

▶ President's Message

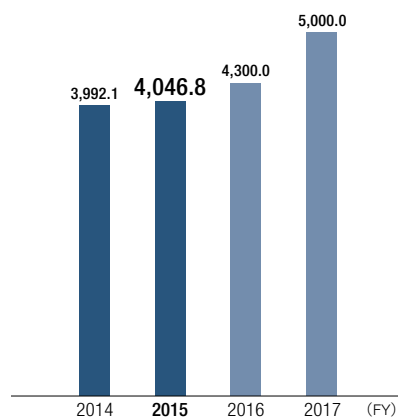


**To reach the next stage,
we will strengthen our
risk management and
hone our unique strengths.**

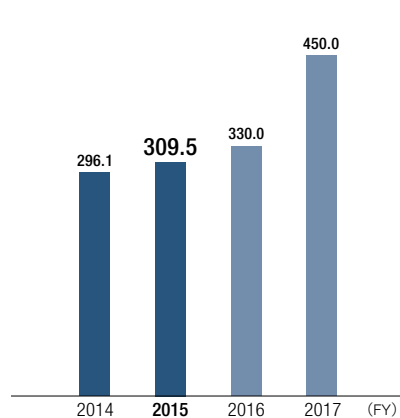
Shunichi Miyanaga
President and CEO

Results for FY2015 and Targets of 2015 Medium-Term Business Plan

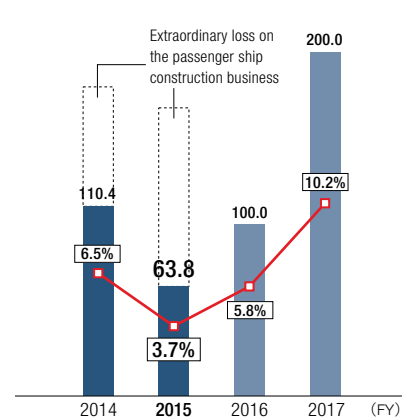
Net Sales
Billions of yen



Operating Income
Billions of yen



Profit Attributable to Owners of Parent / ROE
Billions of yen





Please watch the video on the website below.

www.mhi-global.com/finance/mr2016

Our 2015 Business Plan Is Generally on Course, but We Face Challenges in Our Cruise Ship Construction Business.

In April 2015, we launched the MHI Group's 2015 Medium-Term Business Plan spanning fiscal 2015 to fiscal 2017. Since its creation, we have implemented a slate of measures to achieve the goals set out in the plan. One year in, we have made steady progress overall, and our drive toward business scale expansion and improved profitability is more or less proceeding as planned. In fiscal 2015, however, our large cruise ship construction project again required more time and resources than we had originally assumed. This resulted in the booking of an extraordinary loss for the term, exceeding ¥100 billion, which caused our net income to finish substantially below target. Compounding this, there were a number of changes in our business environment during the past year, including a slowdown in the global economy and increased competition. In response, we took steps to reinforce our 2015 Medium-Term Business Plan by introducing additional measures targeting enhanced

risk resilience and faster post-merger integration (PMI) in February 2016.

MHI traces its origins to shipbuilding, and it has a strong track record in the construction of cruise ships. The construction of cruise ships for the AIDA Cruises brand resulted in what I believe is a truly outstanding vessel. However, the difficulties we experienced during its construction were caused by technical shortcomings in producing the hotel-class accommodation and entertainment facilities that the project required. The specifications of cruise ships have advanced significantly in recent years, and MHI did not objectively evaluate its corresponding technical and comprehensive management capabilities for the construction project. As a result, we made various decisions using outdated parameters. Any company that aims for ongoing development must take up new challenges—there is nothing wrong with stepping into uncharted waters—but in this case, there were many areas that now call for serious review and the correction of shortcomings identified along the way. For example, our approach to decision making and the lack of a framework for making sober, objective evaluations of overall technological and management capabilities will require consideration. In response, we are now doing our utmost to solidify the required risk management mechanisms.

