2012 Medium-Term Business Plan Outlook & 2015 Medium-Term Business Plan Overview

October 31, 2014
Mitsubishi Heavy Industries, Ltd.
Shunichi Miyanaga, President and CEO
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### Outlook for Achieving 2012 Medium-Term Business Plan (1)

<table>
<thead>
<tr>
<th>FY2014</th>
<th>Target</th>
<th>Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Scale</td>
<td>4 trillion yen</td>
<td>4 trillion yen</td>
</tr>
<tr>
<td>Operating Income</td>
<td>250 billion yen</td>
<td>260 billion yen</td>
</tr>
<tr>
<td>Net Income</td>
<td>130 billion yen</td>
<td>100 billion yen</td>
</tr>
</tbody>
</table>

- The projections for business scale and operating income should be achievable, thanks to business strategy results and merits from yen depreciation.

- The net income projection, however, will be adversely impacted by measures taken for the cruise ship business. Weaknesses have been recognized, and implementation of countermeasures is in progress.
Latent risk is increasing in tandem with globalization, changes in market structure, etc.
Outlook for Achieving 2012 Medium-Term Business Plan (3)

Weaknesses

1. Inadequate awareness and sensitivity toward expanding risk accompanying globalization, increasing complexity and sophistication of projects, etc.

2. Inadequate risk response capability (especially initial response) and lack of uniformity in response capabilities of the various business segments

Initiatives

1. Companywide enhancement of expanding risk awareness, sensitivity and response capability
   → Strengthening of preventive systems
     (effective use of domain system, education of management personnel)
   → Early elimination of risk, minimization of losses (special response structure, etc.)

2. Preparation, through improved earnings capacity, of a financial base strong enough to withstand risk of a certain scale accompanying new ventures
Outlook for Achieving 2012 Medium-Term Business Plan (4)

Target 1: Expand business scale
- Consolidate and restructure the 9 business headquarters into 4 business domains, to achieve greater strengths and synergies
  - Synergy merits accruing from MHPS integration
  - Intra-domain and cross-domain synergy merits expanding

Target 2: Improve capital efficiency and net income level
- Manage business portfolio based on strategic evaluations
  - Evaluation system in full operation, creating cash flow (strengthening of financial base)

Strategy 1
- Synergy merits accruing from MHPS integration
- Intra-domain and cross-domain synergy merits expanding

Strategy 2
- Accelerate global expansion
  - Agreement with Siemens to establish JV in steel and metal production machinery
  - A global platform under preparation

Strategy 3
- Institute corporate reforms and efficiency improvements (optimized resource sharing)
  - Establishment of Business Strategy Office
  - Restructuring of Accounting Division and Finance Department
  - Transfer of procurement functions to business domains

Strategy 4
- Transition to new corporate governance system (reduction in number of directors, ratio of outside directors increased to 25%)

