

MHI REPORT 2020



MITSUBISHI HEAVY INDUSTRIES GROUP
INTEGRATED REPORT

For the Year Ended March 31, 2020



Mitsubishi Heavy Industries Group aims to achieve sustainable growth by contributing to the resolution of issues facing society and its customers, namely, “Balancing economic development and reducing the environmental impact of economic activity” through its businesses.

Based on sound manufacturing technologies and track record, we are working on decarbonization and the evolution of mechanical systems through electrification and intelligent systems, adapting to changes in social value as well as technological innovation.



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Forecasts regarding future performance in these materials are based on judgments made in accordance with information available at the time this report was prepared. As such, these projections involve risks and uncertainties. For this reason, investors are recommended not to depend solely on these projections for making investment decisions. 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.



Purpose of Publishing This Report

Mitsubishi Heavy Industries (hereinafter referred to as "MHI") Group aims to achieve its growth by contributing to the development of society by responding to current and future issues and needs with a variety of technologies, keeping Our Principles and the Corporate Identity Statement as its base. In order to help shareholders, investors, and other stakeholders better understand the Group's corporate philosophy, we have published this MHI Report as an integrated report that provides financial information, including management strategies and operating performance, as well as non-financial information such as management resources, corporate governance, risk management that support our strategies and performance, the Group's environmental and social activities since fiscal year ended March 2014 (FY 2013).

Reference Guidelines

International Integrated Reporting Council (IIRC): International Integrated Reporting Framework

Global Reporting Initiative: Sustainability Reporting Standards

Ministry of Economy, Trade and Industry of Japan: The Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation

Ministry of the Environment of Japan: Environmental Reporting Guidelines (2018 version)

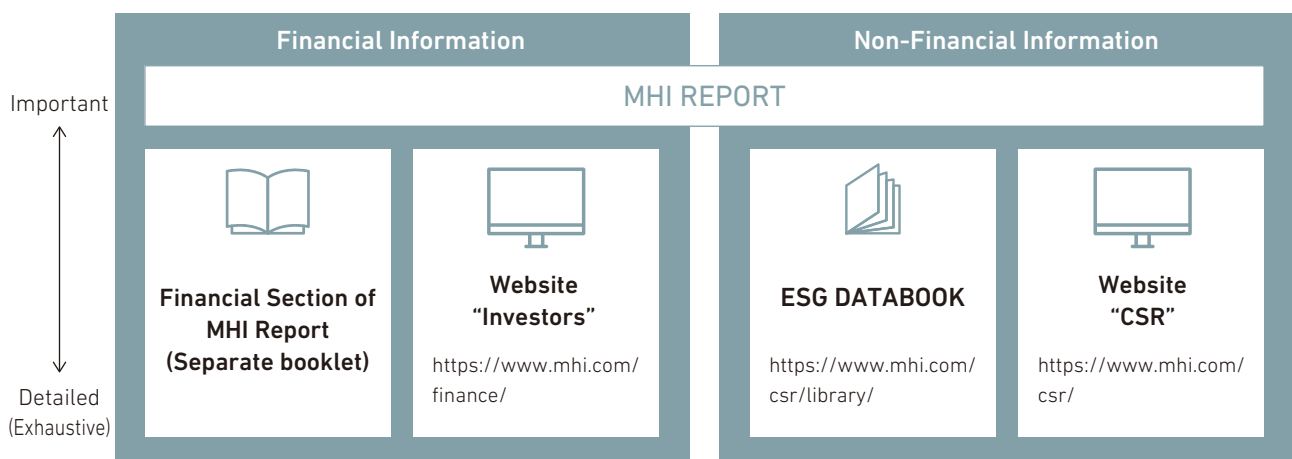
Structure of Information Disclosure



MHI Report contains information that is important to understanding MHI.

More detailed information is available on our website.

<https://www.mhi.com/finance>



Our Principles

Since our foundation, we have consistently striven together with stakeholders to contribute to the development of society through the pioneering *monozukuri*—the traditional Japanese concept of craftsmanship.

MHI Group traces its roots back to 1884, when founder Yataro Iwasaki launched a full-scale shipbuilding business in Nagasaki. Over the more than 130 years since then, we have strived together with our customers, shareholders and other stakeholders to take on the challenges of creating new “*monozukuri*” ahead of the times. MHI Group has achieved its growth by contributing to the development of society through providing products and services that support people’s lives. Our Principles, formulated on the basis of the Three Principles of Mitsubishi Group, are: “We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide,” “We act with integrity and fairness, always respecting others,” and “We constantly strive for excellence in our operations and technology, building on a wide global outlook and deep local insights,” and we have consistently adopted Our Principles as immutable philosophy.

Today, as a global leader in *monozukuri* and engineering, MHI Group utilizes its advanced technology to provide integrated solutions in a wide range of fields, from infrastructure such as shipbuilding, transportation systems, commercial aircraft, and power systems, to space systems. Our activities have also expanded worldwide. MHI Group aims to contribute to progress of society more broadly by solving complex global issues, such as rapid urbanization in emerging countries, infrastructure upgrades in developed countries and environmental issues including climate change.



Yataro Iwasaki, MHI's first president



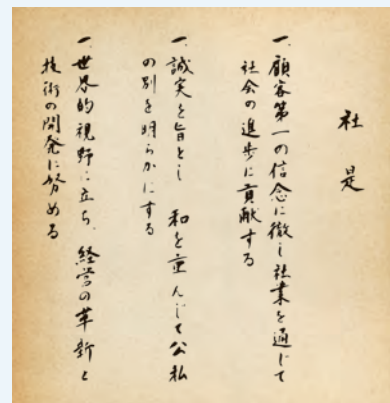
Nagasaki Shipyard & Machinery Works in 1885

Purpose of Our Principles

June 1, 1970

The origins of MHI extend far back to 1870, and the fact that we are here today is the fruit of the untiring efforts of our founder, Yataro Iwasaki, as well as successive generations of management and employees. Lessons learned from these predecessors remain engraved in our minds to this day, and, recalling them, we have resolved to establish Our Principles suitable to MHI with its rich tradition in preparation for further leap forward into the future.

The wording of Our Principles is directly based on the idea of the Three Principles of Koyata Iwasaki, the fourth president: corporate responsibility to society, integrity and fairness, and global understanding through business. Our Principles are a concise expression of the Three Principles from the three perspectives: the basic stance of the Company, the mindset of our employees, and the future direction to which the Company should aspire. On this occasion as we marked 100th anniversary of our foundation, and at the start of the turbulent 1970s, we aim to continue moving forward with motivation in response to the changing times. This is the purpose for the establishment of Our Principles which incorporate new sense.



Our Principles

We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide.

We act with integrity and fairness, always respecting others.

We constantly strive for excellence in our operations and technology, building on a wide global outlook and deep local insights.



Our Technologies, Your Tomorrow

We will continue to take on challenges with the aim of being a company with a global presence, based on the belief contained in our CI statement, "Our Technologies, Your Tomorrow," which is the philosophy to "continuously provide an assured future where people can live safe, secure, and enriched lives through technologies that can excite people and passion as a manufacturer for the sustainability of the earth and humankind."

Progressing Along with Society

Since its foundation, MHI Group has consistently strived together with society, including our customers, partners, and other stakeholders to take on the challenges of creating new *monozukuri*—the traditional Japanese concept of craftsmanship—ahead of times, thereby continuing to the development of society by providing products and services that support people’s lives. Leveraging the ample accomplishments, expertise, and human resources accumulated through the *monozukuri*, we will continue to take on the challenges of building a better future for the world, engaging in issues such as balancing economic development and reducing environmental impact of economic activity.

1880s

Progressing along with Japan’s modernization

As we have progressed along with Japan’s modernization, with shipbuilding at our core, MHI Group has diversified its business portfolio by advancing into various mechanical fields such as automobiles, aircraft, turbines, and internal combustion engines.



Nagasaki Shipyard & Machinery Works’ first steel steamship, the *Yugaomaru*



The *Nippon*, which made a successful round-the-world goodwill flight

1950s

Supporting post-war reconstruction and rapid economic growth in Japan

In the post-war years, MHI supported rapid economic growth by responding to the rapidly increasing demand for electricity and brisk private-sector capital investment, while focusing on the shipbuilding business, and preparing for spinning off the automobile business unit.



Mitsubishi Westinghouse turbine



The first MU-2A multi-purpose light aircraft

1970s

Playing a part in a technology-based nation

In response to the severe recession, MHI shifted from business model that relied heavily on the shipbuilding business by focusing on growing fields such as power systems and aircraft. MHI also proactively promoted the globalization of its business in search of a way to tap into international markets. We also honed our advanced technological capabilities, as represented by our efforts in space development.



Rolling plant for steelworks



The first N-1 rocket



Opening ceremony for the total station construction portion of the Channel Tunnel under the Strait of Dover

Expanding our business domains by taking changes in social values and technological innovations based on manufacturing

2000s

Contributing to a sustainable society

Responding to growing energy demand accompanying economic development while also reducing environmental impact of economic activity is an issue we face today. MHI Group contributes to a sustainable society by providing a variety of products and solutions, such as offshore wind turbines utilizing renewable energy, clean gas power, CO₂ capture plant and flue gas desulfurization unit.



Offshore wind farm



CO₂ capture plant

Responding to changes in social value

Decarbonization



Hydrogen-powered gas turbine



CCS/CCUS
(Carbon capture and its effective utilization)

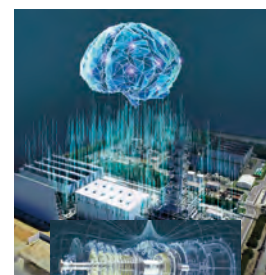
▶ For details, see page 30.

Responding to the evolution of machinery systems

Electrification and Intelligent Systems



Air taxi



Intelligent plant

▶ For details, see page 50.

Progressing Along with Society

MHI Group will seek to resolve social issues through its business activities

—MHI FUTURE STREAM—

For more than 130 years, MHI Group has contributed to the development of society in accordance with the spirit of Our Principles of “We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide.”

In recent years, social issues have become more complex and people’s values have been diversifying, as represented by SDGs*.

Through its business activities, MHI Group will continue to provide products and solutions that help resolve the challenge of balancing economic development and reducing environmental impact of economic activity.

Contributing to solutions to the challenge of balancing economic development and reducing environmental impact of economic activity

MHI Group works to reduce the environmental impact of economic activity in all processes of its business activities, including reducing greenhouse gas emissions, as well as working to put together specific solutions to social issues by providing more environmentally friendly products and solutions.

