



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.

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.

* Average of orders received and net sales



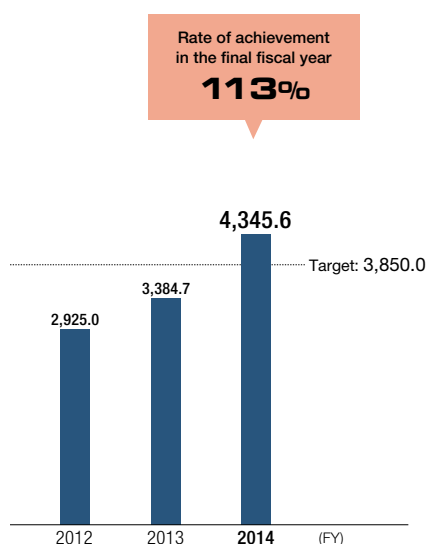
Please watch the video on the website below.

www.mhi-global.com/finance/mr2015

2012 Medium-Term Business Plan Achievements

Business Scale

Billions of yen

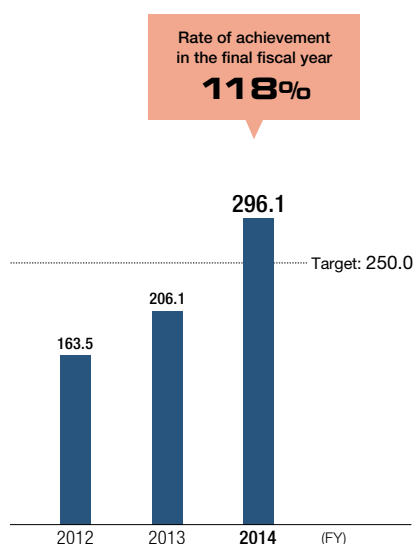


Contributing factors

- Acceleration of global expansion through M&As
- Launch of business domain system (focus on companywide merits and growth areas)
- Impact of yen depreciation

Operating Income

Billions of yen

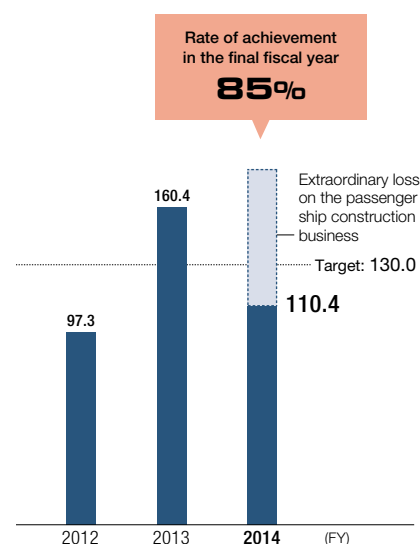


Contributing factors

- Introduction of SBUs and strategic business evaluation system
- Cost reductions from corporate and business structure reforms
- Impact of yen depreciation

Net Income

Billions of yen



Contributing factors

- Implementation of measures in the cruise ships business
- Further strengthening of risk response capability

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.

Businesses Are Prepared to Compete on Global Terms under the 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

Business domain	Machinery, Equipment & Infrastructure	Energy & Environment	Machinery, Equipment & Infrastructure
Company	Mitsubishi Nichiyu Forklift Co., Ltd.	MHPS	Primetals Technologies, Ltd.
Product / Business	Forklift trucks	Thermal power generation systems	Metals machinery
Sales scale (FY2014)	Approx. ¥250 billion	Approx. ¥1.2 trillion	Approx. ¥300 billion
Net sales contribution (FY2014)	Approx. ¥80 billion	Approx. ¥400 billion	Approx. ¥50 billion*
Personnel (As of March 2015)	Approx. 6,000	Approx. 21,000	Approx. 8,000
Achieved synergies	<ul style="list-style-type: none"> ■ Configuration of merged product lineup (engine-powered and electric models) ■ Optimization of production / procurement systems 	<ul style="list-style-type: none"> ■ Strengthened boiler business with incorporation of Babcock-Hitachi (Oct. 2014) ■ Completed a full lineup of gas turbines (small to large-scale) ■ Received an order to design the world's most advanced IGCC system (Fukushima recovery) 	<ul style="list-style-type: none"> ■ Developed worldwide business network through integration of respectively strong geographic regions
Future synergies	<ul style="list-style-type: none"> ■ Exchange of human resources, optimization of bases ■ Development of locally focused products ■ Distribution solutions business 	<ul style="list-style-type: none"> ■ Improvement of small / medium-scale gas turbine performance by applying large-scale model technologies ■ Establishment of domestic and overseas manufacturing bases ■ Expanded coverage of servicing markets 	<ul style="list-style-type: none"> ■ Reorganization of domestic and overseas manufacturing bases ■ Reduction of procurement and development costs ■ Increase in EPC work

* 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.

► The Feature section on page 30 highlights the MRJ business.

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.

► The identification of material issues that have a major impact on society and our corporate value is explained on page 24.

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 derives 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. ”