Strategy 5
- Continue innovations in corporate governance and business execution
<table>
<thead>
<tr>
<th></th>
<th>FY2012 Actual</th>
<th>FY2013 Actual</th>
<th>FY2014 Previous Forecast</th>
<th>FY2014 Forecast</th>
<th>FY2014 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expansion of business scale</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Orders received (overseas sales ratio)</td>
<td>3,032.2 (50%)</td>
<td>3,420.0 (51%)</td>
<td>4,150.0 (62%)</td>
<td>4,300.0 (62%)</td>
<td>4,000.0 (64%)</td>
</tr>
<tr>
<td>Net sales</td>
<td>2,817.8</td>
<td>3,349.5</td>
<td>4,000.0</td>
<td>4,000.0</td>
<td>3,700.0</td>
</tr>
<tr>
<td><strong>Strengthening of risk response capability</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income (ordinary income)</td>
<td>163.5 (149.0)</td>
<td>206.1 (183.1)</td>
<td>250.0 (230.0)</td>
<td>260.0 (230.0)</td>
<td>250.0 (210.0)</td>
</tr>
<tr>
<td>Net income</td>
<td>97.3</td>
<td>160.4</td>
<td>130.0</td>
<td>100.0</td>
<td>130.0</td>
</tr>
<tr>
<td>ROE</td>
<td>7.4%</td>
<td>11.0%</td>
<td>8.2%</td>
<td>6.3%</td>
<td>8.9%</td>
</tr>
<tr>
<td><strong>Improvement of financial soundness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FCF</td>
<td>211.6</td>
<td>144.6</td>
<td>100.0</td>
<td>50.0</td>
<td>200.0</td>
</tr>
<tr>
<td>Debt/Equity Ratio</td>
<td>0.72</td>
<td>0.54</td>
<td>0.5</td>
<td>0.5</td>
<td>0.7</td>
</tr>
<tr>
<td>Equity ratio</td>
<td>35.0%</td>
<td>31.6%</td>
<td>34%</td>
<td>34%</td>
<td>36.6%</td>
</tr>
<tr>
<td>Interest-bearing debt</td>
<td>1,031.2</td>
<td>957.4</td>
<td>900.0</td>
<td>950.0</td>
<td>1,000.0</td>
</tr>
<tr>
<td>Dividend per share</td>
<td>8 yen</td>
<td>8 yen</td>
<td>10 yen</td>
<td>10 yen</td>
<td>10 yen</td>
</tr>
<tr>
<td>Foreign exchange rates</td>
<td>83.6 yen/$</td>
<td>100.1 yen/$</td>
<td>100 yen/$</td>
<td>105 yen/$</td>
<td>80 yen/$</td>
</tr>
<tr>
<td></td>
<td>106.8 yen/€</td>
<td>132.6 yen/€</td>
<td>130 yen/€</td>
<td>135 yen/€</td>
<td>110 yen/€</td>
</tr>
</tbody>
</table>
Overview of 2015 Medium-Term Business Plan

2012 Business Plan

Structural reforms

Preliminary initiatives
(1) Promote further M&A’s
(2) Enhance MHPS’s synergy merits
(3) Steadily advance the MRJ project
(4) Strengthen the Transportation Systems business
(5) Establish a global platform
Initiatives described on page 13ff

2015 Business Plan

Completion of full-scale examination and preparations between summer and autumn 2014
• Target directions have been set
• Initiatives described on pages 9-11

Highly profitable 5-trillion-yen enterprise

Additional initiatives (under examination)
- Reform and strengthen commercial ships business
- Strengthen the Integrated Defense & Space Systems business
- Undertake governance reforms
- Accelerate measures for reforming SBUs
Initiatives described on page 19ff

(1) Plan Preparations Under Way

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An enterprise that contributes to social and industrial development through advanced technological capabilities and engineering (integration/execution capabilities) adapted to the global market

- An enterprise that provides stability and reliability through its business scale, added value creation and strong financial base
- An enterprise highly acclaimed globally not only for its products, technologies and services but also for its standards of conduct and ability to accomplish what it sets out to do
Initial challenges and initiatives

- Implementation of initiatives targeted at weak businesses
- Stronger response capability to risks accompanying business expansion and risk-bearing ventures
- Maintenance and enhancement of financial strength (needed to advance the above 2 initiatives)

Aiming to become a “highly profitable 5-trillion-yen enterprise” by responding swiftly to preliminary challenges and carrying out strategies and initiatives developed under the 2012 Business Plan
Overview of 2015 Medium-Term Business Plan

(3) Challenges and Initiatives

Medium/Long-term Challenges

- Further progress in globalization
  → Dual achievement of business scale expansion and organizational efficiency; expansion of ICT and business processing; widening gap in human resources, etc.