Measures of 2015 Medium-Term Business Plan

Existing	Additional
<ul style="list-style-type: none"> • Promote domain-based targets with clear aims and strategies for their achievement • Strategically reconfigure the product mix • Strengthen relatively superior products and technologies • Reform and create new businesses and business models for the next generation • Strengthen the technology base and innovate • Develop more advanced business processes and strengthen human resources • Reform the corporate governance system 	<ul style="list-style-type: none"> • Accelerate independent management and PMI • Reduce operating capital • Pursue optimum efficiency • Asset management • Radically reconsider risk management structure • Establish shared technology framework

Seeking Stronger Risk Management to Support the Next Stage

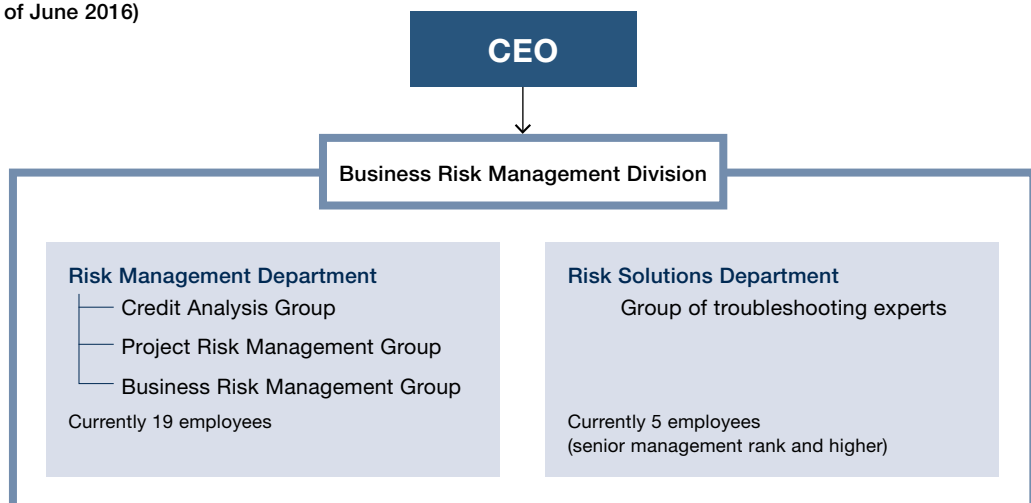
A core aspect of our response to these shortcomings is the launch of the Business Risk Management Division, under my direct oversight, which will strengthen our risk management capabilities. The new division incorporates both a Risk Management Department and a Risk Solutions Department. The Risk Management Department is charged with addressing business risks at the corporate level and preventing risks at the process level. The Risk Solutions Department will primarily focus on devising solutions and supporting settlements after serious risk incidents have occurred.

The reason the new Business Risk Management Division was placed under the direct oversight of the CEO is because risk judgments are an inseparable component of our aspiration to grow in business scale. Determining which risks to take on in order to achieve growth is the very essence of business decision making, and this is an issue that should be decided by top management. In the days when the business environment offered robust growth opportunities in Japan, perhaps it was not necessary to take on such significant risks. Today, however, if the MHI Group is to thrive in the future, it is inevitable that we must take up new challenges, such as creating new businesses

or undertaking projects for overseas clients. I believe it is therefore absolutely necessary for the MHI Group to pursue a new type of risk management appropriate to this situation, using as reference points the risk management formats adopted by overseas companies, and learning from previous cases and how they were dealt with.

Our experiences from the large cruise ship construction project, combined with the experience we have gained in resolving related issues, deepened our understanding of risk management. However, given the magnitude of the loss we incurred, this series of events simply cannot be written off as a “worthy lesson.” Fortunately, we have been able to get through this process thanks to a strong financial footing achieved through various initiatives implemented in recent years. These include enhancement of our earning capacity, for example, and a transition to cash flow management. Had we been unable to cope in this way, the impact of the cruise ship issue on the MHI Group could have been extremely negative. We must therefore reflect closely on this incident as well as other substantial loss-generating incidents in our past and apply lessons learned to the creation of a new, more risk-resilient organization. Regarding our cruise ship construction business, we established a business evaluation committee in April 2016. The committee is now undertaking discussions on overall strategies for our commercial ship business, including determination of whether or not we should continue our cruise ship construction operations.

New Risk Management Structure (As of June 2016)





Accountability Is Fundamental to Good Governance

Regarding risk response and business decisions, the functions of the Board of Directors meetings have changed considerably during the past few years. Previously, discussions made prior to voting tended to be somewhat lacking in substance. Now, more time is allotted to actively explaining and debating management policy. This includes our strategies, our approach to given issues, the criteria on which decisions have been reached, our business status, objective analysis, and so on. What I would like is for our outside directors, who serve in a supervisory role, along with our own members of the Audit and Supervisory Committee, to be informed of management's views earlier on and to be able to engage in dynamic discussions from a variety of perspectives. My hope is for discussions and decisions of a more substantial nature and not mere perfunctory proceedings.

