MHI REPORT 2015

MITSUBISHI HEAVY INDUSTRIES GROUP
INTEGRATED REPORT

For the Year Ended March 31, 2015
The MHI Group conducts management based on the firm intention to "continuously provide an assured future where people can live safe, secure, and enriched lives through technologies that can excite people and passion as a manufacturer for the sustainability of the earth and humankind."

To enhance the understanding of our philosophy among shareholders, investors, and a host of other stakeholders, from fiscal 2013 (the fiscal year ended March 31, 2014), we have integrated financial information, including management strategy and operating performance, with non-financial information related to the Group's environmental and social activities into this MHI Report.

MHI Report contains information that is important to understanding MHI. More detailed information is available on our website.

http://www.mhi-global.com/index.html

Chairman's Message

For more than 130 years, since its foundation in 1884 the Mitsubishi Heavy Industries (MHI) Group has traveled a path of steady growth and development together with a continuously expanding roster of customers, business partners, and stakeholders, including society at large, based on Sankoryo, a set of three principles that define the Spirit of Mitsubishi. Those principles are Shoki Hoko, or Corporate Responsibility to Society, Shoji Komei, or Integrity and Fairness, and Ritsugyo Boeki, or Global Understanding through Business.

Ever since its beginnings in the days of Japan's industrial revolution in the Meiji Period (1868-1912), the MHI Group has consistently led in taking up new challenges in manufacturing. Today, our greatest asset is the technological strength accumulated, handed down, and developed through the years in tandem with the nation's development. Our current products and services, the end result of applying this technological strength to maximum degree, not only support the lives of people all around the world but also make significant contributions to resolving such critical issues on a global scale as climate change and intensifying energy demand.
Today, we are implementing new initiatives on a Groupwide basis to strengthen our corporate governance in line with our aspiration and firm determination to become a truly global company emanating from Japan. Going forward, we will continue to improve our transparency and dynamic response to change to enable MHI to be a company eminently trusted by its stakeholders worldwide.

In the years ahead, all of us in the MHI Group will continue to pursue the creation of new value and take up new challenges in order to achieve our ultimate goal: to be a company with a respected global presence that contributes solidly to the sustainability of our planet and everyone who inhabits it.

Hideaki Omiya
Chairman of the Board

Creed
We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society
We base our activities on honesty, harmony, and a clear distinction between corporate and personal life
We shall strive for innovative management and technological development from an international perspective

MHI Group CSR Action Guidelines
In order to ensure a secure future for the Earth, we will establish and maintain:

Close ties with the Earth
Safeguard an abundantly green Earth through environmental technologies and environmental awareness;

Close ties with Society
Build a relationship of trust with society through proactive participation in society and trustworthy actions;

A bridge to the next Generation
Contribute to the cultivation of human resources who can shoulder responsibility in the next generation through technologies that can realize dreams.
The MHI Group has supported the growth and development of Japan with advanced technologies and a broad range of products during its era of modernization, reconstruction following World War II, and period of high economic growth. Our business domains extend across land, sea, air, and space. As our expansion has mirrored that of the Japanese economy, growth has slowed since the 1980s, but since the late 2000s we have been promoting globalization and management reforms to put ourselves on a new growth trajectory.

This cover story describes our efforts to create value in the past, present, and into the future.

Our domains have also grown geographically. In addition to exports, in recent years we have strengthened our overseas base operations, procurement, and production systems. At the same time, we have stepped up our alliances and mergers with, and acquisitions of, overseas companies, to the extent that overseas sales now account for more than 50% of the total.
A Key Player in Turning Japan into a Nation of Abundance

Post-war, in 1950, in line with the GHQ’s policy of dissolving large industrial groups (zaibatsu), MHI was divided into three independent and competing companies. In addition to providing such heavy equipment as tankers and gas turbines, we supported Japan’s reconstruction across a broad range of product fields, including motor scooters and air conditioners.

The three companies integrated in 1964, and we played a role in Japan’s rapid economic growth through the development and production of such social infrastructure as power plants and bridges as well as container carriers, monorail systems, and other transportation equipment.

Stagnating Growth as the Japanese Economy Slows

The 1973 oil crisis marked the end of Japan’s rapid economic growth and had a major impact on MHI’s business, particularly in shipbuilding. After that point, we established an industrial machinery business and enjoyed steady expansion until Japan again entered a period of slow growth following the bursting of its economic bubble. During that period, we succeeded in launching rockets and expanded our business domains to include aerospace. Although we continued to hone our leading-edge technologies, annual net sales remained around the ¥3 trillion level for approximately 30 years.

Pursuit of New Growth by Becoming a Global Company

Although growth in Japan has leveled off, the economies of overseas emerging countries have been expanding rapidly, pushing up demand for infrastructure development. Also, amid a growing sense of crisis about climate change and the depletion of natural resources, environmental protection has become a consistent theme worldwide. For MHI, which has supplied diverse infrastructure over many years and pursued environmentally friendly technologies since the oil crisis, this situation has presented new opportunities for growth, and we are pursuing the path to becoming a global company.

Energy & Environment

Our Energy & Environment operations offer optimal solutions in the energy-related fields of thermal power, nuclear power, and renewable energy, in such environmental areas as water and flue gas treatment, and for chemical plants and other industrial infrastructure elements.

Integrated Defense & Space Systems

In Integrated Defense & Space Systems, we provide integrated land, sea, air, and space defense systems, including naval ships, defense aircraft, launch vehicles, and special vehicles, as well as space-related services.

Commercial Aviation & Transportation Systems

In Commercial Aviation & Transportation Systems we deliver advanced land, sea, and air transportation systems, including commercial aircraft and ships, and transit networks, all offering superior safety, guaranteed quality, and reliability.

Machinery, Equipment & Infrastructure

Our operations in Machinery, Equipment & Infrastructure provide a wide range of products that form the foundation of industrial development, such as machine tools, material handling equipment, and air-conditioning and refrigeration systems.
Seeing Mega Trends as Opportunities for Growth

Such mega trends as climate change and economic development in the emerging countries are giving rise to a variety of issues around the world. By leveraging its leading-edge environmentally friendly technologies and broad-ranging infrastructure-building capabilities, MHI expects to play a steadily increasing role in society.

Viewing the resolution of such issues as business opportunities, MHI aims to contribute to environmental sustainability while achieving global growth.

Business Model for Contributing to the Resolution of Global Issues

As a comprehensive infrastructure company, our businesses span a wide spectrum of fields that impact the lives of hundreds of millions of people as well as the global environment. Accordingly, we are deeply involved in issues affecting the entire world. We consider making contributions toward resolving these issues our corporate raison d’être and a business opportunity as well.

Addressing global climate change, for example, we can help reduce greenhouse gas emissions through highly efficient power generation systems and renewable energies, CO₂ recovery plants, and turbochargers that boost automotive fuel efficiency. Meeting the need for infrastructure development in emerging countries, we provide the highly reliable power generation systems as well as transportation and other systems that play a major role in sustainable growth.
Transportation Systems
We provide various types of land transportation systems, contributing to improvements in urban transport at locations around the world.

Compressors
Energy demand is rising as the emerging countries develop, leading us to anticipate long-term growth in the oil & gas business.

Fertilizer Plants
For more than 50 years, we have been helping to ensure a stable supply of food to meet the demands of the world’s growing population.

Energy-Efficient LNG Carriers
Through the use of shape configurations, highly efficient turbines, and dual-fuel diesel engines that combine both gas and oil, these tankers realize improvements in carrying capacity and environmentally friendly performance.

Accelerating Global Expansion
We expect the current mega trends to continue for some time into the future, and believe our role is likely to continue increasing on a global scale. Although the market is highly competitive, we will seek to differentiate ourselves from the global competition by leveraging our strengths in environmentally friendly performance and sophisticated technological capabilities and maximizing our strengths in engineering, including in engineering, procurement, and construction (EPC) and system integration. We will continue pursuing growth by taking advantage of business opportunities around the world.
Increased Risks
To survive in the global market and compete on an equal footing with the megaplayers, we will need to increase the scale of our business. Today, we are striving to grow our existing product businesses and conducting M&A activities to expand this scale from the current level of ¥3 trillion to more than ¥5 trillion. At the same time, we are moving boldly into new fields of business.

However, as we pursue these measures we expect the number of issues we face to rise, as a greater number of large-scale projects and new business initiatives will expose us to business risks we have not yet experienced. To address these risks and resolve the issues confronting us, generating cash flow and using these funds to shore up our financial base will become increasingly important.
Perpetual Management Reform

In our quest for global growth, we have steadily pursued reforms under our 2010 and 2012 business plans, creating a new structure. As we move away from the model of vertically integrated manufacturing, our management and business structures are evolving to take advantage of comprehensive strengths and achieve high levels of efficiency and maneuverability.

During this period, the business environment has continued to change, with the level of competition increasing. To win out against global competitors, we will need to tirelessly pursue ongoing reforms. Under our newly formulated 2015 Medium-Term Business Plan, we intend to implement further management reforms in our determined quest to become a highly profitable company with a business scale exceeding ¥5 trillion.

Initiatives for Overcoming These Challenges

Expanding Our Business Scale
- Introducing a domain structure
- Departing from vertical integration to promote alliances, mergers and acquisitions

To make maximum use of our management resources in order to respond to the overwhelming scale of our global competitors, we are realigning our businesses internally and proactively promoting business alliances, mergers and acquisitions.

For details See the President’s Message on page 18.

Boosting Capital Efficiency and Financial Strength
- Conducting portfolio management through strategic business evaluations
- Improving efficiency of corporate functions by making use of shared resources

We are securing resources and increasing our ability to respond to risks through cash flow management that assesses the profitability of each business. In addition, through companywide optimization we are reducing fixed costs and enhancing our financial strength.

For details See the CFO’s Message on page 26.

Reforming Corporate Governance and Management Systems to Befit Global Management
- Introducing a system of chief officers
- Raising the percentage of outside directors and reducing the number of directors

In the area of corporate governance, we have undertaken management system reforms to accelerate decision making, increase the number of outside directors, boost transparency, and introduce diversity.

For details See Corporate Governance on page 44.
A global group with the vision to mold an innovative and agile organization that leverages our dedication to technological advancement and engineering excellence in order to deliver solid growth amid constant changes and make a lasting difference in the communities we serve.
The Corporate Image We Aspire To

Thanks to the various strategies implemented under our 2012 Medium-Term Business Plan, the MHI Group’s business scale, after hovering for many years near ¥3 trillion, has now reached ¥4 trillion. Simultaneously, our profitability, long in need of expansion, has improved significantly. Today, to propel the MHI Group into its next growth phase, starting in the current fiscal year under our newly launched 2015 Medium-Term Business Plan we are pursuing a host of new strategies on the global stage.

As we proceed to implement these strategies, it is imperative for us to indicate the long-range direction we are aiming for to all our stakeholders—shareholders and investors, members of our value chain, Group employees, and others—and to garner their understanding. With that purpose in mind, in our 2015 Medium-Term Business Plan we defined our corporate aspiration in the following way: “a global group with the vision to mold an innovative and agile organization that leverages our dedication to technological advancement and engineering excellence in order to deliver solid growth amid constant changes and make a lasting difference in the communities we serve.”

Achieving our aspired corporate image involves two concrete objectives. The first objective is to attain outstanding competitive strength, a world-class level of customer satisfaction, and greater shares in our business markets; this feat can be accomplished by focusing on business areas in which we can achieve a competitive advantage through product differentiation and by incorporating a wealth of third-party expertise. Going forward, we will invest our management resources into areas where we can manifest our technological and engineering capabilities accumulated through our long history—products offering high added value, such as machinery and equipment, plants, and transportation systems. In addition, through mergers and alliances we will continuously enhance our competitive strength in terms of technological innovation and reliability, quality of lifecycle services, and cost aspects. I have complete confidence that by cultivating supreme customer satisfaction around the globe, we will succeed in securing high market shares that will enable us to realize the overriding goal of our 2015 Medium-Term Business Plan: to achieve a business scale of more than ¥5 trillion.

The second concrete objective integrated into our corporate aspiration is to garner an enhanced global reputation toward our overall corporate management. Becoming a company that will continue to be trusted by society will naturally require a significant business scale and solid financial strength, but just as necessary will be the formation of a management structure and corporate governance system responsive to changes in the business environment and adaptable to diverse needs, as well as faithful practice of our code of conduct. Also crucial will be the resolution, through our business activities, of issues that impact society, plus the creation of value unique to the MHI Group.

For more than 130 years, the MHI Group has diligently carried out the commitment defined in the first article of its business creed: “We strongly believe that the customer comes first and that we are obligated to be an innovative partner to society.” In the years ahead, we will remain devoted to this commitment, not only to sustain our own corporate growth but, more importantly, to ensure the MHI Group can continue contributing to development all around the world.

Shunichi Miyanaga
President and CEO
Board of Directors (As of October 1, 2015)

1. Chairman of the Board
   Hideaki Omiya

2. President and CEO*1
   Shunichi Miyanaga

3. Director,
   Senior Executive Vice President
   Assistant to President and CEO
   Atsushi Maekawa

4. Director,
   Senior Executive Vice President
   (President and CEO, Commercial Aviation & Transportation Systems)
   Yoichi Kujirai

5. Director,
   Executive Vice President
   (President and CEO, Integrated Defense & Space Systems)
   Hisakazu Mizutani

6. Director
   Yorihiko Kojima
   (Chairman of the Board, Mitsubishi Corporation)

7. Director
   Naoyuki Shinohara
   (Professor, The University of Tokyo, Policy Alternatives Research Institute)

*1. Chief Executive Officer
*2. Chief Financial Officer
Director,
Full-time Audit and Supervisory Committee Member
Kazuaki Kimura

Director,
Full-time Audit and Supervisory Committee Member
Eiji Isu

Director,
Audit and Supervisory Committee Member
Nobuo Kuroyanagi
(Senior Advisor, The Bank of Tokyo-Mitsubishi UFJ, Ltd.)

Director,
Audit and Supervisory Committee Member
Christina Ahmadjian
(Professor, Hitotsubashi University Graduate School of Commerce and Management)

Director,
Executive Vice President (President and CEO, Machinery, Equipment & Infrastructure)
Kazuaki Kimura

Director,
Executive Vice President (CFO**, Head of Business Strategy Office)
Masanori Koguchi

Director,
Audit and Supervisory Committee Member
Shinichiro Ito
(Chairman of the Board, ANA Holdings Inc.)
Financial and Non-Financial Highlights

As of March 31, 2014

**INPUT**

<table>
<thead>
<tr>
<th>Total assets</th>
<th>¥4,886.0 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net assets</td>
<td>¥1,774.2 billion</td>
</tr>
<tr>
<td>Interest-bearing debt</td>
<td>¥957.4 billion</td>
</tr>
<tr>
<td>Number of employees</td>
<td>80,583 people</td>
</tr>
<tr>
<td>Number of patents held</td>
<td>13,113</td>
</tr>
</tbody>
</table>

**ACTIVITIES**

**Research and development expenditures**

¥145.5 billion (5% UP)

**Capital investment**

¥156.1 billion (5% UP)

**Energy input**

9,885 TJ (1% UP)

**Investment and costs for environmental preservation**

¥14.1 billion (34% DOWN)

**Training and development inputs**

¥0.7 billion (21% DOWN)

**Pursuit of the 2012 Medium-Term Business Plan**

**Target**

- Expand business scale
- Improve capital efficiency and net income level

**Strategy**

- Consolidate and restructure the 9 Business Headquarters into 4 Business Domains, to achieve greater strengths and synergies
- Accelerate global expansion
- Manage business portfolio based on strategic evaluations
- Institute corporate reforms and efficiency improvements (Optimized resource sharing)
- Continue innovations in corporate governance and business execution

**Year-on-year change**

<table>
<thead>
<tr>
<th>Total Assets</th>
<th>Billions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>3,920.3</td>
</tr>
<tr>
<td>2012</td>
<td>3,935.1</td>
</tr>
<tr>
<td>2013</td>
<td>4,000.0</td>
</tr>
<tr>
<td>2014</td>
<td>4,886.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets / Equity Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2012</td>
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<tr>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
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<table>
<thead>
<tr>
<th>Number of Employees / Ratio of Overseas Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Patents Held in Japan and Overseas</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
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<tr>
<td>2014</td>
</tr>
</tbody>
</table>

**Research and Development Expenditures / As a Percentage of Net Sales**

<table>
<thead>
<tr>
<th>Billions of yen</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>3.6</td>
</tr>
<tr>
<td>2012</td>
<td>5.0</td>
</tr>
<tr>
<td>2013</td>
<td>2.5</td>
</tr>
<tr>
<td>2014</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**Capital Investment**

<table>
<thead>
<tr>
<th>Billions of yen</th>
</tr>
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<tbody>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
</tr>
</tbody>
</table>

**Depreciation**

<table>
<thead>
<tr>
<th>Billions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
</tr>
</tbody>
</table>

**Investment and Costs for Environmental Preservation**

<table>
<thead>
<tr>
<th>Billions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
</tr>
<tr>
<td>2012</td>
</tr>
<tr>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
</tr>
</tbody>
</table>

In recent years, the scale of consolidated operations has increased due to ongoing M&A activity, and total assets and the number of employees have grown. At the same time, however, higher profitability and asset efficiency have caused the equity ratio to improve, leading to steady progress in strengthening the financial foundation. R&D expenditures, capital investment, and depreciation have expanded due to aggressive investment in growth.