- Acceleration in technological progress and gap in response capability
  → Gap emerging in response capability to increasing R&D costs, increasingly complicated intellectual property management, etc.
  → Competition to secure international human resources in advanced and digital technology areas

- Gap between companies in collaborative business models
  (especially, response to the above 2 major trends)

Response incorporated into 2015 Business Plan strategies

- Advance governance further
- Reform corporate functions
- As shared business strategies, strengthen ICT, intellectual properties and collaborative business models; and secure and cultivate global human resources; etc.
Overview of 2015 Medium-Term Business Plan

Toward enhancement of enterprise value

Business scale expansion

Improvement of profitability and efficiency

2015 Business Plan

Business scale: 5 trillion yen
ROE: 10-12%
EBITDA margin: 12-14%

2012 Business Plan

Business scale: 4 trillion yen
ROE: 8.9%

(4) Targets

Strengthening of financial base

Equity: 2.4 trillion yen*
Debt: 1 trillion yen

* : Including 0.4 trillion yen in minority interests

Preparation and strengthening of corporate base

• Business scale expansion and globalization
• Strengthening of governance, strategy functions, operations and human resources advancing the above simultaneously

ROE: Return On Equity
EBITDA: Earnings Before Interest, Taxes, Depreciation and Amortization

© 2014 MITSUBISHI HEAVY INDUSTRIES, LTD. All Rights Reserved.
(1) Promote further M&A’s

Agreement with Siemens on establishing JV in metal production machinery (May)

Mitsubishi-Hitachi Metals Machinery, Inc.

- **MITSUBISHI HEAVY INDUSTRIES, LTD.**: 56%
- **HITACHI**: 34%
- **IHI**: 10%

Realization of world-class customer satisfaction and regional coverage through mutually complementary product lineups and technological/servicing strengths

**JV establishment scheduled for January 2015**

Currently promoting preliminary PMI toward vertical start-up of JV
(2) Enhance MHPS’s synergy merits

Integration with Babcock-Hitachi (October)

MHPS Group

Manufacturer of core products in thermal power generation systems

Babcock-Hitachi + its group companies

Realization of enhanced efficiency and cost competitiveness from swifter business management

Responding precisely and swiftly to the diversifying needs of the thermal power generation system market and intensifying competition among mega corporations

MHPS: Mitsubishi Hitachi Power Systems.

Status of Orders Received

- Most advanced model: J Series gas turbine
  - Successive orders received from US and Korea
  - Total orders worldwide to date: 31 units
- World’s most advanced integrated gasification combined cycle (IGCC) system, to promote Fukushima recovery
  - Orders received for design work
- Lignite-fired thermal power unit for Poland
  - Contract signed on ultra-supercritical-pressure thermal power system construction project

Steady implementation of activities to attract orders, leveraging technological superiority
(3) Steadily advance the MRJ project

Rollout ceremony for maiden test flight aircraft (October 18)

Maiden test flight: Apr-Jun 2015
Delivery of first aircraft: Apr-Jun 2017

(5) Progress Status of Preliminary Initiatives

- New orders secured from Air Mandalay (Myanmar) and Eastern Air Lines (US)
- Letter of Intent concluded with Japan Airlines

Total units ordered: 407
(including option contracts and basic agreements)

Viewing for families of full-time/temp employees involved in the MRJ project (October 19)

Project is advancing steadily toward the maiden flight
(4) Strengthen the Transportation Systems business

Completion of MIHARA Test Center, Japan’s first comprehensive railway transportation system test facility

- Order received for APM systems for Orlando International Airport (US)
- Order received for railway system for Metro Line No.6, São Paulo (Brazil)

Development completed of “High-speed AGT System”

- Maximum speed: 120kph (double conventional speeds)
- Reductions in vibration and noise

Steady progress being made in strengthening and expanding business, through advanced integration capabilities and introduction of new products
Overview of 2015 Medium-Term Business Plan

(5) Prepare groupwide global platform (1)

Now

A domestically based company focusing on exports

Vision

Integration of Japanese values (merits) and global business

- Expand the functions and business scope of overseas bases
- Improve and strengthen R&D bases: UK, Singapore, US (3 cities)

- Make information visible and more advanced
- Global business standardization and centralized processing (system preparation under way, starting with personnel and procurement areas)

