

Transition to Global Group Management

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1. Medium- and Long-Term Challenges to Achieving Growth

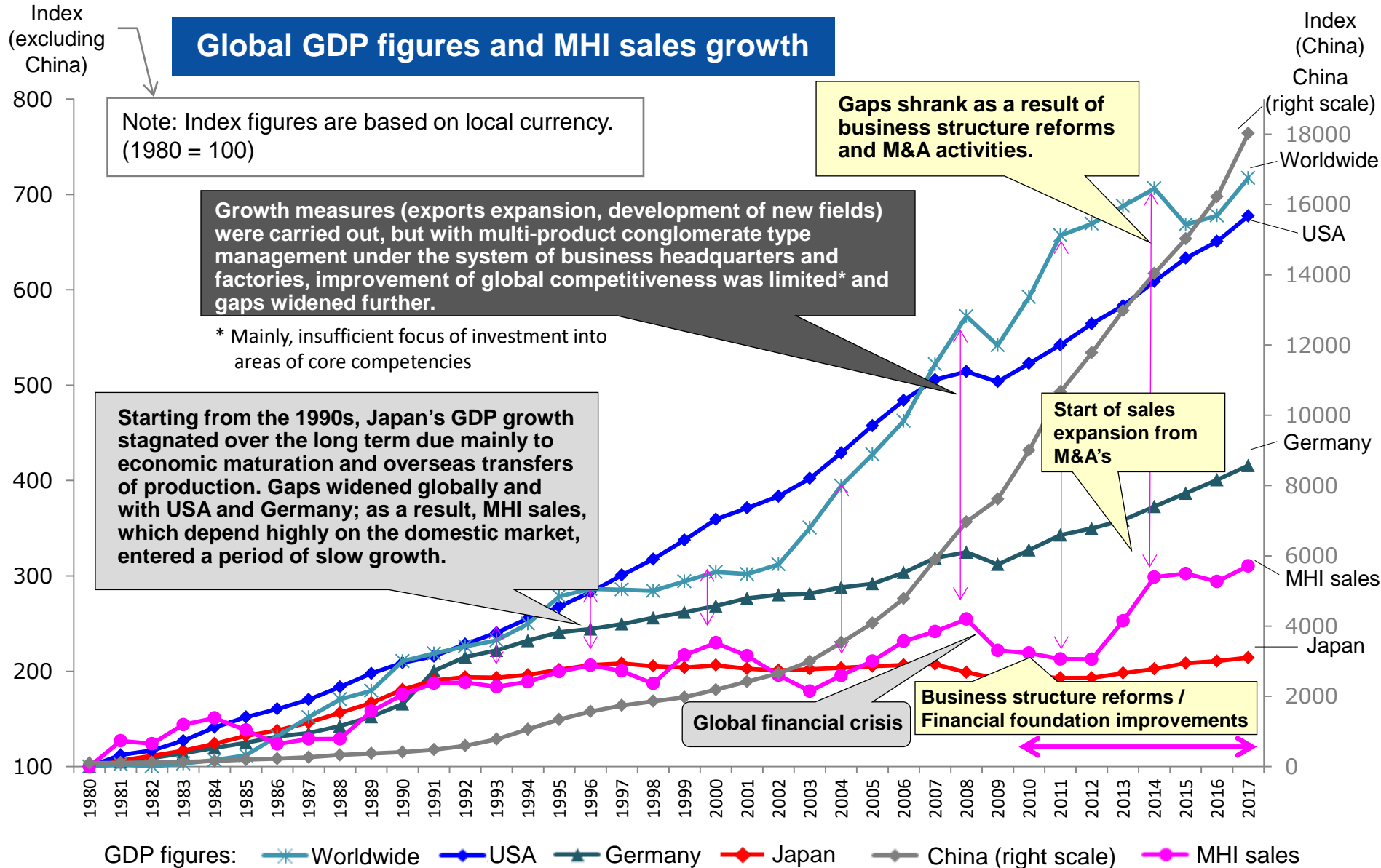
- (1) Structural Changes in External Environment** ... P.4~5
 - Long-Term Slow Sales Growth from Maturation of Japanese Market / Economy and Other Factors
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 - Globalization and Entry into Growth Areas

1-(1) Structural Changes in External Environment

-Long-Term Slow Sales Growth



1-(1) Structural Changes in External Environment

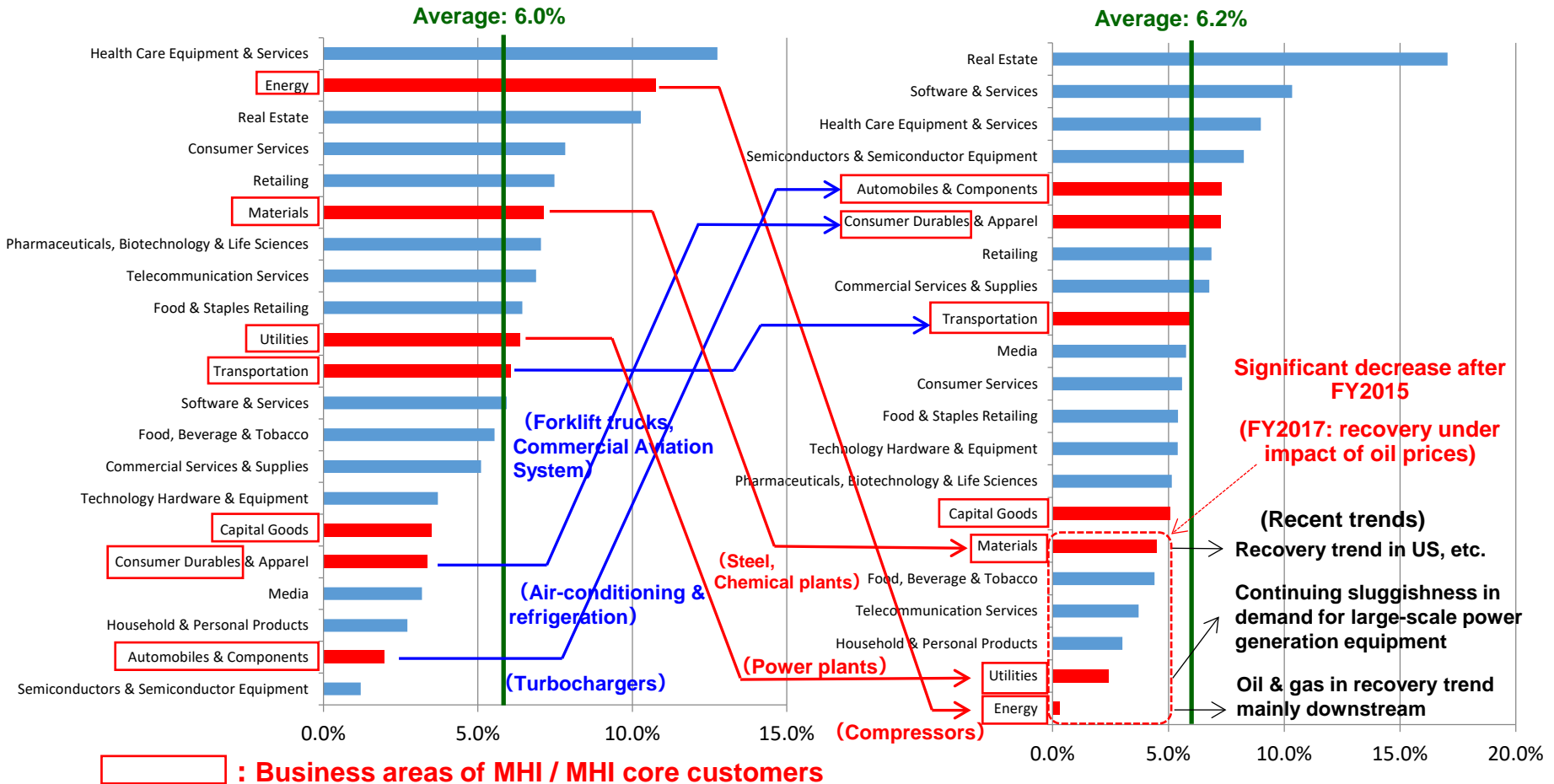
-Decelerating Growth Rates of Core Infrastructure Businesses

Annual sales growth by sector*
 → Major changes in recent 10+ years

* Industry classifications: GICS (Global Industry Classification Standard) / 21 industries (financials excluded)
 * Target companies: Japanese, North American, European, Chinese and ASEAN stock-listed firms (19,564 companies)