Investment and costs for environmental preservation (for MHI on a non-consolidated basis) decreased in fiscal 2014 due to the spinoff of the thermal power generation systems business.
As a result of efforts promoted under the 2012 Medium-Term Business Plan, orders received, net sales, and operating income all increased. In addition, the overseas sales ratio has been rising each year in line with the acceleration of global development. The net income level is improving, along with ROE and other indicators of capital efficiency. (Net income in fiscal 2014 was down in comparison with fiscal 2013, when we posted an extraordinary gain, a temporary factor.) Owing to positive operating results, we have raised dividends per share. As the scale of business has expanded, greenhouse gas emissions have increased, but these emissions are falling as a percentage of net sales.
### Financial and Non-Financial Highlights

#### Billions of yen

<table>
<thead>
<tr>
<th>Years ended March 31 or as of March 31</th>
<th>2004 Medium-Term Business Plan</th>
<th>2006 Medium-Term Business Plan</th>
<th>2008 Medium-Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders received</td>
<td>¥2,722.8</td>
<td>¥2,942.0</td>
<td>¥3,274.7</td>
</tr>
<tr>
<td>Net sales</td>
<td>2,590.7</td>
<td>2,792.1</td>
<td>3,068.5</td>
</tr>
<tr>
<td>Operating income</td>
<td>14.7</td>
<td>70.9</td>
<td>108.9</td>
</tr>
<tr>
<td>Income before income taxes and</td>
<td>16.3</td>
<td>52.3</td>
<td>83.7</td>
</tr>
<tr>
<td>minority interests</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>4.0</td>
<td>29.8</td>
<td>48.8</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>¥124.0</td>
<td>¥100.7</td>
<td>¥106.3</td>
</tr>
<tr>
<td>Capital investment</td>
<td>112.2</td>
<td>140.5</td>
<td>175.9</td>
</tr>
<tr>
<td>Depreciation</td>
<td>99.1</td>
<td>100.8</td>
<td>106.7</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥3,831.1</td>
<td>¥4,047.1</td>
<td>¥4,391.8</td>
</tr>
<tr>
<td>Interest-bearing debt</td>
<td>1,172.8</td>
<td>1,196.2</td>
<td>1,273.5</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>¥107.0</td>
<td>¥73.9</td>
<td>¥158.7</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(163.3)</td>
<td>(104.0)</td>
<td>(158.6)</td>
</tr>
<tr>
<td>Free cash flows</td>
<td>(56.2)</td>
<td>(30.1)</td>
<td>0</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>57.9</td>
<td>7.9</td>
<td>48.7</td>
</tr>
</tbody>
</table>

#### Per share information of common stock

- **Yen**
  - Net income–basic (EPS) ¥1,20.0 ¥8.85 ¥14.56 ¥18.28 ¥7.22
  - Net assets (BPS) 390.44 410.15 425.54 423.17 369.94
  - Cash dividends 4.00 4.00 6.00 6.00 6.00

#### Ratios

- **Overseas sales ratio** 40.5% 43.9% 47.7% 48.7% 48.9%
- **Operating income ratio** 0.6% 2.5% 3.5% 4.2% 3.1%
- **Return on equity** 3.3% 2.2% 3.5% 4.3% 1.8%
- **Return on assets** 0.1% 0.8% 1.2% 1.4% 0.5%
- **Current ratio** 157.3% 156.4% 154.2% 160.9% 158.7%
- **D/E ratio** 89% 86% 88% 95% 126%
- **Equity ratio** 34.2% 34.0% 32.5% 31.4% 27.4%
- **Dividend payout ratio** 333.3% 45.1% 41.2% 32.8% 83.2%

#### Notes:

1. U.S. dollar amounts in this report are translated from yen, for convenience only, at the rate of ¥120.17 = U.S.$1, the exchange rate prevailing at March 31, 2015.
2. In calculating the net assets, MHI and its consolidated subsidiaries have applied the Accounting Standard for Presentation of Net Assets in the Balance Sheet (Accounting Standards Board of Japan (ASBJ) Statement No. 5) and the Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8) since the year ended March 31, 2007.
3. Return on equity = net income / (net assets – share subscription rights – minority interests) / total assets
4. Return on assets = net income / total assets
5. **D/E ratio** = interest-bearing debt / net assets
6. Equity ratio = (net assets – share subscription rights – minority interests) / total assets
7. Dividend payout ratio = dividends / net income
8. Number of section managers or above, excluding medical staff, as of April 1. In principle, MHI on a non-consolidated basis.
9. MHI on a non-consolidated basis (accounts for approximately 50% of the scope of consolidation).
10. In principle, MHI on a non-consolidated basis (production plants and offices). However, figures for fiscal 2014 include the Nagasaki, Takasago, and Yokohama plants of Mitsubishi Hitachi Power Systems, Ltd.
11. In principle, data is for production sites of MHI on a non-consolidated basis. However, figures for fiscal 2014 include the Nagasaki, Takasago, and Yokohama plants of Mitsubishi Hitachi Power Systems, Ltd.
12. In principle, MHI on a non-consolidated basis.

#### Non-financial indexes

- **Number of employees**
- **Number of overseas employees**
- **Number of female managers**
- **Industrial accident frequency rate**
- **Energy input** (TJ)
- **Greenhouse gas (CO₂) emissions** (kilotons)
- **Water usage** (million cubic meters)
- **Investment and costs for environmental preservation** (billions of yen)
- **Social contribution expenses** (billions of yen)
Non-financial indexes

- Number of employees:
  - 2005: 68,816
  - 2006: 68,887
  - 2007: 68,213
  - 2008: 80,583
  - 2009: 81,845

- Number of overseas employees:
  - 2005: 12,001
  - 2006: 13,036
  - 2007: 14,129
  - 2008: 19,909
  - 2009: 27,489

- Number of female managers:
  - 2005: 8
  - 2006: 266
  - 2007: 288
  - 2008: 293
  - 2009: 262

- Industrial accident frequency rate:
  - 2005: 0.29%
  - 2006: 0.27%
  - 2007: 0.11%
  - 2008: 0.23%
  - 2009: 0.15%

- Energy input:
  - 2005: 10,621 TJ
  - 2006: 10,346 TJ
  - 2007: 10,303 TJ
  - 2008: 9,796 TJ
  - 2009: 9,885 TJ

- Greenhouse gas (CO2) emissions:
  - 2005: 482 kilotons
  - 2006: 474 kilotons
  - 2007: 533 kilotons
  - 2008: 538 kilotons
  - 2009: 548 kilotons

- Water usage:
  - 2005: 7.66 million cubic meters
  - 2006: 7.22 million cubic meters
  - 2007: 7.02 million cubic meters
  - 2008: 6.82 million cubic meters
  - 2009: 6.23 million cubic meters

- Investment and costs for environmental preservation:
  - 2005: ¥25.1 billion
  - 2006: ¥20.6 billion
  - 2007: ¥23.3 billion
  - 2008: ¥21.6 billion
  - 2009: ¥14.1 billion

- Social contribution expenses:
  - 2005: ¥1.6 billion
  - 2006: ¥2.0 billion
  - 2007: ¥1.4 billion
  - 2008: ¥1.4 billion
  - 2009: ¥1.9 billion

- Orders received:
  - 2005: ¥2,722.8 billion
  - 2006: ¥2,942.0 billion
  - 2007: ¥3,274.7 billion
  - 2008: ¥3,715.2 billion
  - 2009: ¥3,268.7 billion

- Net sales:
  - 2005: ¥2,590.7 billion
  - 2006: ¥2,792.1 billion
  - 2007: ¥3,068.5 billion
  - 2008: ¥3,203.0 billion
  - 2009: ¥3,375.6 billion

- Operating income:
  - 2005: ¥14.7 billion
  - 2006: ¥70.9 billion
  - 2007: ¥108.9 billion
  - 2008: ¥136.0 billion
  - 2009: ¥105.8 billion

- Income before income taxes and minority interests:
  - 2005: ¥16.3 billion
  - 2006: ¥52.3 billion
  - 2007: ¥83.7 billion
  - 2008: ¥101.3 billion
  - 2009: ¥64.9 billion

- Net income:
  - 2005: ¥4.0 billion
  - 2006: ¥29.8 billion
  - 2007: ¥48.8 billion
  - 2008: ¥61.3 billion
  - 2009: ¥24.2 billion

- Research and development expenses:
  - 2005: ¥124.0 billion
  - 2006: ¥129.2 billion
  - 2007: ¥131.4 billion
  - 2008: ¥121.4 billion
  - 2009: ¥138.5 billion

- Capital investment:
  - 2005: ¥112.2 billion
  - 2006: ¥126.6 billion
  - 2007: ¥120.7 billion
  - 2008: ¥118.8 billion
  - 2009: ¥118.8 billion

- Depreciation:
  - 2005: ¥99.1 billion
  - 2006: ¥113.2 billion
  - 2007: ¥121.4 billion
  - 2008: ¥120.0 billion
  - 2009: ¥138.5 billion

- Total assets:
  - 2005: ¥3,831.1 billion
  - 2006: ¥4,047.1 billion
  - 2007: ¥4,391.8 billion
  - 2008: ¥4,517.1 billion
  - 2009: ¥4,526.2 billion

- Net assets:
  - 2005: ¥1,309.9 billion
  - 2006: ¥1,376.2 billion
  - 2007: ¥1,446.4 billion
  - 2008: ¥1,440.4 billion
  - 2009: ¥1,283.2 billion

- Net assets (BPS):
  - 2005: ¥390.44
  - 2006: ¥410.15
  - 2007: ¥425.54
  - 2008: ¥423.17
  - 2009: ¥369.94

- Cash dividends:
  - 2005: ¥4.00
  - 2006: ¥4.00
  - 2007: ¥6.00
  - 2008: ¥6.00
  - 2009: ¥6.00

- Ratios:
  - Overseas sales ratio:
    - 2005: 40.5%
    - 2006: 43.9%
    - 2007: 47.7%
    - 2008: 48.7%
    - 2009: 48.9%
  - Operating income ratio:
    - 2005: 0.6%
    - 2006: 2.5%
    - 2007: 3.5%
    - 2008: 4.2%
    - 2009: 3.1%
  - Return on equity:
    - 2005: 0.3%
    - 2006: 2.2%
    - 2007: 3.5%
    - 2008: 4.3%
    - 2009: 1.8%
  - Return on assets:
    - 2005: 0.1%
    - 2006: 0.8%
    - 2007: 1.2%
    - 2008: 1.4%
    - 2009: 0.5%
  - Current ratio:
    - 2005: 157.3%
    - 2006: 156.4%
    - 2007: 154.2%
    - 2008: 160.9%
    - 2009: 158.7%
  - D/E ratio:
    - 2005: 89%
    - 2006: 86%
    - 2007: 88%
    - 2008: 95%
    - 2009: 126%
  - Equity ratio:
    - 2005: 34.2%
    - 2006: 34.0%
    - 2007: 32.5%
    - 2008: 31.4%
    - 2009: 27.4%
  - Dividend payout ratio:
    - 2005: 333.3%
    - 2006: 45.1%
    - 2007: 41.2%
    - 2008: 32.8%
    - 2009: 83.2%
**2015 MEDIUM-TERM BUSINESS PLAN**

In fiscal 2015, MHI launched a new three-year medium-term management plan, the 2015 Medium-Term Business Plan. Keeping our eyes focused on our long-term objectives, or our “corporate aspirations,” we are making steady progress on various measures to achieve our goals for fiscal 2017.

### Key Initiatives

1. **Expand business scale:** Enhance global competitiveness through accelerated expansion to achieve a scale exceeding ¥5 trillion as soon as possible
2. **Strengthen finances and profitability:** Further bolster financial strength and pursue high profitability; increase both owners’ equity and ROE
3. **Evolve global Group structure:** Promote global-standard corporate governance and management processes

#### Financial strength targets
- Equity buffer greater than ¥250 billion
- Borrowing capacity above ¥600 billion
- Earning S&P “A” rating

#### Profitability targets
- ROE above 10%
- EBITDA margin above 12%

### Measures

1. **Promote domain-based targets with clear aims and strategies for their achievement**
   - **Energy & Environment**
     - Further strengthen global competitiveness by strengthening service business and improving efficiency
     - Realize synergies arising from PMI*1 of Mitsubishi Hitachi Power Systems, Ltd.
     - Develop new areas of business such as distributed power generation and oil & gas
   - **Commercial Aviation & Transportation Systems**
     - Steadily promote the MRJ project and improve its profitability
     - Firmly manage the cruise ships business
     - Expand business through the steady implementation of the transportation system project and the next generation program for Boeing
   - **Integrated Defense & Space Systems**
     - Make careful preparations for the next medium-term business plan
     - Undertake sustained strengthening of existing businesses and develop new overseas businesses
     - Expand business areas and realize synergies by making use of dual-use technologies*2
   - **Machinery, Equipment & Infrastructure**
     - Realize synergies arising from PMI at Primetals Technologies, Ltd.
     - Expand business scale and increase profitability in global niche businesses
     - Implement measures to revive struggling areas of business

2. **Strategically reconfigure the product mix**
   - Make effective use of management resources through continuous use of the strategic business evaluation system
   - Shift management resources from businesses which are downsizing / withdrawing or reforming to ones which are growing / maintaining
   - Expand individual business scale and improve efficiency
   - Number of strategic business units (SBUs) and average sales for each business position

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grow/Maintain</td>
<td>20: Approx. ¥140 billion</td>
<td>20 to 25: Approx. ¥180 billion</td>
</tr>
<tr>
<td>Reform</td>
<td>15: Approx. ¥85 billion</td>
<td>5 to 10: Approx. ¥100 billion</td>
</tr>
<tr>
<td>Downscale/Withdraw</td>
<td>7: Approx. ¥35 billion</td>
<td>5: Approx. ¥50 billion</td>
</tr>
<tr>
<td>New</td>
<td>6: Approx. ¥5 billion</td>
<td>5: Approx. ¥5 billion</td>
</tr>
<tr>
<td>Total</td>
<td>48: Approx. ¥190 billion</td>
<td>35 to 40: Approx. ¥140 billion</td>
</tr>
</tbody>
</table>

For details > See the Business Segment Overview on page 36.

3. **Strengthen relatively superior products and technologies**
   - Intensively strengthen our products and technologies with competitive advantages (products such as thermal power systems, metals machinery, and global niche products; technologies such as gas turbine and engineering capabilities)

For details > See the President’s Message on page 20.

4. **Reform and create new businesses and business models for the next generation**
   - Steadily promote the MRJ project (pushing forward development as planned)
   - Create new business models to follow the MRJ (oil & gas, defense & space, etc.)

For details on the MRJ business > See the Feature section on page 30.

5. **Strengthen the technology base and innovate**
   - Strengthen the technology base and implement innovations to expand the scale of future business and strengthen profitability
   - Leverage intellectual property strategies and technology platforms

For details > See Intellectual Property Activities and R&D on page 50.

6. **Develop more advanced business processes and strengthen human resources**
   - Strengthen and develop business processes and implement talent / asset management

For details on strengthening human resources > See Human Resources on page 49.

7. **Reform the corporate governance system**
   - Structure transparent corporate governance and a business execution framework in order to enhance international evaluations
   - Establish and continuously enhance management processes appropriate to a global company

For details > See Corporate Governance on page 44.
Net sales: ¥5.00 trillion (Growth rate 25%)
Operating income: ¥450.0 billion (Growth rate 52%)
Net income: ¥200.0 billion (Growth rate 81%)
ROE: 10.2% (Growth rate 57%)
International rating: A (S&P)

Exchange rate assumptions: ¥110/U.S. dollar and ¥130/euro

Reference: Targets in FY2016
Net sales: ¥4.60 trillion
Operating income: ¥380.0 billion
Net income: ¥160.0 billion
ROE: 8.0%

The Corporate Image We Aspire To

A global group with the vision to mold an innovative and agile organization that leverages our dedication to technological advancement and engineering excellence in order to deliver solid growth amid constant changes and make a lasting difference in the communities we serve.

1. Greater market share: World-class level of customer satisfaction coming from synergies with third-party expertise on top of ours and a focus in segments\(^1\) where we are able to enjoy a competitive advantage\(^2\)

2. Enhanced global reputation: Higher rating and increased brand value\(^3\)

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\(^1\) Machinery/equipment, plants, transportation/transport systems
\(^2\) Price competitiveness, innovative and reliable technologies, and quality of lifecycle services
\(^3\) Business scale, value creation, financial strength, corporate governance, and code of conduct
President’s Message

2012 Medium-Term Business Plan Targets Were Largely Achieved

The 2012 Medium-Term Business Plan launched in 2012 drew to a close in March 2015 with the following results for fiscal 2014, the final year: compared against our targets, business scale* reached 113%, operating income 118%, and net income 85%. Net income undershot the target partially due to the booking of an extraordinary loss related to losses in the cruise ships business. Nevertheless, the targets of the three-year plan were mainly achieved, a feat that had repeatedly been elusive with earlier business plans. In this respect, the generally successful results represent a significant change for the Company, and I believe this success derives primarily from a growing awareness of reforms among the members of the MHI Group, the process by which the 2012 Medium-Term Business Plan was compiled, and improved accuracy in the specific measures devised to achieve the plan’s targets. Another important contributing factor, I think, was a greater shared awareness throughout the Group, both in Japan and overseas and including all workplaces, of the need to drive structural reforms forward and achieve the plan’s targets.

