2012 Medium-Term Business Plan (2012-2014)

May, 2012
Hideaki Omiya, President
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I. Review of 2010
Mid Term Business Plan
Steady progress against 2010 Plan, with challenges clearly identified

**Achievements**

1. Improved profitability
2. Shifted to flexible and agile management structure
3. Introduced key performance indicators to drive corporate value (Strategic Added Value per SBU)

**Challenges**

1. Sluggish growth in sales
2. Low levels of invested capital efficiency and net profit

### Orders received

<table>
<thead>
<tr>
<th></th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders received (In billion yen)</td>
<td>2,900</td>
<td>2,900</td>
<td>2,800</td>
</tr>
</tbody>
</table>

### Net sales

<table>
<thead>
<tr>
<th></th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales (In billion yen)</td>
<td>2,900</td>
<td>2,900</td>
<td>2,800</td>
</tr>
</tbody>
</table>

### Profitability (%)

<table>
<thead>
<tr>
<th></th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit (In billion yen)</td>
<td>65.6</td>
<td>75.0</td>
<td>110.0</td>
</tr>
</tbody>
</table>

### ROE (%)

<table>
<thead>
<tr>
<th></th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (In billion yen)</td>
<td>14.1</td>
<td>20.0</td>
<td>35.0</td>
</tr>
</tbody>
</table>

### Exchange rate (JPY/USD)

<table>
<thead>
<tr>
<th></th>
<th>FY2009</th>
<th>FY2010</th>
<th>FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange rate (JPY/USD)</td>
<td>95</td>
<td>90</td>
<td>85</td>
</tr>
</tbody>
</table>

SBU: Strategic Business Unit
Achievement (1): Improved profitability to overcome FX pressures

Operating Profit

<table>
<thead>
<tr>
<th></th>
<th>FY2009 [Actual]</th>
<th>111.9</th>
<th>FY2011 [Actual]</th>
<th>188.1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net sales</td>
<td>+21.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in material costs</td>
<td>+2.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in R&amp;D costs</td>
<td>+13.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvement measures</td>
<td>+84.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange impact</td>
<td>-76.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Billion yen)</td>
<td></td>
<td>110.0</td>
<td>Forecast</td>
<td>81</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY2010</th>
<th>FY2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Changes in net sales</td>
<td>+2.8</td>
<td></td>
</tr>
<tr>
<td>Change in material costs</td>
<td>+13.8</td>
<td></td>
</tr>
<tr>
<td>Change in R&amp;D costs</td>
<td>+49.8</td>
<td>+34.3</td>
</tr>
<tr>
<td>Improvement measures</td>
<td>+84.1</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange impact</td>
<td>-76.3</td>
<td></td>
</tr>
<tr>
<td>(Billion yen)</td>
<td>110.0</td>
<td>188.1</td>
</tr>
</tbody>
</table>

- Expanding the global production system (Increasing overseas bases of Power Systems and Machinery & Steel Infrastructure Systems)
- Business restructuring and structural reform (downsizing and withdrawal from poorly performing businesses)
- Promotion of enterprise-wide cross-functional initiatives (Modular design project)
Achievement (2): Shifted to flexible and agile management structure

- Reinforced vertical operational alignment: Switched from matrix to business headquarters structure
- Strengthen customer focus: Global Strategic Planning & Operations Headquarters
- Reinforce enterprise-wide cross functional initiatives: Technology & Innovation Headquarters
- Reinforced regional sales operations
- Developed solutions business
- Realized comprehensive capabilities
- Reinforced technology basis (R&D, manufacturing, business processes)
- Enhanced business strategy functions
- Integrated business support functions
Achievement (3): Introduced key performance indicators to drive corporate value

2010 Business Plan

ROE as key performance indicator

-- Emphasis on invested capital efficiency --

Introduced “strategic business evaluations”

Evaluate SBU with Strategic Added Value (SAV)

Portfolio management to maximize corporate value with limited resources

- Reconfigured 64 SBUs’ business and financial profiles
- Decision criteria to strategically choose and focus

SAV: Strategic Added Value (valuation metrics combining business viability and efficiency)
II. 2012 Mid Term Business Plan
## Financial Targets