SUSTAINABLE DEVELOPMENT GOALS



- Offshore wind turbine
- Geothermal power plant
- Gas turbine
- Pressurized water reactor
- CO₂ recovery plant, sinter plant equipped with waste gas recirculation
- Highly efficient gas engine power plant
- Gear grinding machines
- Three-wheel electric counterbalance forklift
- Centrifugal chiller
- Pressurized water reactor
- Turbocharger
- Launch services

Today

Near future

* SDGs: In September 2015, the United Nations adopted these 17 goals to be achieved by 2030.



Society where all human beings can live with peace of mind

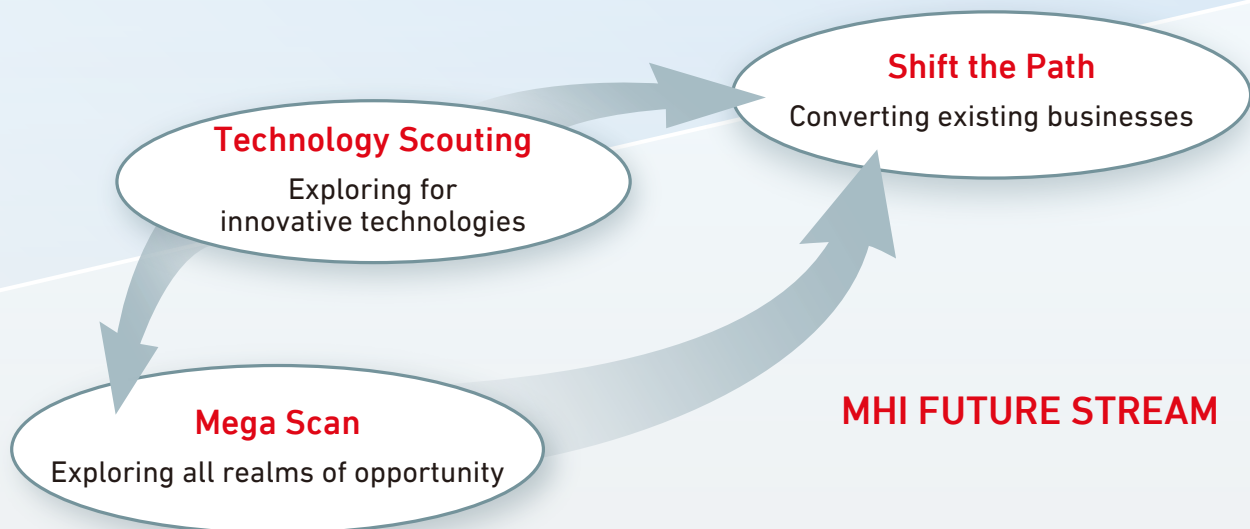
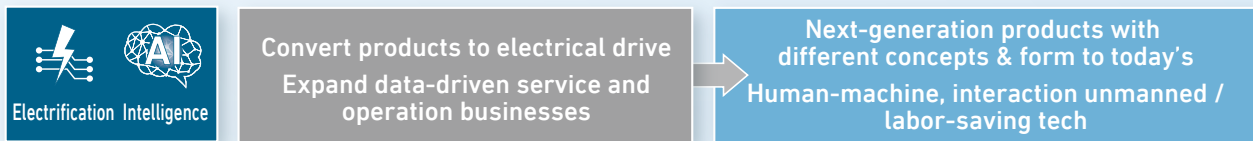
Take on challenges of the distant future

- Expand our business domains by taking on social value changes and technological innovations based on manufacturing
- Take initiatives for the decarbonization and evolution of machinery systems through electrification and intelligent systems

▶ For details, see page 30.



▶ For details, see page 50.



→ Distant future

MHI Group's Sustainability Initiatives

Policy on CSR

MHI Group provides products and technologies that support fundamental infrastructure worldwide and contributes to solving problems on a global scale as a manufacturing corporation that contributes to the advancement of society through its business activities. Furthermore, MHI believes the basis of corporate social responsibility (CSR) is to develop business activities that take into consideration a variety of stakeholders and to return profits to all stakeholders in optimum manner, while at the same time providing outstanding products and technologies to realize a sustainable society and a secure future for people.

In 2007, we established CSR Action Guidelines to provide a common mindset among the Group employees and to make it easier to visualize Our Principles in concrete terms, which state our philosophy on CSR. In 2015, we established the MHI Group Code of Conduct, which sets forth a common code of conduct for employees with diverse backgrounds, nationalities, and cultures. We also support international standards such as the Universal Declaration of Human Rights, and in 2014 established the MHI Basic Policy on Human Rights.

Conformity to International Code of Conduct

In 2004, MHI Group joined the United Nations Global Compact, committing itself to promoting and practicing its Ten Principles spanning four basic areas: human rights, labour, environment, and anticorruption, throughout the Group. We also emphasize ISO 26000, an international guideline on the social responsibilities of organizations, and use it to promote CSR activities. We strive to disclose information on our activities in accordance with reporting standards such as the Sustainability Reporting Standards of the Global Reporting Standards Initiative.

Materiality

MHI Group considers issues that could have a significant impact both on society and its corporate value as material issues which need to be addressed with high priority. We identify material issues through a materiality assessment conducted within MHI Group from both social and corporate perspectives with due considerations given to international standards and the concerns of our stakeholders and address such issues.

CSR Action Guidelines

MHI strives to move the world toward a more secure future. Through our technology, our business practices, and our people, we:

▶ Care for the planet

We are eco-conscious, and engineer environmentally-friendly technologies that improve sustainability and protect the Earth

▶ Create a more harmonious society

We embrace integrity and proactive participation to solve societal challenges

▶ Inspire the future

We cultivate global talent who share a vision and desire to move the world forward for generations to come

Please see "CSR Management."
<https://www.mhi.com/csr/management>

Material Issues of MHI Group

Issues that could have significant impact on the creation of corporate and social values

1. An Optimal Governance Structure Based on Our Corporate Culture

- An optimized organization to continually contribute to society through our business
- The assurance of fair operating practices and appropriate Labor practices

Objective: Ensure an organizational culture in which values are shared globally and universally

2. The Use of Global Human Resources

- The attraction and development of human resources with the ability to respond to globalization
- Diversity and equal opportunity, including the empowerment of female employees.

Objective: Be an organization that embraces diversity (Ensure that barriers to diversity are removed)

3. Response to Mega Trends

- Innovation and quality control to meet global needs
- Enhanced safety and security, including improved information disclosure and transparency

Objective: Enact strategic measures and business operations that meet the needs of global society

The current set of material issues (Materiality) were specified in 2015, but since then the importance of global sustainability initiatives has grown, as illustrated by the adoption of the UN's Sustainable Development Goals (SDGs) and growing investment in Environment, Society, and Governance (ESG). Along with this, there has been a change in the megatrends that may affect the Group, and accordingly we are currently re-specifying and verifying our material issues (Materiality) (we plan to list these in our ESG DATABOOK 2020).

Processes Defining Material Issues

Material issues are specified and verified in the following process from the perspective of stakeholder dialogue.

Incorporating Society's Perspective

Through taking a stakeholder perspective*1 on the core subjects of ISO 26000, we narrowed potential issues down to 84 items of importance to MHI. We then referred to such guidelines as the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines (Fourth Edition, G4) and subsequently grouped together similar items and reduced the list to 49 items in seven departments.

Arranging the Issues from the Perspective of MHI's Business

We conducted hearings with of our 16 departments, confirming the importance of the 49 issues to our business. We also ascertained three major changes that were consistently raised as issues with the business reorganizations the Company has undergone in recent years: changes in the ideal state of the organization, globalization, and changes in the business model.

Confirming Appropriateness

We engaged in dialogue with specialized overseas institutions to confirm that our process of identifying material issues was appropriate.

Narrowing Down the Issues in Line with Mega Trends

We referred to priority items from 2015 in Building the Post-2015 Business Engagement Architecture*2, published by the United Nations Global Compact, confirming that our business perspective was not divergent from sustainability mega trends. This resulted in consolidating the number of items to 25.

Identifying Material Issues

Based on the shortlist of 25 items determined from the perspectives of the Company's business and mega trends, we identified three material issues for the Company.

Obtaining Management Authorization

The CSR Committee deliberated and decided on the items.

*1 We referred to the results of stakeholder questionnaire surveys, SRI surveys, records of meetings with institutional investors, supplier surveys submitted to our customers, and stakeholder engagement programs, among others.

*2 This publication is a call for companies to commit to and promote and support activities aimed to achieve the targets set by the United Nations.

MHI Group's Sustainability Initiatives

MHI Group Stakeholders

In line with Our Principles, MHI Group strives to develop social infrastructure and produce products that contribute to reducing the environmental impact of economic activity by its customers. The basis of our CSR activities is to optimally return the profit gained from the provision of our products to all stakeholders involved in our business activities, and minimize the environmental impact of the Group's production activities.

