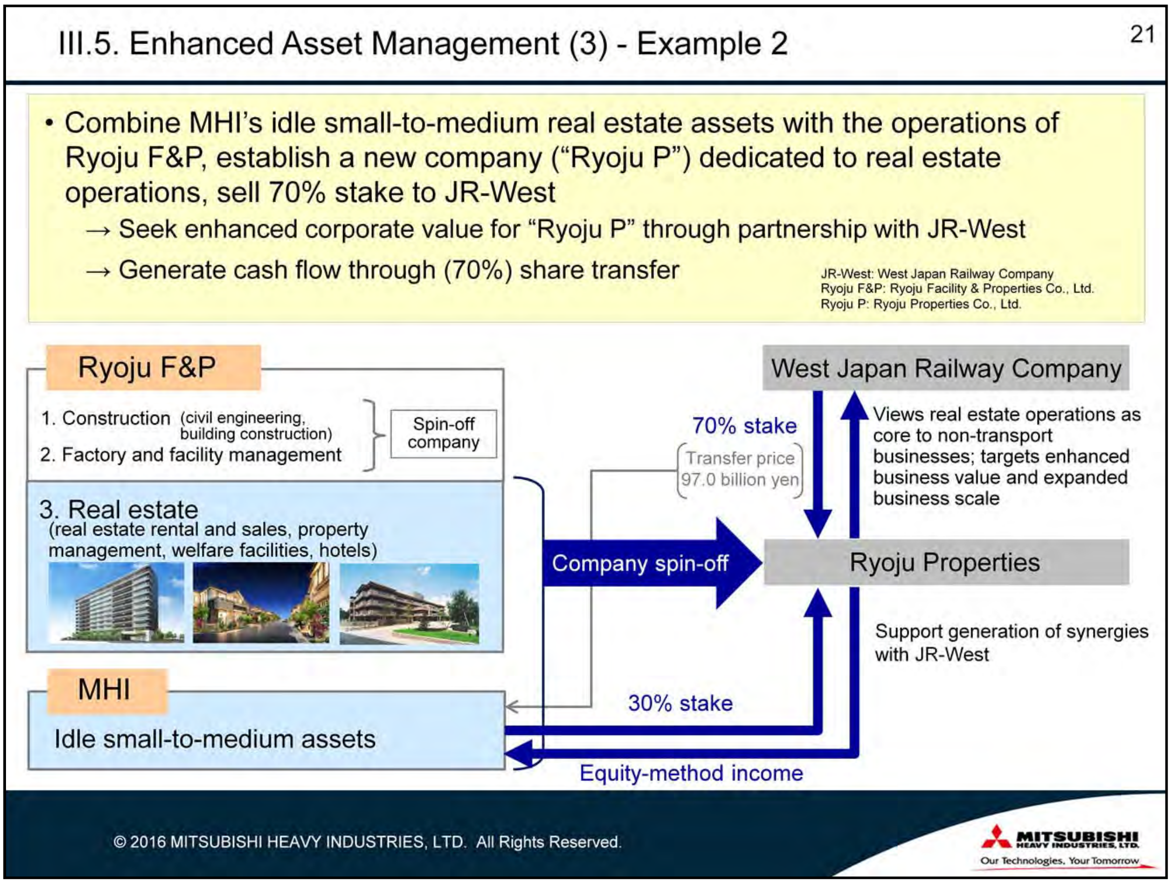
Under our 2015 Medium-Term Business Plan, we decided to limit our asset holdings, in principle, to those that are necessary for strengthening our businesses or corporate competitiveness, and those held in preparation against possible risks arising from global competition. By doing so, we aim to achieve higher asset values and greater earning capacity.

Concerning non-core assets, we aim primarily to sell such assets in order to eliminate risks associated with holding such assets and generate cash flows, in the process maximizing our asset value and improving our asset liquidity.



Here, I would like to offer a specific example of how we are putting our core assets to best use: redevelopment of the Dai-Ichi Tamachi Building.