### 2012 Business Plan

<table>
<thead>
<tr>
<th></th>
<th>FY2010 Actual</th>
<th>FY2011 Actual</th>
<th>FY2012 Forecast</th>
<th>FY2014 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders received</td>
<td>2,995.4</td>
<td>3,188.8</td>
<td>3,400.0</td>
<td>4,000.0</td>
</tr>
<tr>
<td>(Shares of overseas sales)</td>
<td>(44%)</td>
<td>(43%)</td>
<td>(58%)</td>
<td>(64%)</td>
</tr>
<tr>
<td>Sales</td>
<td>2,903.7</td>
<td>2,820.9</td>
<td>3,000.0</td>
<td>3,700.0</td>
</tr>
<tr>
<td>Operating profit</td>
<td>101.2</td>
<td>111.9</td>
<td>120.0</td>
<td>250.0</td>
</tr>
<tr>
<td>(Ordinary income)</td>
<td>(68.1)</td>
<td>(86.1)</td>
<td>(80.0)</td>
<td>(210.0)</td>
</tr>
<tr>
<td>Net income</td>
<td>30.1</td>
<td>24.5</td>
<td>40.0</td>
<td>130.0</td>
</tr>
<tr>
<td>ROE</td>
<td>2.4%</td>
<td>1.9%</td>
<td>3.1%</td>
<td>8.9%</td>
</tr>
<tr>
<td>ROIC</td>
<td>1.5%</td>
<td>1.5%</td>
<td>2.1%</td>
<td>6.5%</td>
</tr>
<tr>
<td>D/E Ratio</td>
<td>1.0</td>
<td>0.9</td>
<td>0.8</td>
<td>0.7</td>
</tr>
<tr>
<td>Interest-bearing debt</td>
<td>1,325.6</td>
<td>1,157.1</td>
<td>1,100.0</td>
<td>1,000.0</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>4 JPY</td>
<td>6 JPY</td>
<td>6 JPY</td>
<td>10 JPY</td>
</tr>
</tbody>
</table>
Analysis of Operating Profit Changes (FY2012)

2010 target vs. 2012 target

Sales 3,400

- Sales decline -60
- Strategic R&D increase -20
- Improvement measures +85
- Foreign exchange -45

3,000

FY2012 2010 Business Plan

Exchange rate (JPY/USD) 90

FY2012 2012 Business Plan

120

80
Analysis of Operating Profit Changes

**FY2011 vs. FY2014**

<table>
<thead>
<tr>
<th>Net sales</th>
<th>2,820.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign exchange impact</td>
<td>-5.0</td>
</tr>
<tr>
<td>Change in net sales</td>
<td>-35.0</td>
</tr>
<tr>
<td>Change in R&amp;D costs</td>
<td>-40.0</td>
</tr>
<tr>
<td>Priority investments</td>
<td></td>
</tr>
<tr>
<td>- MRJ</td>
<td></td>
</tr>
<tr>
<td>- Fields related to new energy, etc.</td>
<td></td>
</tr>
</tbody>
</table>

**Improvement measures**

<table>
<thead>
<tr>
<th>FY2011 vs. FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual: 111.9</td>
</tr>
<tr>
<td>Forecast: 120.0</td>
</tr>
<tr>
<td>Target: 250.0</td>
</tr>
</tbody>
</table>

**Change in net sales**

- Actual: 58.1
- Target: 60.0

**Change in R&D costs**

- Actual: -5.0
- Target: -40.0

**Foreign exchange impact**

- Actual: -35.0

**Low-profit constructions orders received during recession after the Lehman’s fall**

**Exchange rate (JPY/USD)**

- Actual: 81
- Forecast: 80
- Target: 80

**Improvement measures**

- Actual: 53.0
- Target: 17.0

**Change in net sales**

- Actual: +113.0
- Target: +53.0

**Change in R&D costs**

- Actual: +83.1

**Total**

- Actual: 3,000.0
- Target: 3,700.0

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Positioning of 2012 Mid Term Business Plan

"Rolling Plan"

Keep 2010 Plan Momentum and Tackle Challenges

Reform Programs | Growth Programs

- Target 1: Expand Business Scale
- Target 2: Improve Capital Efficiency and Net Income Level

Changes in business environment
- Destabilization of global economies
- Domestic market stagnation
- Long term appreciation of Yen
- Changes in energy policies

First Step Towards Vision: Highly-Profitable 5 Trillion Yen Enterprise
Strategies to Achieve Targets

**Target 1**
- **Expand Business Scale**

**Strategy 1**
- Consolidate and restructure business segments (into four domains) to realize strengths and synergies

**Strategy 2**
- Accelerate global expansion

**Strategy 5**
- Manage innovations in corporate governance and operations

**Target 2**
- **Improve Capital Efficiency and Net Income Level**

**Strategy 3**
- Manage business portfolio based on strategic evaluation

**Strategy 4**
- Institute corporate reforms and efficiency improvements (Optimize shared resources)
Achieve 5 trillion yen sales through consolidation of business segments into four domains and global expansion.
## Consolidate and restructure business segments (four domains) to realize strengths and synergies