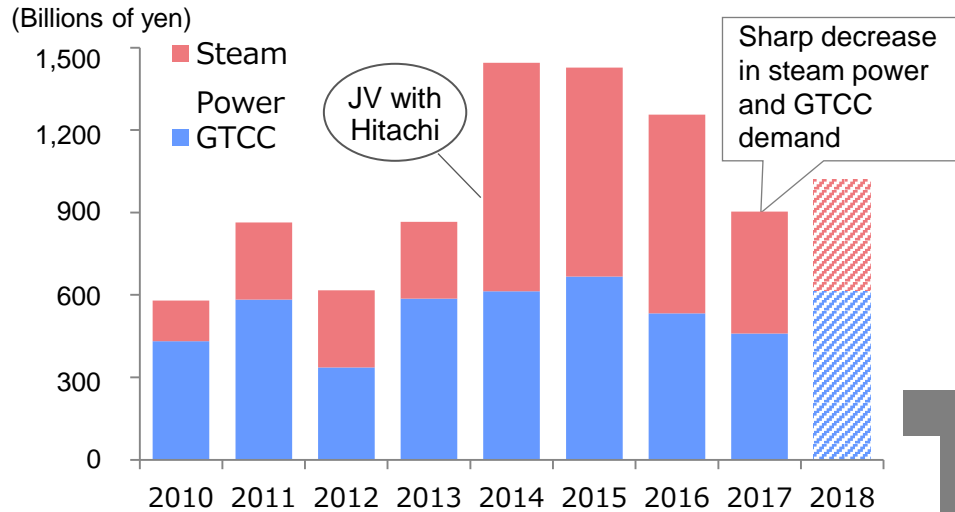
2000 → 2009 average

2010 → 2017 average

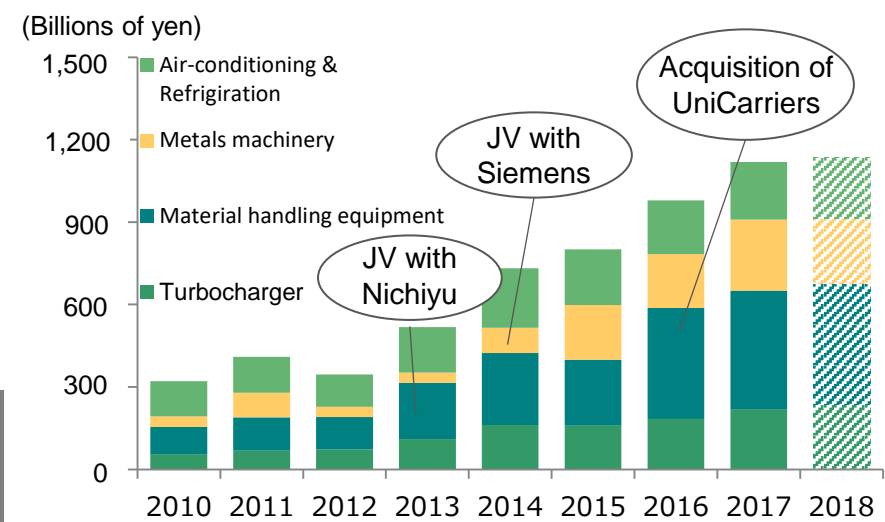


1-(2) Decreasing Orders in Thermal Power Business and Delayed Development of Growth Businesses

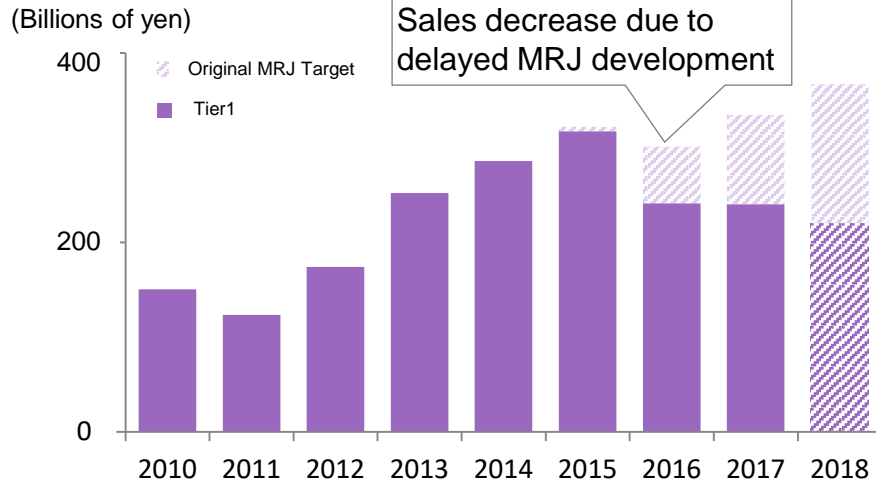
<Thermal power systems: orders received>



<I&I core businesses: orders received>



<Commercial aircraft (Tier1+MRJ) sales>

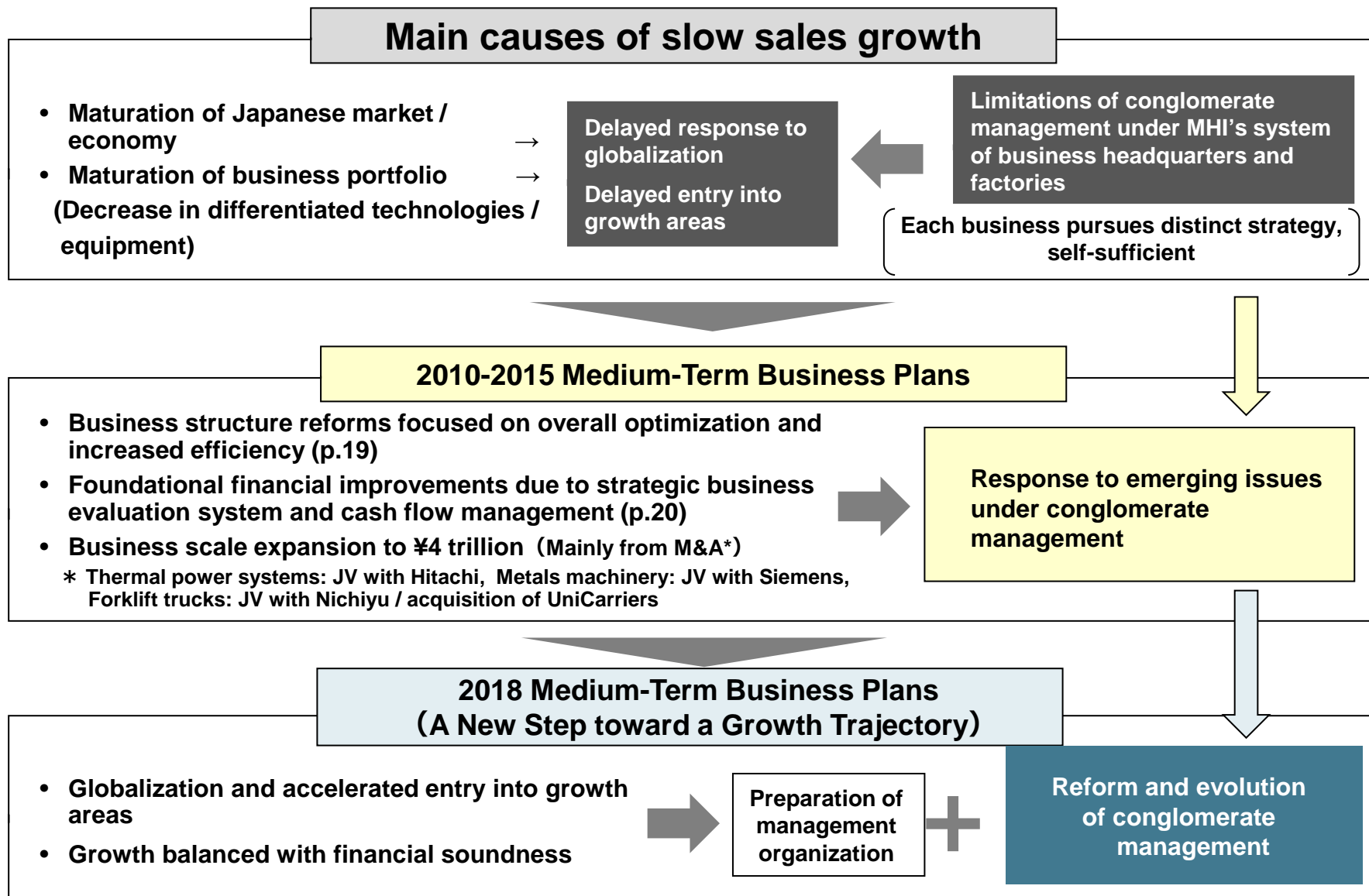


• I&I orders generally on target, due to M&A's and some growth businesses

• Thermal power systems benefited from M&A impact, but demand dropped sharply starting in 2017. (scale gap: over ¥500 billion)
 • Delayed development of MRJ (medium-term scale gap: ¥100 billion)