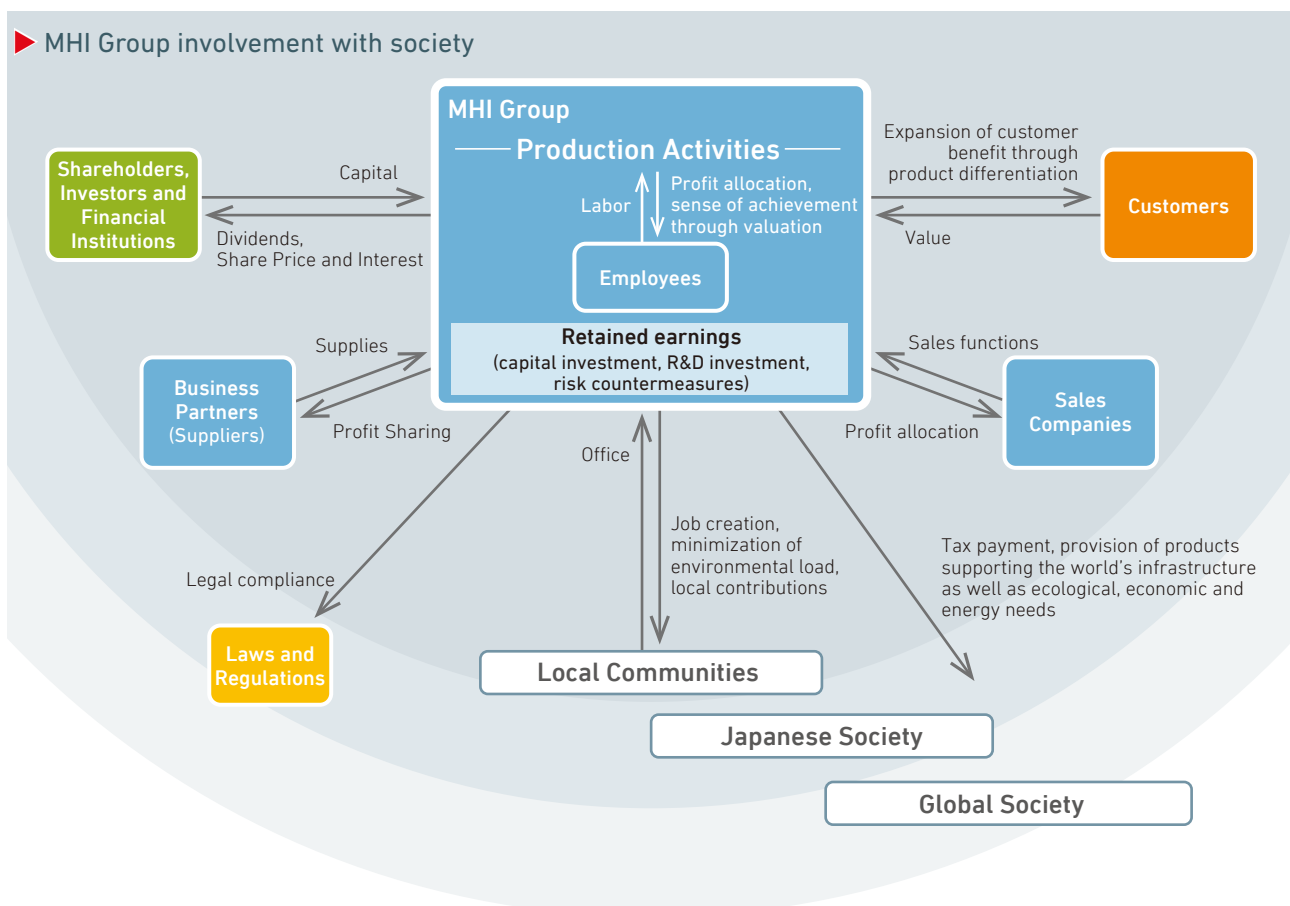
Dialogue with Stakeholders

We place great importance on incorporating the opinions of various stakeholders in its business activities, including customers, suppliers, business partners, Group employees, and local communities, into our management. In addition to seeking out the opinions of stakeholders in its everyday activities, MHI engages

in dialogue with experts and NGOs having specialized expertise related to CSR and global issues, striving to incorporate societal viewpoints.

Collaboration with our Stakeholders

In addition to responding to the needs and issues of each region where our business bases are located, we build mutually cooperative relations with NPOs and other such entities and deploy activities that contribute to solutions to global social issues. As one example, MHI operates an in-house system, Funds for Community Engagement. Under this system, time donated to volunteer work by MHI Group employees is converted to a monetary value, which is then converted to an equivalent budget allocation. We provide funds for such activities and dispatch employees to volunteer work in accordance with the budget.



Environmental Management

MHI Group established the Environment Committee in 1996 in order to clarify its attitude toward the environment and to direct and promote its environmental activities. At its first meeting, the Environment Committee formulated the Basic Policy on Environmental Matters and Action Guidelines, in line with Our Principles: "We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide." Since then, the Group has taken various measures to reduce environmental impact of economic activity in accordance with this Basic Policy and these guidelines.

Basic Policy on Environmental Matters

Provision 1 of MHI Group's principles reads: "We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide." This means that our primary purpose is to contribute to society through R&D, manufacturing and other business activities. The company shall undertake all aspects of its business activities with the understanding that it is an integral member of society and will strive to reduce its burden on the environment, contributing to the development of a sustainable society.

See our "ESG DATABOOK" for more information on the environment.
<https://www.mhi.com/csr/library>

Efforts toward the Task Force on Climate-related Financial Disclosures

Offering solutions to address the issue of climate change is MHI Group's contribution and responsibility to society. Efforts to do so are part of the Group's business strategy and determined after Groupwide discussion. Initiatives on reducing environmental burden are carried out across the entire Group. We conducted the initiatives and analysis below centered on the energy-related products business, which has the biggest impact on the environment.

1 Climate scenario for the Under 2°C increase goal

Power demand will grow worldwide and share of renewable energy will increase.

United States and Europe:
Power demand is increasing due to the progress in electrification. Meanwhile, society is aiming for decarbonization as the penetration of renewable energy.

Southeast Asia:
Power demand is increasing by economic growth. Stable power supply is required in addition to renewable energy.

2 Climate-related risks and opportunities

- Downward trend in the market for new coal-fired thermal power facilities.
- Meanwhile, demand still remains for the thermal power with low environmental emissions with the energy security needs.
Strong demand for modernizing existing power plants reducing CO₂ and other environmental emissions for stable energy supply.
- Solid market expected over medium- to long-term demand for new gas power plants with expansion of the LNG market.
- Growth in offshore wind turbine market (Expansion from Europe into greater North America and Asia (approx. 4–6 GW per year))

3 Business strategies and risk management

- Optimization of resources for the market after 2021 (reorganization, personnel shifts, etc.)
- Provision of solutions for low-carbon needs
Strengthen mass production systems for offshore wind turbines and launch the world's largest turbine.
Collaboration with renewable energy toward realizing a decarbonization society in the future (eg. the development of hydrogen-powered gas turbines).
- Promotion of state-of-the-art technologies (IGCC, highly efficient GTCC/USC*¹, CCS/CCUS*²)
- Provision of AI/IoT technology solutions
- Development of Key Index Approach (QoEn™ Index)*³ to support necessary energy supply with high-quality energy infrastructure in accordance with the characteristics and needs of target area.

4 Financial impact

Disclosure of results at earnings announcements, business strategy meetings, etc., upon examination within business forecasts.

*1 Ultra super critical

*2 Carbon capture and storage/carbon capture utilization and storage

*3 QoEn™ is a registered trademark of Mitsubishi Heavy Industries, Ltd.

Group Profile

Revenue

¥**4,041.3** billion

Number of employees

81,631

Orders received

¥**4,168.6** billion

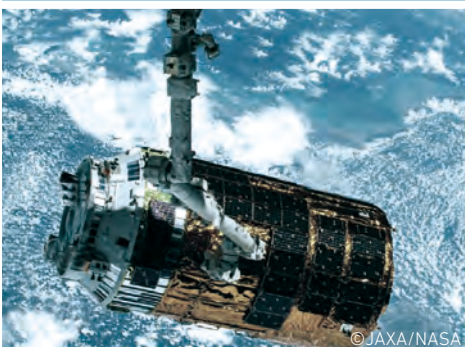


R&D expenses

¥**146.8** billion

Reduction in CO₂ from using
MHI's products

61,438,000 tons



Number of patents held

24,683

Domain Reorganization

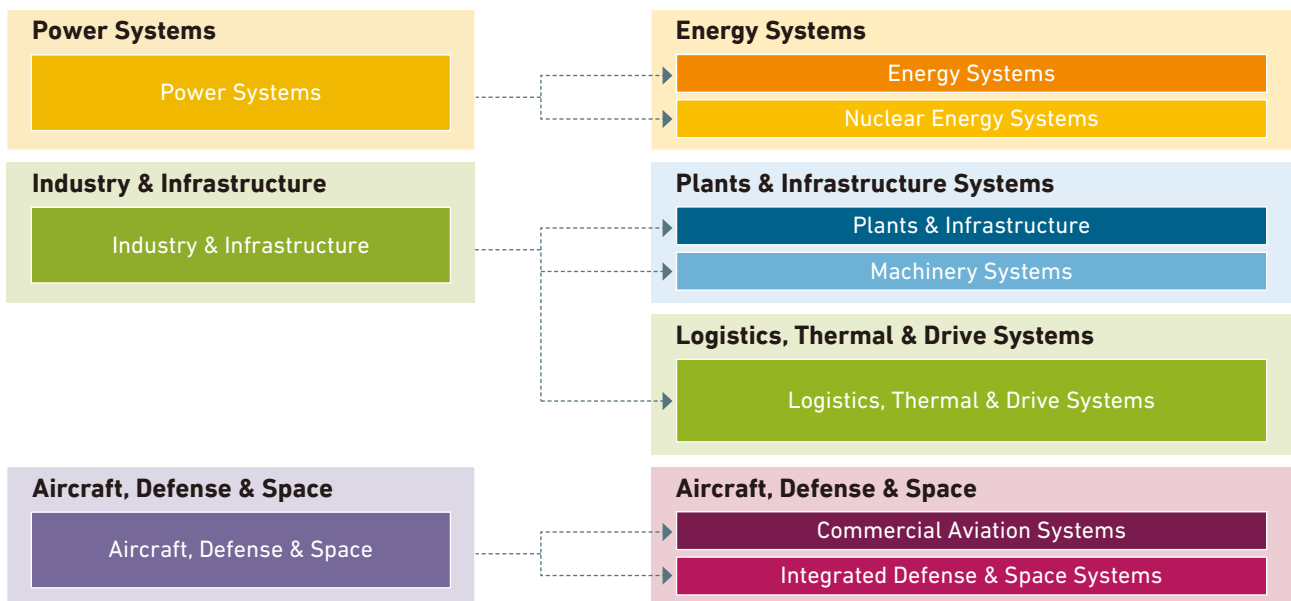
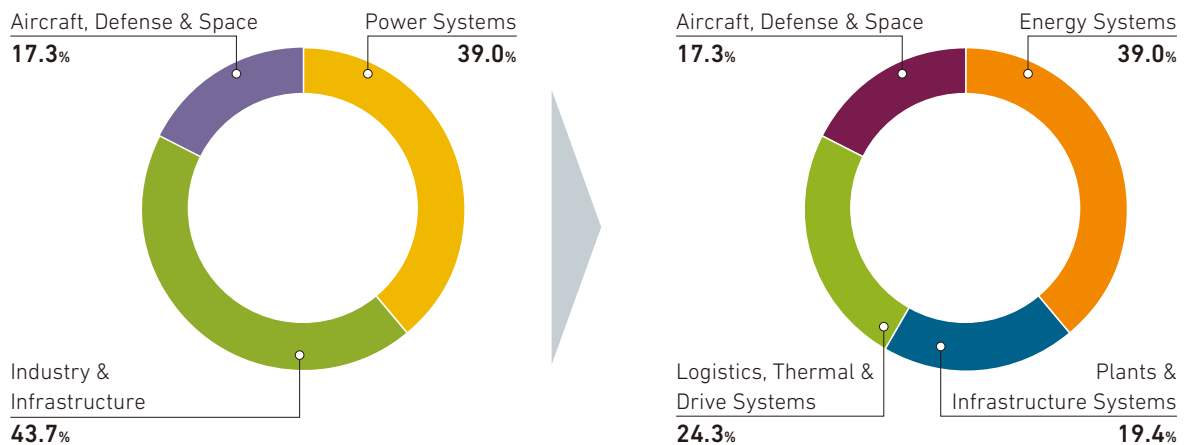
In April 2020, MHI Group established the “Energy Systems,” which provides solutions from both energy and environmental perspectives for a decarbonized society. In accordance with the nature of our business lines, we also reconfigured our business portfolio into a framework capable of prompt response to growth strategies and issue of each line of business by establishing the “Plants & Infrastructure Systems” mainly for made-to-order products and “Logistics, Thermal & Drive Systems” mainly for mass and medium-lot manufactured products. Furthermore,

in our Nuclear Energy and Machinery Systems businesses, just like our Commercial Aviation Systems Segment and our Integrated Defense & Space Systems Segment, we have decided to improve their operation and to make them more flexible under the direct control of the CEO.