### Four domains aligned to customers and markets

<table>
<thead>
<tr>
<th>Business domain</th>
<th>Customers/Markets</th>
<th>Segment</th>
<th>Power Systems</th>
<th>Machinery &amp; Steel Infrastructure Systems</th>
<th>Aerospace Systems</th>
<th>General Machinery &amp; Special Vehicles</th>
<th>Others (Air-Conditioning/Machine Tool)</th>
</tr>
</thead>
</table>
| Energy & Environment | • Power companies  
• Gas companies  
• Resource companies (oil, chemicals, steel) | Shipbuilding & Ocean Development | • GTCC  
• Large-scale thermal power plants  
• Nuclear power plants | • Environmental plants  
• Chemical plants | | | |
| Machinery, Equipment Systems | • Core industries (steel, etc.)  
• Automotive industry  
• Logistics, etc. | | • Stationary engines | • Compressors  
• Metals machinery  
• Crane & material handling systems | | • Turbo-chargers  
• Forklift trucks  
• Engines | • Air-conditioning equipment  
• Machine tools |
| Transportation | • Airlines (air)  
• Shipping companies (sea)  
• Railways (land), etc. | | • Commercial Ships | • Transportation system | • Commercial aircraft | | |
| Defense & Aerospace | • Ministry of Defense (land, sea, air)  
• JAXA | | • Destroyers & submarines for the Ministry of Defense | • Defense aircraft  
• Missiles  
• Space Systems | | |
Business Strategy by Domain
• Accelerate energy and environment business growth by concentrating resources
  (GTCC, IGCC, Large scale coal-fired thermal power plants, etc.)

• Drive new business development with Engineering Headquarters at core
  (Large-scale infrastructure projects, Smart communities)

GTCC: Gas Turbine Combined Cycle, IGCC: Integrated coal Gasification Combined Cycle
Over 210 billion yen in overseas markets, mainly in North America and Asia

**Introduce new technologies and products into markets**
- Strong order intake for J-Series gas turbines with world leading thermal efficiency performance (from Kansai Electric Power and South Korean companies)
- Develop next-generation 1700-deg.C-class gas turbine
- Validation tests for a GTCC-SOFC triple combined system
  - SOFC: Solid Oxide Fuel Cell

**Boost overseas plant capacity**
- Increase gas turbine production capacity in Georgia, USA

**Expand Diamond Network**
- Reinforce engineering and procurement in addition to service functions at regional bases
- Build strong customer relationships in the Americas, Europe and Asia
- Global information sharing
Large-Scale Coal-Fired Thermal Power Plants (Clean Coal Technology)

Enhance competitiveness and increase scale of conventional coal-fired thermal power business
- Establish global production and procurement network via L&T joint venture (India), etc

Continue to develop clean coal technology
- Develop 700-deg.C-class advanced ultra super critical power generation technology
- Accelerate commercialization of IGCC with world-leading efficiency
- Validate CCS technology (500 t/day)
  CCS: Carbon Capture and Storage

Renewable Energy

Develop next generation products
- Large offshore wind turbines with hydraulic drive train (Validation test off Fukushima and in North Sea near U.K.)
- Concentrated Solar Power Generation System with Hot Air Turbine
- Large capacity, high output lithium ion secondary batteries
Establishing globally-recognized engineering group with world-leading EPC capabilities

- Accelerate companywide cross-functional initiatives
- Consolidate common resources to enhance capabilities

- Grow large-scale infrastructure business, including the existing EPC business

EPC: Engineering, Procurement & Construction

- Develop new sectors and businesses, including smart communities and comprehensive water business
Serve customer needs with strengths based on diverse energy and environment products
Energy & Environment (6) – New Sectors & Businesses

Asia
- Smart community in Delhi-Mumbai area (India: Gujarat, Maharashtra, Haryana)
- Nuclear power plant in Vietnam (Ninh Thuan province)
- High-speed rail facilities in Vietnam (Hanoi – Ho Chi Minh City)
- Eco-City smart community (Outskirts of Beijing, China)

Europe
- Nuclear power plant in Finland (Olkiluoto Unit 4)
- ENDESA/EV infrastructure project (Spain: Madrid, etc.)

Middle East
- Nuclear power plant in Jordan
- Masdar City (UAE) *Partial involvement
- CO₂ recovery plant in Qatar

Japan
- Next Generation Energy & Social System Demonstration Area (Kitakyushu)
- Next Generation Energy & Social System Demonstration Area (Kyoto, Osaka & Nara prefectures)

US
- Japan-US smart grid trials (New Mexico)
- Nuclear power plant in Virginia (North Anna Unit 3)
- Overseas nuclear power plants
- CO₂ recovery plant in Alabama (Demonstration)
- High-speed rail facilities in California
- High-speed rail facilities in Brazil
- Large-scale transport systems

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## Machinery, Equipment & Systems (1)

**Integrating businesses for core industries**
*(steel, automotive, etc.)*

<table>
<thead>
<tr>
<th></th>
<th>FY2011</th>
<th>FY2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>920 billion yen</td>
<td>1,160 billion yen</td>
<td>+30%</td>
</tr>
<tr>
<td>Overseas sales</td>
<td>450 billion yen</td>
<td>690 billion yen</td>
<td>+50%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>30 billion yen</td>
<td>80 billion yen</td>
<td>+170%</td>
</tr>
</tbody>
</table>

- Capture emerging markets with fast-growing core industries
- Operate organization with flexibility and agility *(reorganization into operating companies, M&A, alliances)*
Machinery, Equipment & Systems (2) – World-Class Products