Global platform building is making steady progress through integration of external knowhow and MHI’s needs
Overview of 2015 Medium-Term Business Plan

(5) Prepare groupwide global platform (2)

- Advancement of M&A’s
- Restructuring and strengthening of overseas bases
- Launch of MH/Siemens integrated company
- Advance PMI at MHPS
- • Enhance management efficiency through regionally consolidated companies (China, US) (accelerate restructuring of overseas group companies and bases)
- • Make active use of overseas human resources
- • overseas bases for technology exchange (●)

Groupwide
Make active reuse of resources in tandem with initiatives for and restructuring of weak businesses

Nagasaki Shipyard & Machinery Works
Cross-domain support Advancement of structural reforms

Hiroshima Machinery Works / Kobe Shipyard & Machinery Works
Expand grow & maintain areas

Matsusaka Plant
Cluster of aircraft and aerospace industries (production of MRJ parts), etc.

Active reuse of resources as initiatives for weak businesses
Structural reforms and restructuring of in-house plants, etc.
Configuration of supply chain collaborative work model

Acceleration of global expansion, and restructuring and strengthening of domestic business bases

(5) Progress Status of Preliminary Initiatives
Overview of 2015 Medium-Term Business Plan

(6) Domain Strategies and Initiatives

Energy & Environment

Pursuit of business scale enabling competition against the industry giants
- **Accelerate PMI and expand synergies at MHPS**
- Advance business in distributed power sources
- Expand business in chemical plants (see page 20)
- Respond to full-scale development of environment business
- Maintain nuclear power business (early restart of domestic plants; diversification)

Commercial Aviation & Transportation Systems

Establish new business models and expand business
- Strengthen profitability of commercial aircraft business
- Steady progress from MRJ’s maiden flight to start of mass production
- Globalization of transportation systems business
- Structural reforms of shipbuilding business (further reform and strengthening of commercial ship business)

Integrated Defense & Space Systems

Pursue maximum synergies within limited environments
- Synergy merits from defense/space and civilian technologies
- Steady strengthening and maintenance of defense production and technology base
- Response to “The Three Principles on Transfer of Defense Equipment and Technology”
- Development of new flagship launch vehicle

Machinery, Equipment & Infrastructure

Create top global niche businesses
- Accelerate PMI of steel and metal production machinery
- Expand business globalization: compressors and turbochargers
- Accelerate initiatives for weak businesses (see page 21)
- “Preliminary initiative” in “Status of 2012 Medium-Term Business Plan” (May 2014)
- “Additional Initiative” under examination since May
Order received for world’s largest CO₂ capture plant for joint (US-Japan) EOR project

Delivery of 10 commercial-use CO₂ capture plants for chemical applications (increased fertilizer production), etc.
- One of the industry’s foremost track records -

Ground-breaking ceremony (September 5)
## Business restructuring

### Completed

<table>
<thead>
<tr>
<th>Acquisition</th>
<th>Forthcoming</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Federal Broach (US): machine tools</td>
<td></td>
</tr>
<tr>
<td>• PWPS (US): gas turbines</td>
<td></td>
</tr>
<tr>
<td>• Daily Equipment (US): forklift trucks</td>
<td></td>
</tr>
<tr>
<td>• Concast (India): steel and metal production machinery</td>
<td></td>
</tr>
<tr>
<td>• Toyo Engineering Works: refrigeration systems</td>
<td></td>
</tr>
</tbody>
</table>

### Forthcoming

- Initiatives primarily in Energy & Environment and Machinery, Equipment & Infrastructure domains

