

> President's Message

Seiji Izumisawa
President & CEO



FORMULATING AND ACCELERATING GROWTH STRATEGIES

for the Next Stage

We will take steps to address challenges in all business areas and act with speed to implement our medium- and long-term growth strategies.

Ever-Evolving Management Reforms

Over our long history, MHI Group has endeavored to continuously respond to the needs of our customers and society as a whole with solutions incorporating our wealth of technologies and products developed over many years. Our record of achievements has won the unwavering trust of all our stakeholders, be they customers, business partners, investors, or the wider community. This, I believe, is the role we have assumed within society. Since I became president & CEO in April 2019, I have come to recognize more keenly than ever the expectations and trust that our stakeholders have in MHI Group to develop systems and capabilities through *monozukuri*—the traditional Japanese concept of craftsmanship—and to keep expanding and optimizing the resources that make up our Groupwide foundations.

In shifting from our former structure of business divisions and offices to individually operated business units, we have successfully instilled a framework that enables each business to manage itself autonomously. As the strategic business units (SBUs) have each achieved success, this has brought results in terms of significantly changing our thinking toward cash flow management—which is a big change.

FORMULATING AND ACCELERATING GROWTH STRATEGIES for the Next Stage

Still, managing a company requires a flexible response; constant changes in step with the times and fluctuating circumstances. There is no fixed finish line.

In terms of overall direction, today we are in a period of major transformations in production, products, and how we use them—what people are generally referring to as the Fourth Industrial Revolution, or the Digital Revolution. Artificial

intelligence (AI) is a tool, not an end in itself, and we need to hone our capabilities in how to incorporate AI into our products and systems, what impact that will have, and how to achieve what hasn't been achievable up until now. We need to apply AI not just to design or production; but everyone throughout the Group should see AI as a means of progress, and think of how it can be applied to resolving our challenges and making new things possible.

Resolving Social Challenges—Especially in Energy—Will Be Our Medium-to-Long-Term Growth Strategies

Going forward, we will grow our business around three major pillars: energy and power systems; mobility (including aircraft); and Industry & Infrastructure operations. The keywords here will be environmental and social issues: concepts like environmental, social and governance (ESG) issues and the Sustainable Development Goals (SDGs). We can provide true value in responding to a variety of social needs. Up until now, our stance has been that when society experiences difficulties, we respond in whatever way possible. Now, however, we will go a step further: from now on we will adopt a more positive, assertive stance toward solving issues at hand.

In our 2018 Medium-Term Business Plan, a sound financial foundation and strategies for growth constitute our basic policies. We are making steady progress in building a sound financial foundation; and though the market environment is somewhat opaque, we are moving in the right direction and steadily achieving results. Changes in the economic or social environment are beyond our control, so we will focus on improving productivity and continuing to make products of high quality.

As for our growth strategies, in the short term we are gradually seeing results, for example, in our medium-lot manufacturing although there is still room for improvement. In the medium and long term, we need to accelerate how we incorporate MHI FUTURE STREAM into our business strategy.

Energy is indispensable to mankind, and providing the infrastructure to supply it is a task that MHI Group is committed to. Progress in lowering carbon emissions is moving forward and demand is different in regional markets, some growing and some mature. Going forward, we will support our customers and regions by providing the best mix that corresponds to their needs, using a mix of diverse energy sources including fossil fuels and renewable energies.

Regarding thermal power generation, given the way society is striving to reach low carbon or zero carbon emissions, we can no longer expect the kind of expansion we have seen up until now. Current customers within limited markets are amenable to thermal power, and if we can make thermal power more efficient by use of service operations—maintenance, replacement work, and the like—we can respond to varied needs through use of thermal resources that are more harmonious with the environment.

Development of the Mitsubishi SpaceJet family is steadily moving forward toward the acquisition of type certification and delivery of the first aircraft, so we are approaching a crucial stage. In addition, since this is a business with an extremely long payback period, we need to consider in what form we should develop this as a business. The aircraft business is a field with future potential that offers various opportunities, but I am well aware of the issues surrounding how we should proceed in investing capital.

Turning Diverse Technological Resources into Future Advantage

Every business has two aspects: financial results and business scale. Our current plan is to improve cash flow, turnover, and productivity, and once this is efficiently carried out, it will be reflected in financial results and allow us to further promote these initiatives. With a firm business foundation, we will be able to respond to minor economic or environmental changes, creating a system that enables us to achieve stable business results unaffected by the

business environment.

The other aspect is how we will achieve our target of ¥5 trillion in revenue. Organically, we are very close to achieving that goal, but inorganically we must take into account our growth strategies, so I believe it will still take a little more time to decide where to invest so we are still some way off from this goal.