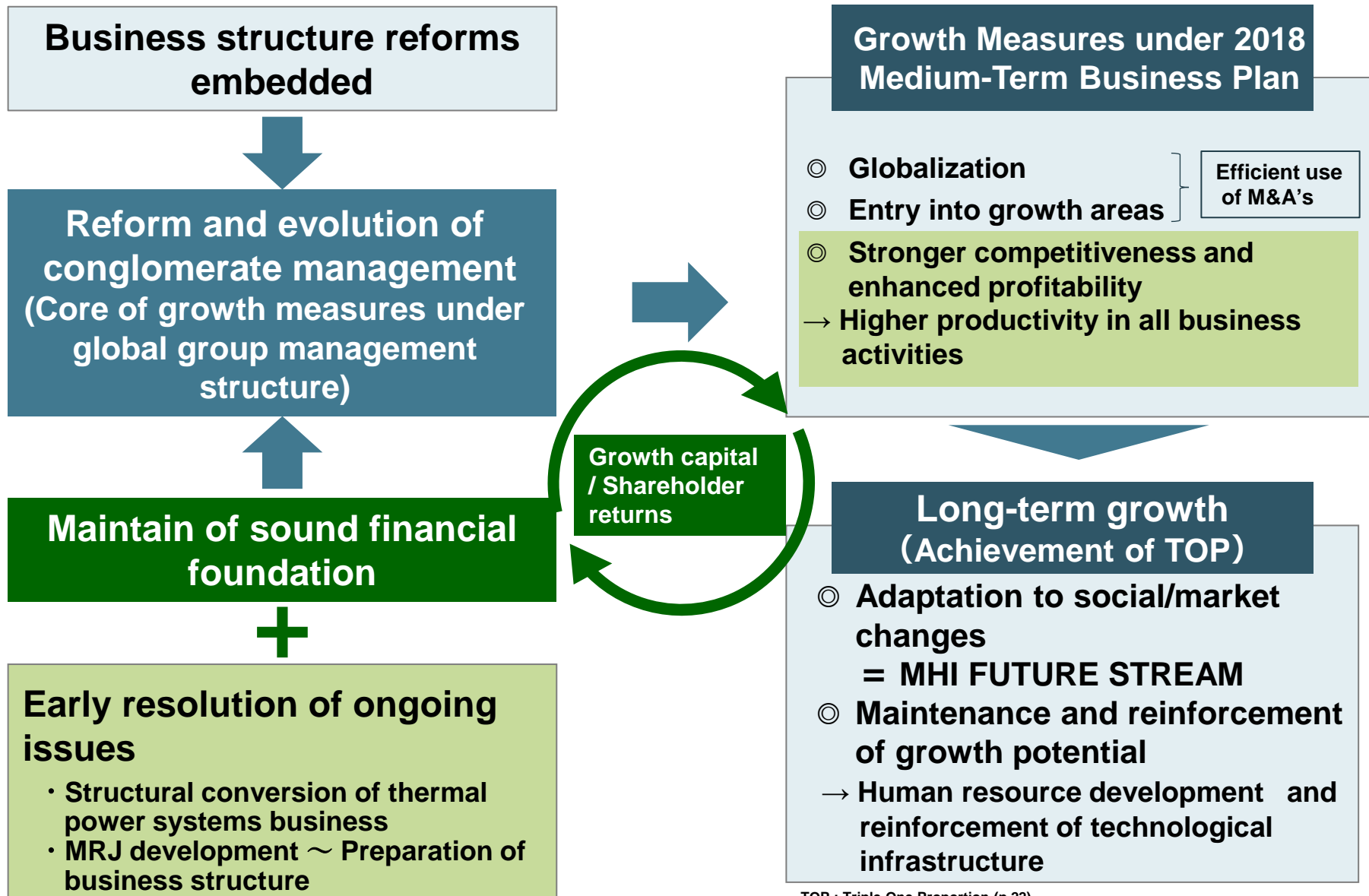
I&I : Industry & Infrastructure

1-(3) Medium- and Long- Term challenges (Summary)

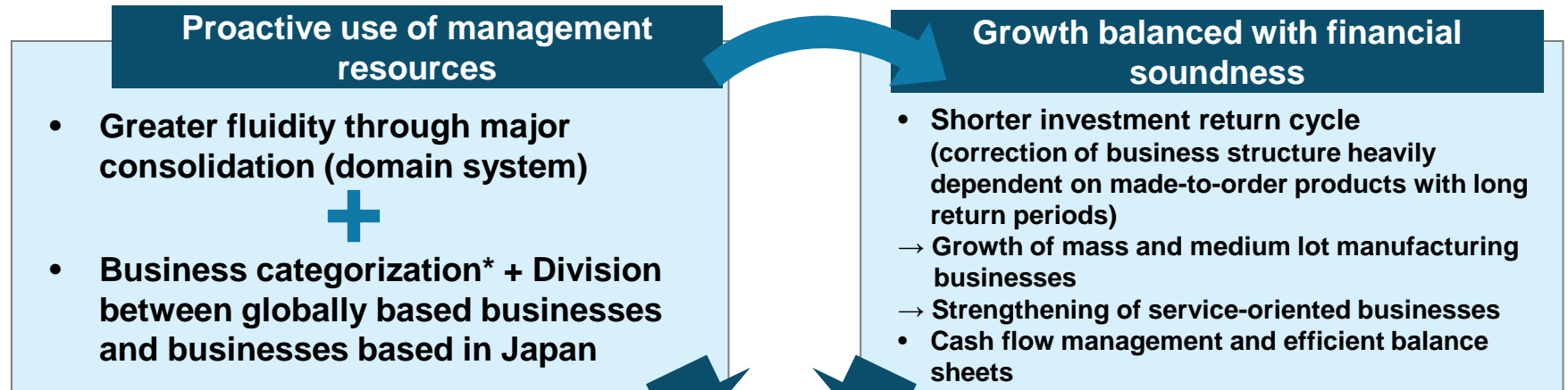


2. A New Step toward a Growth Trajectory

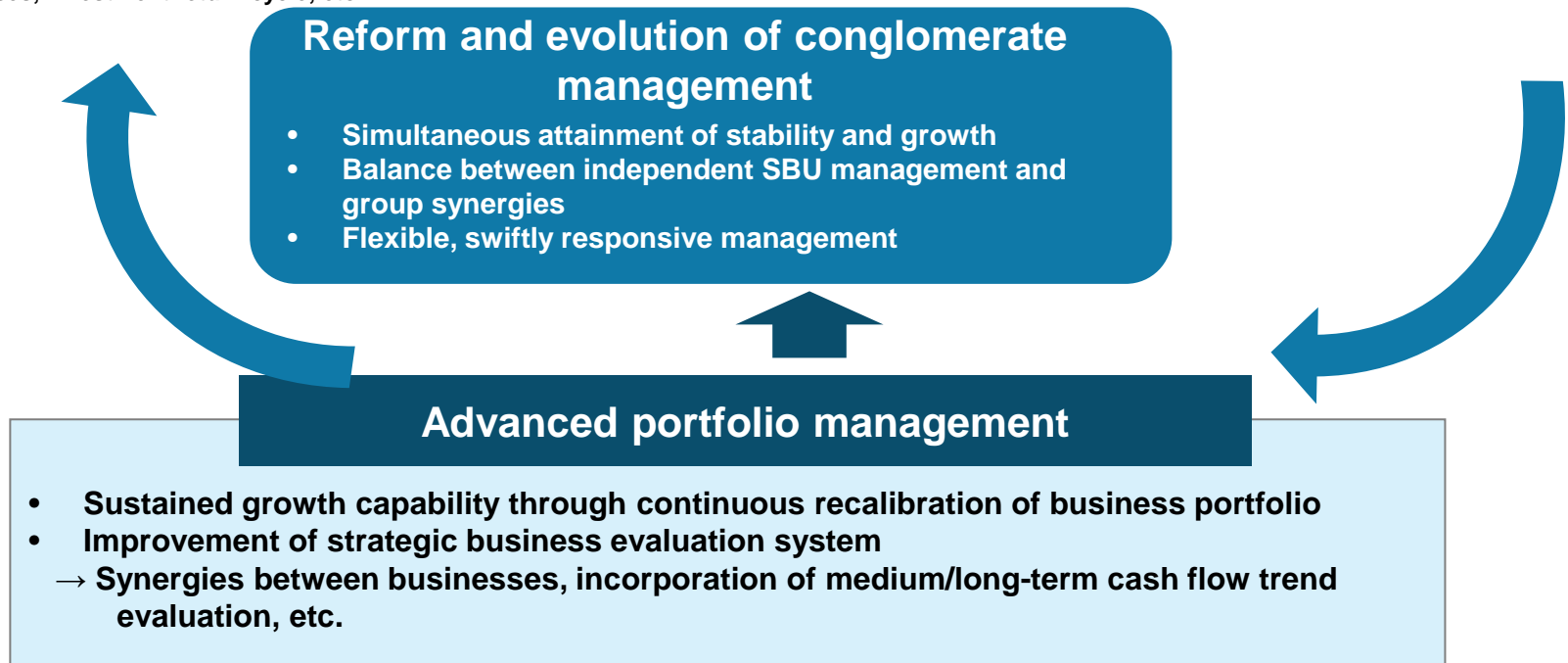
- (1) Growth Strategy under 2018 Medium-Term Business Plan** . . . P.9
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- (3) Categorization Based on Business Characteristics** . . . P.11
- (4) Bar chart of major measures** . . . P.12