The Energy Systems Domain includes the Nuclear Energy systems, and the Plants & Infrastructure Domain includes the Machinery Systems in the reporting segments of the Group.

► Summary of new reporting segmentation as a result of domain reorganization

Breakdown of sales (fiscal 2019)



President's Message



Seiji Izumisawa
President & CEO

MHI Group management is dedicated to delivering new solutions that address the world's most pressing issues, particularly climate change.

We will continue providing fundamental infrastructure as the world recovers and moves forward from the COVID-19 pandemic

It is still hard to tell today how much impact the COVID-19 pandemic will have on our world, but I eagerly hope for a quick end to this dire situation. My heart goes out to all who have been affected by this disease, and I express our deep appreciation to the front-line health-care workers and the many others who are dedicating themselves to dealing with this life-threatening affliction.

In the wake of this pandemic, I believe what will be needed is not a "return" to the pre-COVID situation,

but rather a post-COVID "recovery" driven by major changes in our lifestyles, including the ways in which we work.

MHI Group, by integrating our technologies with the needs of our customers, will support the health of our fundamental infrastructure—in areas including energy, material handling and transport—and make positive contributions that will enable steady progress toward a full recovery.

The core thinking behind our corporate activities

Mitsubishi Heavy Industries traces its founding back to 1884. For more than 130 years, we have been supported, in spirit, by the commitments laid out in our three core principles*¹. Among them, I believe the one we must firmly uphold above all is our commitment to provide reliable and innovative solutions that make a lasting difference to customers and communities worldwide. This is our greatest mission.

In recent years the values embraced by our customers have diversified, expanding beyond purely economic considerations to include heightened awareness of environmental and social issues. In tandem, the issues that demand resolution are also changing.

How MHI Group grasps these emerging needs and adapts itself to them will be key, and we need to take a flexible approach to provide solutions that have real impact. In the past, we had at times insisted on being fully self-sufficient; but always restricting ourselves to in-house capabilities means we cannot grow. Now, by steadily embracing open innovation, it has become second nature for us to collaborate with external partners, while keeping some of our core capabilities in-house. Moving forward, therefore, we will respond to our customers' needs by maneuvering strategically between these two approaches.

*¹ See page 4.

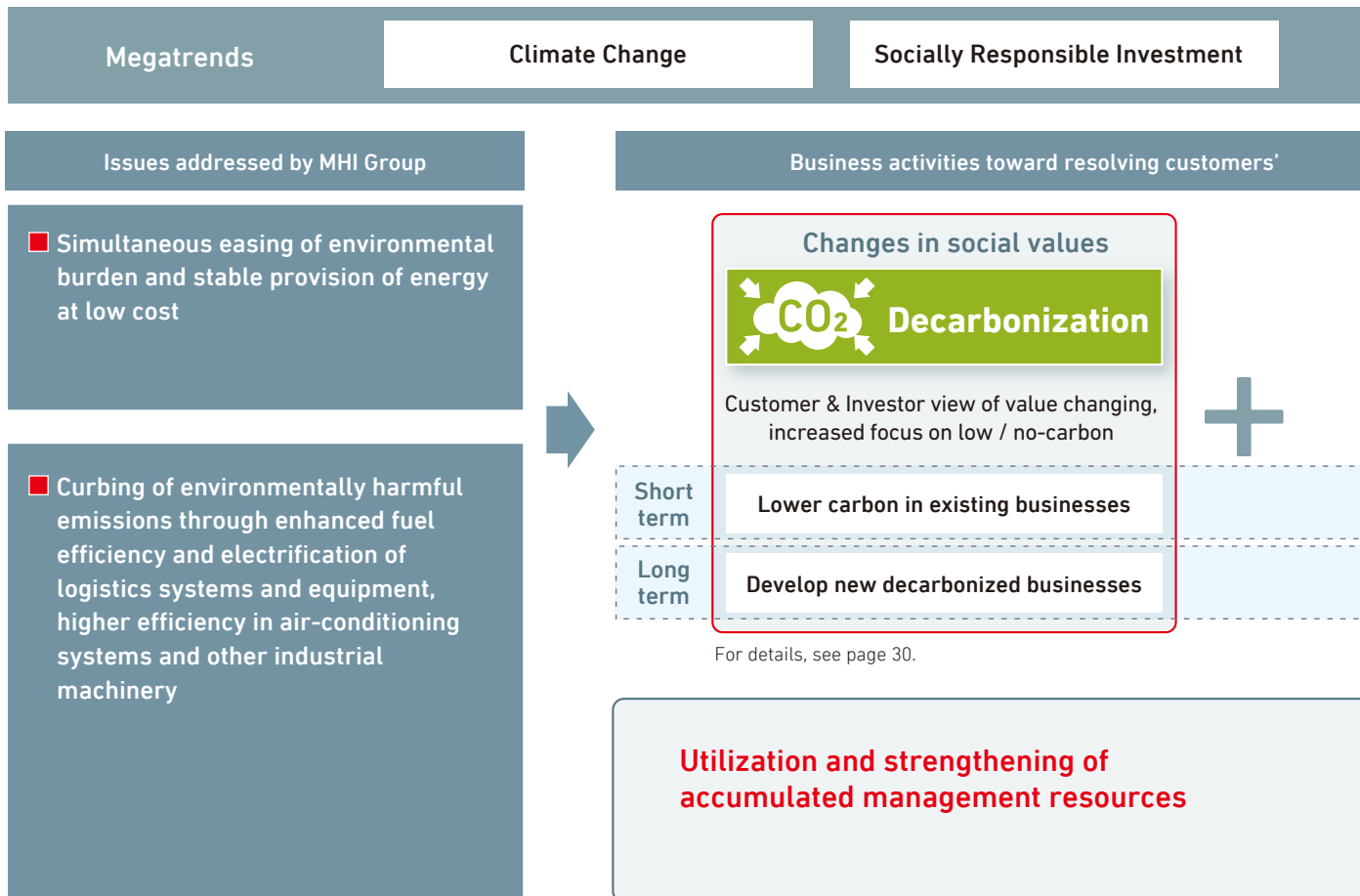
President's Message

Sustained growth by addressing the pressing issues of our time

MHI Group must continue to be a company that is turned to by our customers and society as a whole for solutions to their most pressing needs. Only by doing this can we achieve sustained growth. There are two areas in particular that we must focus on and make positive contributions to resolving: energy supply and climate change. Energy underpins our modern life and the lifestyles we enjoy, so the supply of energy needs to be environmentally sound, stable, safe and also economically viable. Renewable energies offer benefits in emitting no carbon dioxide in the process of generating power; however, a challenge exists in the susceptibility of renewables to changing meteorological conditions. To resolve these two intercon-

nected issues, what's important, I believe, is for us to adopt an approach that goes beyond debating two mutually opposing aims, instead seeking to provide appropriate solutions through discussion based on scientific analysis. A number of solutions that go beyond mere dichotomous thinking—how to develop energy sources for the future, and how to respond to swings in the volume of power generated using renewable energies—are conceivable. At MHI Group, we have the technologies, the knowledge and the experience necessary to make such solutions available, and today we are undertaking a variety of initiatives that will enable us to combine both aspects to meet the needs of our community.

► Sustained growth through contributions to resolving social issues

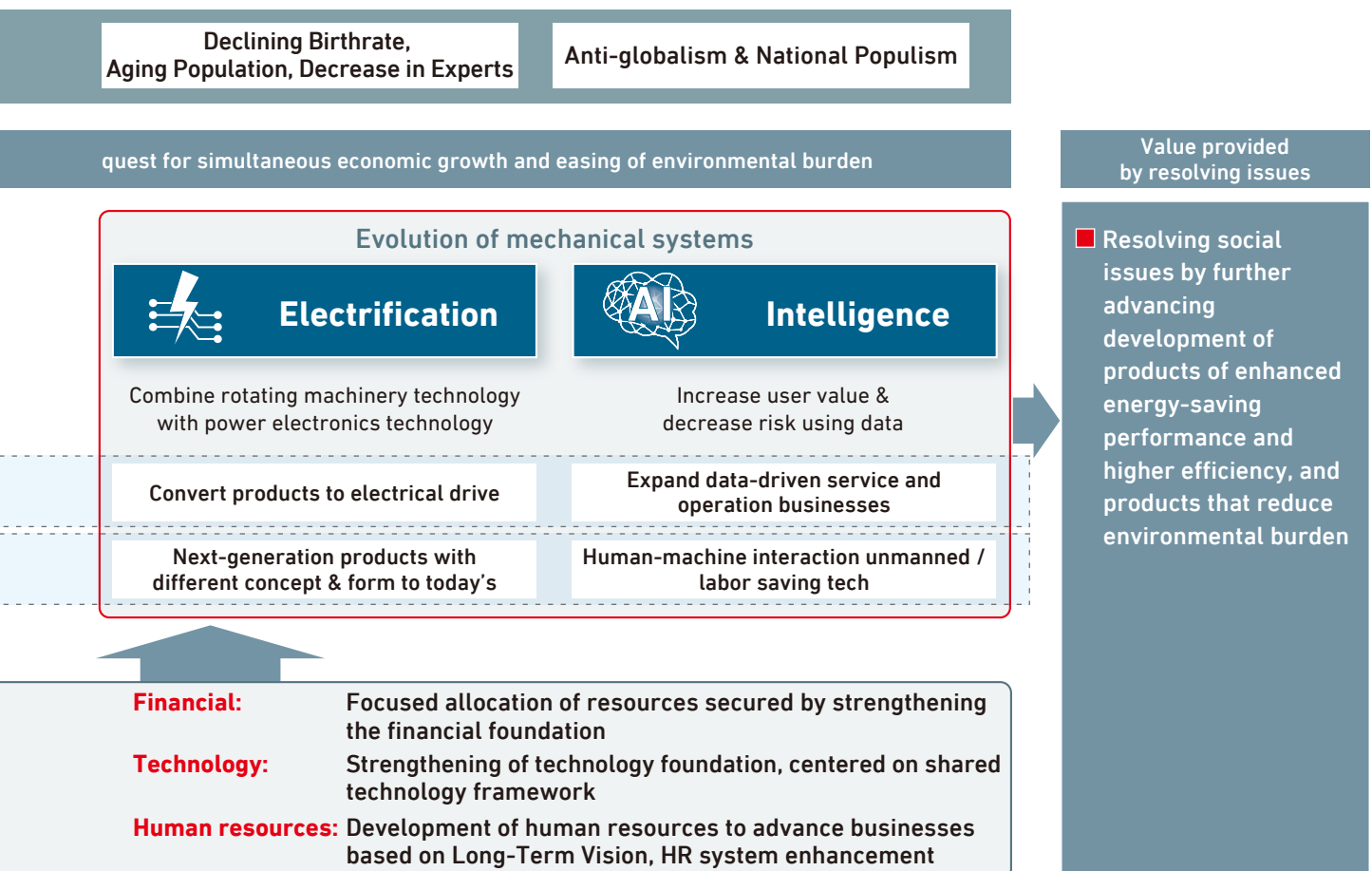


As an example, today we rely mainly on use of fossil fuels to generate power, but in the future I think we will see a shift to alternative fuels such as hydrogen*² that emit no carbon during power generation. Issues pertaining to the manufacturing and transport of these fuels present challenges in the near term, but going forward, we must no longer be satisfied to simply provide large-scale thermal power plants that use fossil fuels as their energy source. We must leverage broad resources to stably provide energy solutions that respond to the diverse needs of customers in their respective areas of the world.