### JV

<table>
<thead>
<tr>
<th>Led by MHI</th>
<th>Initiatives involving weak SBUs in each domain, outsourceable indirect work, etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Nippon Yusoki: forklift trucks</td>
<td></td>
</tr>
<tr>
<td>• Hitachi: thermal power generation systems</td>
<td></td>
</tr>
<tr>
<td>• Vestas Wind Systems (Denmark): wind turbines</td>
<td></td>
</tr>
<tr>
<td>• Siemens (Germany): steel and metal production machinery</td>
<td></td>
</tr>
<tr>
<td>• IHI Metaltech: steel and metal production machinery</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Led by partner</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ryobi: commercial printing machinery</td>
</tr>
<tr>
<td>• Ecovix (Brazil): shipbuilding</td>
</tr>
<tr>
<td>• Fuji Xerox: document services</td>
</tr>
</tbody>
</table>

### Transfer/withdrawal

<table>
<thead>
<tr>
<th>Transfer/withdrawal</th>
</tr>
</thead>
<tbody>
<tr>
<td>• HIDROMEK (Turkey): motor graders (transfer)</td>
</tr>
<tr>
<td>• Delta Electronics (Taiwan): lithium-ion rechargeable batteries (transfer)</td>
</tr>
</tbody>
</table>
The frameworks of domain strategies and initiatives have been decided.

The implementation plans (numerical targets, development outline, etc.) are now under examination.

– To be announced in April 2015 –
Overview of 2015 Medium-Term Business Plan

Overall structure (framework) of 2015 Business Plan

Clarification of targeted long-range corporate vision

Thorough execution of preliminary challenges and initiatives (page 10)
+ development and continuation of 2012 Business Plan strategies

Preliminary initiatives (pages 13-18)
Additional initiatives (pages 19-21)

Sharing of medium/long-term challenges and incorporation into strategies (page 11)

• Further progress in globalization
• Acceleration in technology progress and gap in response capability
• Collaborative work model between companies Etc.

Advance governance further

Reform corporate functions

As shared business strategies, strengthen ICT, intellectual properties and collaborative business models; and secure and cultivate global human resources; etc.

(7) Summary

FY2017 targets
Business scale: 5 trillion yen
ROE: 10-12%
EBITDA margin: 12-14%

• Promote further M&A’s
• Prepare groupwide global platform Etc.

• Reform and strengthen commercial ship business
• Accelerate measures for reforming SBUs Etc.

Enhancement of domain-based management

Underpinning of base

Strengthening and restructuring of product businesses

Structure enhancement
The 2015 Business Plan is the first step toward achieving the company’s target image. Strategies and initiatives target establishment of a base for sustained growth and enhanced enterprise value.

- A corporate culture* will be built and maintained that undertakes continual reforms and challenges for the customer’s benefit and the market’s needs
- Sustained efforts will be made to ensure that the products, technologies and services the company provides maintain outstanding global recognition and acclaim.

*: A management and organizational culture with a positive stance toward structural improvements and ongoing transformations in order to achieve sustained growth
### Reference: Financial Targets

<table>
<thead>
<tr>
<th></th>
<th>FY2012 Actual</th>
<th>FY2013 Actual</th>
<th>FY2014 Previous Forecast (May)</th>
<th>FY2014 Forecast (Oct.)</th>
<th>FY2014 Target</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity (billion yen)</strong></td>
<td>1,378.6</td>
<td>1,543.3</td>
<td>1,640.0</td>
<td>1,650.0</td>
<td>1,500.0</td>
</tr>
<tr>
<td><strong>Debt (billion yen)</strong></td>
<td>1,031.2</td>
<td>957.4</td>
<td>900.0</td>
<td>950.0</td>
<td>1,000.0</td>
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<td>97.3</td>
<td>160.4</td>
<td>130.0</td>
<td>100.0</td>
<td>130.0</td>
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<tr>
<td><strong>ROE</strong></td>
<td>7.4%</td>
<td>11.0%</td>
<td>8.2%</td>
<td>6.3%</td>
<td>8.9%</td>
</tr>
<tr>
<td><strong>EBITDA margin</strong></td>
<td>10.0%</td>
<td>10.4%</td>
<td>10.0%</td>
<td>10.3%</td>
<td>10.3%</td>
</tr>
</tbody>
</table>
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Our Technologies, Your Tomorrow