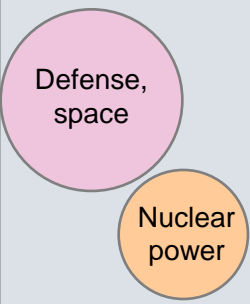
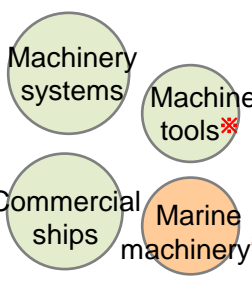
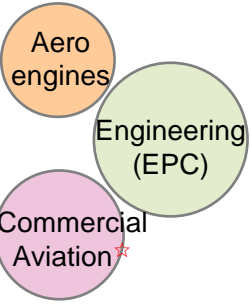
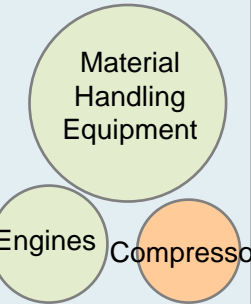
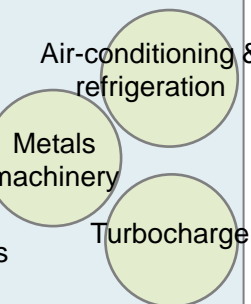
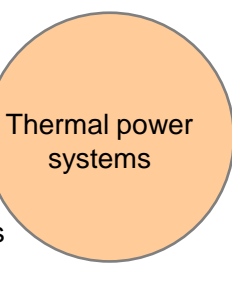
TOP : Triple One Proportion (p.22)



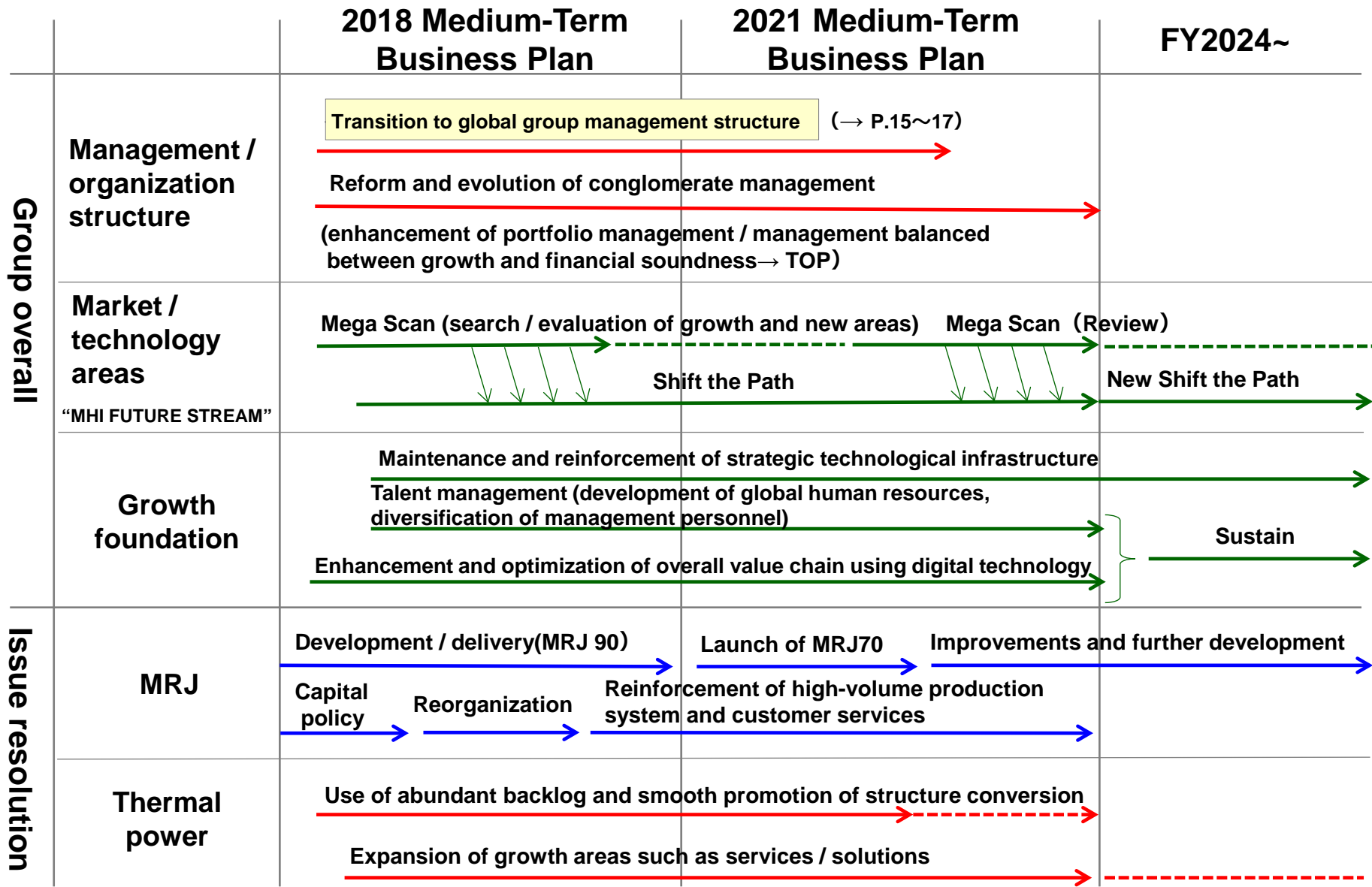
* Major markets / regions, competitive format trends, business bases, investment return cycle, etc.



2-(3) Categorization Based on Business Characteristics (Applied to years of 2018-2021 Business Plans)

Business type	Domestically based businesses (approx. ¥1.7 trillion)			Globally based businesses (approx. ¥2.4 trillion)		
	I - 1 Regulated/ cutting-edge	I - 2 Mature & niche/ Reform	I - 3 Export/Reform	II - 1 Developing/ expanding	II - 2 Mature/mid-tier	III Large-scale/ Reform
Component businesses 						
Total business scale (Medium-term trend, 3-6 years)	¥680bn (stable or slight increase)	¥390bn (nearly flat)	¥650bn (gradual expansion)	¥600bn (recovery or gradual increase)	¥670bn (recovery or gradual increase)	¥1,150bn (stagnation or Settled at a given level)
Overseas sales ratio	3~4%	5~40*%	75~100%	55~90%	60~90%	60%
Overseas personnel ratio	0%	0~30%	0~25*%	15~30%	70~90%	25%
Business characteristics	<ul style="list-style-type: none"> • Oriented to Specific customers: government agencies and power companies • Long-term recovery type businesses 	<ul style="list-style-type: none"> • Mainly domestic market • Mature & niche business • Wide fluctuations in demand 	<ul style="list-style-type: none"> • Oriented to specific customers • Export businesses • Established business model 	<ul style="list-style-type: none"> • Oriented to global markets • High-volume or made-to-order production (standardized products) 	<ul style="list-style-type: none"> • Oriented to global markets • Mainly overseas production, established business model • Portfolio contains differentiated products 	<ul style="list-style-type: none"> • Oriented to global markets • Large-scale development by major manufacturer / Long-term recovery type businesses
Challenges and solutions	<ul style="list-style-type: none"> • Expansion of security / space-related businesses • Steady exports expansion • French-Japanese collaboration in nuclear power 	<ul style="list-style-type: none"> • Significant productivity improvement • Business model reform 	<ul style="list-style-type: none"> • Preparation of business structure after MRJ development • Structure conversion of engineering business 	<ul style="list-style-type: none"> • Increased overseas production and business expansion through alliances 	<ul style="list-style-type: none"> • Stronger human resources for global management • Early action aimed at next growth area / technology 	<ul style="list-style-type: none"> • Structural market change resulting from CO₂ issues and renewable energies
	Steady growth measures	Acceleration of profitability improvement activities		Steady pursuit of growth and profit		Radical measures (business structure conversion)