The Dai-Ichi Tamachi Building is owned by Tamachi Building Company, an MHI Group company. The building was originally constructed more than 50 years ago and is therefore suffering age deterioration. As a result, a new building is to be constructed, a high-rise structure some 150 meters in height with functions that bring public benefits, in collaboration with owners of adjacent properties. Through enhanced convenience and expanded floor area, we aim to significantly improve the property's earning capacity, having it serve as a strategic base for utilizing MHI's Group assets.

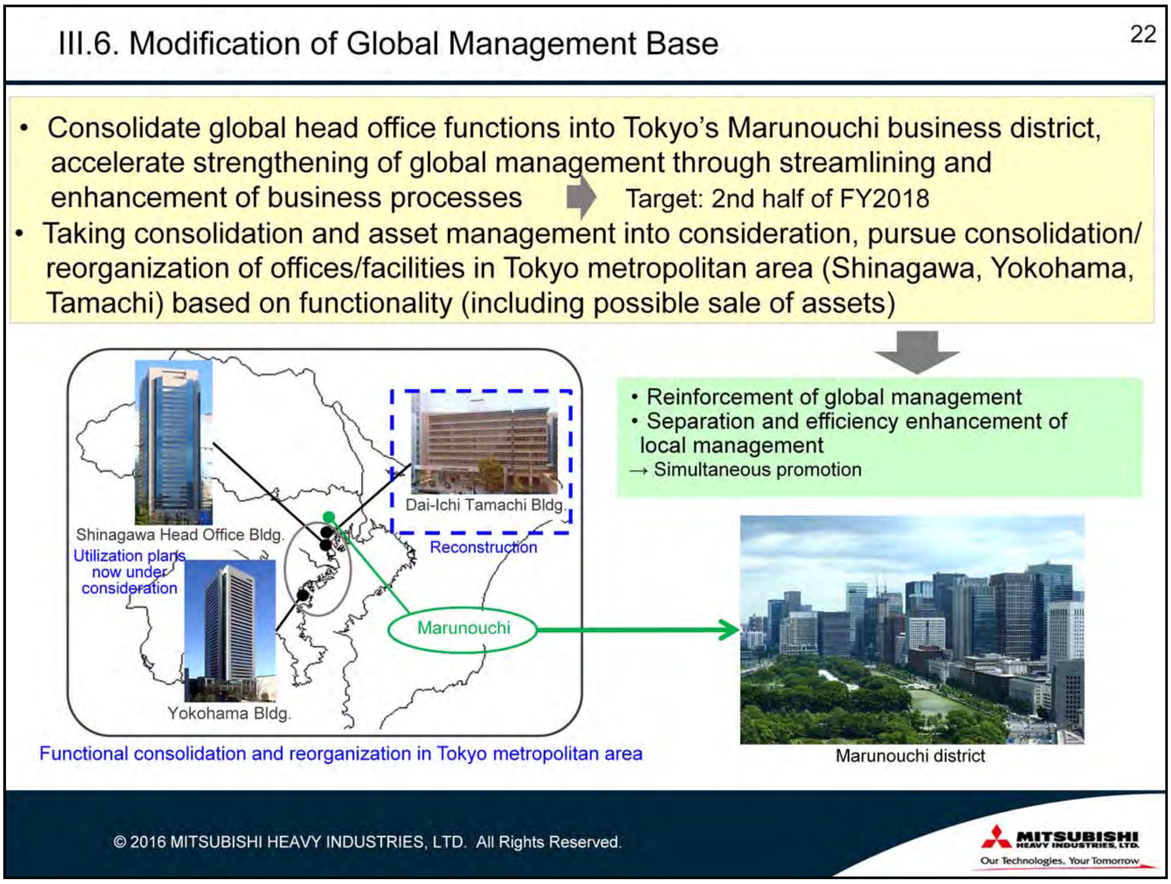


Next, I would like to introduce an example relating to our non-core assets.

Ryoju Facility & Properties Co., Ltd. is an MHI Group company with businesses in construction, factory and facility management, and real estate. Among these, the real estate business – which engages primarily in realty rentals and sales, and hotel management – is not an area in which we, as a Group, have strength. We decided therefore to spin off those operations, and in combination with our small to medium-scale idle assets, we established Ryoju Properties Company Co., Ltd., with a 70% stake in the new company held by West Japan Railway Company (JR West). Selling this stake generated a cash flow of approximately 97 billion yen.