Grow market share and profitability as world-class business

Metals machinery

- Drive product differentiation and alliances
  - Cold rolling: Retain top market share
  - Hot rolling: 30% market share
- Enter upstream market with new models

Automotive turbochargers

- Pave way to become world leader
  - Enhance development and validation functions in Europe
  - Boost productions in China and Thailand
  - Expand in North America

Units sold

<table>
<thead>
<tr>
<th></th>
<th>Units sold (thousand units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2011</td>
<td>4300</td>
</tr>
<tr>
<td>FY2014</td>
<td>7000</td>
</tr>
</tbody>
</table>

(25% Market share)

Compressors

- Expand gas sector with foothold in oil and gas majors
- Build global operating structure and strengthen alliances to become “world’s top three”

Machine tools

- Aim world leadership in niche markets (gear machine tools and large sized machine tools)
  - Increase sales and production in China, India
- Alliances
  - Acquire Federal Broach (machine tool manufacturer)
Integrating land, sea and air transportation businesses

<table>
<thead>
<tr>
<th></th>
<th>FY2011</th>
<th>FY2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>450 billion yen</td>
<td>580 billion yen</td>
<td>+30%</td>
</tr>
<tr>
<td>Overseas sales</td>
<td>330 billion yen</td>
<td>490 billion yen</td>
<td>+50%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>-15 billion yen</td>
<td>10 billion yen</td>
<td></td>
</tr>
</tbody>
</table>

- Achieving high safety level, meeting stringent regulations
- Optimize common business models
- Optimize mass production base
Transportation (2) – MRJ

- Long term growth of civil aircraft market
- Ability to overcome high entry barriers (technology, capital)
- Once entered, limited competition

Establish aircraft business as future core business

### Challenges

- Capturing order intake
  - 130 units orders-to-date
- Delay in development

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Flight</td>
<td>Q1 of FY 2012</td>
</tr>
<tr>
<td>First Unit Delivery</td>
<td>Q3 of FY 2013</td>
</tr>
<tr>
<td></td>
<td>Q4 of FY 2013</td>
</tr>
<tr>
<td></td>
<td>Mid to late of FY 2015</td>
</tr>
</tbody>
</table>

### Actions

- Increase sales bases in U.S. and Europe
- Acquire orders in emerging countries
- Accelerate development and manufacturing quality verification processes
  - Apply expertise from successful deployment of Taiwan bullet train project
  - Flight test in U.S.
- Mass production preparation
Transportation (3) – Conventional Civil Aircraft Business

**Improve profitability through manufacturing innovations**

**Reform in Japan**
- Invest resources in high value-add products
  - Automated B787 production (cooperation with Machine Tool Division)
- Production flow reorganization
  - Process integration from components to assembly

**Accelerate overseas expansion**
- Shift to overseas cost base (to counter FX fluctuations) and global SCM

**Overseas Production**
- Assembly bases (in Vietnam and Canada)
- Component plant (in Vietnam)

**Overseas Procurement**
- Diversify procurement, from U.S. to Europe and Russia
- Expand procurement from Asia
Establish three-pronged business structure

Build engineering and overseas shipbuilding businesses in addition to domestic shipbuilding differentiated with advanced technology, high value-add

**Domestic shipbuilding (core business)**

- Differentiate products based on advanced technologies and high added value (cruise ships, new LNG carriers, etc.)

**Engineering**

- Expand engineering business based on superior hull forms and energy saving technologies
  - MALS (Mitsubishi Air Lubrication System)
  - Retrofitted systems as well as new models

**Overseas shipbuilding**

- Develop overseas business, including potential JV
  - L&T Shipbuilding
  - Kattupalli Shipyard

Nickname: "Sayaendo" (string bean)
Detroit, MI (July 2, 2012) — Mitsubishi Heavy Industries, Ltd. (MHI) announced today that its FY2014 sales and operating profit targets are ₢460 billion and ₢22 billion yen, respectively, up from ₢440 billion and ₢15 billion in FY2011. The growth is attributed to increased sales in defense and aerospace products and services.

MHI’s defense and aerospace business is on track to achieve its growth targets. The company plans to support joint operations of GSDF, MSDF and ASDF (System of Systems), maintain and strengthen defense business foundation (Respond to relaxation of arms export principles), and cross applications of defense, aerospace technologies and civilian technologies.

