Through cash flow–oriented financial and capital policies, we will simultaneously pursue expansion of business scale, a stronger financial base, and high profitability.

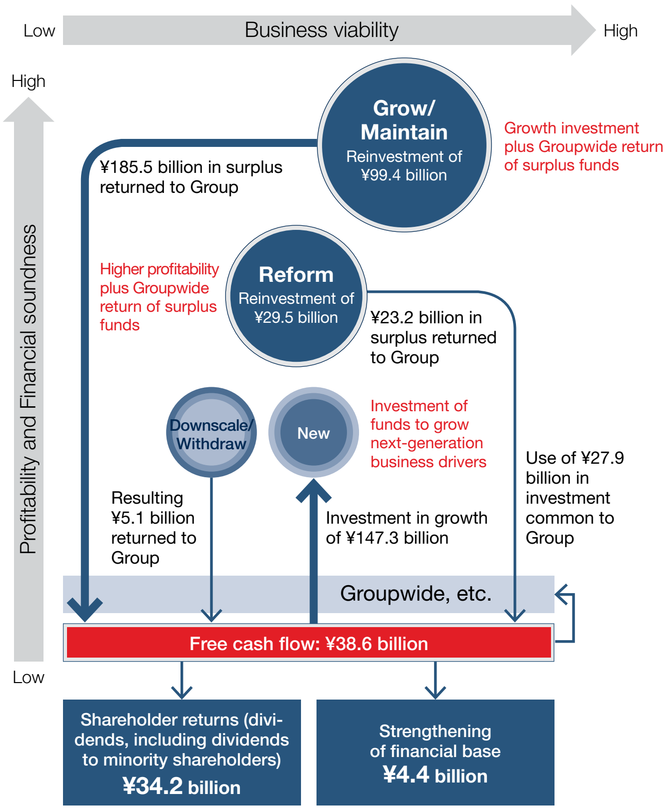
Masanori Koguchi
Director,
Executive Vice President,
Chief Financial Officer

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.

FY2014 Cash Flow

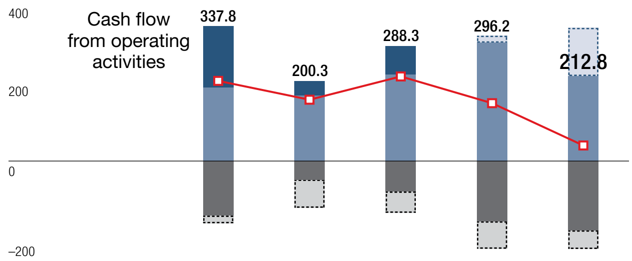


As a result, we are freeing up funds that were formerly tied to specific businesses and improving cash flow. By allocating abundant resources to “grow/maintain” businesses, we are expanding the scale, boosting the profitability, and raising the capital efficiency of these existing businesses. Surplus 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 ¥99.4 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.

Free Cash Flow FY2010–FY2014

(Billions of yen)



(FY)	2010	2011	2012	2013	2014
Free cash flow	200.5	153.3	211.6	144.6	38.6
Cash flow from improvement in operating capital efficiency	153.5	36.1	70.7	−17.5	−120.5
Cash flow margin	184.2	164.1	217.6	313.8	333.3
Cash flow from investing activities	−137.2	−47.0	−76.7	−151.5	−174.1
Asset liquidation	19.1	70.5	53.4	68.7	46.7
Return on invested capital (times)	1.06	1.11	1.14	1.29	1.37
EBITDA margin (%)	8.1	8.4	10.0	10.4	11.7
Interest-bearing debt	1,325.6	1,157.1	1,031.2	957.4	975.5
Interest expense	22.8	20.9	17.5	16.1	15.9
D/E ratio (times)	1.01	0.89	0.72	0.54	0.46

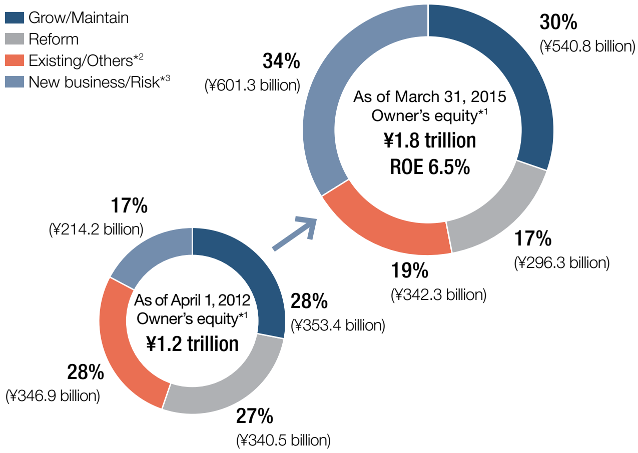
Targeting Increased Net Worth and Higher ROE While Focusing Investments into Growth Businesses

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 investments, and buffer funds to prepare for the manifestation of risk was also expanded significantly. These changes effected to the capital allocation structure signify that as a Group our ability to generate cash flow has strengthened further, and that we are making steady progress in responding to various business risks and in nurturing “new” businesses that will drive our future growth.

In our 2015 Medium-Term Business Plan, we have strategically reconfigured our product mix and introduced other measures to boost profitability toward our target of ROE of 10% or more and respond resiliently both to future business opportunities and to risks in the global market by further reinforcing our financial base. These measures include: 1) increasing our net worth to more than ¥2 trillion; 2) securing an equity buffer exceeding ¥250 billion and a fundraising capacity exceeding ¥600 billion, and 3) acquiring and maintaining an international “A” rating.

Furthermore, while balancing investment in growth and increased net worth, our policy on shareholder returns targets a consolidated payout ratio of 30%.

Capital Allocation for Becoming a Highly Profitable ¥5 Trillion Enterprise



*1. Owner’s equity = net assets – minority interests – share subscription rights
*2. Capital for the existing SBUs in the “new” category as well as seed money (growth investments) and capital required as a buffer for unexpected risk
*3. Capital for SBUs in the “downscale/withdraw” category and the “common to the entire Company” category

	FY2010 Actual	FY2012 Actual	FY2014 Actual	FY2017 Targets
Indicators of financial soundness				
D/E ratio	1.01 times	0.72 times	0.46 times	0.4 times
Equity ratio	31.6%	35.0%	32.3%	35%
Indicator of investment efficiency				
ROE	2.4%	7.4%	6.5%	10.2%