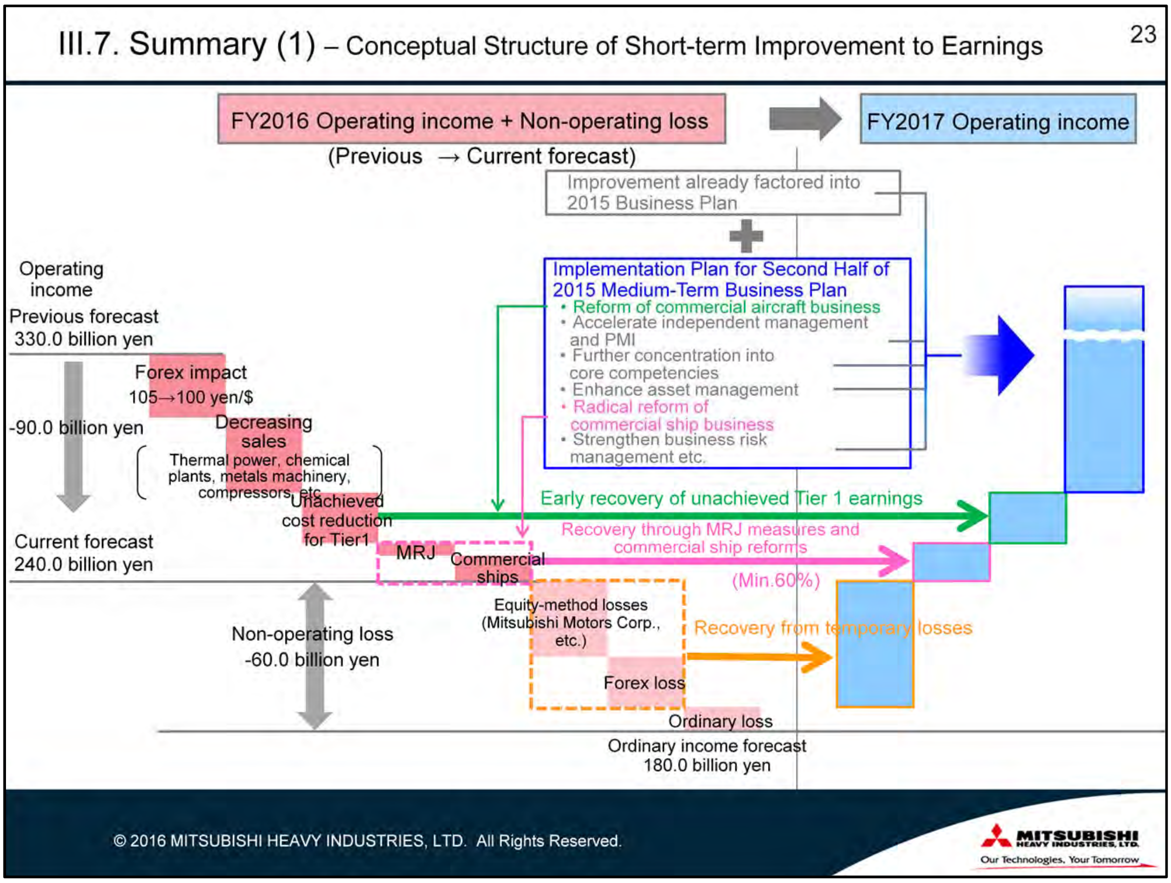
By retaining 30% ownership in Ryoju Properties, we support the generation of synergies with JR West and expect to earn profits commensurate with our stake.

Going forward, we will also take our other asset holdings under review from the perspective of asset management.



Next, I would like to explain the last of our key measures to be implemented in the second half of the 2015 Medium-Term Business Plan period: the modification of our global management base. In the second half of fiscal 2018 we will consolidate our global headquarters functions to the Marunouchi district, to streamline and enhance our business processes and to accelerate the strengthening of our global management.

Areas other than the global base functions consolidated in Marunouchi will be consolidated and reorganized along functional lines among the bases in the Tokyo metropolitan area – Shinagawa, Yokohama and Tamachi – from the perspective of asset management.