Our various businesses will have to respond to

Results and Targets of the 2018 Medium-Term Business Plan

(Billions of yen)

| | FY2018 original target | FY2018 actual | FY2019 plan | FY2020 target |
|---|---------------------------|------------------|-----------------|------------------|
| Orders received | 4,100.0 | 3,853.4 | 4,300.0 | 5,000.0 |
| Revenue | 4,200.0 | 4,078.3 | 4,300.0 | 5,000.0 |
| Profit from business activities (Margin) | 160.0 (3.8%) | 186.7 (4.6%) | 220.0 (5.1%) | 340.0 (6.8%) |
| Profit attributable to owners of the parent | 80.0 | 101.3 | 110.0 | 170.0 |
| ROE | 6% | 7.2% | 8% | 11% |





customers and compete against dedicated manufacturers, which will require flexibility, discretion, and the management staff and systems to enable this. Here, our ability to apply our diverse technological resources will place us at an advantage against these dedicated manufacturers. Our advantages as a diversified conglomerate lie in a solid R&D function, our ability to appeal to customers with solutions comprised of a combination of products, and the breadth of our supply chain. The key is how to put these advantages to work. Our shared technology framework will oversee synergies from various business units, while areas of specialization will be overseen by our corporate headquarters. Regarding information security, I think it would be best to create unified rules and a unified framework as a group. Furthermore, where more than one SBU is involved, or where expansion is undertaken into specific areas seen to have potential, these will need to be supported or led by the Head Office, and a system of responsibility centered on our corporate divisions will be implemented.

With respect to portfolio enhancement, I see this in the form of business profiles centering on financial results, and also taking the market environment into consideration. But I want to take this one step

further, adding in allocation of resources—including human resources and plant facilities—and future trends in the industry.

Diversity in management ranks is also important. Furthermore, going forward I will encourage greater diversity in our promotional practices, including singling out younger talent. As an example, I am currently considering a mechanism whereby human resources would be flexibly allocated within the Group, to give different people a variety of opportunities. I will monitor what processes are adopted and what results are achieved. We must also consciously strive, in particular, to give female employees more active roles. Many years ago, it was difficult to imagine women walking around a shipyard wearing safety boots or serving on the job in the middle of the desert; but times have changed, and women now play key roles in various jobs. Going forward, it will also be important to increase the number of role models who enable other women to envision their future work position. This year we selected our first female executive officer, and as the number of women taking on significant roles increases, I think the motivation women feel for working at MHI will improve as well.

Domain
 ● Power Systems ● Industry & Infrastructure ● Aircraft, Defense & Space

| 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 | Steady growth measures Defense, space Nuclear power | Acceleration of profitability improvement activities Machinery systems Machine tools Commercial ships Marine machinery | Aero engines Engineering (EPC) Commercial aviation | Steady pursuit of growth and profit Material handling equipment Engines Compressors | Air-conditioning & refrigeration Metals machinery Turbochargers | Radical measures (business structure conversion) Thermal power systems |
| Total business scale (medium-term trend, 3-6 years) | ¥680 billion (stable or slight increase) | ¥390 billion (nearly flat) | ¥650 billion (gradual expansion) | ¥600 billion (recovery or gradual increase) | ¥670 billion (recovery or gradual increase) | ¥1,150 billion (stagnation or settled at a given level) |
| Business characteristics | Oriented to specific customers: government agencies and power companies Long-term recovery type businesses | Mainly domestic market Mature & niche business Wide fluctuations in demand | Oriented to specific customers Export businesses Established business model | Oriented to global markets High-volume or made-to-order production (standardized products) | Oriented to global markets Mainly overseas production, established business model Portfolio contains differentiated products | Oriented to global markets Large-scale development by major manufacturer/ Long-term recovery type businesses |
| Challenges and solutions | Expansion of security/space-related businesses Steady exports expansion French-Japanese collaboration in nuclear power | Significant productivity improvement Business model reform | Preparation of business structure after MRJ development Structure conversion of engineering business | Increased overseas production and business expansion through alliances | Stronger human resources for global management Early action aimed at next growth area/technology | Structural market change resulting from CO ₂ issues and renewable energies |

Taking in Technological Innovations to Promote Group Reforms

MHI FUTURE STREAM is an initiative that aims to look squarely at changes and movements in the world at large and in technology, evaluate what impact those changes will have on MHI Group, determine what changes and reforms are needed to respond, and see exactly where new business opportunities lie. Amid those changes and movements, MHI Group will likely be compelled to change its business structure or how we develop our business; and under MHI FUTURE STREAM we will consider what path to take in pursuing changes. For example, as the industry shifts from selling machinery to marketing energy cloud and systemization, or switches from engine-powered forklifts to battery-powered, how should we put these changes to use in our business? We have to mull over how our businesses will change; where, amid such changes, business opportunities will emerge as new fields of business; and whether there are areas in which we can respond by combining existing businesses. Then, we will formulate and implement specific plans as to how to modify “business A” into “business A1,” and how to

approach the new “business B” that has emerged. Since we can’t respond to everything relying wholly on internal resources, taking in external resources in order to become stronger will be of key importance.