We work on environmental issues other than climate change as well, in emerging nations and developing countries, we provide desulfurization and denitration equipment that reduces emissions of pol-

lutants into the air. To curb emissions of sulfur oxides from ships, we offer a desulfurization device known as a SOx scrubber. Environmental solutions like these are not directly linked to economic efficiency in its narrow sense, however, and for that reason such systems are not yet seen as absolutely indispensable in regions where environmental regulations remain less stringent. Nonetheless, because in the long term they will contribute to resolving the dual social issues of economic growth and reducing the burden on the environment, it is crucial for us to further develop our technologies and expertise in these areas and to continue proposing such systems to the customer as solutions for the future.

*² For details, see page 30.



President's Message

Providing solutions through cross-disciplinary combinations of technologies

Today, more than the face value of things, increasing importance is attached to the value gained by using things. Our job at MHI Group doesn't end with the delivery of a good product; our task is to provide solutions that will enable our customers, in the course of using our products, to offer better products and services to their customers, enhancing their own value.

The key to enhancing added value is to combine and utilize technologies drawn from multiple fields. Even for issues that cannot be resolved by individual technologies, combining different but complementary technologies can create new value. Also, new solutions can be born not only by combining technologies but also by combining multiple businesses into new businesses. For example, today we provide distributed power supply with minimal transmission loss, achieved by combining our technologies in renew-

able energy, power storage and engines. Another example is our power plants that emit no carbon dioxide, achieved by combining our technologies in CO₂ capture plants and thermal power plants. We are also undertaking development toward realization of high-temperature gas-cooled reactors*³. Furthermore, through application of AI and additive manufacturing (AM)*⁴ as elemental technologies, we will greatly expand the scope of solutions we can provide to our customers.

Until now, we had conducted research and development independently at research centers located across various regions, but these have now been aggregated into one Research & Innovation Center. This reorganization, which has focused on highly affinitive technologies, has enabled synergies between technologies and enhanced the cross-disciplinary



development of human resources. As a result, under our shared technology framework*⁵, which includes our research centers, when a promising finding is made in one SBU*⁶, that information can be readily shared with other SBUs. In addition, the establishment of the Research & Innovation Center has made it easier, through open innovation, to leverage external expertise. Going forward, we must begin cross-domain initiatives between our business divisions as well. Also, besides reorganization, we will resume our Groupwide job posting system, which enables human resources to move more freely within our Group. Through these various initiatives we will set the foundation that will enable us to provide new value and solutions unique to MHI Group.

To deliver such solutions, we must ensure protection of our intellectual property. We are now looking at how best to interconnect our business, technology development and intellectual property strategies, and how to protect our technologies and intellectual property. One approach is to form stronger patent groups that encompass whole facets of innovation, rather than patents that just cover specific technologies.

*3 For details, see page 30.

*4 A manufacturing method that uses 3D data to form a product from layers of materials.

*5 A comprehensive structure, overseen by the Chief Technology Officer (CTO), encompassing technology strategies, R&D into products and new technologies, ICT, value chains, etc.

*6 Strategic business unit: a unit within the strategic business evaluation system.

New business development driven by our new Growth Strategy Office

In April 2020 we took our functions relating to new business development, which were previously dispersed, and integrated them under a newly established "Growth Strategy Office." The new office will respond to major changes in the world and rapid technological innovations by exploring new areas that demand agility not possible in the business divisions, as well as new businesses that integrate existing businesses. Specifically, the Office will pursue three growth strategies: upstream/downstream expansion, growth of existing businesses, and development of new businesses.

Upstream/downstream expansion can be illustrated as follows. From the early phase of a project, the company approaches the customer, gains an understanding of its needs, and then not only proposes the design, construction and installation of a plant, but starts with a holistic analysis of the plant and services optimally suited to its needs. Upstream/down-

stream expansion also includes business relating to post-construction plant operation and maintenance.

To grow existing businesses, the company will target region-focused expansion. To begin, we will strengthen our sales networks especially in the U.S. and Asia-Pacific regions. Due to differing business scales and characteristics between individual products, it is necessary to devise methods for developing each specific business. The resources that can be allocated to a division capable of developing a business worth tens of billions of yen in scale differ, for example, from those we can allocate to a division that can develop a business worth just several billion yen, and this is why the company can't develop all businesses in an identical way. Accordingly, I will consistently seek to implement measures concerning how we can support business teams for global growth, or determine what incentives to offer by the Growth Strategy Office joining forces with our overseas bases.

President's Message

We are closely examining SpaceJet's development schedule while monitoring changes in the aviation market

Regarding our SpaceJet business, in February 2020 we announced that, in light of the state of progress in development, we would undertake a detailed examination of our 90-seat class M90 model's development schedule and defer initial deliveries until FY2021 or later. Moreover, because of the enormous impact of the coronavirus pandemic on the global airline industry projected over the long term, we will pursue development on a budget of appropriate scale considering the financial status of MHI Group as a whole. We are now continuing close scrutiny of our development schedule while monitoring the pandemic's impact on the market and business environment.

However, we hold to our view that, judging from global trends beyond the near term, the commercial aircraft business is an area destined for continued growth going forward. What's more, the SpaceJet has numerous superior features: for example, outstanding fuel efficiency, quiet operation and low emissions enabled by its innovative GTF engine technology and an airframe incorporating the latest aerodynamic design, coupled with robust durability achieved by its advanced structural design. Development will still require time, and during that time we will make a sound decision on how we should proceed with this business going forward.

We are aiming for an early return to growth, responding to the expectations of all our stakeholders

The message I want to convey to all our stakeholders—our customers, business partners, shareholders, employees, and society as a whole—is that MHI Group's overarching and unchanging mission is to provide solutions that improve the lives of people everywhere.

In 2019 I met with our overseas investors on several occasions. In Europe, strong interest was expressed in delivering technologies in the low-carbon or carbon-neutral fields and for the use of hydrogen energy to ease the environmental impact of economic activity. I also received many questions about ESG investment and the SDGs^{*7}. In the United States, interest focused on the latest trends in gas turbines from the perspective of shale gas utilization,

and I came away with a solid sense of their expectations of us and the enormity of our role. Energy is the driving force that underpins our lives and lifestyles, and when providing energy, because there are both short-term and longer-term approaches, and also given that needs differ by area, going forward we will propose optimal solutions that take into consideration the circumstances of each specific region.

Finally, in our 2018 Medium-Term Business Plan, MHI Group set a unique KPI known as "Triple One Proportion" (TOP), which refers to an ideal 1:1:1 ratio of net sales, total assets, and market value. While monitoring those three factors, with TOP we aim to attain a favorable balance between our business growth,



optimization of our balance sheets, and improving how we are evaluated by the stock market. TOP is a corporate management goal, and we will focus on this indicator to guide us in conducting our business operations, providing value to society, and deciding how to quantify allocations of the profit that accrue, and thus improve our overall management. While considering the TOP balance, we remain committed to delivering value for society in light of ESG and the SDGs, which will lead to increased corporate value so we can offer returns to all our stakeholders. Also, to respond to changes in our business environment arising from increasingly tense trade frictions between the United States and China and the ongoing coronavirus pan-

dem, we will bring forward our next Medium-Term Business Plan. An announcement in that regard will be made during the second half of 2020.

MHI Group will continue to evolve and pursue sustainable growth by responding rapidly to changes in our customers' needs and the needs of the world at large; by helping to realize a carbon-neutral society; and by providing solutions that bring greater added value through electrification and intelligent systems.

*7 SDGs: A set of 17 "Sustainable Development Goals" shared by the international community aimed at achieving a sustainable and better world by 2030. The core goals relate to poverty alleviation, economic growth, the environment, etc., appended by 169 specific targets for achieving those goals.

CSO Dialogue

The core of our growth strategy is developing high added value products and solutions that help to solve some of the world's biggest issues.

Hitoshi Kaguchi

Executive Vice President,
Chief Strategy Officer
and Head of Growth
Strategy Office

Masayoshi Miyanaga

Professor, Tokyo University of Science,
Graduate School of Management,
Department of Management Technology

We will deliver value by enabling development in the world, also contributing to achieving the SDGs

Kaguchi: Thank you for joining me today to examine the ways in which MHI Group can help to solve some of the world's most pressing issues. I eagerly invite your frank opinions.

Miyanaga: Thank you for inviting me. There are two main topics I wish to discuss with you today. The first is how MHI Group intends to approach solving these global issues and, more broadly, contribute to society. Secondly, is to examine how MHI Group, a company that helped enable Japan's industrialization, plans to itself grow and drive economic growth going forward against the background of a 30-year period of economic stagnation.

Kaguchi: I believe these two topics are interconnected. I see them as two sides of the same coin: how MHI Group contributes to economic development by solving far-reaching issues affects not only Japan but the world as a whole; and how we ourselves—as a result of those contributions—will grow. At MHI Group, we view our mission as supporting fundamental infrastructure, such as energy, transportation, logistics, etc. Our foremost responsibility, we believe, is to solve issues facing our society and provide value, in order to support sustainable development. By fulfilling that responsibility, we ourselves will achieve long-term growth. Among the various SDGs*1 we believe there are three where we should make specific contributions: goal 7 (affordable and clean energy);

goal 9 (industry, innovation, and infrastructure); and goal 13 (climate action).

*1 SDGs: a set of 17 goals to be shared by the global community in a common quest for a better, sustainable world by the year 2030. The 17 goals, relating to issues such as poverty, economic growth and the environment, are appended by 169 specific targets to enable their achievement.

Miyanaga: To contribute to the SDGs you cite, it's necessary to provide value not just to Japan but to the whole world, isn't it?

Kaguchi: Exactly. Today, MHI Group is taking steps to combat global warming by delivering power generation systems worldwide that run on renewables—offshore wind power and geothermal power, for example—and environmental systems that capture carbon dioxide.