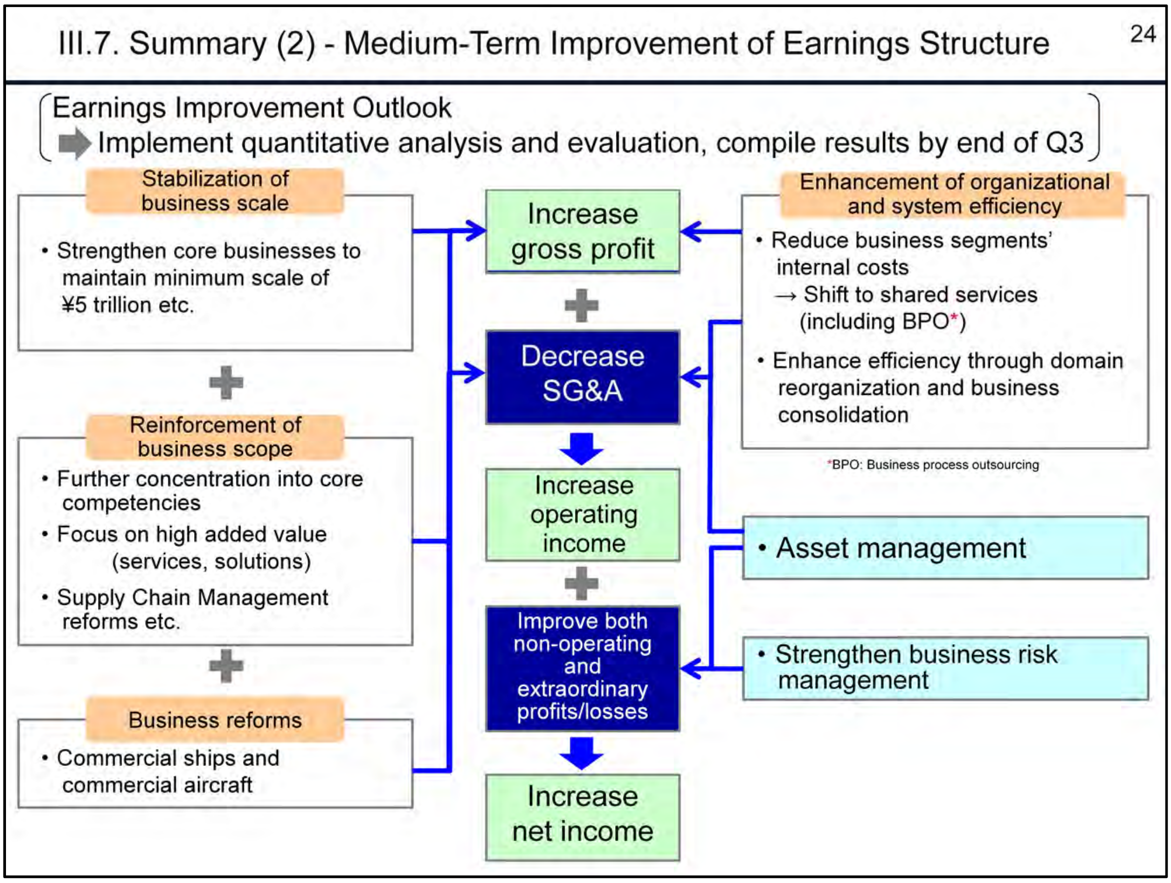


By way of summary, here I will describe our concept for improving our earnings structure in the short term.

At the end of the first half of fiscal 2016, we lowered our fiscal 2016 operating income forecast from 330 billion yen to 240 billion yen. We did so in consideration of forex impact, declining sales, unachieved cost reductions in the commercial aircraft business (Tier-1), increased costs for developing the MRJ, and worse-than-anticipated losses in our commercial ship business. When the 60 billion yen in non-operating losses is taken into account – consisting of equity-method losses, primarily from Mitsubishi Motors, and forex losses – ordinary income this fiscal year is projected to finish at 180 billion yen.

In fiscal 2017, recovery will set in from the non-operating losses of fiscal 2016, which were temporary losses, and – by carrying out the measures for our commercial ship and MRJ businesses described on pages 12 and 16, respectively – I would like to achieve at least a 60% recovery from the downward revised operating income forecast for fiscal 2016.