MHI is committed to integrating ground, marine, and air defense and aerospace businesses to achieve its growth targets. The company’s FY2014 sales and operating profit targets are expected to be achieved through increased sales in defense and aerospace products and services.
Defense & Aerospace (2) Integrated Defense Systems

- Propose integrated defense systems by coordinating businesses for ground, marine and air defenses
- Provide various products to efficiently support joint operating framework of JSDF
- Mutual application of aerospace, defense technologies and civilian technologies
Accelerate Global Expansion

**Overseas**

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2011</th>
<th>FY2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>20,700</td>
<td>3100</td>
<td>+800</td>
</tr>
<tr>
<td>North America</td>
<td>3,000</td>
<td>4,900</td>
<td>+1,900</td>
</tr>
<tr>
<td>Asia</td>
<td>2,300</td>
<td>8,400</td>
<td>+6,100</td>
</tr>
<tr>
<td>Others</td>
<td>3,800</td>
<td>4,300</td>
<td>+500</td>
</tr>
</tbody>
</table>

**Japan**

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2011</th>
<th>FY2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat</td>
<td>16,400</td>
<td>15,500</td>
<td>-900</td>
</tr>
<tr>
<td>Defense &amp; Aerospace</td>
<td>3,800</td>
<td>3,800</td>
<td>0</td>
</tr>
</tbody>
</table>

**Machinery & Equipment**

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2011</th>
<th>FY2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>2,300</td>
<td>8,400</td>
<td>+6,100</td>
</tr>
<tr>
<td>Machinery &amp; Equipment</td>
<td>3,000</td>
<td>4,900</td>
<td>+1,900</td>
</tr>
<tr>
<td>Energy &amp; Environment</td>
<td>3,800</td>
<td>4,300</td>
<td>+500</td>
</tr>
</tbody>
</table>

**Europe**

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2011</th>
<th>FY2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>2,300</td>
<td>3,100</td>
<td>+800</td>
</tr>
<tr>
<td>Machinery &amp; Equipment</td>
<td>3,000</td>
<td>4,900</td>
<td>+1,900</td>
</tr>
<tr>
<td>Energy &amp; Environment</td>
<td>3,800</td>
<td>4,300</td>
<td>+500</td>
</tr>
</tbody>
</table>

**North America**

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2011</th>
<th>FY2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transportation</td>
<td>2,300</td>
<td>3,100</td>
<td>+800</td>
</tr>
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<td>Machinery &amp; Equipment</td>
<td>3,000</td>
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<tr>
<td>Energy &amp; Environment</td>
<td>3,800</td>
<td>4,300</td>
<td>+500</td>
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**Asia**

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2011</th>
<th>FY2014</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
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<td>Energy &amp; Environment</td>
<td>3,800</td>
<td>4,300</td>
<td>+500</td>
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</tbody>
</table>
Define Strategic Regions, Enhance Operating Structures (1)

**North America**: +190 billion yen
- Efficiently manage US-based capital (Establish financial subsidiary)
- Potential reintegration of regional group companies

**Asia**: +460 billion yen
- Upgrade and expand MHI India corporate service functions
- Explore growth opportunities through alliances with leading Indian corporate groups

**ASEAN / Oceania**
- Establish [MHI-AP (Asia Pacific)] as regional headquarters in Singapore
  - Manage corporate strategy and functions across countries
  - Originate local strategies and business plans
Define Strategic Regions, Enhance Operating Structures (2)

Market entry opportunities through local alliances

**China: Major automobile manufacturers**
- Propose MHI’s diversified capabilities in automotive businesses, engage in comprehensive technology relationship

**China: Dongfang Turbine Co., Ltd.**
- Collaborate with customer to provide high quality, high reliability services at leading-edge base of MHI’s energy business in China

**India: L&T**
- Launch operations, improve productivity at LMB & LMTG (JV for boilers and turbines)
- Develop shipbuilding engineering business through technology licensing
- Joint development of clean coal technology in Indian market (joint study)

LMB: L&T-MHI Boilers  LMTG: L&T-MHI Turbine Generators

**India: TATA Group**
- Comprehensive alliance including engineering support
- Commercialize smart community FS

FS: Feasibility Study
Enhance Competitiveness in Strategic Regions

Products tailored to emerging market needs

Product Concept:
(1) Cost efficiency  
(2) Robustness

Enhanced value add in high-end products

Product Concept:
(1) Clean  
(2) High efficiency  
(3) Optimized lifecycle costs
Expand Overseas Procurement (1)

- Define procurement strategies by region and product
- Expand use of overseas standard products, coordinating with Technology & Innovation Headquarters
- Develop centralized database on partner information
- Strengthen cross-business integrated procurement
Major overseas procurement areas and products to date

[Europe]
- EPC devices / equipment
- Marine equipment
- Aircraft materials / components

[China]
- Can manufacturing, sheet metal
- Casting materials

[India]
- Can manufacturing, sheet metal (printers)

[ASEAN]
- Can manufacturing, sheet metal (local projects)
- Materials and functional components for mass-produced products

[North America]
- Aircraft materials / components
- Devices / equipment

[South Korea]
- Marine equipment
- EPC devices / equipment
- Steel, casting and forged products
Expand Overseas Procurement (3)

Expand overseas procurement mainly in emerging countries

Overseas procurement areas and products to be expanded in the future

[Europe]
- Enhance delivery date management / adjustment functions
  - Marine equipment (for cruise ships)

[China]
- Establish China Procurement Center
  - Functional components
  - Electrical components
  - Steel, piping material

[South Korea]
- Increase personnel at procurement center
  - EPC devices / equipment
  - Marine equipment
  - Engine components