The economic environment proved less favorable than we had assumed, with China’s economy in stagnation and the emerging economies mired in slow growth. Despite this backdrop, I believe that we were generally able to achieve the plan’s targets thanks to the implementation of the key elements of our business structural reform initiative, enabled by flexible execution of the various measures devised for that purpose, coupled with the positive merits from the yen’s depreciation during the term.

Shunichi Miyanaga
President and CEO

We will build up our advantage from a medium-to-long-term perspective as we work to win out on the world stage and increase our corporate value.

* Average of orders received and net sales
Challenging Business Environment

Through the foreseeable future, the economic environment is not expected to be very favorable. The Chinese economy is in a slowdown and the emerging economies are in chaos. The U.S. economy is firm and growth can be anticipated, but the economic prospects in Europe are uncertain. These are the conditions that must be presumed when plotting our strategies going forward.

Fortunately, thanks to the measures implemented under the 2012 Medium-Term Business Plan, MHI has succeeded in attracting a growing roster of new orders of relatively large scale. By proceeding steadily with these works currently in hand and making consistent efforts to attract new orders, I am confident that, despite the uncertainty surrounding the economic environment, we will achieve the targets of our 2015 Medium-Term Business Plan launched in May.

Another factor that is impacting our business environment is intensifying competition on a global scale, which is an outgrowth of the expanding trend toward the adoption of free trade agreements between trading partners and ongoing economic globalization. Going forward, some of our business operations—gas turbines, for example—are expected to face increasing competition in some markets. I recognize that MHI still has ample room to enhance its global competitiveness, and we will need to take further measures in this regard under our 2015 Medium-Term Business Plan.
Enhancing global competitiveness is in fact one of the key initiatives and basic policies of our 2015 Medium-Term Business Plan. In the days when the Japanese market was expanding, we were in some ways content having one of the highest levels of competitiveness in Japan and Asia. But as globalization advances, some of our business operations will be unable to survive at our present competitive levels. Exceptions do exist—businesses such as defense develop in ways dissimilar to global competition—but almost all our business areas today are challenged to contend at the very highest levels against competing manufacturers and global competitive standards.

As of now, the MHI Group still does not have any areas of business in which we can proclaim without reservation that we are No.1 in the world. Thermal power generation systems, centering on Mitsubishi Hitachi Power Systems, Ltd. (MHPS), is our biggest field of business, and although specific areas exist in which we have a technological edge over global megaplayers—in environmental performance, for example—there are many aspects in which we still need to catch up. Our metals machinery business, marked by our launch of Primetals Technologies, Ltd., as a joint venture with Siemens AG, is now in a position to target becoming No.1 in its field, but achieving that goal will demand accelerated post-merger integration (PMI) and reaping of the resulting synergy merits. We also have a chance to prevail global niche products, such as compressors and turbochargers, commercial aircraft products, and transportation systems. These are areas in which we already are globally competitive and in which we should aim for No.1, and we intend to concentrate our management resources in these areas toward achieving that goal.

**Promote PMI of Large-Scale Joint-Venture Businesses**

<table>
<thead>
<tr>
<th>Business domain</th>
<th>Machinery, Equipment &amp; Infrastructure</th>
<th>Energy &amp; Environment</th>
<th>Machinery, Equipment &amp; Infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Company</strong></td>
<td>Mitsubishi Nichiyu Forklift Co., Ltd.</td>
<td>MHPS</td>
<td>Primetals Technologies, Ltd.</td>
</tr>
<tr>
<td><strong>Product / Business</strong></td>
<td>Forklift trucks</td>
<td>Thermal power generation systems</td>
<td>Metals machinery</td>
</tr>
<tr>
<td><strong>Sales scale (FY2014)</strong></td>
<td>Approx. ¥250 billion</td>
<td>Approx. ¥1.2 trillion</td>
<td>Approx. ¥300 billion</td>
</tr>
<tr>
<td><strong>Net sales contribution (FY2014)</strong></td>
<td>Approx. ¥80 billion</td>
<td>Approx. ¥400 billion</td>
<td>Approx. ¥50 billion*</td>
</tr>
<tr>
<td><strong>Personnel (As of March 2015)</strong></td>
<td>Approx. 6,000</td>
<td>Approx. 21,000</td>
<td>Approx. 8,000</td>
</tr>
<tr>
<td><strong>Achieved synergies</strong></td>
<td>■ Configuration of merged product lineup (engine-powered and electric models)</td>
<td>■ Strengthened boiler business with incorporation of Babcock-Hitachi (Oct. 2014)</td>
<td>■ Developed worldwide business network through integration of respectively strong geographic regions</td>
</tr>
<tr>
<td></td>
<td>■ Optimization of production / procurement systems</td>
<td>■ Completed a full lineup of gas turbines (small to large-scale)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>■ Received an order to design the world’s most advanced IGCC system (Fukushima recovery)</td>
<td></td>
</tr>
<tr>
<td><strong>Future synergies</strong></td>
<td>■ Exchange of human resources, optimization of bases</td>
<td>■ Improvement of small / medium-scale gas turbine performance by applying large-scale model technologies</td>
<td>■ Reorganization of domestic and overseas manufacturing bases</td>
</tr>
<tr>
<td></td>
<td>■ Development of locally focused products</td>
<td>■ Establishment of domestic and overseas manufacturing bases</td>
<td>■ Reduction of procurement and development costs</td>
</tr>
<tr>
<td></td>
<td>■ Distribution solutions business</td>
<td>■ Expanded coverage of servicing markets</td>
<td>■ Increase in EPC work</td>
</tr>
</tbody>
</table>

* Sum booked to net sales for approximately three months after integration
In our other areas of business, I think we need to consider, for each area separately, how we might compete against our global competitors and what we need to do to develop the strength and competitive power necessary for success. I myself have been through global competitions of various types in the past, as exemplified by my previous position of 15 years ago as president of MHI’s joint venture with Hitachi, Ltd., in metals machinery, and since my return to MHI, I have always maintained a keen awareness of our place in the global context. The three years covered by the 2015 Medium-Term Business Plan will be a stage in which we—especially our management members in charge of the various business operations—will have a true sense of the competition we face with other global players. What will be important during this phase is to devise strategies, engage in combat, and strive to finish victorious, and through this process we can acquire the experience and knowledge that will enable us to grow toward the subsequent step.

The outcome of attempting to compete against the world may be the realization that we cannot win solely by battling on our own, and that recognition may guide us to engage in exchanges of human resources with other companies or to seek other means, such as alliances, mergers, or acquisitions. If each business segment ponders what it needs to be victorious on the global stage, which subsequently leads to self-initiated moves to find ways of acquiring the strength and knowledge we currently lack, I think this is a process that should be welcomed.

Diverse Engineering Experience Can Be a Differentiating Factor

One key to enhancing our global competitiveness will be strength in engineering. In recent years, there has been a growing trend for many of our competitors to shun contract formats involving engineering, procurement, and construction (EPC) in favor of doing business only in the development and production of hardware and the provision of after-sales services. For MHI, a company that handles all aspects of EPC, this is a factor that differentiates us from our competition. MHI has undertaken a large number of projects in which engineering functions are imperative: power generation, chemical and other industrial plants, and large-scale transportation systems, such as the Dubai Metro, for example. In the area of cruise ships, we are in the process of developing a new business model as a component of our engineering business. Having experience and knowledge in such a diverse range of engineering operations as these makes it possible for us to consolidate areas suitable to sharing, to raise their level of capability, and to apply our experience and knowledge to a wider spectrum of specialized fields. In addition, engineering is an industry in which pinpoint specialization can cause substantial fluctuations in earnings and workload, and therefore the ability to handle a broad palette of engineering fields can result in leveling and the stabilization of earnings and workload, which in turn make engineering a differentiating factor.

From a short-term perspective, concentrating the Company’s management resources engenders risk and cannot always ensure sustained growth. For this reason, based on a long-range perspective, it is vital for us to examine what areas we are best suited to and in which areas we will be able to compete globally during the next generation, and then to strengthen those areas now. Two such areas we intend to focus on, both of which are expected to greet increasing demand in the long term, are oil & gas and the MRJ—areas where we can apply our comprehensive capabilities to maximum advantage.

To catch up with competitors, it is important to adopt facets in which competitors excel. But in order to overtake the competition, it is necessary to conduct business in a way that differs from the competition by, for example, attempting to combine strengths already in hand and create new areas of business. Two examples are the cruise ships business, in which engineering functions come into play from all sectors of the Company, and the oil & gas business, in which engineering functions are applied across multiple domains. Today I believe it is necessary, in all areas of business, to create new business models through such trials and errors.
An Organization Where Each Employee Continues to Take on Challenges to Further Develop the Next Generation

To my mind—and this applies to the creation of the business models I just mentioned—MHI is not suited to issuing “commands” from above instructing the various business segments in what direction they should proceed. At MHI, there is a tendency for instructions handed down from above to be carried out in good faith, but the players are the people who are in charge of their respective businesses, and having them mull issues over and forge their paths on their own builds up their strength in business management and adds vitality to the Company. If we can achieve an organizational culture in which everyone continuously ponders the issues at hand and takes action on their own initiative, MHI will then be able to ascend to a higher stage. To this end, I would like to see employees actively voice their opinions and ideas. Some employees may express the desire to temporarily leave MHI and gain experience working for an overseas enterprise or a venture company. I believe it is necessary to give opportunities to such ambitiously driven people or organizations to enable them to grow.

Since I returned to MHI in 2006, I have pondered what the Company currently lacks, and I have taken remedial measures from various standpoints and carried out organizational reforms. In the process, I have come to believe that in order to create a strong organization, the people who belong to the organization must possess peace of mind, an intense focus on their work, and a desire to improve themselves. What I would like to see in all members of the Group is a sense of peace and security coming from the ability to enjoy a happy life within our organization—but coupled with an intense determination to always keep on learning and a strong drive for self-improvement. If some businesses fail to succeed as a result of aiming higher, those in charge should not reprimand their subordinates by questioning why they could not get things right; instead, they should join forces, work together, and continue to address their challenges to develop an even-stronger next generation. In that way, by nurturing successively stronger generations to follow, a company can flourish in perpetuity. This is the underlying sense of values I embrace and my philosophy as a corporate manager.

Business Must Be Conducted While Seeking Areas That Can Make Social Contributions

One other factor that is vital for a company to continue evolving and growing is for it to maintain a stance in which it always operates with a steady focus on its social responsibilities, always remaining open to external circumstances, and never allowing its own sense of values to control its approach to business. If we conduct business by seeking how we can contribute, and in which areas, to respond to the directions in which society is moving and the challenges it faces, we can be a company that will continue to be needed by the global community. It is with this intent that in the 2015 Medium-Term Business Plan we defined our targeted image as a company that contributes to, and continuously grows in tandem with, global development.

Winning the trust of the global community demands that in good faith and with high moral convictions we undertake business activities that will have absolutely minimal negative impact on society and the environment. Since 2004, MHI has been a participant in the United Nations Global Compact, and we have made ongoing efforts throughout the Group to respect and carry out its Ten Principles spanning four basic areas: human rights, labor, environment, and anti-corruption. In May 2015, we established the MHI Group Global Code of Conduct, indicating how our employees worldwide should conduct themselves in the performance of their business activities. In addition to defining compliance rules to be followed by all employees, the new Code of Conduct was created to pursue a commonly shared corporate culture as the MHI Group, along with its global business expansion, acquires ever-greater diversity with respect to background, nationality, and culture, among other factors. Failure to address diversity needs can inject chaos into an organization, and especially in the case of the MHI Group, a conglomerate of businesses of tremendous variety, from my managerial perspective I believe it is necessary to maintain an overall balance while taking into consideration individual aptitudes and traits. With confidence I can say that initiatives in this area will surely serve as a source of sustainable growth.
Targeting Corporate Governance Appropriate to a Global Company

Survival amid global competition will demand changes in corporate governance. One of the key initiatives delineated in our 2015 Medium-Term Business Plan is to “promote global-standard corporate governance and management processes.” Until quite recently, MHI’s business was heavily weighted toward the domestic market, and the bulk of business directed overseas consisted of exports to specific customers. Now, more than 50% of Groupwide net sales derive from business directed at overseas markets, and approximately 20% is booked at Group companies’ overseas bases. Given the attendant increases in overseas employees, customers, and business competitors, governance at MHI must also be brought up to global standards. In addition, over 30% of MHI’s current shareholders are overseas investors, so it is very important that we attain the understanding of our many overseas shareholders and investors. That said, we cannot merely imitate how excellent companies overseas conduct their governance. The type of governance I look for is governance suited to the unique characteristics of MHI as a company based in Japan that at the core undertakes infrastructure-related business, an area where a long-term perspective is essential.

In recent years, we have carried out a number of major corporate governance reforms, including a reduction in the number of directors and an increase in the percentage of outside directors. In June 2015, a further initiative was executed with approval at this year’s regular General Meeting of Shareholders to transition MHI to a company with an Audit and Supervisory Committee. The establishment of an Audit and Supervisory Committee, in which outside directors comprise the majority of members, is aimed at strengthening the supervisory functions of the directors and entrusting a good share of business execution authority of the Board of Directors to the directors in order to promote swifter decision making.

A Company Always Open to the Views of All Stakeholders

Above all else, MHI adheres to the importance of securing accountability and transparency. To achieve these goals, we are focused on always keeping an open stance, listening to the views expressed by our shareholders, investors, and all other stakeholders concerning where the Company should be heading, what challenges we face, and how we will address those challenges.

In fiscal 2014, our shareholder returns, in the form of annual dividends per share, reached ¥11, up ¥3 per share from the previous year. The increase was carried out in reflection of overall robust earnings, in spite of a year-on-year decline in net income. In our 2015 Medium-Term Business Plan, we are currently targeting a business scale exceeding ¥5 trillion, return on equity (ROE) of more than 10%, and an increase in our net worth to ¥2 trillion. While maintaining a balance between growth investment and building up our net worth, our underlying policy is to sustain shareholder returns at a dividend payout ratio near 30%.

We sincerely ask for the continuing understanding and cooperation of our shareholders, investors, and all other stakeholders.

We are focused on always listening to the views expressed by our shareholders and committing ourselves to our targets.
Identification of Material Issues for ESG

Becoming a Company That Is Highly Regarded in International Society

As a company that conducts business activities on a global scale, the Company’s impact on the environment and society is increasing. Accordingly, ensuring social sustainability is essential to earning the trust of international society. Through our business activities, we strive to address the issues society faces. As part of this process, we consider it important to identify material issues that have a major impact on society and our corporate value, and we focus on prioritizing management resources in these areas.

Based on this policy, we identified material issues from two perspectives: society’s perspective and a business perspective. The first involved considering various international standards, stakeholder opinions, and mega trends, while for the second we referred to hearings conducted among each of our departments. Recognizing the need for the process of identifying material issues to be conducted in the same manner as risk analysis and business strategy formulation for the Company’s businesses, the identifications were decided after being approved by management.

This process of identifying material issues was linked with the formulation of our 2015 Medium-Term Business Plan as well as our medium-to-long-term management guidelines.

Changes in the Ideal State of the Organization

Due to our consolidation and restructuring into four business domains, decision-making systems had become more agile. On the other hand, during the transition period of reorganization it was necessary to exercise caution with respect to the management of Group companies on the safety and environmental fronts.

- Strengthen the function of supervising decision makers
- Manage workplaces from a compliance perspective

Globalization

Rapid globalization and an increase in the number of Group companies had emphasized the importance of reinforcing governance and clarifying responsibility and authority.

- Establish global governance
- Delegate substantial authority to local human resources
- Cultivate global human resources proficient in different organizational cultures
- Hire and promote human resources overseas

Changes in the Business Model

Our business has changed from one focused on selling equipment to customers to a model spanning the entire product life cycle—one of making our own decisions as a business owner, including the provision of maintenance and other services.

- Increase sensitivity toward and respond swiftly to market trends, society’s needs, and our impact on society
Process of Identifying Material Issues

Incorporating Society’s Perspective
Taking a stakeholder perspective*1 on the core subjects of ISO 26000, we narrowed down to 84 the items of importance to MHI. We then referred to such guidelines as the Global Reporting Initiative (GRI) “Sustainability Reporting Guidelines (Fourth Edition, or G4)” and subsequently grouped together similar items and reduced the list to 49 items in seven departments.

Arranging the Issues from the Perspective of MHI’s Business
We conducted hearings of our 16 departments, confirming the importance to our business of the 49 issues. We also ascertained that three major changes were consistently raised as issues with the business reorganizations the Company has undergone in recent years: changes in the ideal state of the organization, globalization, and changes in the business model.

Confirming Appropriateness
We engaged in dialogue with specialized overseas institutions to confirm that our process of identifying material issues was appropriate.

Narrowing Down the Issues in Line with Mega Trends
We referred to priority items from 2015 in Building the Post-2015 Business Engagement Architecture,*2 published by the United Nations Global Compact, confirming that our business perspective was not divergent from sustainability mega trends, consolidating the number of items to 25.

Identifying Material Issues
Based on the shortlist of 25 items determined from the perspectives of the Company’s business and mega trends, we identified three material issues for the Company.

Obtaining Management Authorization
The CSR Committee*3 deliberated and decided on the items.

Future Activities
In the process of identifying material issues, we confirmed international society’s expectations of us and the issues we face with regard to promoting companywide reforms. We have reflected this information in the 2015 Medium-Term Business Plan we launched in May 2015.