Concerning the commercial aircraft business, we will strive for an early recovery by implementing the measures described on page 14. If this, together with accelerated PMI at our other core joint ventures, further concentration into core competencies, and further promotion of asset management, are fully realized, I believe we can look forward to significant improvement in our bottom line. I pledge to do everything I can to make this possible.



Lastly, I would like to discuss our concept for improving our earnings structure in the medium term.

We will pursue stabilization of our business scale by strengthening our core businesses so as to maintain a minimum scale of 5 trillion yen, regardless of events in the forex markets. In addition, through the provision of services and solutions, we will build up high added value and strengthen our business portfolio, while by enhancing our organizational and system efficiency, we will reduce costs and pursue increased gross profit. This increased gross profit, in combination with reduction in our SG&A expenses, will enable expansion in operating income, while stronger business risk management will enable improvement in non-operating and extraordinary profits/losses, thereby driving increased net income.

I might add that we are undertaking quantitative analysis and evaluation of our concepts for improvement in fiscal 2017 and the medium term. I will describe these together following the release of our business results for the current third quarter.

This completes my presentation. Thank you for your kind attention.

Appendix

Appendix: Concentration into Core Competencies

: Overseas
Blue: FY2016 initiatives

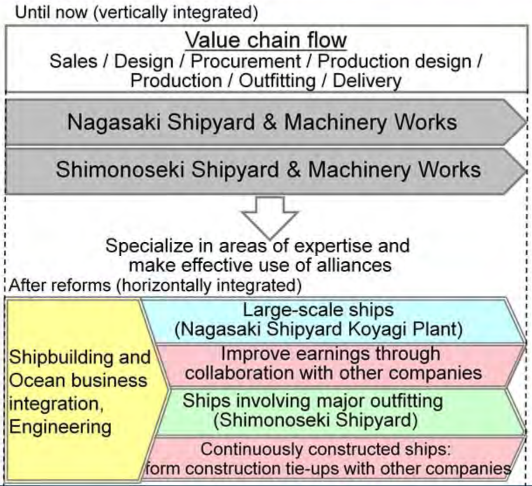
		Company	Product/Business	PMI Status and Results to Date		
				Agreement date	Net sales contribution (FY2014)	Other results, etc.
Acquisition		Federal Broach (USA)	Machine tools	Apr 2012	Approx. JPY 5.0bn	Business expansion and stabilization from lineup integration
		PWPS(USA) , Turboden(Italy)	Gas turbines	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

PWPS: PW Power Systems

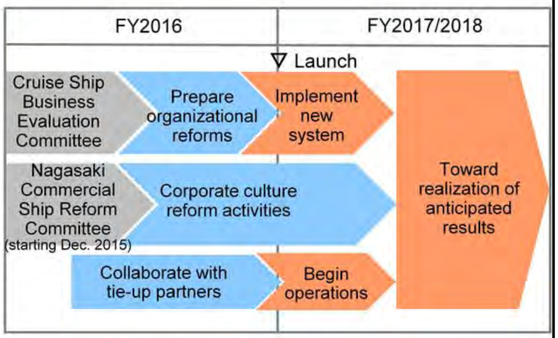
Appendix: Radical Reform of Commercial Ship Business

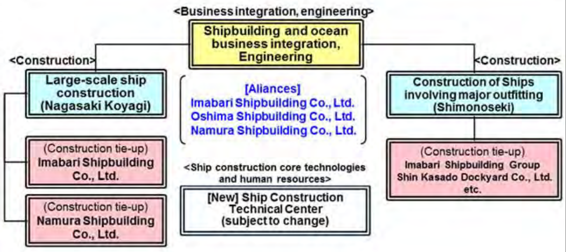
1. Structural Reforms

- 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)