2-(4) Bar chart of major measures



3. Transition to Global Group Management

- (1) Current Organization and Personnel Distribution ...** **P.14**
 - Increase in group companies and overseas employees

- (2) Distribution of Major Company Functions ...** **P.15**

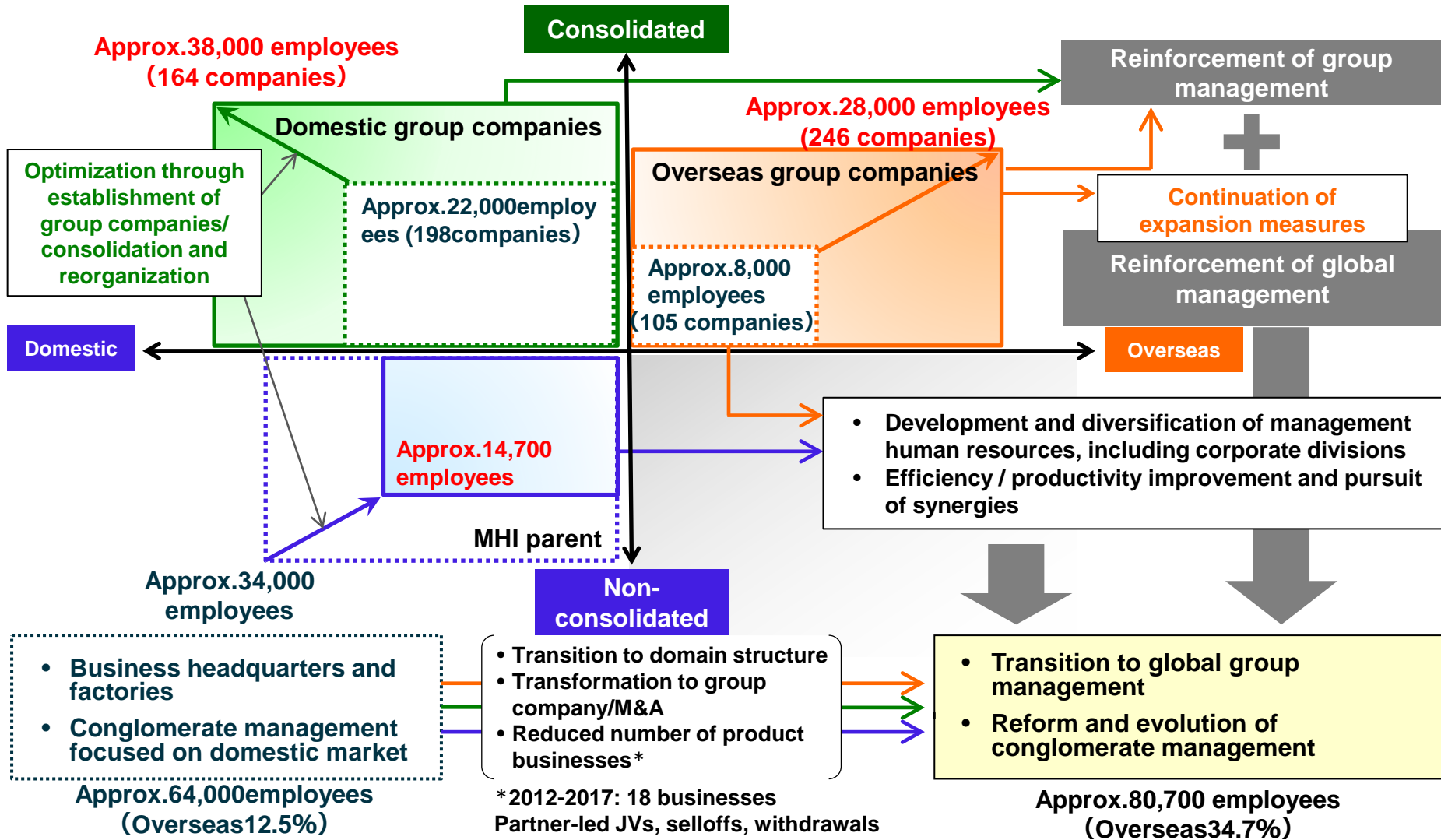
- (3) Organization Structure and Targeted Management System ...** **P.16**

- (4) Outline of Transition Process ...** **P.17**

3-(1) Current Organization and Personnel Distribution

Increase in group companies and overseas employees

(March 2008 : March 2018 :)



3-(2) Distribution of Major Company Functions

Best-fit corporate management

Group headquarters

- ① Overall management (Portfolio management, resource allocation, etc.)
- ② Corporate philosophy/Branding/
Corporate governance/Risk management
- ③ Common base of financial/accounting/tax matters, human resources, technology, etc.)
- ④ Overall growth strategy/Promotion of special project
 - Reform and evolution of conglomerate management
 - Pursuit of “Triple One Proportion” (TOP)
 - MHI FUTURE STREAM

Japan oversight functions (details on next page)

Creation of overseas growth opportunities

Regional headquarters

- ① Manifestation of regional synergies
 - Information sharing, brand penetration etc.
- ② Unearthing of new business opportunities (cross-SBU projects, etc.)
- ③ Improved efficiency of regional corporate services

Cooperation / support

Domains

- ① Manifestation of synergies among businesses
 - Resource adjustment, Sales information sharing
- ② Compilation of all domains' information

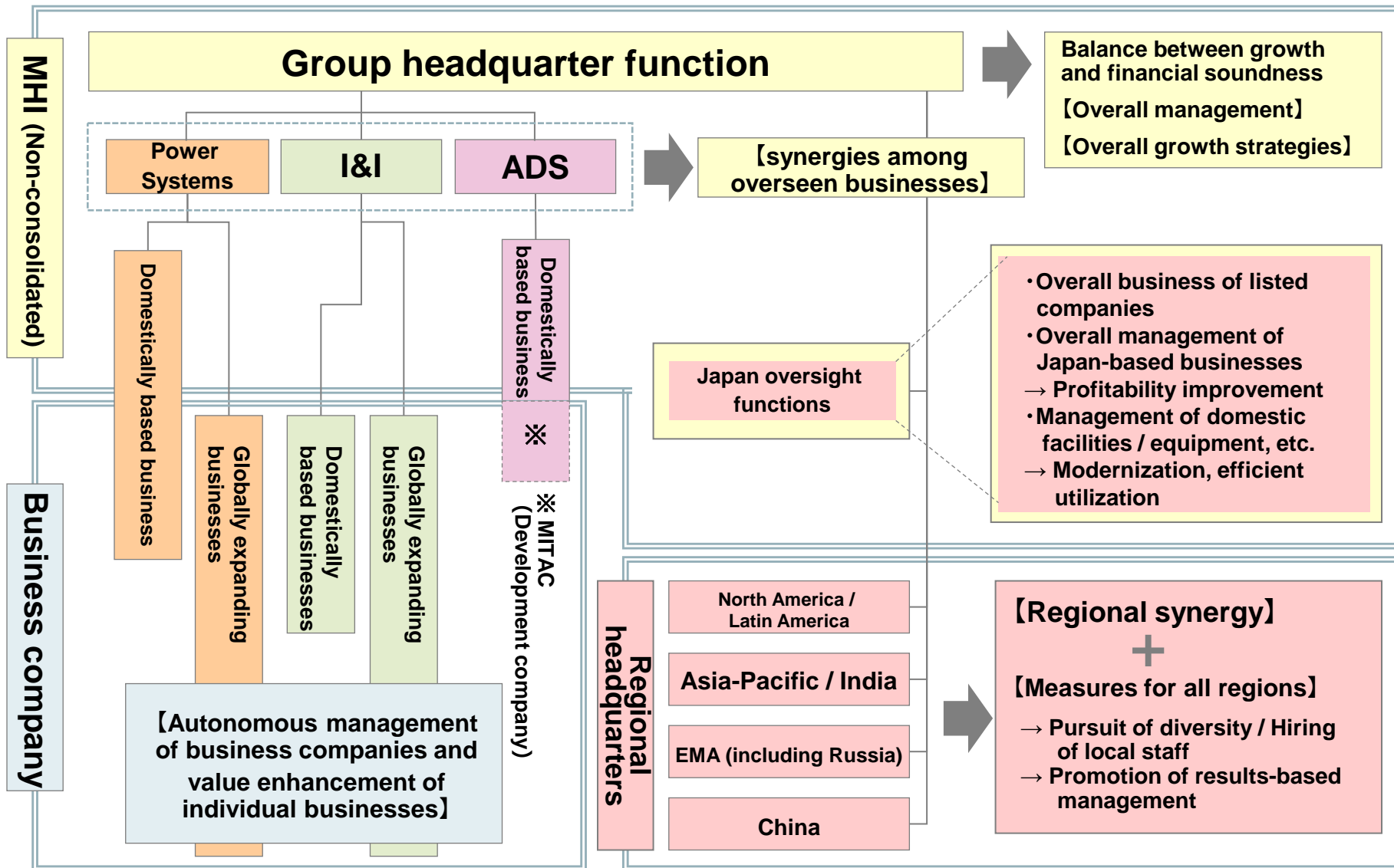
Expansion of autonomous management/Business value improvement