Regarding the makeup of the Board of Directors, we have already reduced the number of internal directors and increased the number of outside

directors. Most recently, at our general shareholders meeting in June we decided to release the CEOs of the various domains from their appointments as directors so that they could devote themselves exclusively to business management as executives. As a result, the internal members of the Board of Directors now consist of the chairman, two members of the Audit and Supervisory Committee, and, from the executive side, the CEO, CFO, and CTO—six in total. The number of outside directors now stands at five, close to half the entire Board membership. The number serving in a supervisory role is eight, well above the three members from the executive side. In this way, our management supervisory functions have been strengthened further.

I believe governance is something that must change continuously, to be in step with the changing demands society makes of companies and their purpose. At MHI, we have a responsibility to develop technologies critical to many industries. However, as our business operations expand globally, we shoulder responsibilities that are increasing in breadth and complexity. To fulfill these responsibilities in a manner that befits a global corporation, we are putting into practice the 10 principles of the UN Global Compact relating to human rights, labor, the environment, and anti-corruption. Above all, I believe that the foundation of good governance exists in providing honest, sincere, and convincing explanations of our business processes, their results, and their impact across the full spectrum of our stakeholders—including shareholders, customers, business partners, affiliates, and suppliers. To achieve such good governance, our aim is to solicit a wide range of opinions at Board of Directors meetings concerning the MHI Group's role in society and social values. We will then share the views debated with all employees and convey this information to our external stakeholders. These efforts toward greater transparency will surely also lead to stronger risk management.

For details about MHI's efforts to enhance transparency in corporate governance and reinforce risk management, please see the roundtable discussion with the Company's president and outside directors on page 42.

Competing Globally Requires Us to Utilize Partnerships and M&A as well as Our Own Unique Strengths

Taking firm action to strengthen our risk management does not mean we are shunning an aggressive business stance. We are vigorously driving our growth strategies forward. We currently have a robust backlog of orders and expect more to come, so we are confident that by strengthening our risk management and steadily accelerating PMI (as I will discuss below), we should still be able to achieve the results targeted in our 2015 Medium-Term Business Plan, even if some changes occur in the business environment. We are setting our sights on the years beyond that. Our main pillar of growth will be the subsequent business plan, and our Mitsubishi Regional Jet (MRJ) business is making steady progress in terms of both development and preparation for mass production, with delivery of the first aircraft expected in 2018.

Once that is accomplished, in order to achieve further growth we must then strengthen business areas in which we excel, boost our presence in already active regions, and consider new businesses to add to our portfolio after the MRJ. Two factors will be important in that pursuit.

First, instead of holding resolutely to the determination to do everything ourselves, we must pursue business partnerships and M&A, implementing strategies tailored to the parameters of each region or business area. In seeking to enter new realms, there are limits to how well we can compete relying on our own capability alone. We

Growth Will Be Driven by Three Major Joint Ventures (JVs)

We are now placing particular focus on accelerating PMI at our three core JV operations: Mitsubishi Hitachi Power Systems, Ltd. (MHPS), Primetals

Technologies, Ltd., and Mitsubishi Heavy Industries Forklift, Engine & Turbocharger Holdings, Ltd. (M-FET). We view these three JVs as vital elements to the MHI Group's business scale and earnings. Currently, we are promoting their swift and independent management, in line with their business characteristics. All three JVs already occupy leading market positions globally in their respective business areas. We anticipate that by further boosting efficiency through organizational restructuring, and through generating synergies in technology and

may also lack the ability to independently make appropriate strategy decisions. For these reasons, we will need to seek out the best partners to achieve our goals and make active use of their expertise.

Second, we will need to make use of strengths that will enable differentiation from our competitors. Given that our major competitors are of a very large scale, there can be no denying that if we attempt to compete against them directly in the same arena, we will experience difficulties. What we must therefore do is arm ourselves with unique business capabilities—advantages that we possess and our competitors lack—namely, engineering or engineering, procurement, and construction (EPC) encompassing diverse technologies and products. Growing our engineering and EPC functions further, and applying our strength in integrating them in line with the diverse needs of each region or market will be vital to our future development. Our basic strategy will be to strengthen the MHI Group's unique capabilities in engineering, build alliances and pursue M&A, and strive for global expansion that is highly attuned to local needs.