Miyanaga: To encourage the world to achieve the SDGs, MHI must emphasize its contributions towards the environmental; and it needs to set clear targets to reduce carbon dioxide emissions and curb global warming.

Kaguchi: I hope to increase MHI Group's value to society by analyzing the relationships between our businesses and the issues the world is facing, and then determining in what directions we should proceed to respond to these issues. To do this, in fiscal 2020 we are identifying social issues of high importance to both MHI Group and our stakeholders (Materiality) and setting medium-term targets for each issue.

Miyanaga: I believe having diverse management resources is a great strength when considering future strategies. Among those resources, I think technology plays a significant role.

Kaguchi: Yes, technology is definitely important. MHI Group has accumulated numerous technologies in various areas over the years, and although many have not yet been transformed into marketed products, the breadth of our technologies is one of our strengths. In areas such as power generation, defense, and space systems in particular, complex, high-performance machinery systems are required to operate with outstanding precision and reliability under extremely harsh conditions. Only very few companies worldwide have the technologies to satisfy all of those demands.

Miyanaga: I think passing on technologies to the next generation is also extremely important. What approach is MHI Group taking in this regard?

Kaguchi: We are developing various ways for technologies to be passed on in the workplace. We have taken technological information that used to be implicit knowledge and converted it into explicit knowledge in the form of data so employees who need it can now access it using shared IT systems. However, some technological information can't be conveyed completely as explicit knowledge, so we are continuously recruiting new employees whom we assign to strategic projects so that we can pass these technologies down. In other words, technologies that can be expressed as explicit knowledge are converted into explicit knowledge, and implicit knowledge not suited to conversion is successively passed on by employees, across generations, at their workplaces. This is how we maintain and improve technologies in a way other companies can't imitate.

CSO Dialogue

Miyanaga: I think it must be difficult achieving good technological cooperation between SBUs*². What does MHI Group do in that respect?

*² Strategic business unit: a business unit under the strategic business evaluation system.

Kaguchi: Traditionally, there used to be lots of occasions where engineers affiliated with different strategic business units (SBUs) gathered and engaged in discussions at information sharing meetings and the like. But now, partly as a result of creating separate companies within each SBU, links between engineers have weakened. Going forward, we have to revitalize technology exchanges within groups again. I think it's important to proactively create venues for exchange, for example task forces consisting of young employees and liaison meetings between the heads of the various manufacturing segments.

With this issue in mind, in 2015 we undertook a review of our research center structure. Up until then, separate research facilities were operated in each region: Nagasaki Research & Development Center, Takasago Research & Development Center, and so on. But in 2015 these were consolidated into a comprehensive Research & Development Center, an arrangement that I believe has proven very successful. For example, by reorganizing the earlier research facilities in a way that aligns closely related technologies, it became possible to pursue synergies between technologies and to implement measures for strengthening cross-domain human resources development. This was a major reform, but one that has vitalized our organization and enhanced our technological capability.



Availing of our diverse human resources and outstanding technological strength, we will explore new businesses and drive development

Miyanaga: You took up the post of Senior General Manager of the Growth Strategy Office in April 2020. I will be interested in seeing how the company's business portfolio will change as a result of implementing your growth strategy.

Kaguchi: In the near term, I don't think the business breakdown will change greatly within the overall framework. What we are attaching importance to is improving profitability. Our target is double-digit profit from our businesses. And to achieve that, it's absolutely necessary to expand those fields in which we supply technology-driven products and solutions of high added value. We have to grow our various businesses by increasing added value, achieving this through electrification of machine systems in pursuit of decarbonization, as well as through automation, labor savings, and ever more advanced artificial intelligence.

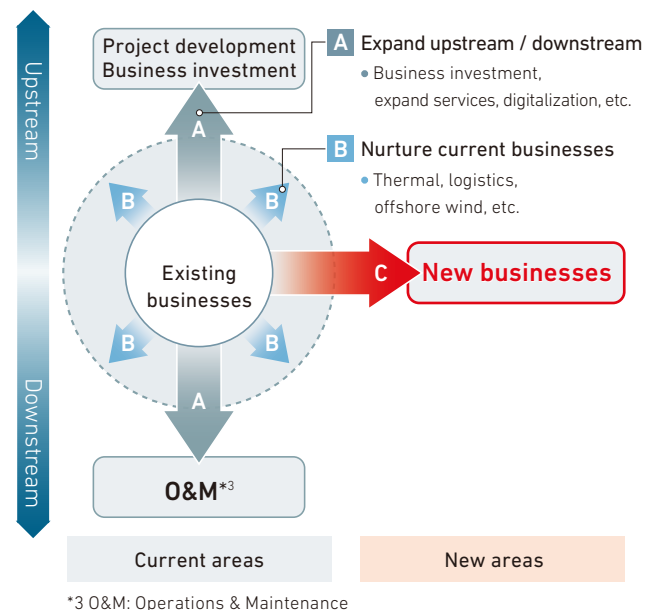
Miyanaga: What initiatives will the newly established Growth Strategy Office implement going forward?

Kaguchi: To advance and accelerate our growth strategy, we will take steps to "exploit" existing businesses and to "explore" for new businesses. In doing so, the Growth Strategy Office will work flexibly to search for new business areas that individual business segments can't accommodate, and develop new businesses by combining existing businesses.

Miyanaga: Your growth strategy points in three directions: **A** expand upstream / downstream; **B** nurture current businesses; and **C** develop new businesses. I imagine good results will be achieved when the three are pursued in parallel.



► Growth Areas



CSO Dialogue

Kaguchi: We will implement these initiatives in parallel, and to begin we will start with **A**: expanding upstream and downstream. Up until now, we have focused on making things; now, we will expand downstream, including after-sale services. Specifically, we will consider a project not merely as the construction of a plant, for example, but as the entire business area from entry to exit, starting from proposing services that will respond to the customer's needs and also encompassing post-delivery operations and maintenance.

Regarding **B**, nurturing of current businesses, we are targeting region-based expansion across the globe. In our logistics business, for example, we acquired an independent sales company in the United States. And we may pursue further acquisitions of this kind in the years ahead.

Miyanaga: In terms of region-based expansion, it seems Japanese companies in many cases have faced greater challenges in global organizations compared with American or British companies. What points need to be addressed when pursuing global business expansion?

Kaguchi: I think management should be conducted in ways that better use the abilities of local managers and staff. Especially with sales and after-sales services, authority should be transferred to local managers, who know their regional situations well, and the Group's Head Office, for its part, should set appropriate targets. This would achieve a higher level of overall management, as needed.

Miyanaga: Now that we have covered **A** expand upstream / downstream and **B** nurture current businesses, I'd like to ask you about **C** develop new businesses. In terms of sales revenue, what scale do you envision for new businesses, and also what timeline?

Kaguchi: What I think everyone is expecting of us is to create new businesses that leverage technologies in fields where our Group has strengths. As a final target for the scale of new businesses, I see ¥100 billion (approximately U.S.\$1 billion) as one barometer. It takes a while before a new business can reach ¥100 billion in sales, so initially I would like to target a scale of ¥10 billion (approximately U.S.\$100 million) within a short time span of around three years. After that, I want to see a number of new businesses develop to a scale of ¥100 billion over time. Among our current businesses, I see between 10 and 20 candidate areas whose scale we are not satisfied with today but I would like to nurture them into significant new businesses for the future.



Miyanaga: To achieve that will also require making use of open innovation, I believe.

Kaguchi: Yes, precisely. Up until now we have frequently conducted joint research with universities and research institutes both within Japan and overseas. Recently, to explore new technologies further, we have invested in venture capital funds based in California—a move that has led to collaboration with individual companies and to evaluation studies for application of technologies of startups based in Silicon Valley, for example, to be incorporated into our Group products or services. Also, rather than insisting on doing everything ourselves in-house, we will continue pursuing M&A's and technical cooperation with companies that have promising technologies. To do this, after the Growth Strategy Office was created, we undertook simplification of how we internally deliberate potential investments into venture companies.

Miyanaga: I agree that putting such mechanisms in place is important. In terms of creating new businesses, which of your resources—people, physical assets, or money—do you think is most important?

Kaguchi: Our most important resource, I believe, is our people.

Miyanaga: In that case, I would like to see young people, people who can think out of the box and act boldly and independently, play active roles.

Kaguchi: I think we have many outstanding people within MHI Group who are eager to work in new businesses. Up until now, even if they had ideas to suggest, they didn't know where they could take them. Now, I hope they will use the Growth Strategy Office



as the place where they can take their ideas. From now on, making use of our Groupwide job posting system and the like, we will assemble highly motivated people and accelerate our growth strategy in an enjoyable way.

Miyanaga: For MHI Group to contribute simultaneously to both its own growth and our collective sustainability, the two keywords are “technology” and “people,” and I now see that the head of the Growth Strategy Office will shoulder the heavy responsibility of achieving this. I have great hopes and high expectations that targets will be set that are aligned with this great mission, and that those targets will be achieved.

Kaguchi: Thank you for taking time out of your busy schedule today.

Helping Fight Climate Change by Accelerating Decarbonization

Balancing Economic Development and Reducing Environmental Impact of Economic Activity as We Shift to a Decarbonized World

Fulfilling Our Role as a Company Supporting Fundamental Infrastructure and Aiming for Sustained Growth

MHI Group has contributed to the development of our world by supplying the machinery systems that build fundamental infrastructure. However, as exemplified by SDGs, the issues the world faces in recent years have grown more complex, people's values have become more diversified, and technological innovation has accelerated. Against this backdrop, for MHI Group to continue to answer the needs of all our stakeholders, we will need to go deep into these issues, explore changes in values and technologies, and respond flexibly as a corporation.

To ensure MHI Group remains relevant in the future amid these drastic and uncertain changes, in 2018 we launched MHI FUTURE STREAM (MFS) as an initiative to drive ongoing innovation. As a result of trend analysis in society, economy, and technology, we determined that one area our Group should focus on is to meet the needs of a decarbonized society as a means of solving the challenge of assuring both economic development and reducing our environmental impact. Electricity and other power sources are indispensable for the development of human livelihoods and industries, and as developing countries continue to raise their living standards, global demand will continue to increase. At the same time, when it comes to the problem of climate change, it is important to provide a stable and economically viable electricity supply, while also lessening environmental impact of economic activity. MHI Group has made both economic development and reduction of environmental impact the core of its business strategy, and we will work to develop our business so as to progress toward the achievement of a carbon-free society.

Leveraging Combined Group Strength to Meet the Needs of the Energy Transition Age

Amid growing awareness of climate change issues and the increasing urgency of reducing CO₂ emissions, MHI Group aims to provide a variety of products and solutions that contribute to decarbonization in power generation and other fields.