As activities going forward, we intend to set key performance indicators (KPIs) for each issue, formulate action plans, and advance measures. In addition to surveys to identify the impact of our businesses on society, we plan to conduct hearings and questionnaires to obtain stakeholder feedback on our initiatives targeting material issues. Throughout the Company, we will undertake initiatives targeting these material issues as we work to enhance corporate value.

Please see our website for information on CSR initiatives and detailed data on the environment, society, and governance (ESG). This site contains information on our policies and strategies for CSR and ESG, various initiatives, and ESG data related to socially responsible investment. In November 2015, we plan to update this website with information from fiscal 2014.

CSR site

The following sections of this report introduce initiatives related to the material issues we have identified.

P44 Corporate Governance  ➤ MATERIAL ISSUE #1  An Optimal Governance Structure Based on Our Corporate Culture

P49 Human Resources ➤ MATERIAL ISSUE #2  The Use of Global Human Resources

PS0 Intellectual Property Activities and R&D ➤ MATERIAL ISSUE #3  Response to Mega Trends
Through cash flow–oriented financial and capital policies, we will simultaneously pursue expansion of business scale, a stronger financial base, and high profitability.

Masanori Koguchi
Director,
Executive Vice President,
Chief Financial Officer

Portfolio Management Promoting Globalization and Sustained Growth

To win out in worldwide competition as a global company and achieve ongoing growth, the MHI Group needs to increase its scale of business, strengthen its financial base, and raise profitability. To achieve these goals, we must allocate our resources appropriately to grow existing businesses as well as invest in new fields that will emerge as new pillars of business.

As a framework for addressing these issues, we are managing our business portfolio based on a strategic business evaluation system. From the perspective of ensuring sustained growth that balances business scale and profitability, we have evaluated all strategic business units (SBUs) according to “profitability and financial soundness” and “business viability,” positioning them into four categories—grow/maintain, reform, downscale/withdraw, and new—and allocating management resources optimally.

![Diagram showing Portfolio Management Promoting Globalization and Sustained Growth]

FY2014 Cash Flow

Free cash flow: ¥38.6 billion

Shareholder returns (dividends, including dividends to minority shareholders): ¥34.2 billion

Strengthening of financial base: ¥4.4 billion

Growth investment plus Groupwide return of surplus funds

Use of ¥27.9 billion in investment common to Group

Higher profitability plus Groupwide return of surplus funds

Investment of funds to grow next-generation business drivers

Reinvestment of ¥29.5 billion

Reinvestment of ¥99.4 billion

Resulting ¥5.1 billion returned to Group

Grow/Maintain
Reinvestment of ¥29.5 billion

Refnsm
Reinvestment of ¥23.2 billion in surplus returned to Group

Downscale/Withdraw

New

Investment in growth of ¥147.3 billion

Groupwide, etc.

Strengthening of financial base

Strengthening of financial base

Strengthening of financial base
As a result, we are freeing up funds that were formerly tied to specific businesses and improving cash flow. By allocating abundant resources to “grow/maintain” businesses, we are expanding the scale, boosting the profitability, and raising the capital efficiency of these existing businesses. Surplus cash is being returned enterprise-wide. We are investing this cash in the cultivation of new businesses and returning remaining free cash flow to shareholders and using it to shore up our financial base. In fiscal 2014, we reinvested ¥318.8 billion in “grow/maintain” businesses and returned ¥185.5 billion enterprise-wide.

While strengthening our business portfolio, through measures such as curtailing inventories we are working to boost the efficiency of working capital, expand profitability on a cash flow basis, and augment asset efficiency through the liquidation of idle assets. In fiscal 2014, working capital worsened due to the impact of our cruise ships business. However, in the five years from fiscal 2010 we invested ¥318.8 billion in new businesses and secured ¥748.8 billion in free cash flow, further strengthening our financial base. Our equity ratio rose, and we reduced interest-bearing debt to below ¥1 trillion, so our debt/equity (D/E) ratio improved significantly, from 1.01 in fiscal 2010 to 0.46 in fiscal 2014.

**Targeting Increased Net Worth and Higher ROE While Focusing Investments into Growth Businesses**

Between the start of fiscal 2012 and the end of fiscal 2014, the MHI Group’s net worth rose from ¥1.2 trillion to ¥1.8 trillion. During that same three-year period, our capital allocation breakdown changed substantially. Capital was heavily allocated into “grow/maintain” business areas, which play the largest role in generating free cash flow, and the percentage of capital directed into new SBUs, seed money for future growth in generating free cash flow, and the percentage of capital into “grow/maintain” business areas, which play the largest role in generating free cash flow, and the percentage of capital directed into new SBUs, seed money for future growth.

**Capital Allocation for Becoming a Highly Profitable Y5 Trillion Enterprise**

- **Grow/Maintain**
- **Existing/Others**
- **New business/Risk**
- **As of March 31, 2015**
  - Owner’s equity: ¥1.8 trillion
  - ROE: 6.5%
  - 30% (¥540.8 billion)
  - 34% (¥601.3 billion)
  - 17% (¥296.3 billion)
  - ¥342.3 billion
  - ¥314.2 billion
  - ¥214.2 billion

**As of April 1, 2012**

- Owner’s equity: ¥1.2 trillion
- 19%
- ¥342.3 billion
- ¥342.3 billion
- ¥342.3 billion

**As of April 1, 2012**

- Owner’s equity: ¥1.2 trillion
- 17%
- ¥296.3 billion
- ¥296.3 billion
- ¥296.3 billion

**Indicators of financial soundness**

<table>
<thead>
<tr>
<th></th>
<th>FY2010 Actual</th>
<th>FY2012 Actual</th>
<th>FY2014 Actual</th>
<th>FY2017 Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>D/E ratio</td>
<td>1.01 times</td>
<td>0.72 times</td>
<td>0.46 times</td>
<td>0.4 times</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>31.6%</td>
<td>35.0%</td>
<td>32.3%</td>
<td>35%</td>
</tr>
<tr>
<td>Indicator of investment efficiency</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>2.4%</td>
<td>7.4%</td>
<td>6.5%</td>
<td>10.2%</td>
</tr>
</tbody>
</table>
Our Ultimate Goal Is to Elevate MHI’s Brand Value

Nobuo Kuroyanagi

The six years since I became an outside director at MHI can, in a nutshell, be described as a period of changes. Top management has demonstrated an extremely strong determination to transform MHI into a global company, and we independent directors have consistently supported that determination, even as we have occasionally voiced opinions at Board of Directors meetings and in similar situations. The Company’s recent transition to a company with an Audit and Supervisory Committee was clearly decided in a focused quest to achieve swift management as necessary for a global company, while attaching great importance to local historical roots. Prior to these changes, MHI labored under sluggish growth and laggard capital efficiency—deficiencies that were reflected in its ROE and other figures. Now, in the wake of its recent changes, I believe strongly that MHI has become a company highly attractive for investors.

The pursuit of globalization, by necessitating the conduct of business in locations all around the world, inevitably engenders new risks and raises issues not encountered before. I believe this is an inescapable process whenever a company seeks to grow. MHI’s establishment of the new position of chief risk officer (CRO), part of the Company’s introduction of its new chief officer system, was carried out to enable the Company to understand what risks it bears from a companywide perspective. This broad overview is necessary to enable the Company to respond as a whole, and immediately, to risk situations, rather than attempting to resolve newly arising issues within the limited parameters of the business operations affected.

Going forward, an issue to be addressed will be how to approach globalization not only at the upper management level but throughout the corporate hierarchy, down to employees at the workplaces. As an example, when workers in the Company’s plants develop a keen awareness of what production parts are used in common worldwide, then we will be able to say that the Company’s workforce has become truly globalized. If changes of this type are carried out too swiftly, however, burden is quickly placed on the workplaces, and for this reason globalization must be pursued at an appropriate pace while duly valuing the historical background of each location. This is a point I want to continue monitoring closely in the years ahead.

The ultimate goal of all Company directors, both internal and external, is to elevate MHI’s brand value. Doing so involves enhancing the full complement of elements: net sales and profits, share price over the long term, compliance, etc. Good corporate governance to my mind can be equated with debating the issues of the highest importance for achieving this overriding goal from our respective positions within or outside the Company. In my career in banking, I have observed companies of all types and sizes all around the world; for a fair share of this time, I have been involved in both the management reforms of our customers and the reforms undertaken by the bank itself, especially reforms in clerical matters and systems operations. At MHI, I will fulfill my role as an outside director by applying what I have learned throughout my career.
Making MHI’s Audit and Supervisory Committee a Role Model for Other Companies to Emulate
Christina Ahmadjian

This past year, I think MHI has made further progress in terms of improving its corporate governance. At Board of Directors meetings, for example, items up for discussion have been pared down to just the major issues relating to the Company’s business strategies, so the discussions are more purposeful than before. Another important development this year has been MHI’s transition in June to a so-called company with an Audit and Supervisory Committee. The new system was adopted to improve transparency and accelerate decision making, to make a clear division between supervisory and executive functions, and to form a governance structure that can be readily understood outside the Company. I believe the discussions that led to the decision to adopt the system demonstrate that the Board’s awareness toward governance needs has clearly grown this past year.

One advantage to emerge from the recent transition to a company with an Audit and Supervisory Committee is that the outside members of the Audit and Supervisory Committee—Nobuo Kuroyanagi and Shinichiro Ito—have been given a stronger voice than before. Outside directors at MHI come from various backgrounds, they vary in age, and they bring with them varied viewpoints and ways of thinking. This diversity has at times led to heated discussions and lively debates—which is an extremely healthy situation for the Company—but one major drawback was that until this June Mr. Kuroyanagi and Mr. Ito did not have any voting rights at Board of Directors meetings. Now that they have been accorded the status of directors under the new system, this disadvantage has been eliminated.

Corporate Management Always Involves Challenges; What Is Important Is Risk Response Capability
Shinichiro Ito

Since taking up my position as an outside statutory auditor two years ago, through my visits to production sites such as the Nagasaki Shipyard & Machinery Works, I have been deeply impressed by MHI’s enthusiastic dedication to manufacturing. Today, amid the broad trend toward globalization, MHI is in the process of departing from vertical integration and instead is concentrating on core competencies as a way toward globalization, MHI is in the process of departing from vertical integration and instead is concentrating on core competencies as a way to reduce the frequency of “unforeseen circumstances.” The losses incurred by MHI in its cruise ships business should serve as a model for the future. To reduce the frequency of unforeseen circumstances, the Company’s business operations are becoming increasingly complex and increasingly risk-burdened, and in the years ahead the thinking among members of the Board of Directors will need to focus not on attempting to avoid risk at all costs, but rather on taking risks and managing them properly.

A major issue to be addressed as MHI aims to become increasingly globalized will be the development of required human resources. In that respect, the establishment of Primetals Technologies, Ltd., in 2015, where the majority of workers derive from Siemens AG, is expected to set an instructive example in terms of cultivating a global workforce. Also, the way President Miyanaga aggressively participated in the competition to acquire a stake in Alstom S.A. surely served as a powerful and inspiring example to MHI employees in Japan of the Company’s strong determination to compete on the global stage.

Today, when business is robust, is an ideal time for MHI to make bold moves. Corporate management always involves challenges; while taking up challenges invariably involves risks, what is important is to acquire the capability to respond to the risks that inevitably come with business initiatives as they grow larger in scale. It is equally important for the Company to hone its ability to assess potential risks, such as its ability to reduce the frequency of unforeseen circumstances.” The losses incurred by MHI in its cruise ships business should serve as a model case from which much can be learned. Those lessons should be compiled and shared throughout the Company.

Above all, in seeking to achieve the targets set in its 2015 Medium-Term Business Plan, especially its aim to be a highly profitable company with a business scale of more than ¥5 trillion, the Company needs to acquire the capability to overcome challenges of all types coupled with strength to win out against competitors worldwide. I am confident that as MHI acquires these necessary capabilities, they will serve as the driving force for the Company’s future growth and its successful handling of ever-larger projects all across the globe.

In my own case, now that I have become a member of the Audit and Supervisory Committee I have greater access to a larger body of information concerning internal affairs—internal audits, for example—and this has further enhanced my understanding of MHI. Also, since outside directors make up a majority of the participants at Audit and Supervisory Committee meetings, discussions can be more open than the Board of Directors meetings. Earlier, President Miyanaga spoke of his aspiration that Board of Directors meetings might become the scene of active debating of issues between those on the inside of the Company and members from the outside, and I think that as a start this is increasingly being achieved within the Audit and Supervisory Committee meetings. Broadly speaking, the company with an Audit and Supervisory Committee system is still in its infancy, and what I would like to see is the development within MHI of outstanding mechanisms that will enable MHI to serve as a role model for other companies to emulate.

Going forward, one governance-related issue to be addressed will be to provide overseas shareholders and investors more information about MHI in formats that enable greater understanding. Also, from the perspective of undertaking further mergers and acquisitions in the future, including overseas, MHI must strive to achieve global standards of corporate governance as a way of promoting post-merger integration—a task that is difficult even when only domestic interests are involved. In the context of corporate management as a whole, the greatest challenge MHI must address is risk management. Today the Company’s business operations are becoming increasingly complex and increasingly risk-burdened, and in the years ahead the thinking among members of the Board of Directors will need to focus not on attempting to avoid risk at all costs, but rather on taking risks and managing them properly.
MRJ: Driving a Leap Forward to the Next Generation

“Mitsubishi Aircraft will fulfill a long-cherished wish of the Japanese aircraft industry, leveraging technological expertise that MHI has built up through its aerospace business.” These words are from a March 28, 2008, press release announcing MHI’s decision to officially launch the Mitsubishi Regional Jet (MRJ) program. Seven years have elapsed since then and more development time has been required than we initially anticipated, but a schedule for the first delivery of the new aircraft has now been set. In this Special Feature, we introduce the MRJ project, a core element of MHI’s growth strategies for the future and a bold undertaking to create a business model that goes beyond the scope of conventional manufacturing.

The Expanding Regional Jet Market

As the name “Mitsubishi Regional Jet” suggests, the MRJ program is focused on developing a regional jet, which is a passenger aircraft that can carry between 60 and 100 passengers and is aimed at flights between regional cities. As of December 31, 2014, 1,927 regional jets were in operation worldwide, mainly in the U.S. and European markets. In line with ongoing economic development, further routes are expected to open up within Asia and Latin America. As a result, during the next 20 years new global demand is forecast to total around 5,000 aircraft, approximately tripling the number of regional jets in operation. Against this backdrop, efforts are under way to reduce per-passenger costs by increasing the size of regional aircraft, which are currently concentrated on the 50-seat class. At the same time, some major airlines are looking to transfer the operation of certain low-demand routes to subsidiaries, which is likely to prompt demand toward smaller aircraft than those that carry 100 or more passengers. Given these trends, market demand for aircraft in the 70–90-seat class, to which the MRJ belongs, is expected to reach 3,500 units. At the same time, some major airlines are looking to transfer the operation of certain low-demand routes to subsidiaries, which is likely to prompt demand toward smaller aircraft than those that carry 100 or more passengers. Given these trends, market demand for aircraft in the 70–90-seat class, to which the MRJ belongs, is expected to reach 3,500 units. In addition to the MRJ, the regional jet market currently includes aircraft from two leading manufacturers and two that have recently entered the business. One of the leaders is expected to introduce a next-generation aircraft in the 90-seat class in 2020, becoming an effective competitor to the MRJ.

Achieving profitability in the aircraft business is typically a lengthy process, as the business requires large-scale initial investment. Also, production quantities are limited, so realizing economies of scale is more difficult than in the automotive business. Furthermore, difficulties exist in addition to those encountered in development and manufacturing, as all development processes up to customer support must be certified for safety. The barriers to market entry are thus extremely high, but on the other hand, this business is said to generate stable returns once established.

Forecast Demand for Passenger Aircraft by Fleet Composition

<table>
<thead>
<tr>
<th>Number of aircraft</th>
<th>Existing aircraft</th>
<th>New demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 31, 1993</td>
<td>Total: 8,651</td>
<td></td>
</tr>
<tr>
<td>December 31, 2014</td>
<td>Total: 19,770</td>
<td></td>
</tr>
<tr>
<td>December 31, 2024</td>
<td>Total: 38,526</td>
<td></td>
</tr>
</tbody>
</table>

New demand for approximately 5,000 aircraft with seating capacity of 60–100
MHI’s Cultivation of Aircraft Technology

MHI began manufacturing aircraft in 1919, and with the Zero Carrier Fighter it was Japan’s leading manufacturer of fighter aircraft. Before World War II, the Company was a leading aircraft developer as well. Following the war, however, in 1945 the General Headquarters (GHQ), or Supreme Commander for the Allied Powers, enacted a ban on the Japanese aircraft business that lasted seven years, putting a stop to the country’s advancement in development technologies.

Thereafter, in the 1960s MHI participated in a joint development project led by the national government to produce the YS-11 passenger aircraft. We played a central role in manufacturing and customer support. However, manufacturing under this project ceased in 1972 due to worsening profitability, and no passenger aircraft were developed in Japan in the following decades. Even during this fallow period, MHI continued to nurture its aircraft technologies by manufacturing structural components for Boeing and developing defense-related aircraft and compact business jets.

In the 2000s, we launched a compact aircraft development project with the aim of fostering broad-based invigoration of the aircraft industry, and in 2003 we began considering development and launching this initiative as a business. From that point, MHI continued to solicit input from the airlines—future customers—and carefully studied competitors’ operations and specification details. These efforts culminated with the formal decision to launch a business in 2008, boosted by an order from All Nippon Airways Co., Ltd.