To put these plans into practice, we will need to develop the human resources capable of forming fruitful partnerships in new markets around the world. Also, to bolster the risk management capabilities throughout the Company, it will be vital to have our employees gain extensive experience, starting early in their careers. Traditionally, MHI has focused on human resource development through on-the-job training, but to foster employees who can work at a global level, we must also consider adopting a more methodical approach to this process.

To follow progress on the MRJ business, please see the business segment overview portion of our explanation of the Commercial Aviation & Transportation Systems Domain on page 36.

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expertise, they will drive the MHI Group's future growth. In the final year of the 2015 Medium-Term Business Plan, we are projecting that collectively these three companies will account for roughly 60% of our consolidated net sales and operating income.

Reflecting the economic slowdown in China, the resulting economic stagnation in resource-rich countries and Japan and Europe, and the United Kingdom's withdrawal from the European Union, the global economic picture today is becoming increasingly opaque, and the business environment surrounding the MHI Group is becoming more severe. As a business, we must nonetheless seek sustained growth and expansion in the face of these

headwinds. By responding effectively and swiftly to such changes, and by building up a position of superiority over our competitors, we can survive amid global competition. I believe we need to view these changes not as a threat but as an opportunity—an opportunity that compels us to devise flexible measures for dealing with these events.

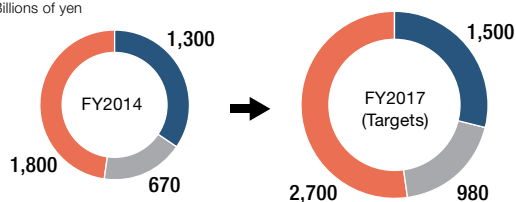
MHPS' strategies are described in the business segment overview section for the Energy & Environment domain on page 34. On page 40, the business segment overview for the Machinery, Equipment & Infrastructure domain offers an explanation of strategies for Primetals Technologies and M-FET.

Promoting Growth at Three Independently Managed JVs

■ Business domains ■ Wholly owned Group companies and consolidated subsidiaries ■ Independently managed JVs

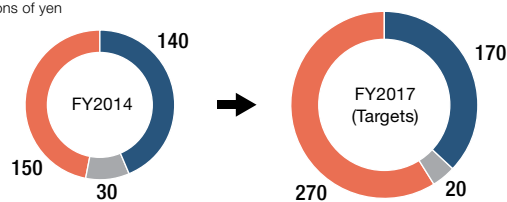
Net Sales

Billions of yen



Operating Income

Billions of yen



Making a Social Contribution through Business to “MOVE THE WORLD FORWARD”

In our drive toward becoming a fully global company, and in our efforts to compete with overseas rivals, I have come to keenly sense the need for greater name recognition. Although we are known to a significant extent within the domestic market, the name “MHI Group” is relatively unfamiliar internationally—a fact that must surely disadvantage our sales initiatives. We need to win a greater understanding overseas of what the MHI Group does and what our management stance is, and thereby attract new customers from these overseas markets. In May 2016, we created a new Group Statement and tagline that we are now using in our overseas advertising campaigns and communications activities. I recently had the occasion to visit New York, where I met with many leading journalists. When I talked to them about the strengths

of the MHI Group and explained the social contributions we have made, their response was quite favorable. Going forward, I will continue visiting other parts of the world to make our name and activities more widely known.

Throughout the years, we have continued to hone our technology—the foundation on which social infrastructure is built—in accordance with the shifting needs of the times. I am proud to say that through a deep understanding of the demands of our customers and stakeholders, we have consistently and seamlessly integrated our technologies, enabling us to create practical solutions that contribute to social progress. Our Group Statement defines the role we should play and the values that we provide to customers the world over. Our tagline, “MOVE THE WORLD FORWARD” encapsulates what we do: provide value and spur progress in the world. As a key principle of our corporate aspiration, the MHI Group's raison d'être is to contribute to global development and to keep growing together. Looking ahead, we will continue to ensure that our business is helping move the world forward into a safe, secure, and prosperous future.