Without your feet firmly on the ground, a business isn’t viable; and if you gaze only into the future, you end up seeing mirages. That said, if you just stare down at your feet as you move forward, things won’t turn out the way you expected. It’s necessary to consider your situation from both directions: what you have to do where you currently stand, and what you need to do to reach the future you envision.

For some time now, we have adopted AI and the Internet of Things (IoT) into our businesses. In the case of IoT, for roughly 20 years network connections have been used to perform control functions, and for 20 to 30 years we’ve utilized AI in the sense of control systems incorporating deep learning

FORMULATING AND ACCELERATING GROWTH STRATEGIES for the Next Stage

and machine learning. Technology has enabled rapid progress in areas that weren't possible before, and depending on what would be good to connect to what, I think that by combining them with MHI Group's various products and systems, all-new landscapes will come into view. It's possible that this will have a disruptive impact on current businesses in the short or medium term. Some business areas might undergo huge market changes, and simultaneously, peripheral business fields may emerge that we hadn't undertaken before.

Society is demanding solutions that make our lives easier and work in harmony with the

environment. Given how MHI Group excels in developing solutions that control environmental impact and global warming, these are areas where there are strong possibilities for growth.

In terms of open innovation, today we actively work with overseas research institutes and universities. But as we don't have an eye for business areas we haven't undertaken much up until now, we are investing in venture capital firms and the like, forming new relationships, and, in the learning process, striving to acquire information that we couldn't receive through existing channels. This will help us see how technologies and products may develop.

A Social Responsibility to Turn Climate Change into Business Opportunities

Providing solutions to social challenges surrounding climate change is one way in which we can contribute to society. And because MHI Group possesses various technologies and resources in this area, going forward we will proactively work to develop innovative solutions to cope with and counter climate change.

From the perspective of risk, however, coal-fired systems and other CO₂-emitting products—formerly our mainstay business area—today are viewed in a harsh light. Even so, there remain people and countries that value coal as a critical resource. In

response, it's necessary for us to provide packages incorporating systems that emit less CO₂, technologies for recovering CO₂, and so on.

Providing solutions that respond to climate change can have both negative and positive aspects, in the form of business opportunities. Energy consumption patterns are volatile, and it's thought that as populations increase this volatility will increase globally, leading to growth in related social infrastructure. But as energy production methods diversify, the number of issues needing to be addressed will increase and demands will become more complex, which conceivably will bring about changes in cycles every several years. In order to achieve overall positive results, our business portfolio will have to be recalibrated, and I believe that moving things forward in that direction is our role. As renewable energies become increasingly common, other issues will emerge: for example, what to do with regulated power supplies and power transmission and distribution. Transforming climate change into opportunities is our responsibility to society, and sharing profits with our stakeholders by providing solutions as a newly created value, is our underlying philosophy.

With respect to sustainability, we will aim to be a

REALIZING GROWTH BY RESOLVING SOCIAL ISSUES



sustainable company by turning changes in the business environment to opportunities, applying our accumulated resources, and taking initiatives with speed and flexibility, as our way of responding to everyone's hopes and expectations. The keyword is "speed." MHI Group has had a tendency to be overly cautious, but recently we use the word "pivot" in the sense of, "Let's give it a brief try, and if it doesn't work, we'll end it." As virtual reality makes advances, pivoting's possibilities grow larger. Previously, we made prototypes and showed them to customers; now, customers can view them in the virtual realm. As an example, whereas previously in determining the position of a forklift mast, we had to actually manufacture a sample, today, we can carry out minor adjustments, making it wider or narrower, while looking at it in the virtual realm alongside our customers. Even with things as large as an entire plant, previously we would construct a piping model in 1:20 scale, determine how to monitor, and confirm whether hands-on work can be carried out during assembly. Now, we can do a variety of things directly on a 3D drawing. I expect that new technologies will change how work is done, and it's also possible that we will be able to move at a speed equivalent to that of developing consumer products.

Up until now, we have reorganized and created mechanisms to catalyze progressive change for the Company, but what lies at the core of change is employee awareness. In a fluid environment and state of circumstances, employees that strive to evolve themselves through awareness will allow the Company to evolve in parallel and grow stronger. However, if no change in awareness takes place, we will be back at square one, regardless of how much we change or create company mechanisms. Going forward, we will take on further initiatives to encourage all employees to increase their awareness of the need for change, and will ceaselessly carry out new reforms with the aim of making MHI Group even stronger than ever before.