MHI established Mitsubishi Aircraft Corporation with a 64% stake. This company operates as the main development entity, conducting overall design, development, and manufacture, as well as overseeing the suppliers that develop and manufacture aircraft components. Today, a total of 2,300 MHI and Mitsubishi Aircraft employees are moving the MRJ development project forward.

MRJ Business Promotion System

A Next-Generation Regional Jet Offering Unprecedented Value

Employing cutting-edge technology, the MRJ is a next-generation regional jet that offers top-class operational economy and cabin comfort. Superior operational economy is this jet’s most outstanding characteristic. In addition to advanced aerodynamic design and composite material technologies, the MRJ uses the newest Pratt & Whitney engine with optimized fan and low-pressure turbine speed. As a result, the MRJ is expected to achieve 20% better fuel economy than conventional jets in the same class. As fuel consumption typically accounts for around 40% of aircraft operating costs, these savings should contribute substantially to airline profitability. Furthermore, a structural design featuring higher levels of strength and durability is expected to greatly reduce inspection frequency, dramatically reducing maintenance costs.

Thanks to its state-of-the-art engine, the MRJ will deliver reduced emissions, including of CO₂ and nitrogen oxides (NOₓ), as well as substantially lower noise. Through its environmentally harmonious features, the jet will contribute to the competitiveness and social acceptability of its recipient airlines.

As well as airlines and the global environment, the MRJ will provide value to passengers by offering a level of comfort not found on conventional regional jets. The slim seat design gives the MRJ one of the widest seats in its class, and ample overhead space is provided for the storage of medium-sized roller bags. The MRJ also earns high marks from airlines on this front, as comfortable cabin space is a differentiating factor for them.

Providing New Value for Airlines, the Environment, and Passengers
Growing Pains as a Complete Aircraft Manufacturer

In carrying out the MRJ project, MHI and Mitsubishi Aircraft Corporation have had to draft and design the overall passenger aircraft concept, conduct project management that involves supervising scheduling among suppliers of various parts around the world, and create a value chain spanning such post-manufacturing aspects as sales, financing, and customer support. These activities require a different skill set than we have cultivated in our conventional manufacturing business to date, so we had to devise a new business model.

As passenger aircraft have a huge number of structural components, process management is difficult. Furthermore, because authorization (type certification) from national aviation authorities is required, developing a complete aircraft according to plan is not an easy task even for highly experienced leading manufacturers in Europe and the United States. Even a small passenger aircraft such as the MRJ has approximately one million parts—around 30 times the number in a typical automobile. The complete manufacture of our first passenger jetliner was a trial of project management for us, and we had to revise the production schedule three times.

The first schedule change was due mainly to additional design work. This revision included a switch from carbon-fiber composite materials to metals in the main wing. Also, based on hearings with airline customers, we increased the amount of cabin space and consolidated the cargo hold. Owing to ripple effects from the first revision, the second and third schedule revisions were necessary to ensure safety in anticipation of type certification.

Overcoming Unavoidable Obstacles

Type certification is a government review process to ensure that a commercial aircraft’s design satisfies standards for safety and environmental compatibility. Without this certification, an aircraft is not allowed to operate. Obtaining type certification is said to be more difficult than getting an airplane off the ground. For a newcomer such as us, this process presented the highest hurdle. One objective of the upcoming flight and strength tests we are scheduled to undertake in Japan and the United States on seven aircraft is to acquire results to be reflected in the MRJ’s design. The biggest reason, however, is to accumulate the massive quantity of data required for type certification.

We also face a number of issues in addition to type certification. One of these issues is the configuration of a customer support system. Whereas our competitors already in the aircraft business have an infrastructure in place, we have to create the infrastructure elements that will be required post-delivery, such as maintenance and operating manuals, the provision of spare parts, aircraft maintenance and repairs, and crew training. Through alliances with Boeing and the All Nippon Airways Group, our launch customer, at the time of our first delivery we expect to have a 400-strong customer support system in place.

Creating a structure for mass production is also important. We are moving steadily forward in this regard by maximizing the use of our own bases and those of Mitsubishi Aircraft.

We expect to begin ramping up operations at our mass production plant in early 2016, allowing us to produce up to 10 aircraft per month.

Overview of Schedule Leading up to Initial Delivery

<table>
<thead>
<tr>
<th>Development Tests</th>
<th>Collaborators in Our Customer Support System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ground tests</td>
<td>Maintenance and operating manuals</td>
</tr>
<tr>
<td>Feedback of test results</td>
<td>Saab AB</td>
</tr>
<tr>
<td>Data confirmation</td>
<td>Technological support The Boeing Company</td>
</tr>
<tr>
<td>Flight tests (Japan)</td>
<td>IT systems</td>
</tr>
<tr>
<td>Reflection of flight test data in customer support</td>
<td>Deloitte Touche Tohmatsu Limited</td>
</tr>
<tr>
<td>Flight tests (North-America)</td>
<td>Training CAE Inc.</td>
</tr>
<tr>
<td>First delivery (April to June, 2017)</td>
<td>All Nippon Airways Co., Ltd.</td>
</tr>
<tr>
<td>Maiden flight (October)</td>
<td>The Boeing Company (Future tie-ups with logistics suppliers)</td>
</tr>
<tr>
<td></td>
<td>Airframe servicing (Future tie-ups with servicing companies)</td>
</tr>
</tbody>
</table>
Steps to Achieving Profitability

Our efforts to secure orders for the MRJ are proceeding steadily. We received our first order in 2008, from All Nippon Airways, and as of September 30, 2015, we have received orders for 407 aircraft, including purchase rights and options. We believe these results reflect positive evaluations of the MRJ’s strengths, such as superior fuel and environmental performance and passenger cabin comfort, as well as recognition of “made-in-Japan” reliability.

The next-generation aircraft in the 90-seat class that a competitor plans to introduce in 2020 will employ the same state-of-the-art engine as the MRJ, but otherwise the aircraft will be based on that company’s existing aircraft. In comparison, the MRJ airframe has been designed to take full advantage of this engine’s performance by minimizing air resistance, so our competitor is unlikely to surpass our fuel performance.

A Future Catalyst for Domestic Industry

The aircraft industry requires a huge number of parts and generates demand for after-sales services and other peripheral businesses. For these reasons, we believe that continuing as a complete aircraft manufacturer even beyond the MRJ will provide a new pillar of growth for the domestic industry. On a shipment value basis, the scale of Japan’s aircraft industry is currently around ¥1.3 trillion, one-fortieth of the size of its automotive industry. By comparison, the U.S. aircraft industry is 12 times as large, and the United Kingdom and France have aircraft industries three times the size of that of Japan. As a country that excels in manufacturing, it should not be inconceivable for Japan to develop an aircraft industry on a par with those countries.

Expansion of Japan’s Aircraft Industry by Continuing Our Business as a Complete Aircraft Manufacturer

We expect accumulated losses from the MRJ development project to peak in fiscal 2017, coinciding with our initial delivery, and we anticipate loss levels will improve following the introduction of our next Medium-Term Business Plan. The current period of our 2015 Medium-Term Business Plan will be one of upfront investments, but these capital investments and losses have already been factored into our earnings performance targets.

MRJ Orders (As of September 30, 2015)

<table>
<thead>
<tr>
<th>Company</th>
<th>Orders</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANA</td>
<td>32</td>
</tr>
<tr>
<td>Trans States Holdings</td>
<td>25</td>
</tr>
<tr>
<td>SkyWest, Inc.</td>
<td>100</td>
</tr>
<tr>
<td>Eastern Air Lines</td>
<td>200</td>
</tr>
<tr>
<td>Air Mandalay</td>
<td>40</td>
</tr>
<tr>
<td>JAL</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>407</td>
</tr>
</tbody>
</table>

Note: Includes aircraft other than confirmed orders (purchase rights, options)

The MRJ program is also beginning to contribute to the invigoration of Japanese industry at the regional level. At our Matsusaka Plant in Mie Prefecture, for example, we plan to develop a cluster for wholly integrated manufacturing and supply of aircraft parts by companies that specialize in processing such parts. The business is beginning to invigorate regional industries as well. We expect the market for aircraft other than regional jets to grow steadily, prompted by development in emerging countries. For these reasons, with the MRJ we hope to contribute not only to our own performance but also to the medium-to-long-term expansion of Japanese industry.

We are hoping the MRJ will become part of the fleet that allows ANA to realize its management vision.

This autumn the MRJ will be making its maiden flight. Many people around the world are looking forward with anticipation to the first flight of a domestically manufactured commercial aircraft in 53 years, since the YS-11. We have been working as a collaboration partner on the MRJ since ANA became the launch customer in 2008. We have made hundreds of requests aimed at increasing the MRJ’s comfort and making the aircraft more attractive for airlines in terms of ease of operation and maintenance. The maiden flight will be the moment when the aircraft embodying all these changes will take off into the skies. Following that first flight, we are scheduled to receive our first aircraft in 2017. As ANA’s management vision states, “It is our goal to be the world’s leading airline group in customer satisfaction and value creation.” We are hoping the MRJ will become part of the fleet of aircraft essential for achieving that vision.
**Business Segment Highlights**

**Energy & Environment**
Providing optimal solutions toward the creation and improvement of social infrastructure in the energy and environmental areas

**Commercial Aviation & Transportation Systems**
Supplying advanced transportation systems and services for land, sea, and air applications

**Integrated Defense & Space Systems**
Providing integrated defense systems encompassing land, sea, air, and space applications as well as space-related equipment and services

**Machinery, Equipment & Infrastructure**
Providing highly efficient products and services to support key industries

---

### Main Businesses

- **Thermal Power Systems**
- **Nuclear Energy Systems**
- **Chemical Plant & Infrastructure**
- **Renewable Energy**
- **Marine Machinery & Engines**

### Orders Received / Net Sales / Operating Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Orders Received (Billions of yen)</th>
<th>Net Sales (Billions of yen)</th>
<th>Operating Income (Right scale)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1,042.1</td>
<td>1,253.9</td>
<td>162.6</td>
</tr>
<tr>
<td>2013</td>
<td>1,093.1</td>
<td>1,319.5</td>
<td>192.6</td>
</tr>
<tr>
<td>2014</td>
<td>1,199.5</td>
<td>1,439.5</td>
<td>220.6</td>
</tr>
</tbody>
</table>

**Includes ¥68.0 billion in expenses related to R&D under contract**

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**Total Assets**
As of March 31, 2015
- Energy & Environment: ¥601.0 billion
- Commercial Aviation & Transportation Systems: ¥1,314.4 billion
- Integrated Defense & Space Systems: ¥5,520.3 billion
- Machinery, Equipment & Infrastructure: ¥388.1 billion
- Other Businesses: ¥1,013.2 billion

**Number of Employees**
As of March 31, 2015
- Energy & Environment: 33,277 people
- Commercial Aviation & Transportation Systems: 8,582 people
- Integrated Defense & Space Systems: 81,845 people
- Machinery, Equipment & Infrastructure: 6,022 people
- Other Businesses: 7,129 people

**R&D Expenditures**
FY2014
- Energy & Environment: ¥21.5 billion
- Commercial Aviation & Transportation Systems: ¥39.9 billion
- Integrated Defense & Space Systems: ¥145.5 billion
- Machinery, Equipment & Infrastructure: ¥16.8 billion
- Other Businesses: ¥9.7 billion

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*Includes ¥68.0 billion in expenses related to R&D under contract*
Overview of Fiscal 2014 and a Review of the 2012 Medium-Term Business Plan

Consolidated orders received expanded significantly year on year, to ¥1,923.6 billion, centered on an increase in orders for larger and industrial thermal power plants, due in part to the effects of integrating the thermal power generation business with that of Hitachi, Ltd. Consolidated net sales in this domain rose to ¥1,599.5 billion, reflecting the integration of the thermal power generation business. Operating income also grew significantly, to ¥162.6 billion, thanks to a rise in after-sales services and the enhanced profitability of chemical plants.

During the period of the 2012 Medium-Term Business Plan, the transition to a domain-based system prompted personnel transfers and business consolidations. In addition, we integrated our thermal power plant systems business and took part in M&A activity, acquiring Pratt & Whitney® Power Systems. By concentrating on these strengths and eliciting synergies, we accelerated global development and withdrew from unprofitable businesses. As a result, orders for the year stood at approximately 2.0 times the level for fiscal 2012, with net sales at around 1.5 times the fiscal 2012 level and operating income increasing to approximately 1.8 times.

Large-scale orders such as the Doha Metro, as well as an increase in MRJ and commercial ship orders, gave a major boost to consolidated orders received, which amounted to ¥999.2 billion. Consolidated net sales rose to ¥529.5 billion, mainly reflecting higher sales of commercial aircraft. Despite an increase in research and development expenses for the MRJ, consolidated operating income increased, to ¥23.4 billion, mainly attributable to higher sales and the effects of yen depreciation.

As called for in the 2012 Medium-Term Business Plan, we reinforced the commercial aviation business and put these operations onto a growth trajectory. The transportation systems business expanded as we received major overseas orders. At the same time, we concentrated on developing and preparing our manufacturing systems for the MRJ. We embarked on structural reforms in the commercial ships business and began restructuring the cruise ships business. We also worked to achieve domain synergies through collaboration among the private sector, public sector, and academia, as well as in financing and technological developments, by integrating business domains involving land, sea, and air and promoting unified management. Accordingly, consolidated orders received and net sales amounted to around 1.3 times their fiscal 2012 levels, with operating income growing to 1.1 times.

Consolidated orders received were down from the previous fiscal year, to ¥417.4 billion, stemming from a drop in orders for defense aircraft, naval ships, and in other categories that had recorded large-scale orders in the preceding year. Consolidated net sales rose to ¥483.9 billion, reflecting increased sales in the space systems business, especially from launches of the H-IIA launch vehicle, which were more numerous in fiscal 2014 than in previous fiscal years. Consolidated operating income consequently grew, to ¥28.5 billion.

In line with the 2012 Medium-Term Business Plan, in the defense business we concentrated on developing products and services that leveraged synergies in the fields of land, sea, and air. In space systems, we achieved 26 consecutive successful liftoffs of H-IIA/H-IIB launch vehicles. Taking advantage of our high reliability and quality in this area, we moved forward on the marketing of commercial satellite launch export services and succeeded in attracting new overseas orders from two companies. We also embarked on the development, as prime contractor, of the New National Flagship Launch Vehicle (H3). On a consolidated basis, compared with fiscal 2012 levels orders received were up slightly, net sales rose to approximately 1.2 times, and operating income was up to around 1.3 times.

Consolidated orders received increased due to the effects of the integration of our forklift truck operations with Nippon Yusuki Co., Ltd., and our metals machinery business with Siemens AG, as well as to higher orders for turbochargers and air conditioners for Europe and China. These factors and the impact of a change in fiscal years at overseas Group companies* boosted consolidated orders received, to ¥1,304.6 billion. Consolidated net sales rose, to ¥1,319.5 billion, owing in part to increased sales of turbochargers, air conditioners, and forklift trucks. Thanks to the improved profitability of the compressor business, consolidated operating income surged year on year, to ¥84.1 billion.

In the transition to a domain system under the 2012 Medium-Term Business Plan, we consolidated business headquarters and reduced the number of SBUs as we worked to create an optimal system of operations that took advantage of the SBUs’ individual strengths. In addition, we reinforced such shared functions as cross-divisional organizations, including production and procurement, within the domain and improved profitability. On the operational front, we expanded overseas sales of turbochargers and air-conditioning equipment. As a result, performance was up on a consolidated basis compared with fiscal 2012 levels, with orders received up around 1.5 times, net sales up approximately 1.4 times, and operating income up a substantial 2.3 times.

* Certain overseas Group companies have changed their fiscal year-end from December 31 to March 31. These companies’ results for fiscal 2014 are therefore reported for a 15-month period.

<table>
<thead>
<tr>
<th>Capital Investment</th>
<th>Net Sales</th>
<th>Operating Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2014</td>
<td>FY2014</td>
<td>FY2014</td>
</tr>
<tr>
<td>¥71.8 billion</td>
<td>¥59.5 billion</td>
<td>¥26.7 billion</td>
</tr>
<tr>
<td>¥23.4 billion</td>
<td>¥1,319.5 billion</td>
<td>¥162.6 billion</td>
</tr>
<tr>
<td>¥148.9 billion</td>
<td>¥3,992.1 billion</td>
<td>¥296.1 billion</td>
</tr>
<tr>
<td>¥8.7 billion</td>
<td>¥483.9 billion</td>
<td>¥23.4 billion</td>
</tr>
</tbody>
</table>

* Based on reported figures for property, plant and equipment

* Others, eliminations or corporates: ¥–2.8 billion
As the core business of the MHI Group, we will simultaneously pursue short-term earnings and medium-to-long-term growth to contribute to the Company’s business scale expansion and increased profitability.