[ASEAN]
- Procurement support from Japan
  - EPC devices / equipment

[India]
- Establish southern base
- Seek new suppliers aligned with new business development

[South America]
- Seek new suppliers aligned with new business development
Transplant domestic manufacturing technologies and expertise to overseas bases to enhance “manufacturing capabilities” tailored to local needs

- Establish repeat-type made-to-order manufacturing system in Japan and transplant to overseas
- Develop overseas export bases to neighboring countries

Integrate overseas production bases into global procurement network

Examples (Power Systems)

- US-based MPSA (gas turbines) and India-based L&T JV (boilers, steam turbines) positioned as strategic production bases based on domestic plants
  MSPA: Mitsubishi Power Systems America
- Production processes built up at Nagasaki Shipyard & Machinery Works and Takasago Machinery Works deployed overseas
- Framework for training and human resource development of national staff and key personnel developed (Establishment of local training centers, Japan training program, etc.)
Strengthen Overseas Production Bases (2)

- **MHI-Mahajak Air Conditioners**
  - [Room air conditioners & packaged air conditioners]
- **Mitsubishi Heavy Industries (Changshu) Machinery Co., Ltd.**
  - [Shared factory for tire and gear cutting machine]
- **L&T-MHI Boilers**
- **L&T-MHI Turbine Generators**
- **Mitsubishi Power Systems America (MPSA)**
  - [GT components]
- **MPSA's Savannah Machinery Works**
  - [GT burner units & ST rotors]
  - ST: Steam Turbine

**Overseas Production**

- **FY2011**
  - L&T Asia: 4,100 (100 million yen)
  - Europe: +80%
  - North America: +60%

- **FY2014**
  - L&T Asia: 6,700
  - Europe: +130%
  - North America: +80%
Expand M&A and Alliances (1)

Aggressive growth through M&A and strategic alliances with overseas partners

Business growth potential

- Spin-off
- Acquisition
- Joint Ventures
- Spin-off
- Carve-out
- Business transfer/divestiture

MHI Group of the future

Comprehensive strengths

MHI of the past (organic growth)

Low Growth & Opportunity Loss

Time

- Carve-out: Discovering latent technologies and products within MHI and developing them into businesses through third-party investment and participation in management decisions

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Expand M&A and Alliances (2)

**L&T (India)**
- Started full-scale production in Jan 2011
- Received orders for more than 10 boilers and 10 turbines, worth over USD 3 billion

**Artemis (UK)**
- Acquired UK venture firm in Nov 2010 to obtain its unique hydraulic technologies
- Announced world’s first offshore wind power generation system with hydraulic drive train in Nov 2011
- Participate in UK ROUND 3 Project (Business size: 32GW) and Offshore Fukushima floating type offshore wind turbine experimental study project
Expand M&A and Alliances (3)

Federal Broach (USA)

- Acquired US tool manufacturer in Apr 2012 for high value added products
- Win US automotive OEM and other new customers
  Seek synergy with Machine Tool business

MHI’s subsidiary in India

Federal Broach (USA)

MHI Ritto Machinery Works

Machine tool manufacturing bases in three countries – Japan, USA, and India

L&T (India) / Sinopacific Shipbuilding Group (China)

- Signed technical assistance agreements and collaboration contracts to offer shipbuilding technologies (L&T in Dec 2011, Sinopacific Shipbuilding Group in Mar 2012)
- Provide technical support to launch shipbuilding business and jointly develop new ships
  Expand engineering business for shipbuilders in emerging countries with high growth potential

[Yangzhou Dayang Shipbuilding Co., Ltd. in the Sinopacific Shipbuilding Group]
Framework to Support Global Expansion

Development of Global Human Resources

- Systematic development of global human resources, including national staff
- Early development of mid-career and younger employees based on global human resources development roadmap
- Enhancement and expansion of educational programs for employees at domestic and overseas group companies

Corporate Reforms to Strengthen Global Support

- Strengthen global personnel through restructuring and consolidation of group companies, business streamlining
Target 2: Improve Capital Efficiency and Net Income Levels

Significant improvement through portfolio management based on strategic business evaluation.

- **ROE (Invested capital turnover)**
  - FY2010-2011 Average: 2.1% (1.1)
  - FY2014 Target: 8.9% (1.5)
  - Vision: 12.0% (1.5)

- **Net Income (in billion yen)**
  - FY2010-2011 Average: 27.3 (1.1)
  - FY2014 Target: 130 (1.5)
  - Vision: 240 (1.5)

2010 Mid Term Business Plan: Hop
2012 Mid Term Business Plan: Step
Further expansion: Jump

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Return requirement (SAV) and Invested Capital allocation based on strategic positioning of 64 SBUs

SAV (Strategic Added Value) = Net income + Interest payment after adjustment of tax - Capital cost

For each business life stage ... (Nascent, Prime, Maturity)

... depending on profitability and financial soundness ... (High, Medium, Low)