For example, our existing products and solutions include nuclear power systems that emit no CO₂ and provide large-scale stable power sources, CO₂ capture and utilization technologies (CCS*¹ and CCUS*²), and renewable energies such as offshore wind power and hydrogen mixed combustion turbines.

In the field of nuclear power, we will continue to support the safer restarting of existing nuclear power plants (light-water reactors) and help develop the nuclear fuel cycle. We are also developing a next-generation light-water reactor that achieves the world's highest levels in both safety and economics. Looking further into the future, we will also work to develop power reactors for small-scale grids and on-board reactors for marine vessels.

We are also developing solutions in anticipation of a coming proliferation of hydrogen usage. Our solutions include 100% hydrogen combustion turbines using hydrogen derived from renewable energy, and hydrogen production using high-temperature gas-cooled reactors (HTGRs).

MHI Group will leverage our combined abilities to provide solutions for the energy transition through product and technology integration, and contribute to solutions to climate change and other issues facing our world.

*1 CCS: Carbon Capture and Storage

*2 CCUS: Carbon Capture Utilization and Storage

MHI Products and Solutions to Accelerate Decarbonization

Renewable Energy

MHI offers a variety of solutions to meet the ever-increasing demand for renewable energy.

In offshore wind power generation, we are rolling out business through MHI VESTAS OFFSHORE WIND A/S, a joint venture with Vestas of Denmark specializing in offshore wind power generation equipment, meeting growing demand for offshore wind in Europe, the United States and Asia Pacific. In addition to the supply of offshore wind power systems, in July 2020 we signed a collaboration agreement with Denmark's Copenhagen Infrastructure Partners P/S (CIP) for the development of an offshore wind power project in Hokkaido. Acting on the opportunity presented by this collaboration with CIP, we will expand into the offshore wind power generation business.

Furthermore, to better regulate fluctuating power generation, a characteristic of renewable energy, and

to maintain a balance between supply and demand, we have commenced initiatives to provide power generation systems that combine storage batteries and Power to Fuel*³.

In addition, MHI Group provides Organic Rankine Cycle (ORC) generation systems, which use geothermal heat, waste heat recovery, biomass, and solar heat to efficiently generate zero carbon electricity from medium- and low-temperature heat sources. ORC systems use medium- to high-temperature heat-transfer oil to heat and evaporate an organic working medium in an evaporation unit. The steam produced then rotates the turbine to achieve clean and stable power generation.

*³ Power to Fuel refers to technologies that use the electric power generated from renewable energy to produce hydrogen and other alternative fuels.



Special Feature: Helping Fight Climate Change by Accelerating Decarbonization

Next-Generation Light Water Reactors and Small-Modular Light Water Reactors

Nuclear power is a carbon-free energy capable of stable, large-scale supply with zero CO₂ emitted during operation. As such, it holds promising prospects for ongoing use as a crucial baseload power source. In order to help deliver decarbonization with nuclear technology, MHI Group is working to develop next-generation light water reactors with the world's highest levels of both safety and economics. In terms of safety, in the interest of further enhancing compliance with Japan's new domestic regulatory standards established after the lessons learned from the Fukushima Daiichi Nuclear Power Station accident, we will aim for the world's highest level of safety by incorporating the following measures all the way from the design stage:

- (1) Strengthening of safety functions (multiplicity and diversity) based on the principle of “stop, cool, and confine” without fail in the event of an accident
- (2) Strengthening measures against natural disasters (external hazards) such as earthquakes, tsunamis, fires, and tornadoes
- (3) Strengthened security against terrorism/cyber terrorism and intentional aircraft collisions

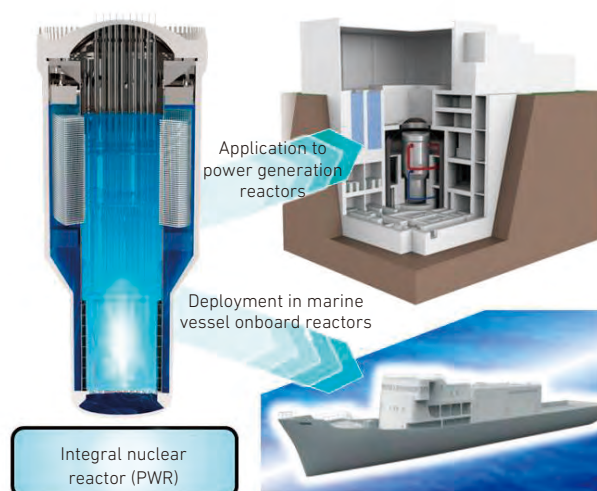
In terms of economic efficiency and operability, we aim to create plants capable of providing society with stable and affordable power supply into the future by improving operability and maintainability, raising efficiency, as well as reducing running and construction costs.

In addition, especially in terms of social acceptability, through discussions with experts and electric power companies at academic societies and other venues, we are working to specify the requirements for next-generation light water reactors, and we have commenced conceptual design and technological development.

Furthermore, in order to meet the diverse needs of power sources in the future, we are also developing a small integrated nuclear reactor (small light water reactor) as we look to expand into power reactors for small grids and marine vessel onboard reactors compatible with mobile usage. Based on well proven pressurized water reactor (PWR) technology, we use a unique integrated reactor design with the vital machinery built into the reactor vessel, and attain high safety levels by, in principle, eliminating the occurrence of accidents due to loss of reactor coolant.



Next-generation light water reactor



Small-modular light water reactors
(power generation reactors, marine vessel onboard reactors)

CO₂ Capture, Utilization and Storage

With the growing concern around the world for global warming, attention is being directed towards CO₂ Capture, Utilization and Storage (CCUS), which captures the CO₂ emitted from the burning of hydrocarbons so that it can be put to effective use or permanently stored underground.

MHI Group started developing technology for CO₂ capture from combustion flue gas in 1990, and the first commercial plant was delivered in 1999 for a Malaysian fertilizer company. Globally, MHI holds a large market share in the field of CO₂ capture. MHI developed the KM CDR Process® *4 with The Kansai Electric Power Co., Inc. The KM CDR Process® captures more than 90% of CO₂ in the gas it treats with a product purity of 99.9 vol%. MHI's technology delivers superb energy-savings and high reliability. MHI has studied and optimized the CO₂ capture plants so that it can be used on a wide range of combustion gases from fuels such as heavy oil, coal, natural gas, and biomass.

We recently announced participation in a new bio-energy with carbon capture and storage (BECCS) pilot project in the UK. BECCS has the potential to reduce CO₂ emissions in the atmosphere (net negative CO₂ emission) by combining biomass power generation, which on its own is considered carbon neutral, and CO₂ capture technology which can capture 90% of CO₂ emissions from the power plant.

Underground CO₂ storage has also gained attention as a way to prevent CO₂ emissions to the atmosphere. Permanent storage in various geologies is

possible, and governments have been incentivizing this option. Additionally, Enhanced Oil Recovery (EOR) can utilize captured CO₂ by injecting it into an oil field to recover crude oil left underground (only 20% to 30% of which can be recovered conventionally), giving CO₂ a commercial value while storing it permanently underground.

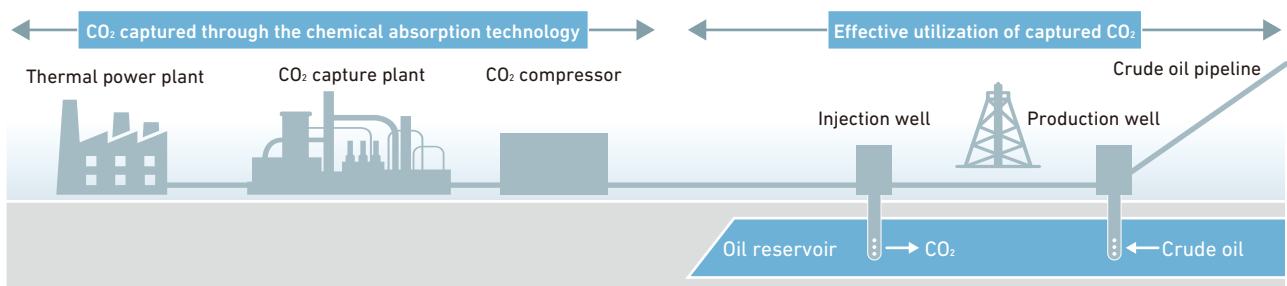
*4 KM CDR Process® is a registered trademark of Mitsubishi Heavy Industries Engineering, Ltd. in Japan, the United States of America, the European Union (EUTM), Norway, Australia, and China



Mobile CO₂ capture unit to be deployed for the BECCS pilot project in the UK



CO₂ capture plant (world's largest CO₂ capture volume of 4,776 tons / day for a power plant application)



Special Feature: Helping Fight Climate Change by Accelerating Decarbonization

Developing Solutions for the Coming Age of Hydrogen

Hydrogen energy is a storable energy that emits no CO₂ when burnt, and has good prospects for use in a wide range of fields such as power generation, industry, and transportation. If we can store hydrogen of the type that emits no CO₂ at the manufacturing stage, and make stable use of it when required, we will make great strides toward the transition to a decarbonized world.

In addition to participating in projects to convert natural gas-fired power plants to hydrogen fuel, MHI Group is working to develop hydrogen manufacturing technologies using renewable energy or high-temperature gas-cooled reactors (HTGR), and is also engaged in measures for the effective usage of CO₂ using hydrogen.

Projects to Convert Natural Gas Fired Power Plants to Hydrogen Fuel

MHI Group has a track record going back to 1970 of supplying gas turbines to power plants using hydrogen mixed fuel, with aggregate running time now exceeding 3.5 million hours. When it comes to large gas turbines as well, in 2018, we achieved 30% hydrogen mixture combustion technology with our own in-house developed combustion unit technology, and we are now engaged in a variety of projects around the world.

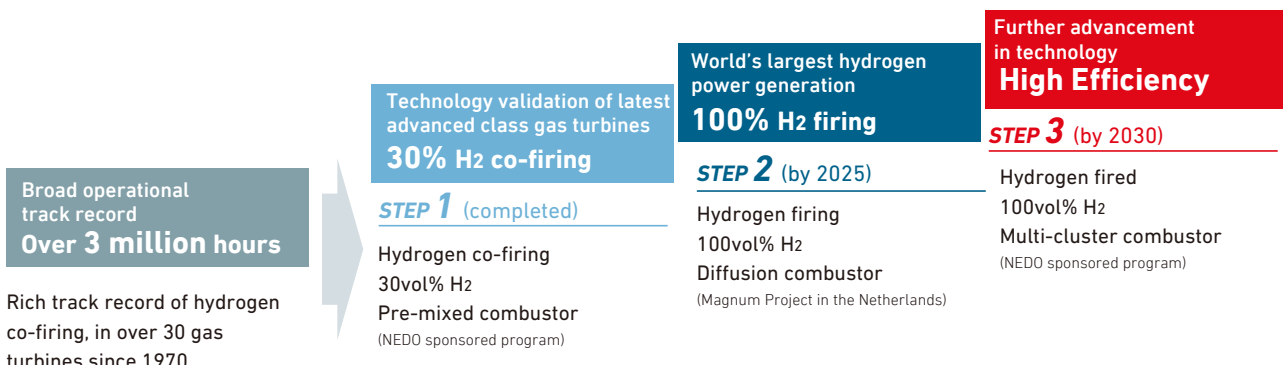
In the Netherlands, MHI Group is part of a project to convert primarily natural gas fired gas turbine



Magnum Power Plant Project in the Netherlands
(one of the world's largest 100% hydrogen fired power projects).

combined cycle (GTCC) plants that we have delivered to that country to hydrogen fired. The project aims to convert 440 MW of those facilities to 100% hydrogen fired by 2025. This is expected to reduce the amount of CO₂ currently emitted annually by those facilities by approximately 1.3 million tons.