Michisuke Nayama
Domain CEO, Energy & Environment

Strengths
• Accommodate almost all methods of power generation
• Engineering prowess accumulated in diverse plant businesses, etc.
• Thermal: High efficiency, high output, energy saving
• Broad-ranging product lineup, encompassing small, medium-sized, and large
• Nuclear: Highest levels in the world in safety technologies and product quality

Opportunities
• Thermal: Expanding demand due to falling natural gas prices
• Thermal, renewable energy: increased need for efficient thermal and wind power generation systems, etc.
• Chemical plants: Growing capital investment in gas-producing countries

Weaknesses
• Thermal: Low profitability relative to major overseas competitors
• Nuclear: Little experience in constructing new plants overseas

Threats
• Thermal: Overwhelming overseas presence of two major competitors

Net sales
FY2014 ¥1,599.5 billion ➔ FY2017 (target) ¥2,000.0 billion

Operating income
FY2014 ¥162.6 billion ➔ FY2017 (target) ¥240.0 billion

Operating Environment
Spurred by economic expansion in emerging countries and population growth, global energy demand is expected to continue rising, with 37% growth forecast by 2040.* In thermal power generation, we are seeing marked growth in demand for systems fueled by natural gas as its price falls. Demand also remains robust for new construction of thermal generation systems fired by coal, for which reserves are abundant. However, fierce global competition is unavoidable, given the market presence of so-called megaplayers.

Meanwhile, a new international framework of climate-change countermeasures is being prepared to succeed the Kyoto Protocol. Against this backdrop, calls to curb greenhouse gas emissions from power generation are growing more pronounced, and expectations are high for high-efficiency thermal power generation systems; nuclear power generation, which does not emit CO2; carbon capture and sequestration (CCS) and other technologies to counter global warming; and power generation systems using renewable energy, such as offshore wind power generation. Also, particularly in gas-producing countries, construction continues to expand for fertilizer and other chemical plants that enable higher crop production.

Focus Strategies of the 2015 Medium-Term Business Plan

As a business domain central to the MHI Group’s business expansion and profitability, we are simultaneously pursuing short-term earnings and medium-to-long-term growth, implementing three core strategies in this regard. The first is the thorough strengthening of our competitiveness. We are developing some of the world’s most efficient large-scale gas turbines. By combining this technology with Mitsubishi Hitachi Power Systems’ extensive lineup of small and medium-sized gas turbines, we will be able to respond swiftly to growing global demand as the price of natural gas falls. We are also reinforcing our highly profitable service business by strengthening service bases, centered on Southeast Asia. In nuclear power, we will contribute to the restarting of existing plants in Japan and stage a worldwide rollout of the ATMEA1 as a global strategic reactor.

Second, we will cultivate synergies, both within our domain and among domains. By allocating human resources flexibly in response to market fluctuations, we will maximize the sharing and application of our expertise in engineering, procurement, and construction (EPC) and after-sales services. In addition, we will work to maximize efficiency by consolidating bases through organizational restructuring and M&A activity, thereby restructuring group companies and eliminating overlapping work functions.

R&D Case Study: Fuel Cell Combined Power Generation System

By combining gas turbine combined-cycle (GTCC) generation with a solid oxide fuel cell (SOFC), we are pursuing R&D on a triple combined-cycle system. We have already developed and carried out demonstration tests of a high-efficiency hybrid power generation system combining the high-temperature exhaust gas from SOFC generation, which has a low environmental impact when fueled by natural gas, with a micro gas turbine. The new development applies this arrangement to large-scale thermal power plants by converting fuel with 70% efficiency through three stages: an SOFC, which runs at high temperature, a gas turbine, and a steam turbine. We aim to commercialize this setup as an ultrahigh-efficiency fuel cell combined power generation system, which we expect to contribute substantially to global warming reduction by curtailing CO₂ emissions, and to the stable supply of electricity.

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Order Received for World’s Largest CO₂ Capture System for a Japan–U.S. Joint Enhanced Oil Recovery (EOR) Project

In July 2014, MHI received an order for the world’s largest post-combustion CO₂ capture systems for EOR in U.S. state of Texas that is being promoted primarily by NRG Energy, Inc., a leading U.S. independent power producer (IPP), and JX Nippon Oil & Gas Exploration Corporation (JX Nippon). The project involves the separation and capture of CO₂ from flue gas emitted from a coal-fired power generation plant owned by the NRG Group and injection of the CO₂ into a nearby oil field to boost crude oil production. MHI will license CO₂ capture technology to Petra Nova CCS I LLC, a joint venture between NRG Energy and JX Nippon. Mitsubishi Heavy Industries Americas, Inc., will form a consortium with a U.S. construction company and undertake a design and construction project. MHI’s CO₂ capture technology is the KM CDR Process®, which uses a proprietary KS-1™ high-performance solvent for CO₂ absorption and desorption that was jointly developed by MHI and the Kansai Electric Power Co., Inc. The process is characterized by its significant reduction in energy use, and its outstanding performance is highly regarded in Japan and overseas, making MHI an industry leader in CO₂ capture plants.

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| Main Projects |
|---------------|-----------|
| Announcement  | Delivery  | Project |
| January 2015  | 2018      | Order received for GTCC generation system for Canada |
| December 2014 | 2017      | First order received by MHI Vestas for V164-8.0MW commercial offshore wind power generation facility, the world’s largest in terms of output |
| October 2014  | 2016      | Full turnkey order received for geothermal power generation plant for Mexico |
| September 2014| –         | Order received to create the world’s most advanced coal-fired thermal plants as a Fukushima recovery project |
| August 2014   | 2018      | Order received to build a large-scale fertilizer plant for a state-owned chemical company in Turkmenistan |
| July 2014     | 2017      | Order received for world’s largest CO₂ capture system for a Japan–U.S. joint enhanced oil recovery (EOR) project |
| June 2014     | 2018      | Order received for supercritical pressure steam turbines and generators for Egypt’s largest thermal power plant |
| May 2014      | 2015      | First order for next-generation UEC50LSH-Eco marine diesel engine developed by MHI-MME |
Due to the combination of replacement and new demand, during the next 20 years the size of the commercial aircraft market is forecast to double, adding nearly 40,000 aircraft and reaching a scale of US$5 trillion. Orders are expected to be particularly robust for single-aisle aircraft from low-cost carriers (LCC) operating mainly short flights and airlines in emerging countries.

The transportation systems business is estimated to have a current market scale of around ¥22 trillion, expanding at an annual rate of 2% to 3%. In particular, rail transportation is likely to be called upon to address increasingly serious traffic congestion in emerging countries experiencing rapid economic growth, including Asian countries and Brazil, as populations conglomerate in urban areas.

In the commercial ships business, the market is forecast to remain oversupplied for the foreseeable future, but North American shale gas development is engendering demand for gas carriers, an area where MHI excels. Also, the market for cruise ships is expected to grow steadily. In addition, in Japan we anticipate robust replacement demand for large-scale ferries and demand from the public sector for training ships and research vessels.

### Sample Business Model: Transportation Systems

<table>
<thead>
<tr>
<th>Key Capital</th>
<th>Business Activities</th>
<th>Value Created</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extensive experience in delivering systems around the world</td>
<td>Development Design</td>
<td>Facilitation of smooth urban movement</td>
</tr>
<tr>
<td>Sophisticated system integration and project management capabilities</td>
<td>Construction</td>
<td>Alleviation of traffic congestion</td>
</tr>
<tr>
<td>Ability to make proposals to realize a lifecycle business</td>
<td>Rolling stock production</td>
<td>Reduction in environmental impact</td>
</tr>
</tbody>
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Yoichi Kujirai
Domain CEO, Commercial Aviation & Transportation Systems

By commercializing the MRJ and promoting structural reforms in the commercial ships business, we are concentrating on building the foundations for growth to a business scale of ¥1 trillion.

**Operating Environment**

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Focus Strategies of the 2015 Medium-Term Business Plan

While increasing profitability, chiefly in the commercial aircraft products business, we will create new business models in the MRJ, transportation systems, and commercial ships businesses. We are thus building the foundations for growth that we expect to boost this domain’s scale of operations to more than ¥1 trillion during the period of the next medium-term business plan, with operating income in excess of ¥100 billion.

In the commercial aircraft business, we will restructure manufacturing bases and promote production process reforms. In the aircraft engines segment, we established Mitsubishi Heavy Industries Aero Engines, Ltd., in October 2014 to reinforce our financial and manufacturing bases. The new company will drive our efforts to form a manufacturing cluster that we expect to dramatically reduce administrative expenses and fixed costs by making use of partners’ factories and facilities. We will also bolster our manufacturing capabilities and profitability through a cooperative production effort with IHI Corporation. The MRJ business is in a period of up-front investment as we work toward our first delivery. In addition to development, we will build our mass production and customer support systems in this business.

In the transportation systems business, based on our strengths in engineering and system integration we will strive to attract orders for urban transport projects especially in the Middle East and in Southeast Asia, which is slated for future growth. In autumn of 2014, we opened the MIHARA Test Center, MIHARA being an acronym for Multipurpose Integrated Highly Advanced Railway Applications, to spearhead our development of a total solutions business. Furthermore, in the life-cycle management services business we aim to expand our operations in the categories of operational monitoring, as well as maintenance leveraging our global network.

In the commercial ships business, availing of our expertise in shipbuilding engineering we will pursue business in such areas as LNG carriers, special-purpose ships for the public sector, and domestic ferries. In this way, we will focus on areas in which we can differentiate ourselves by virtue of the technologies we possess. The newly restructured Engineering Department will handle business involving cruise ships, and we are creating a business model based on the integration of engineering, procurement, and construction (EPC) and shipbuilding.

Furthermore, from a medium-to-long-term perspective we will cultivate synergies among domains to build a new infrastructure export model.

R&D Case Study: High-Speed AGT

MHI has developed a high-speed automated guideway transit (AGT) system with a maximum speed of 120 km/h, approximately twice as fast as existing AGT systems. To date, AGT systems using rubber tires have been introduced around the world because of the advantages they offer in terms of flexible route planning, short construction periods, low costs, and low vibration and noise. These systems are expected to help alleviate urban congestion in emerging countries experiencing rapid economic growth, such as Southeast Asian countries. The new high-speed system has been developed to expand the market beyond urban transport to include suburban lines requiring no transfers, increasing convenience to commuters and numerous other passengers, and providing an effective solution to urban crowding.

<table>
<thead>
<tr>
<th>Main Projects</th>
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<tbody>
<tr>
<td>Announcement</td>
</tr>
<tr>
<td>June 2015</td>
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<tr>
<td>May 2015</td>
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<tr>
<td>February 2015</td>
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<td>January 2015</td>
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<td>January 2015</td>
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<td>August 2014</td>
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<td>July 2014</td>
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<td>July 2014</td>
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<td>June 2014</td>
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</table>

Introducing Structural Reforms in the Commercial Ships Business in the Nagasaki Region

On October 1, 2015, MHI established two new wholly owned Group companies at the Koyagi Plant of its Nagasaki Shipyard & Machinery Works—one to undertake ship construction and the other to manufacture hull blocks. The construction of cruise ships will be operated within the Commercial Aviation & Transportation Systems domain’s newly launched Engineering Department.

Of the two new entities, the ship construction company will undertake sales, engineering, procurement, manufacture, and repair services. New ship construction will focus on gas carriers, an area in which medium-term demand is expected to be strong and where MHI excels. The overarching goals are to strengthen cost competitiveness by streaming production through continuous construction, enhancing efficiency through organizational downsizing, and rationalizing administrative processes.

The second company will specialize in large-scale hull blocks, an area of expertise for the Koyagi Plant, and will pursue enhanced productivity primarily through continuous construction and refurbishing of its physical plant. In addition to supplying blocks to the new ship construction company, the second company will promote their sale to customers outside the MHI Group. Plans also call for annual production volume to be progressively expanded.
Integrated Defense & Space Systems

While continuing to strengthen our existing businesses, we will steadily prepare for a major expansion in our scale of operations.

Hisakazu Mizutani  
Domain CEO, Integrated Defense & Space Systems

Strengths
- Leading-edge technologies fostered through the development of defense and space products
- Defense: Ability to make proposals for integrated defense systems
- Expertise and channels cultivated through Japan–U.S. joint development of the SM-3 missile
- Space: Development capabilities in rockets and rocket engines
- World-leading levels of reliability

Weaknesses
- Defense: Market previously limited to Japan
- Space: Inadequate cost competitiveness

Opportunities
- Defense: Growing overseas demand for defense equipment
- Accelerated development and procurement of new products in line with the formulation of Japan’s Medium-Term Defense Program
- Space: Increase in the need for satellite launches in emerging countries
- Under Japan’s New Basic Plan on Space Policy, domestic market scale expected to grow to ¥5 trillion over the next 10 years

Threats
- Defense: Severe competition with overseas manufacturers
- Space: Concern regarding price competition, as new U.S. companies enter the market for overseas satellite launches

Operating Environment

The Integrated Defense & Space Systems business has performed steadily over the past 20 years. However, our operating environment is changing. In defense, the Medium-Term Defense Program formulated in 2013 indicated the government’s intent to build a “Dynamic Joint Defense Force.” Furthermore, the 2014 Cabinet decision adopting the Three Principles on Transfer of Defense Equipment and Technology established clear principles for transferring defense equipment overseas. In space systems, the New Basic Plan on Space Policy formulated in 2015 clearly indicated the promotion of space utilization for national security and the maintenance and strengthening of the domestic production and technological bases. Accordingly, the scale of the domestic market is expected to grow to ¥5 trillion over the next decade. Worldwide, we also anticipate commercial satellite launch demand of 20 to 25 units per year.

Sample Business Model: Satellite Launch Services

<table>
<thead>
<tr>
<th>Key Capital</th>
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</thead>
<tbody>
<tr>
<td>Technical ability to handle all activities from manufacture to launch of rockets</td>
</tr>
<tr>
<td>Expertise in successfully adhering to launch schedules</td>
</tr>
</tbody>
</table>

Business Activities

- Research Development Design
- Manufacture
- Launch

Order of satellite launch

JAXA
Satellite operators

Value Created

- Society: Enhance the quality of people’s lives
- Maintain Japan’s industrial base in space development

- MHI: Apply accumulated technologies toward the development of a new flagship launch vehicle
Focus Strategies of the 2015 Medium-Term Business Plan

During the term of our 2015 Medium-Term Business Plan, we expect performance to remain flat. However, we plan to continue reinforcing our existing businesses, preparing the groundwork for major expansion during the period of the next business plan.

In existing domestic defense-related business, Japan's Medium-Term Defense Program specifies a "Dynamic Joint Defense Force" buildup policy, pointing to key examples of target functions and capabilities against various scenarios, including a "response to an attack on remote islands," "response to ballistic missile attacks," and "response to outer space and cyber space threats." These areas in which we can fully deploy our strengths across all equipment domains over land, sea, air, and space. We consequently expect to maximize the benefits of consolidating SBUs handling all types of equipment into a single domain. In addition to proactively making integrated defense proposals harnessing the expertise of multiple SBUs, we will make steady inroads on developing and manufacturing new, highly sophisticated equipment.

We are implementing three strategies to grow our scale of business. The first growth strategy is to expand overseas operations leveraging the Three Principles on Transfer of Defense Equipment and Technology. We will take advantage of our know-how in international joint development projects cultivated through the Japan–U.S. joint development of our know-how in international joint development projects toward the development of the domestic aircraft industry.

The second strategy is to make use of our state-of-the-art technologies to meet civilian requirements. We have already employed our radiation-resistant technologies cultivated for the space business to develop a radiation-shielded forklift truck. Going forward, we will pursue the development of related disaster-prevention and security products, such as disaster-response robots, through research on unmanned system technology. We will also move forward with the development and launch of small satellite constellations and make use of these to enter the information-gathering and sharing services businesses.

Our third growth strategy is to take advantage of land, sea, air, and space synergies to expand orders in existing domestic areas of business. By integrating the comprehensive capabilities of this domain, we will develop equipment in response to the new defense concepts outlined in the Medium-Term Defense Program. We will introduce H-IIA launch vehicle upgrades to meet market needs for commercial satellite launches and strengthen our price competitiveness by developing the H3 as a new flagship launch vehicle.

R&D Case Study: New Flagship Launch Vehicle

In 2014, the Japan Aerospace Exploration Agency (JAXA) designated MHI as a prime contractor for the development of a new Japanese flagship launch vehicle to replace the H-IIA/H-EB, with MHI working in cooperation with JAXA and other private-sector companies. The New Basic Plan on Space Policy states that maintaining a space transportation system with the capability to launch satellites independently is essential to ensuring autonomy. To maintain and develop a space-related industrial base while continuing to meet the demands of government missions, it is necessary to ensure competitiveness to obtain orders for commercial satellite launch services in the global market. Consequently, in addition to the high reliability we have built up with the H-IIA/H-EB launch vehicle, in developing the H3 we plan to increase launch capabilities while reducing costs, shorten the on-site launch operation period, and lower vibration to reduce impact on the satellite payload.

Initiatives in the Defense Aircraft Business

MHI is dedicated to a core vision of supplying cutting-edge technologies for national safety and security. As a leading supplier in the Japanese defense industry, MHI endeavors to maintain and strengthen defense production and technological bases. MHI develops and manufactures a vast array of defense equipment to meet the needs of the government of Japan, including fighter planes, helicopters, missiles, defense vessels, and tanks, and also provides operational support. See the following website for information on maintaining and strengthening defense production and technological bases.

http://www.mhi-global.com/company/csr/iesg/social/customers/customers04.html

MHI is working on a final assembly and check out (FACO) facility for Japanese F-35 leading-edge fighter aircraft. These preparations are currently in the final stages of factory construction, and we are making steady progress on facilities, equipment, and personnel training. The Company is also scheduled to take charge of regional maintenance, repair, overhaul, and upgrade (MRO&U) capabilities for the F-35. Through its involvement in advanced fighter aircraft under the direction of the Ministry of Defense, MHI is gaining expertise in a variety of state-of-the-art technologies and manufacturing capabilities.