... classify into business position (Grow/Maintain, Reform, Downscale/Withdraw)

Required return (SAV) and Invested Capital are allocated and controlled for each strategic business position
Required Return and Invested Capital by Business Position

- **Business Life Stage**
  - Nascent (I)
  - Prime (II)
  - Maturity (III)

- **Profitability and Financial Soundness**
  - High (H)
  - Low (L)

- **Required Return**
  - I-M: Require certain return (Expect in the near future)
  - I-L: Do not require return (Expect in the future)
  - I-L’: Withdraw, Minimize loss
  - II-H: Require return exceeding invested capital (Maximize return)
  - II-M: Require return to meet invested capital
  - III-H: Maximize ROIC (earn as much as possible while we can)
  - III-M: Focus on return (strive to live long)
  - III-M’: Withdraw, Minimize loss

- **Invested Capital Allocation**
  - Intensive investment
  - Strategic investment
  - Disinvestment

- **Strategic Fund**
  - (Resource Allocation Committee)
Institute Corporate Reforms and Efficiency Improvements (Optimize Shared Resources)

**Sophisticate and streamline corporate organization and functions**
- Reduce fixed costs to increase profits
- Deploy human resources to support global expansion by sophisticating and streamlining operations

**Reorganize group companies to consolidate corporate functions**
- Centrally manage all welfare facilities and real estate to cut costs
- Reduce group company expenses

**Reduce financing costs through global cash management**
- Set up **financial subsidiaries** in U.S., Europe, and Asia

**Make effective use of underutilized assets**
- Compress and utilize assets with establishment of **asset management company**
Manage Innovations in Corporate Governance and Operations

**Strategy 5**

**Business Operations**

- General Shareholders Meeting
- Board of Directors
- President
- Corporate Divisions
- Business Segments

**Enhance supervision and audit functions**

- Board of Statutory Auditors

**Strengthen operational structure**

**Reform Risk Management System**

**CSR Aligned with Management Strategy**
Corporate governance to manage accelerated globalization

**Board of Directors**

<table>
<thead>
<tr>
<th>3 External directors</th>
<th>16 Internal directors</th>
</tr>
</thead>
</table>

**Normal role**
- Decision making for key management agenda
- Management supervision

**Need for external directors**
- Advice based on diverse, global business experiences
- Advice based on public policy and regulatory perspectives
- Advice on compliance, corporate culture, and human resource development from cultural perspectives

**Board of Statutory Auditors**

<table>
<thead>
<tr>
<th>3 External auditors</th>
<th>2 Full time auditors</th>
</tr>
</thead>
</table>

**Normal role**
- Audit execution of duties of directors

**Need for external auditors**
- Advice on aspects of quality and safety management
- Advice on aspects of important corporate risk management

**Common needs for external directors and external auditors**
- Advice on corporate governance from diverse points of view
Further Strengthen Operational Structure

Reorganize into 4 Business Domains (Strengthen portfolio management)

- Energy & Environment
- Machinery, Equipment & Systems
- Transportation
- Defense & Aerospace Systems

Composed of operating companies and operating SBUs

Horizontal functions
- Sales
- R&D
- IT Infrastructure

Companywide service functions
- Shared services
- Financial subsidiary
- Asset management company

Further streamline business operations

Strengthen business support system

- Streamline business by process unit
- Step up efforts for global expansion

Increase efficiency of capital and asset management (ability to implement companywide)

IT reform to support across all levels and sections
Accelerate global expansion & Expand business scale

Diversified and increased risks

Business Risks  Legal Risks  Crisis Management
Country Risks  Information Security  Compliance
Credit Risks

Centralize Risk Management

Monitor through Management Audit Dept.
Promote CSR Aligned to Management Strategy

Contribution to sustainability of global society through “manufacturing”

- Help solve social issues through products supporting social infrastructure
- Continue to assist in recovery, reconstruction of power generating systems in the aftermath of Eastern Japan Earthquake

Corporate culture to meet stakeholder expectations and trust

- Compliance efforts to ensure fair and honest corporate citizenship
- Social contribution activities including support for the next generation

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.
## Vision

### Drive to Become a Highly-Profitable 5 Trillion Yen Enterprise

Enhance financial robustness and build capital base to drive growth and respond to risks

<table>
<thead>
<tr>
<th>FY2010 Business plan</th>
<th>FY2012 Business plan</th>
<th>After FY2014 Business plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY2011</strong></td>
<td><strong>FY2014</strong></td>
<td><strong>After FY2015</strong></td>
</tr>
<tr>
<td>FCF</td>
<td>153.3 Billion Yen</td>
<td>200.0 Billion Yen</td>
</tr>
<tr>
<td>D/E Ratio</td>
<td>0.9</td>
<td>0.7</td>
</tr>
<tr>
<td>(Reserve fund raising potential)</td>
<td>(500.0 Billion Yen)</td>
<td>(700.0 Billion Yen)</td>
</tr>
<tr>
<td>ROE</td>
<td>1.9%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Net Worth</td>
<td>1.3 Trillion Yen</td>
<td>1.5 Trillion Yen</td>
</tr>
</tbody>
</table>