Business divisions, business companies

- ① Autonomous business management (based on approved Medium-Term Business Plan)
 - Business strategies, resource management
 - Sales/Service, Production/Procurement
- ② Risk management
- ③ Corporate operations
 - Management according to business characteristics
- ④ Human resource management (Hiring and HR development in cooperation with Group Headquarter)

SBU : Strategic Business Unit

3-(3) Organization Structure and Targeted Management System



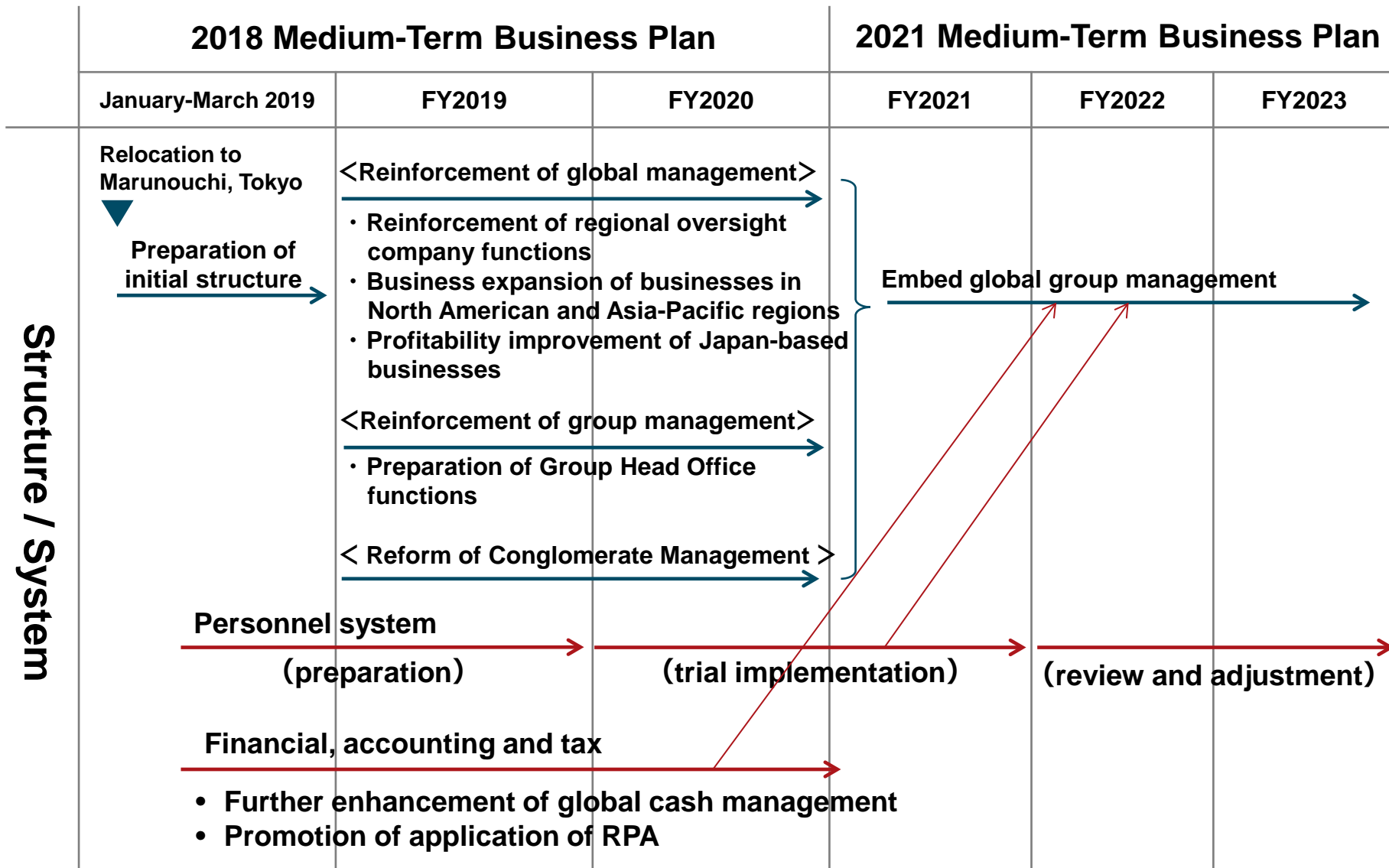
I&I : Industry & Infrastructure

ADS : Aircraft, Defense & Space

MITAC : Mitsubishi Aircraft Corporation

EMA: Europe, Middle East, Africa

3-(4) Outline of Transition Process



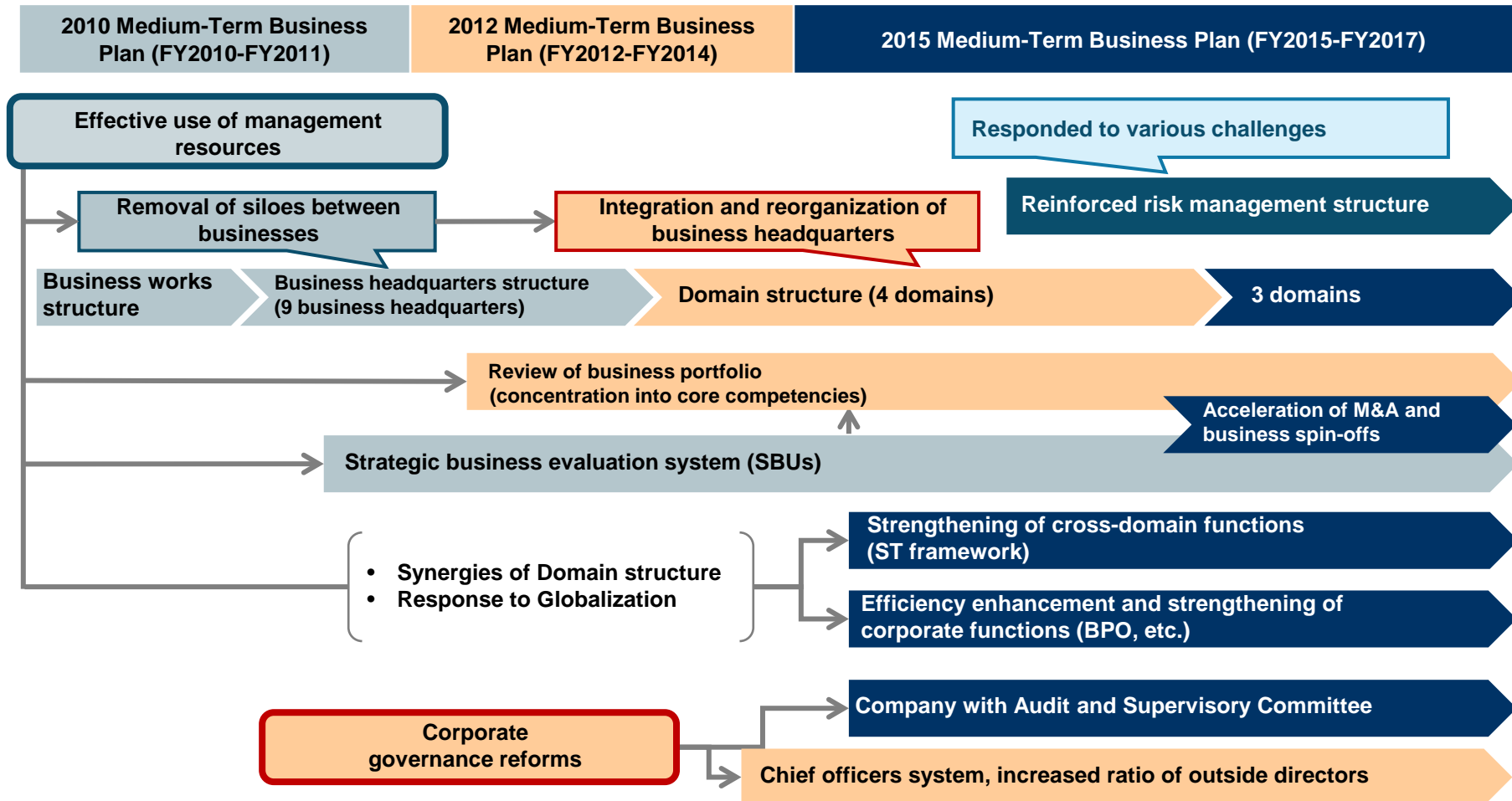
RPA : Robotic Process Automation

Reference

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Reference #1 Roadmap to Completion of Business Structure Reforms

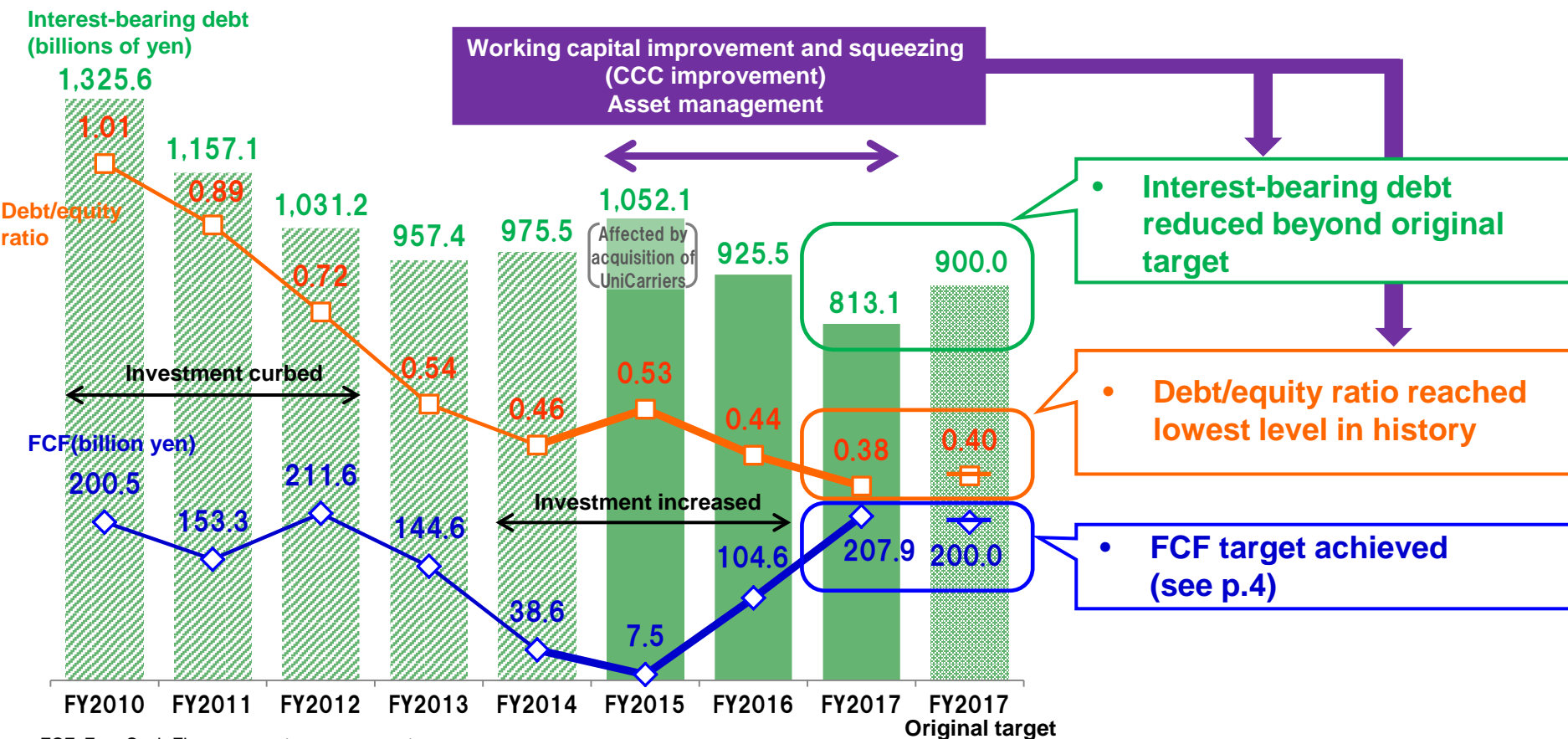
- Completed organizational/structural reforms over 8 years, starting from 2010 Business Plan.
- Almost completed corporate governance reforms launched in 2012 Medium-Term Business Plan.



SBU : Strategic BusinessUnit ST : Shared Technology BPO : Business Process Outsourcing

Reference #2 Improvement of Financial Foundation

- Financial foundation strengthened beyond target, reaching a healthy level through measures including cash flow management, asset management, etc.



FCF: Free Cash Flow CCC: Cash Conversion Cycle

Reference #3 Improvement of Business Process through Business Structure Reforms