At the same time, we aim to take part in independent development of fighter aircraft in Japan, as well as international joint development. We will continue pursuing internal R&D to establish various elements and applied technologies for airframe production as well as conducting demonstration research under the direction of the Ministry of Defense’s Technical Research & Development Institute. These efforts are intended to contribute toward the development of the domestic aircraft industry.
Machinery, Equipment & Infrastructure

By pursuing achievable and immediately effective measures from the perspective of supporting the MHI Group’s profitability, we will focus on creating top businesses in global niche markets.

Kazuaki Kimura
Domain CEO, Machinery, Equipment & Infrastructure

Operating Environment

This domain is involved in a wide range of businesses handled by 15 SBUs—consolidated down from 26. The market for our turbocharger operations is forecast to expand, driven by demand for higher fuel efficiency. In the past, demand has concentrated on diesel turbochargers, but the gasoline engine turbocharger market is expected to grow at an annual rate of 10%, with particularly high growth forecast for the Chinese and North American markets. As for compressors, although falling crude oil prices are having a temporary impact, business in the oil and gas sector is forecast to grow over the medium-to-long term, and the market for compressors is slated to continue its long-term expansion. However, the scale of the market in the metals machinery business has shrunk from around ¥3.0 trillion in fiscal 2013 to approximately ¥2.4 trillion in fiscal 2014. Although this business environment appears likely to remain problematic, we anticipate a slight recovery over the long term due to the expansion of markets in India and other emerging countries.

Key Capital

- Ability to develop high-performance turbochargers
- Global production / sales network

Business Activities

Worldwide automakers
- Accelerated response to increasingly stringent and more broadly applied fuel efficiency regulations

Value Created

- Society
  - Reduced CO₂ emissions
  - Low-carbon societies

- MHI
  - Holds a leading share of the world market for automobile turbochargers

Sample Business Model: Turbocharger

Net sales
FY2014 ¥1,319.5 billion ➔ FY2017 (target) ¥1,800.0 billion

Operating income
FY2014 ¥84.1 billion ➔ FY2017 (target) ¥160.0 billion
Focus Strategies of the 2015 Medium-Term Business Plan

In this domain, we will expand our scale of operations and earnings in growing business categories, accelerate the promotion of post-merger integration among established joint ventures, and restructure and integrate small and medium-scale businesses. As a result, we aim to expand orders and sales, while simultaneously transitioning to highly profitable businesses.

In one growth area, turbochargers, by fiscal 2016 we will establish a production structure capable of 10 million units per year with the aim of securing the top share of the global market for their use in passenger cars. To achieve this goal, we will expand sales in the Chinese and North American markets. At the same time, we are accelerating our development of new products, including turbochargers for trucks, strengthening our European operations as a second development center, and enhancing customer support. In the compressor business, we will forge collaborative structures with major oil and gas developers. We will also strengthen competitiveness and increase market share in the chemical plant business. In April 2015, we established a U.S. production base, which we expect to drive growth in repairs and other services and augment profitability.

With regard to accelerating the promotion of post-merger integration among established joint ventures, through synergies between our domain and Primetals Technologies, Ltd., a joint venture with Siemens AG in the metals machinery business, we expect to develop a worldwide business network through the integration of relatively strong geographic regions. We will also optimize the operation of each of our manufacturing bases, reduce and optimize procurement and development costs, and reinforce our operations in engineering, procurement, and construction (EPC) as we work to establish our presence as a global leader. Through the integration of our forklift business with Nippon Yusoki Co., Ltd., we expect to enjoy synergistic benefits in areas such as sharing components and raising operational efficiency.

For small and medium-sized businesses that are profitable but struggling to grow, we will seek collaboration with other companies in the same business categories and consolidate or create new business entities from these companies. We intend to restructure businesses with lower profitability through alliances. Through these measures, we are working toward profitability across all SBUs by fiscal 2017.

R&D Case Study: Fuel Cell Combined Power Generation System

MHI has developed a gas engine for generator use that delivers the high levels of efficiency and power that current markets demand. Because of the tradeoff relationship between high operating pressure ratios and high turbocharging efficiencies that typically exist with turbochargers, achieving both has been problematic in the past. The newly developed engine overcomes this hurdle, achieving both through a two-stage turbocharging system that employs an intercooler. This system can deliver high turbocharging efficiencies for both high- and low-pressure turbochargers, while enabling a high operating pressure ratio, augmenting engine output by 33% compared with other engines with the same displacement and achieving electrical efficiency of 44.7% or higher—the top level in its class. We plan to move toward market introduction after performing endurance testing to evaluate engine reliability.

<table>
<thead>
<tr>
<th>Main Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Announcement</strong></td>
</tr>
<tr>
<td>July 2015</td>
</tr>
<tr>
<td>May 2015</td>
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<tr>
<td>April 2015</td>
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<td>April 2015</td>
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<td>March 2015</td>
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<tr>
<td>December 2014</td>
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<tr>
<td>October 2014</td>
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<tr>
<td>May 2014</td>
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</tbody>
</table>

One Highlight

Establishing a U.S. Compressor Manufacturing Facility to Meet Rapid Growth in Demand

In April 2015, Mitsubishi Heavy Industries Compressor Corporation began operations in Pearland, Texas, outside of Houston, at its new U.S. compressor manufacturing and service location. Advances in shale oil and shale gas extraction technology are prompting major increases in crude oil production capacity in the United States, which in 2014 was ranked among the leading oil-producing countries for the first time in 29 years. Petroleum companies’ increases in crude oil production capacity are spurring vigorous investment by petrochemical firms both within and outside the United States, and a number of mega ethylene plants capable of producing one million tons per year are being constructed. The new plant will provide comprehensive one-stop manufacturing, repair, and maintenance services for compressors and the steam turbines used to drive them. MHI is reinforcing its base of operations in the massive North American market in response to expected medium-to-long-term growth in the oil and gas sector, as well as the service business.
Establishing Corporate Governance Appropriate to a Global Enterprise

Enhancing corporate governance to a level appropriate to a truly global company is necessary to enable the MHI Group to win out over competitors in the global market and ensure trust among its stakeholders. MHI is therefore conducting ongoing reforms to its corporate governance aimed at improving the soundness and transparency of management, as well as the efficiency and flexibility of business execution.

Recent Corporate Governance Reforms

<table>
<thead>
<tr>
<th>Internal control and governance</th>
<th>Business execution and executive and compensation systems</th>
<th>Composition and other information concerning directors and statutory auditors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005 Established the Internal Audit Department</td>
<td>2005 Shortened the term of office for directors from two years to one</td>
<td>2005 Increased the number of outside directors from one to two and outside statutory auditors from two to three</td>
</tr>
<tr>
<td>2006 Established departmental compliance committees and a Compliance Liaison Conference</td>
<td>2006 Introduced an executive officer system</td>
<td>Reduced the number of directors from 28 to 17</td>
</tr>
<tr>
<td>2007 Formulated “Compliance Promotion Regulations” in the Company rules</td>
<td>2006 Abolished the system of director retirement allowances and bonuses, switching to compensation tied to Company performance, including monthly salary, stock options, and bonuses</td>
<td>Increased the number of outside directors from two to three</td>
</tr>
<tr>
<td>2011 Established the Management Audit Department by reorganizing and strengthening the Internal Audit Department</td>
<td>2011 Introduced a stock option system for directors, except outside directors</td>
<td></td>
</tr>
<tr>
<td>2012 Integrated the Risk Management Committee and the Compliance Committee (established in 2001), forming the Risk Management &amp; Compliance Committee</td>
<td>2011 Integrated a matrix structure of Business Headquarters and Works into the Business Headquarters Structure</td>
<td></td>
</tr>
<tr>
<td>2013 Established the Business Compliance Committee</td>
<td>2013 Restructured and reinforced the corporate divisions</td>
<td></td>
</tr>
<tr>
<td>2014 Established the Risk Solution Department</td>
<td>2013 Consolidated and restructured the nine Business Headquarters, transitioning to the Business Domain Structure (full transition by April 2014)</td>
<td></td>
</tr>
<tr>
<td>2015 Enacted the MHI Group Global Code of Conduct</td>
<td>2014 Introduced the Chief Officer System</td>
<td></td>
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<tr>
<td></td>
<td>Integrated the Risk Management &amp; Compliance Committee and the Business Compliance Committee to form the Compliance Committee</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Formulated “Compliance Promotion Regulations” in the Company rules</td>
<td></td>
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<tr>
<td></td>
<td>Established a chief administrative officer / chief risk officer (CAO/CRO)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Established departmental compliance committees and a Compliance Liaison Conference</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Formulated the Corporate Governance Guidelines of MHI</td>
<td></td>
</tr>
</tbody>
</table>

Response to the Corporate Governance Code

The Tokyo Stock Exchange adopted the Corporate Governance Code in June 2015. MHI believes this code is in keeping with the level of governance befitting the global enterprise the Company aims to become and will contribute to its greater sophistication in governance. Consequently, we will fundamentally comply with the principles provided in the code.

Furthermore, we are taking the introduction of this code as an opportunity to ensure our stakeholders’ understanding of our stance on corporate governance. We have formulated Corporate Governance Guidelines of MHI encompassing our corporate governance efforts. These guidelines were approved at a Board of Directors meeting in August 2015 and are publicized on our website. Establishing MHI’s basic framework and stance on corporate governance, the guidelines aim to contribute to the Company’s sustainable growth and increase in long-term corporate value. The guidelines comprise the following items.

- General Provisions
- Corporate Philosophy and Management Strategy
- Dialog and Relationship with Stakeholders
  - Basic Policy
  - Dialog and Relationship with Shareholders and Investors
  - Dialog and Relationship with Employees
  - Feedback to Internal Staff and Management
- Board of Directors
- Outside Directors
- Audit and Supervisory Committee

Corporate Governance Guidelines of MHI are provided on our website.

**FOCUS**

**Transition to a “Company with an Audit and Supervisory Committee”**

**Essentials of a Company with an Audit and Supervisory Committee**

1. The Audit and Supervisory Committee, comprising three or more directors, of whom a majority are outside directors, is established.
2. Audit and Supervisory Committee members shall have the same voting rights as Board of Directors.
3. The Audit and Supervisory Committee may state opinions on the election, dismissal, remuneration, or resignation of directors who are not Audit and Supervisory Committee members at the General Meeting of Shareholders.
4. If provided in the Articles of Incorporation, a company with an Audit and Supervisory Committee may, by resolution of the Board of Directors, delegate all or part of decisions regarding execution of important operations to the directors.

**Former Company with a Board of Statutory Auditors**

- General Meeting of Shareholders
  - Election / Dismissal
- Board of Directors
  - Directors
  - Outside directors
- Board of Statutory Auditors
  - Outside statutory auditors
  - Statutory auditors

**From June 26, 2015: Company with an Audit and Supervisory Committee**

- General Meeting of Shareholders
  - Election / Dismissal
- Board of Directors
  - Directors
  - Outside directors
- Audit and Supervisory Committee
  - Directors

**Message from a Full-time Audit and Supervisory Committee Member**

I intend to contribute to further expansion of the Company’s corporate value.

After serving for three years as MHI’s statutory auditor, in June I became a member of the Board of Directors and a full-time member of the Company’s new Audit and Supervisory Committee. Insofar as my auditing role is concerned, I believe that this shift in position does not engender any major changes in my approach to auditing. However, I also believe that there is a need to flexibly respond to the Company’s organizational reforms of recent years by, at times, changing my approach and way of thinking while carrying out my monitoring and verifying duties. Auditing methods themselves, however, are now undergoing changes following MHI’s reorganization into a system of four business domains, replacing the earlier works-based management system adopted for many years, and the growing number of Group companies effectively under independent management, which includes, for example, large business corporations, overseas companies that have become part of the Group through mergers or acquisitions, and subsidiaries listed on the stock markets.

Accordingly, my intention is to strengthen and entrust most of the routine auditing procedures to the Management Audit Department; have the Audit and Supervisory Committee focus on issues of relatively high importance based on the department’s findings; further strengthen cooperation with financial auditors and internal auditors, including supervision performed by outside auditors; and promote links with the statutory auditors of Group companies. The new Audit and Supervisory Committee today takes on a new role: exercising its right to express views concerning the election, dismissal, and resignation of directors and remuneration. Given the supreme importance of these two issues in terms of achieving sound auditing and supervision, full attention must be given to establishing methods for exercising the committee’s authority. Also, although with the current reforms there is no longer a need to approve resolutions on individual matters of business execution at Board of Directors meetings, information on business execution matters that should be shared must be coordinated, since all members of the Board have supervisory responsibilities.

Personally, I believe that going forward, continuing to focus on compliance and preventing impairment of MHI’s corporate value will be of paramount importance, but at the same time I think I have a vital duty to help build up our corporate value further. In that respect, I believe that sharing Company information of the type I have knowledge of because of my full-time status, seeking the perspicacious views of our outside directors, and reflecting their opinions in Company management will make a major contribution to the enhancement of MHI’s audit and supervisory functions.

Eiji Isu
Member of the Board and Full-time Member of the Audit and Supervisory Committee

To date, MHI has undertaken a variety of initiatives to consistently enhance the quality of its corporate governance. However, in order to rank competitively with the megaplayers in the global market, we believe that enhancing our ability to execute business efficiently and flexibly through swifter decision making is required, as is further strengthening the oversight of business execution. For these reasons, at the 90th Ordinary General Meeting of Shareholders on June 26, 2015, we transitioned to a company with an Audit and Supervisory Committee.

If provided in its Articles of Incorporation, a company with an Audit and Supervisory Committee may delegate to directors all or part of decisions regarding execution of important operations by resolution of the Board of Directors. This approach enables swifter decision making and enhances the flexibility of business execution, while also strengthening the Board of Directors’ oversight of business execution (separating the business execution and supervisory functions). At its first meeting following its shift to a company with an Audit and Supervisory Committee, MHI’s Board of Directors resolved to delegate decision making to the president, except for legally stipulated decisions and particularly important matters of business execution.

MHI has defined “promoting global-standard corporate governance and management processes” as one of the basic policies of its 2015 Medium-Term Business Plan. Going forward, we will continue working to increase transparency and proactively undertake measures that contribute to establishing a Japanese-style global management system that embraces both diversity and harmony.
MHI transitioned to a company with an Audit and Supervisory Committee by approval at the Ordinary General Meeting of Shareholders in June 2015. Of the 14 directors (of whom five are Audit and Supervisory Committee members), five (of whom three are Audit and Supervisory Committee members) are appointed from outside the Company. MHI strives to enhance management oversight by seeking useful advice and objective criticism concerning the Company’s management from its outside directors.

As provided in the Company’s Articles of Incorporation, in accordance with a resolution by the Board of Directors, the Company delegates important decisions on business execution to the President and CEO. In addition to facilitating swift decision making and flexible business execution, this arrangement enables the Board of Directors to focus on its role of supervising business execution.

MHI introduced a chief officer system in April 2014. Under this system, the CEO (President and CEO) delegates part of his authority and responsibilities to various chief officers, including the Domain CEOs (President and CEO for each of the domains), the CFO, CAO/CRO, and the CTO. Under this arrangement, the CEO takes charge of overall business strategies and issue-response initiatives, and the Domain CEOs take control of executing businesses within their individual domains based on overall Group strategies. The CFO takes charge of finance, accounting and procurement, and sourcing, including management planning; the CAO/CRO handles administration, including management audit, general affairs, legal affairs, personnel, and risk management; and the CTO handles technology, innovation, and information and communication technologies. In addition, the CFO, CAO/CRO, and CTO have companywide authority to give instructions and commands and provide support to business domains.

In this business execution structure that focuses on the CEO (President and CEO) and other chief officers, the Executive Committee has been established as a forum for discussing important matters related to business execution. This move allows for a more cohesive approach to discussion as part of the operational execution framework and consequently leads to more appropriate management decisions and business execution.
In addition, MHI has established various committees to ensure thorough risk management and compliance.

The Company’s Audit and Supervisory Committee is composed of five directors, of whom a majority of three are outside directors. To ensure the effectiveness of the Audit and Supervisory Committee’s activities, two full-time members of the Audit and Supervisory Committee are mutually selected by the committee’s members. The full-time members of the Audit and Supervisory Committee attend meetings of the Executive Committee and other key meetings related to business planning, enabling them to accurately assess the status of management in a timely manner. As part of the audit, Audit and Supervisory Committee members make sure the execution of directors’ duties comply with laws and regulations and the Articles of Incorporation and ascertain whether or not business operations of the Company are being executed appropriately by conducting spot checks and verifying compliance with relevant laws and regulations, and by monitoring the status of the establishment and operation of internal control systems, including those in relation to financial reporting. Furthermore, one member of the Audit and Supervisory Committee has extensive knowledge of finance and accounting from many years of business experience in the accounting and finance departments.

The Audit and Supervisory Committee periodically exchanges information and opinions with the Management Audit Department and accounting auditors, and it collaborates closely with them in other ways, including receiving audit results and attending accounting audits. Audit and Supervisory Committee members also receive reports from the internal control department and other departments concerning the status of compliance, risk management, and other activities on a regular basis and individually. To support auditing activities, an Audit and Supervisory Committee’s Office has been set up with its own dedicated staff of six to facilitate the work carried out by the Audit and Supervisory Committee.