2. Reform Schedule





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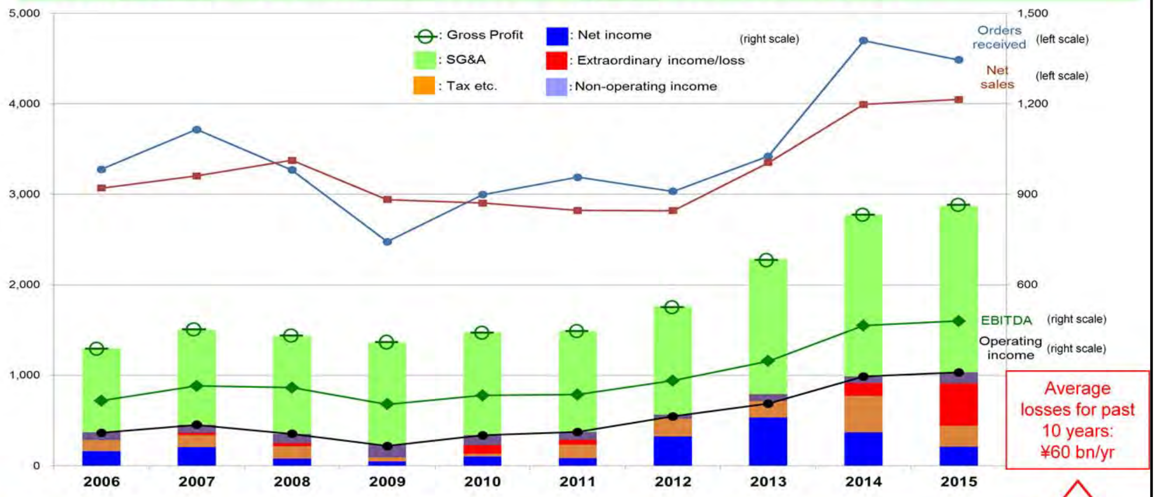
Appendix: Strengthening Business Risk Management - Anticipated Results

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

	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

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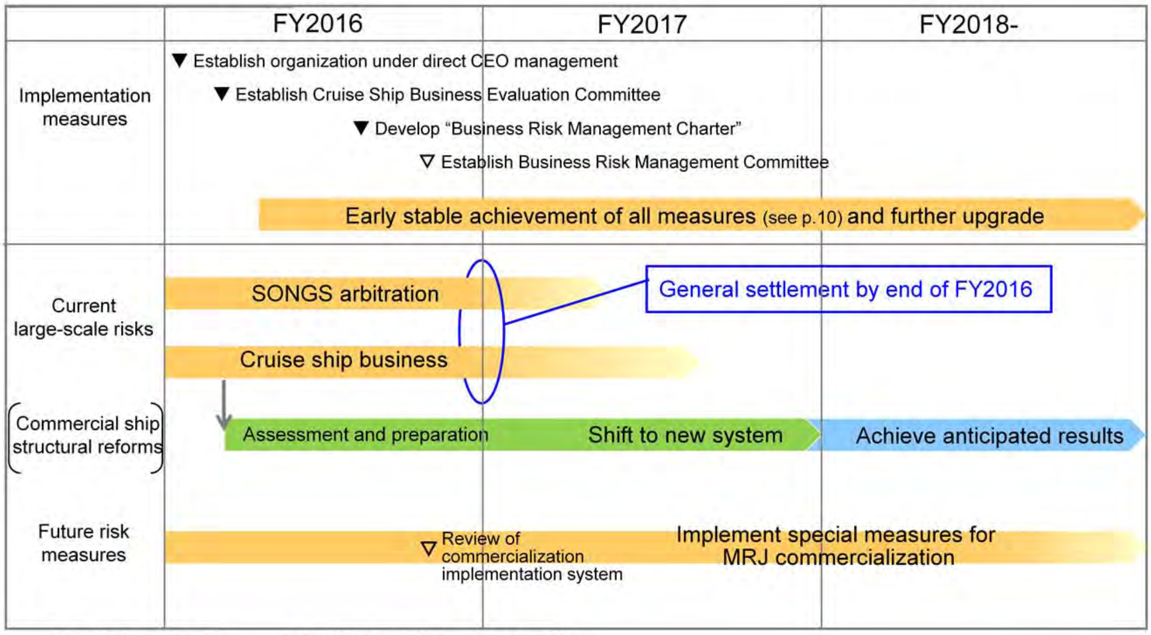
Appendix: Business Risk Management - Implementation Schedule



CEO: Chief executive officer SONGS: San Onofre Nuclear Generating Station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