Structural and directional improvements / activities

Business Area	Achievements	Globalization, outside collaboration	Increased productivity IoT / AI	Future Direction
Marketing	Development of cross-SBU projects overseas	○		<ul style="list-style-type: none"> Operationalize and enhance process improvement outcomes Nurture global managers Strengthen new business creativity and integrate state-of-the-art technologies Broad application of digitalization
	Achievement of advanced customer services (O&M support system, etc.)	○	○	
	Long-Term Growth Vision (future stream) activities (p.27)	○		
	Improvement of companywide sales and service education systems	○		
Technology	Expanded open innovation with global CoEs	○		
	Engineering talent management system	○		
	Digitalization of production processes	○	○	
	Configuration of common component code system		○	
Finance	Introduction of global financial and accounting policies	○		
	Expanded operation of global cash management	○	○	
	Introduction of IT/automation of monitoring of business status, enhanced business process efficiency through RPA		○	
HR <small>HR:Human Resources</small>	Configuration of HR data base and use in planning successors	○	○	
	Unification of business processes and systems		○	
Procurement	Consolidation of suppliers, introduction of management tools		○	
	Reconfiguration of commercial aircraft SCM, Reform of procurement processes	○	○	

SBU: Strategic Business Unit O&M: Operation & Maintenance COE: Center of Excellence RPA: Robotic Process Automation SCM: Supply Chain Management IoT: Internet of Things AI: Artificial Intelligence