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**Outside Directors**

MHI has appointed five outside directors (three of whom are Audit and Supervisory Board members) in the expectation that they will contribute to the improvement of sound and transparent decision-making processes by providing beneficial views and candid assessments on the Company’s management. The Company judges all its outside directors and the companies in which they serve or have served as executives or employees to be free of personal relationships, capital relationships, trading relationships involving particularly large amounts of money, or other conditions that would impair their independence. Accordingly, the Company has notified the Tokyo Stock Exchange and other listed financial instrument exchanges that these members are independent executives. Corporate Governance Guidelines of MHI formulated and made public in August 2015 establish new standards for independence exceeding those provided by the financial instrument exchanges, and the Company judges all its outside directors to be independent according to these standards as well.

All the outside directors are independent from management and supervise or audit management. At meetings of the Board of Directors, they receive reports of the status of the establishment and operation of internal control systems, including compliance, risk management, and other activities, and the results of internal audits, and they state their opinions when appropriate. In addition, outside directors who are Audit and Supervisory Committee members regularly exchange opinions with directors who are not Audit and Supervisory Committee members while conducting effective auditing through collaboration with the full-time Audit and Supervisory Committee members, the internal audit department, and the accounting auditor.

Message from the Outside Directors

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### Outside Directors

**Yorihiko Kojima**  
Chairman of the Board, Mitsubishi Corporation  
Reason for appointment: Extensive experience as a business manager

**Naoyuki Shinohara**  
Professor, The University of Tokyo, Policy Alternatives Research Institute (Former Deputy Managing Director of the International Monetary Fund (IMF))  
Reason for appointment: A wide range of insights related to financial policy gained as a regulator and a global perspective gained as an executive of an international institution

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### Outside Audit and Supervisory Committee Members

**Nobuo Kuroyanagi**  
Senior Advisor, The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
Reason for appointment: Extensive experience as a business manager

**Christina Ahmadjian**  
Professor, Hitotsubashi University Graduate School of Commerce and Management  
Reason for appointment: Extensive knowledge and global viewpoint regarding the field of corporate governance and management acquired through her experience as a researcher

**Shinchiro Ito**  
Chairman of the Board, ANA Holdings Inc.  
Reason for appointment: Extensive experience as a business manager
Fiscal 2014 in Review

Major Activities of Outside Directors and Outside Statutory Auditors

<table>
<thead>
<tr>
<th>Position</th>
<th>Name</th>
<th>Board of Directors meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors</td>
<td>Yoichiro Koizumi</td>
<td>13 of 15</td>
</tr>
<tr>
<td></td>
<td>Christina Ahmadjian</td>
<td>15 of 15</td>
</tr>
<tr>
<td></td>
<td>Hitoshi Tsuda</td>
<td>14 of 15</td>
</tr>
<tr>
<td>Statutory auditors</td>
<td>Nobuo Kuroyanagi</td>
<td>12 of 15</td>
</tr>
<tr>
<td></td>
<td>Haruya Uehara</td>
<td>15 of 15</td>
</tr>
<tr>
<td></td>
<td>Shinichiro Ito</td>
<td>14 of 15</td>
</tr>
</tbody>
</table>

Director and Statutory Auditor Compensation

<table>
<thead>
<tr>
<th>Position</th>
<th>No. of recipients</th>
<th>Base compensation</th>
<th>Performance-linked compensation</th>
<th>Stock options</th>
<th>Total amount of compensation (millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors (excluding outside directors)</td>
<td>14</td>
<td>514</td>
<td>473</td>
<td>265</td>
<td>1,253</td>
</tr>
<tr>
<td>Statutory auditors (excluding outside statutory auditors)</td>
<td>2</td>
<td>70</td>
<td>53</td>
<td>-</td>
<td>124</td>
</tr>
<tr>
<td>Outside directors and statutory auditors</td>
<td>6</td>
<td>72</td>
<td>-</td>
<td>-</td>
<td>72</td>
</tr>
</tbody>
</table>

Notes: 1. The recipients in the table include six directors who retired during fiscal 2014. They are stated under the classification “Directors (excluding outside directors).”
2. Amounts stated as stock options include the cost associated with the accounting of stock acquisition rights issued in a so-called stock-linked compensation scheme.
3. The maximum permitted financial compensation amount for directors, including base and performance-linked compensation, is ¥1,200 million per fiscal year (resolution of the 81st Ordinary General Meeting of Shareholders, on June 28, 2006). The maximum amount of stock acquisition rights that may be issued per fiscal year for directors, excluding outside directors, is ¥300 million (resolution of the 82nd Ordinary General Meeting of Shareholders, on June 27, 2007).
4. The maximum permitted financial compensation amount for statutory auditors, including base and performance-linked compensation, is ¥160 million per fiscal year (resolution of the 81st Ordinary General Meeting of Shareholders, on June 28, 2006).

Promoting Dialogue with Investors

For individual investors
- Participated in seminars sponsored by securities firms and conducted our own briefing sessions: 14 times, in total

For analysts and institutional investors
- Financial results briefings: Once each quarter (At year-end financial results briefings, the president explains the state of progress on the Medium-Term Business Plan.)
- Small meetings: Twice
- Factory tours: Twice

For overseas institutional investors
- Generally visit Europe, the United States, and Asia semi-annually
- Participated in conferences in Japan for foreign investors: Three times

Compliance

MHI’s Compliance Committee was established in 2001 to strictly observe applicable laws and social norms and to promote fair and honest business practices. This committee was recast as the Risk Management & Compliance Committee in December 2012. While accelerating the globalization of MHI Group business activities to reinforce its compliance activities, in April 2015 MHI integrated the Risk Management & Compliance Committee, which was charged with promoting risk management and overall compliance, with the Business Compliance Committee, which promoted compliance with antitrust/anti-trust laws and the Construction Business Act, into the Compliance Committee. Chaired by the CAO/CRO, Compliance Committee members consist of senior general managers of Corporate Departments, the general manager of the Oil & Gas Business Development Department, and general managers from all administration departments in each headquarters and business domain. The committee meets twice annually to draw up companywide compliance promotion plans, confirm progress, and engage in other activities.

Departmental Compliance Committees have been established in all departments of the Company to strengthen compliance measures for each respective department. These committees are chaired by the member of the Compliance Committee in each department. At the same time, Compliance Liaison Conferences are in place for regularly exchanging compliance information with Group companies. Through these two types of organizations, each department works to consistently implement its own compliance and to act independently and responsibly in carrying out compliance activities.

Furthermore, in May 2015 the Company advanced the MHI Compliance Principles set forth in 2001 by formulating the MHI Group Global Code of Conduct. As a global company, MHI employs thousands of individuals from different backgrounds, nationalities, and cultures. This diversity of talent and perspectives is one of our greatest assets. At the same time, however, MHI as a company must operate with a single corporate culture that enables it to compete successfully in the global market while maintaining its reputation as a company of high integrity and ethics. The Code of Conduct describes how MHI employees should conduct themselves.

Please visit our website for more detailed information concerning our compliance system and initiatives.

http://www.mhi-global.com/company/csr/esg/governance/compliance/compliance02.html
Recruiting and Cultivating Diverse Human Resources to Win Out over the Global Competition

Amid its efforts to accelerate globalization and revise its business model, MHI recognizes that diversity in human resources is core to its business activities. Accordingly, we are reinforcing diversity management, centering on recruiting and cultivating global human resources and providing opportunities for female employees.

► Development of Local Staff

Training and promoting staff who are hired locally is of the utmost importance to MHI’s efforts to accelerate business globalization. Currently, we are working to create a human resource database and other systems with global applications. As part of training, we believe it is important to share information with local staff about MHI’s management principles, the history of the MHI Group, and the types of businesses it operates. For this reason, we have created and begun distributing to local staff around the world a succinct educational booklet called “Introduction to MHI Group.” In fiscal 2015, we will establish an environment that allows staff to educate themselves as and when necessary from any location by expanding the English content of our e-learning website (3,000 subjects), which can also be used from overseas.

► Education to Strengthen Global Responsiveness

MHI is working to improve employee capabilities and enhance education with the aim of being a global corporation that is capable of responding to changes in a rapidly transforming market. Based on on-the-job training (OJT) in workplaces, we are implementing various educational programs starting immediately after hiring according to job level and function. The main themes of education according to job level include leadership and management.

With the aim of strengthening our ability to respond to globalization, starting from fiscal 2011 we established new systems, including MHI Global Training (MGT). In fiscal 2014, 14 employees were dispatched overseas for this training.

► Promoting an Active Participation of Women

In order to further accelerate the Company’s global expansion and to make the leap to becoming a highly profitable enterprise with a business scale of ¥5 trillion, MHI is promoting the active participation of women in the workplace in conjunction with MHI’s pursuit of diversity management. In July 2014, MHI set a target to increase the number of the Company’s female managers (in positions of section manager and higher) threefold from the current level by 2020.

With regard to promoting the active participation of women, MHI is undertaking efforts centered on expanding various support systems that provide an environment for balancing work and childcare. These programs take into account needs during such times as pregnancy, childbirth, child-rearing, and family care. Our systems for childcare leave and family-care leave, as well as our system of shortened work hours for employees raising children and employees providing family care, all exceed statutory minimums. We have also introduced a unique child-planning leave system, which can be used for fertility treatment.

Our next phase of activity will address four themes: increasing the number of female employees, providing career support during periods of child-rearing or family care, the steady cultivation of female managers, and fostering the corporate culture. We will consider flexible working styles that facilitate a quick return to work after childbirth and child-rearing and create a framework and an environment to further advance the careers of women.
Conducting Global Intellectual Property Activities and R&D That Support MHI’s Business Strategies

Manufacturing technologies are the source of value creation for the MHI Group, and intellectual property activities and R&D are the bedrock of its business. Supporting our business strategies for growth, we are promoting the construction of a global system, led by the chief technology officer (CTO), who is the head of technology.

An Integrated Approach Linking Businesses, Intellectual Property, and R&D

The MHI Group integrally develops its business, intellectual property, and R&D strategies. The MHI Group defines intellectual property strategies centered on the guiding policies of each business segment, with business, intellectual property, and R&D departments working closely together to implement these strategies. By having the intellectual property departments coordinate the intellectual property strategies of all business segments, the MHI Group strives to realize the intellectual property strategy of the Group and further enhance its corporate value.

Intellectual Property Activity Policy

The 2015 Medium-Term Business Plan, launched in April 2015, sets the objective of MHI becoming a company with a scale of business exceeding ¥5 trillion by fiscal 2017. To achieve this goal, the plan calls for efforts to strengthen the intellectual property structure as a common business strategy by promoting the use of intellectual properties that support an increase in business scale and establishing an intellectual property management system as a global company.

To promote the use of intellectual properties that support an increase in business scale, while pursuing the various collaboration models that will enable us to achieve a business scale exceeding ¥5 trillion, we will promote collaborative synergies from the aspect of intellectual property. Furthermore, we will position the use of intellectual property as the main thrust of our intellectual property activities, pursuing strategic use of intellectual properties tailored to our business portfolio.

To establish an intellectual property management system as a global company, we will respond to the increasing globalization of the process from invention and creation to the stage of intellectual property management. We will also configure a cooperative Groupwide organization of people involved with intellectual property around the world.

Risk Management Related to Intellectual Property

The MHI Group respects the valid intellectual property of others and, at the same time, promotes the appropriate protection and active use of intellectual property.

To accelerate global development, the MHI Group actively pursues overseas M&A and alliance initiatives and builds bases in other countries. Along with the growth in global M&A activities, the external environment and risk factors related to intellectual property are changing rapidly. Even under these circumstances, when developing its business the MHI Group makes every effort to ensure it respects the intellectual property of others by considering the intellectual property rights of others at every product stage, from basic planning and design to production. In these ways, the MHI Group strives to prevent international intellectual property difficulties from arising.
Research and Development

The MHI Group maintains close ties between its R&D centers and its business domains. This focus enables us to enhance product competitiveness in the Energy & Environment domain and other fields as well as internally R&D with a view to future business expansion.

We are working toward the globalization of our R&D structure, and as part of these efforts we are dispatching specialist engineers from five research centers to our bases in the United Kingdom, Singapore, the United States, and China. We are making efforts to secure leading global technologies, information, and human resources, while conducting research and providing technological support that is closely aligned with market needs.

Furthermore, in April 2015 we established a comprehensive Research & Development Center, consolidating five domestic R&D centers. By transitioning toward a system of business domains and strategic business units (SBU) and shifting toward cross-organizational management, MHI anticipates new synergies in technologies and skills, enhanced development of human resources, and greater efficiency in work performance and facility utilization.

More detailed information on our technology is available for viewing on our website.

http://www.mhi-global.com/company/technology/index.html

Thomson Reuters Corporation* Names MHI among “Top 100 Global Innovators” in 2014

In November 2014, MHI was named one of the world’s 100 most innovative companies of 2014 by New York-based Thomson Reuters Corporation for the third consecutive year.

Thomson Reuters annually selects what it considers to be the world’s most innovative companies or research institutes based on an analysis of its own patent database. The 100 companies and research institutes honored are recognized as “top global innovators” for the impact of their valuable inventions on the global market, their appropriate protection of intellectual property rights, and the global development that results from their commercialization.

MHI received high marks for its innovations and intellectual property activities, particularly in the categories of patent approval success rate (the percentage of patent applications granted by the Japan Patent Office) and global reach of the patent portfolio.

* Thomson Reuters is a New York-based global information services company. It was established in 2008 when the Thomson Corporation, a Canadian information services provider, purchased Reuters Group PLC, the British communications giant. Presently, Thomson Reuters has approximately 60,000 employees working in more than 100 countries worldwide.
Corporate Data (As of March 31, 2015)

Stock Listings: Tokyo, Nagoya, Fukuoka, and Sapporo Stock Exchanges
Ticker Code: 7011
Manager of the Register of Shareholders: Mitsubishi UFJ Trust and Banking Corporation
Independent Auditors: Ernst & Young ShinNihon LLC

Head Office: 16-5, Konan 2-chome, Minato-ku, Tokyo 108-8215, Japan
Phone: +81-3-6716-3111 Fax: +81-3-6716-5800
Established: January 11, 1950
Paid-in Capital: ¥265.6 billion
Total Number of Issuable Shares: 6,000,000,000
Total Number of Shares Issued: 3,373,647,813
Number of Shareholders: 272,620
Number of Employees: 81,845 (Consolidated) 21,117 (Non-consolidated)

Major Shareholders

<table>
<thead>
<tr>
<th>Major Shareholders</th>
<th>Number of shares owned by major shareholders</th>
<th>% of total shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>145,868,000</td>
<td>4.32%</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>134,624,900</td>
<td>3.99%</td>
</tr>
<tr>
<td>The Nomura Trust and Banking Co., Ltd. (Retirement Benefit Trust Account for The Bank of Tokyo-Mitsubishi UFJ, Ltd.)</td>
<td>125,666,000</td>
<td>3.72%</td>
</tr>
<tr>
<td>Meiji Yasuda Life Insurance Company</td>
<td>80,022,741</td>
<td>2.37%</td>
</tr>
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<td>The Bank of New York Mellon SA/NV 10</td>
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<td>State Street Bank West Client-Treaty 505234</td>
<td>40,904,260</td>
<td>1.21%</td>
</tr>
<tr>
<td>CBNY-GOVERNMENT OF NORWAY</td>
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<td>1.13%</td>
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<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account 1)</td>
<td>35,171,000</td>
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</tr>
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Stock Price Range and Trading Volume (Tokyo Stock Exchange)

Classified by Type of Shareholder

- Financial institutions 31.47%
- Securities companies 2.18%
- Other corporations 8.46%
- Individuals and others 26.27%
- Foreign institutions and individuals 31.62%

Classified by Number of Holdings

- Less than 1,000 shares (13,926 persons) 0.08%
- 1,000 shares and above (210,470 persons) 1.26%
- 5,000 shares and above (29,229 persons) 5.16%
- 10,000 shares and above (17,438 persons) 7.60%
- 100,000 shares and above (885 persons) 75.48%
- 50,000 shares and above (17,438 persons) 75.48%

Manager of the Register of Shareholders: Mitsubishi UFJ Trust and Banking Corporation

Independent Auditors: Ernst & Young ShinNihon LLC

Global Head Office: 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

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Overseas Head Offices and Networks

**North America**
1. Mitsubishi Heavy Industries America, Inc.

**Latin America**
3. Mitsubishi Heavy Industries Mexicana, S.A. de C.V.

**Europe**
4. Mitsubishi Heavy Industries France S.A.S.
5. Mitsubishi Heavy Industries Europe, Ltd.

**Asia**
6. Mitsubishi Heavy Industries (China) Co., Ltd.
7. Mitsubishi Heavy Industries (Shanghai) Co., Ltd.
8. Mitsubishi Heavy Industries (Hong Kong) Ltd.
9. Mitsubishi Heavy Industries Asia Pacific Pte. Ltd.
10. Mitsubishi Heavy Industries Philippines, Inc.
11. Mitsubishi Heavy Industries (Thailand) Ltd.
12. Mitsubishi Heavy Industries India Private Ltd.
13. MHI KOREA, Ltd.

Oversea Offices

**Europe**
14. Moscow Liaison Office
15. Kiev Liaison Office
16. Turkey Liaison Office

**Middle East**
17. Basra Liaison Office
18. Dubai Office
19. Abu Dhabi Office

**Asia**
20. Taipei Office
21. Hanoi Liaison Office
22. Ho Chi Minh City Liaison Office
23. Kuala Lumpur Office
24. Jakarta Liaison Office

**Africa**
25. Johannesburg Office

For information on overseas Group companies not provided above, please refer to the “Global Network” section of our website.

http://www.mhi-global.com/network/index.html