### Business size
- **3 Trillion Yen**
  - Enhancement of profit-earning structure
  - Report strengths and synergy through consolidation to a domain
  - Portfolio management based on strategic business evaluation

### 4 Trillion Yen
- Business expansion through large scale investment
- Large scale M&A and Alliances

### 5 Trillion Yen Vision

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Forecasts regarding future performance in these materials are based on judgment made in accordance with information available at the time this presentation was prepared. As such, those projections involve risks and insecurity. For this reason, investors are recommended not to depend solely on these projections for making investment decision. It is possible that actual results may change significantly from these projections for a number of factors. Such factors include, but are not limited to, economic trends affecting the Company’s operating environment, currency movement of the yen value to the U.S. dollar and other foreign currencies, and trends of stock markets in Japan. Also, the results projected here should not be construed in any way as being guaranteed by the company.
III. Supplementary Materials
### Financial Targets by Domain

<table>
<thead>
<tr>
<th>Domain</th>
<th>Orders Received</th>
<th>Net Sales</th>
<th>Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy &amp; Environment</td>
<td>1,290.0</td>
<td>1,350.0</td>
<td>1,740.0</td>
</tr>
<tr>
<td>Machinery, Equipment &amp; Systems</td>
<td>970.0</td>
<td>1,030.0</td>
<td>1,240.0</td>
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<tr>
<td>Transportation</td>
<td>420.0</td>
<td>620.0</td>
<td>600.0</td>
</tr>
<tr>
<td>Defence &amp; Aerospace</td>
<td>470.0</td>
<td>350.0</td>
<td>370.0</td>
</tr>
<tr>
<td>Others</td>
<td>80.0</td>
<td>80.0</td>
<td>80.0</td>
</tr>
<tr>
<td>Inter-group consolidation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3,188.8</td>
<td>3,400.0</td>
<td>4,000.0</td>
</tr>
</tbody>
</table>

- For the review of the method of calculation of operating profit and loss:
  With the transfer to a new business operation system, company-wide R&D costs and certain headquarters administration costs, which have in the past been fully distributed over each segment will no longer be distributed over each segment from FY 2012
- Operating profit for FY 2011 in the table lists the figures based on the new calculation method
## Financial Targets by Segment

(Billion yen)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Orders Received</th>
<th>Net Sales</th>
<th>Operating Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shipbuilding &amp; Ocean Development</td>
<td>262.0</td>
<td>250.0</td>
<td>270.0</td>
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<tr>
<td></td>
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<tr>
<td>Power Systems</td>
<td>1,235.2</td>
<td>1,230.0</td>
<td>1,420.0</td>
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</tr>
<tr>
<td>Machinery &amp; Steel Structures</td>
<td>508.2</td>
<td>700.0</td>
<td>1,020.0</td>
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<tr>
<td>Aerospace</td>
<td>547.8</td>
<td>560.0</td>
<td>530.0</td>
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<tr>
<td>GM &amp; SV</td>
<td>386.0</td>
<td>390.0</td>
<td>430.0</td>
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<tr>
<td>Air-Con &amp; Refrigeration</td>
<td>160.5</td>
<td>170.0</td>
<td>210.0</td>
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<tr>
<td>Machine Tool</td>
<td>53.8</td>
<td>50.0</td>
<td>70.0</td>
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<tr>
<td>Others</td>
<td>79.5</td>
<td>80.0</td>
<td>80.0</td>
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<tr>
<td>Inter-group consolidation</td>
<td>-44.5</td>
<td>-30.0</td>
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<td>adjustments</td>
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  - Operating profit for FY 2011 in the table lists the figures based on the new calculation method.
Resource Planning

**Human Resources**
- Increase overseas human resources

**Capital Expenditure**
- Concentrate investment in prioritized businesses

**R&D Investment**
- Invest intensively in products that forge company’s future

### Consolidated number of employees (thousand persons)

<table>
<thead>
<tr>
<th>Year</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>68.9</td>
<td>68.1</td>
<td>68.1</td>
<td></td>
</tr>
</tbody>
</table>

### Share of human resources Overseas (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>19</td>
<td>20</td>
<td>22</td>
<td></td>
</tr>
</tbody>
</table>

### Business investment, etc.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total 2009–2011</th>
<th>Total 2012–2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2011</td>
<td>150</td>
<td>260</td>
</tr>
<tr>
<td>FY2012</td>
<td>420</td>
<td>340</td>
</tr>
</tbody>
</table>

### Capital expenditure

<table>
<thead>
<tr>
<th>Year</th>
<th>Total 2009–2011</th>
<th>Total 2012–2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2011</td>
<td>420</td>
<td>340</td>
</tr>
<tr>
<td>FY2012</td>
<td>600</td>
<td>420</td>
</tr>
</tbody>
</table>

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