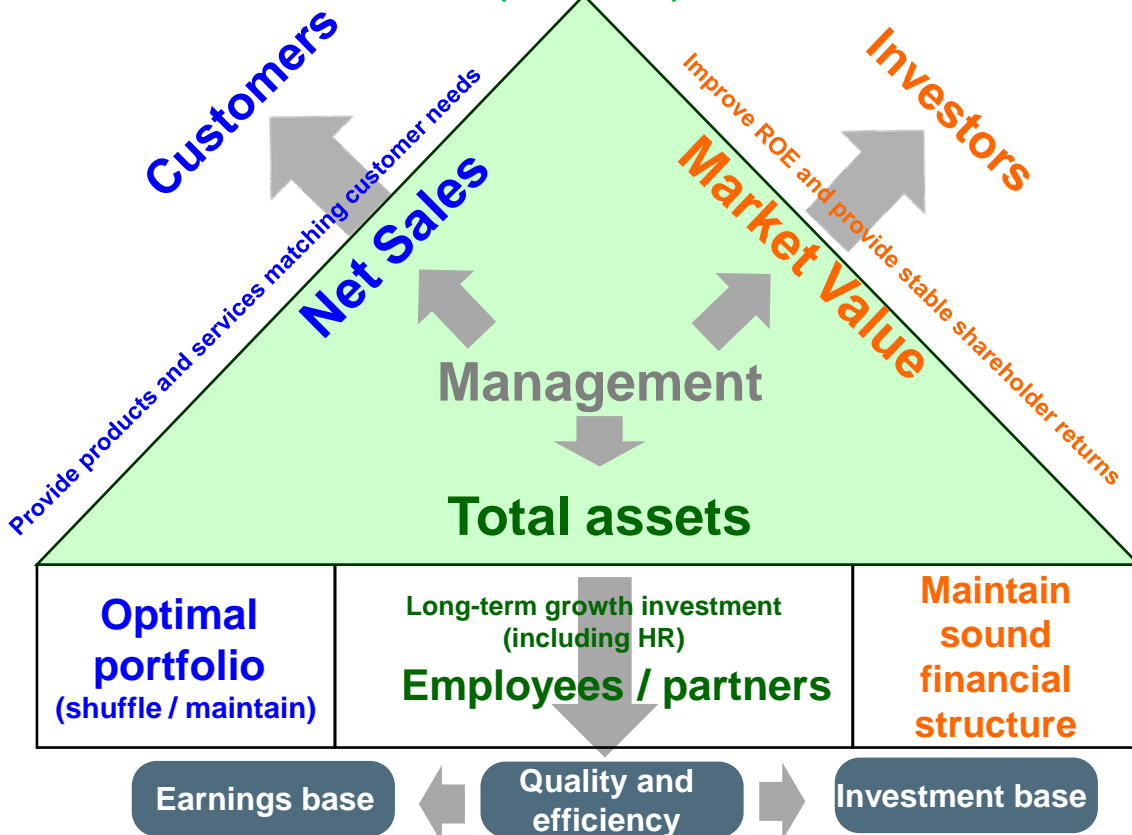
Reference #4 TOP (Triple One Proportion)

TOP (Triple One Proportion) Concept

Serving the needs of stakeholders and society in a sustainable and harmonious way

Managerial goal (proportion) Net sales : Total assets : Market value = 1 : 1 : 1*

Shared Social Values
(ESG/SDGs)



* Future orientation: Total assets ≤ 1 , Market value ≥ 1

Prioritize efficiency and quality

+

Balance of maintaining sound financial base and growth investment over the medium term

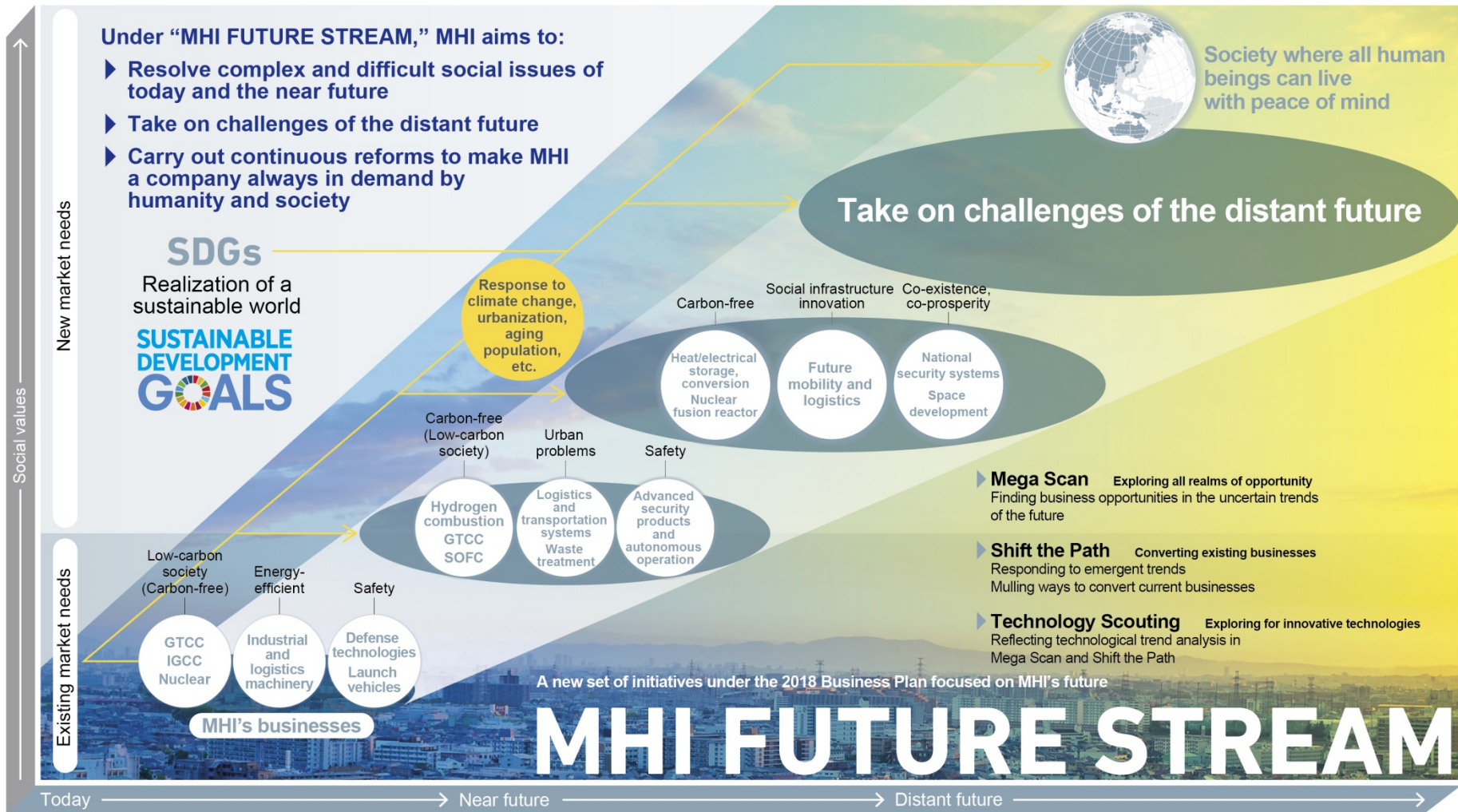
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Seek long-term and stable improvement in corporate value

$$\begin{aligned}
 \text{ROE} &= \frac{\text{[Profitability]} \text{ Net income}}{\text{Net sales}} \times \frac{\text{[Investment efficiency]} \text{ Net sales}}{\text{Total assets}} \times \frac{\text{[Financial soundness]} \text{ Total assets}}{\text{Shareholder Equity}} \\
 &= \text{Net Profit margin} \times \text{Total Asset turnover} \times \text{Financial leverage}
 \end{aligned}$$

ESG: Environment, Social, Governance SDGs: Sustainable Development Goals ROE: Return On Equity

MHI FUTURE STREAM In step with social evolution



GTCC: Gas Turbine Combined Cycle Power Plant IGCC: Integrated coal Gasification Combined Cycle Power Plant SOFC: Solid oxide fuel cell

Reference #6 New Business Areas in the Energy Field (examples under consideration)

Promotion of business structure conversions toward the realization of carbon-free society, responding to megatrends, ESG and SDGs.

Megatrends surrounding energy business

Curbing of CO2 emissions toward 2°C target

- Possibility of CO2 emissions staying flat by 2030
- 2°C target difficult to achieve with continuation of current technologies

Global slowing of growth in demand for primary energies

- Slowing of GDP growth
- Unbundling of GDP and energy consumption

Increasing power demand from electrification progress

- Demand growing at quadruple the speed of demand for fossil fuels, etc.
- Increasing demand for improved services

Accelerating adoption of renewable energies amid cost reductions

- Cases already exist where costs are on par with those of new thermal plants
- Costs to become even with those of existing plants within 5-10 years

Slowing and peaking of fossil fuel demand

- Coal demand to peak in 10 years
- Oil demand to peak in 20 years
- Gas demand to continue gradual increase

New business areas in the energy field (examples under consideration)

Energy management

- Optimized energy operation services making use of digital technologies
- Asset management services to maximize value of electric power in deregulated markets

Carbon-free energy chain

- CO2 recovery, storage and utilization plants, toward carbon-free society
- Plants spanning from carbon-free fuel (hydrogen, ammonia, etc.) production to power generation
- Achievement and sales expansion of hydrogen gas turbines

Response to increased renewable energy usage

- Gas turbines that respond quickly to renewable energy output fluctuations
- System integration, including energy storage

総合マネジメント

ENERGY Cloud

MHPS Digital Solutions
TOMONI

MOVE THE WORLD FORWARD

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