In addition, in Utah, USA, we plan to deliver GTCC power generation equipment using hydrogen-fired large-scale gas turbine technology commercialized by MHI Group. We will commence operations with a hydrogen co-firing rate (mixture ratio by volume) of 30% in 2025, and aim to reach 100% hydrogen operation by 2045. Converting Utah over to 30% hydrogen co-firing will contribute to annual CO₂ emissions reductions of up to approximately 4.6 million tons (equivalent to absorption by forests roughly 2.4 times the surface area of Tokyo). Furthermore, the



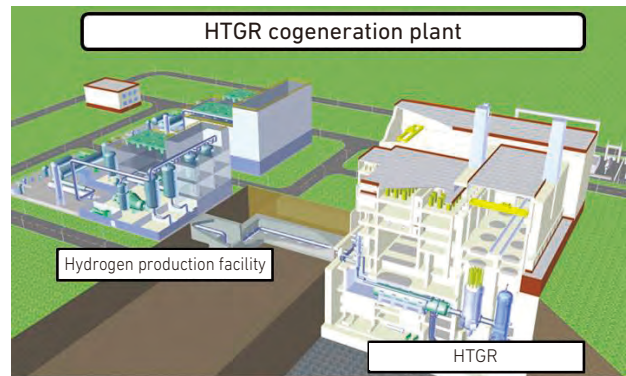
hydrogen used by GTCC power generation facilities is expected to make use of the energy storage project using renewable energy-derived electricity in Utah, in which MHI Group is a participant. The project takes hydrogen and other substances extracted by hydro-electrolysis using renewable energy and stores them in a salt mine in Utah. It aims to develop 1000 MW energy storage facilities, which would be one of the world's largest for 100% renewable energy-derived hydrogen.

HTGR-based Hydrogen Production and Electric Power Cogeneration

Up until now, the majority of nuclear energy has been used for power generation, with only narrowly limited use outside the field of electric power. However, as we work toward achieving decarbonization, there are mounting expectations for innovation in multipurpose usage of nuclear energy since it emits no CO₂ during operation.

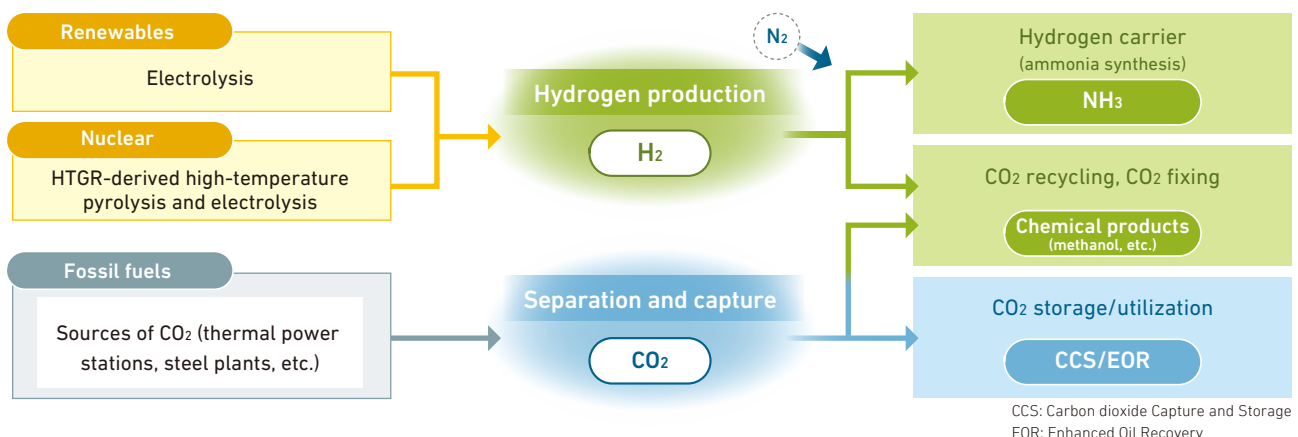
High-temperature gas-cooled reactors (HTGRs) are capable of extracting ultra-high temperature heat of over 900°C, which is much higher than conventional light water reactors, and they are being considered for use in various industrial processes such as hydrogen production.

With an eye on increasing demand for hydrogen in the future, MHI Group is working to develop HTGR cogeneration plants that achieve both high-temperature heat utilization and power generation, providing stable, affordable, mass-quantity hydrogen production. We will contribute to achieving a decarbonized hydrogen-based economy in various industrial fields, including the steel industry, which is working toward the use of hydrogen-based reduction technologies.



Effective Utilization of CO₂ Using Hydrogen

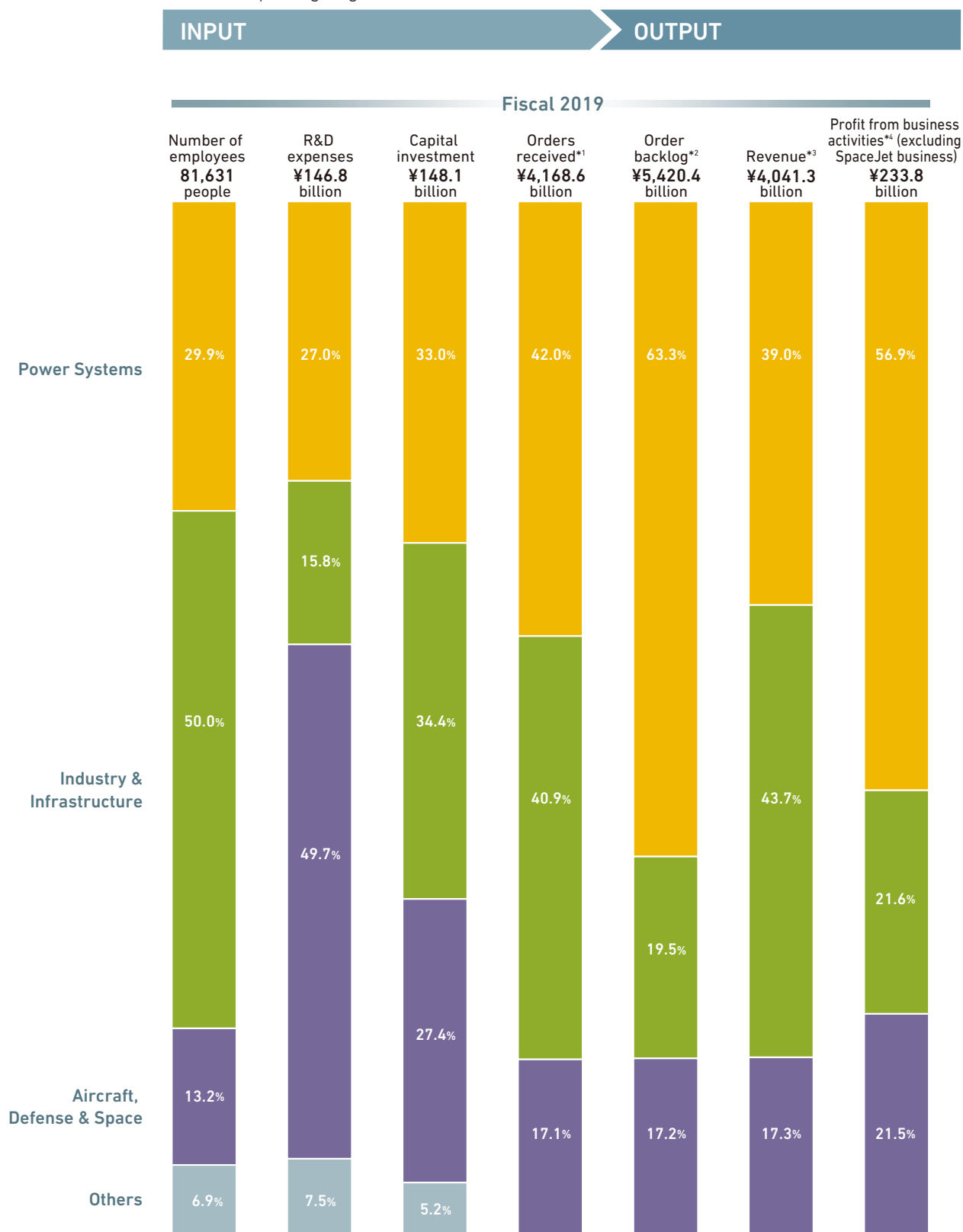
We are working on effective usages for CO₂ as well, such as the refining of methanol and other chemicals using hydrogen generated by hydro-electrolysis and pyrolysis using renewable energy and nuclear energy, and CO₂ separated and captured by CO₂ capture units from fossil fuels used at thermal power plants and steel mills.



Business Strategies

Business Segment Highlights

[Former Reporting Segments]



*1 Others, eliminations or corporate ¥-46.4 billion *2 Others ¥0.6 billion *3 Others, eliminations or corporate ¥-31.9 billion

*4 Others, eliminations or corporate ¥-20.0 billion. Not including ¥-263.3 billion in SpaceJet investments

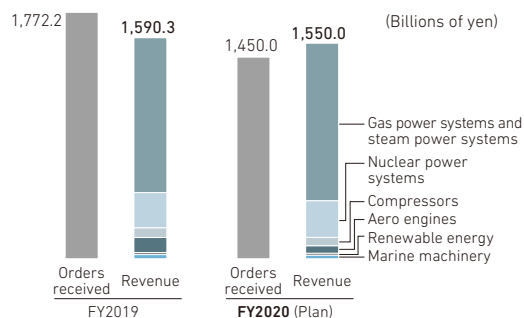
[New Reporting Segments] For information on realignment of reporting segments, please see "Domain Reorganization" on page 15.

Energy Systems



Main Businesses

- Gas power systems and steam power systems
- Nuclear power systems
- Wind power generators
- Compressors
- Aero engines
- Environmental plants
- Marine machinery

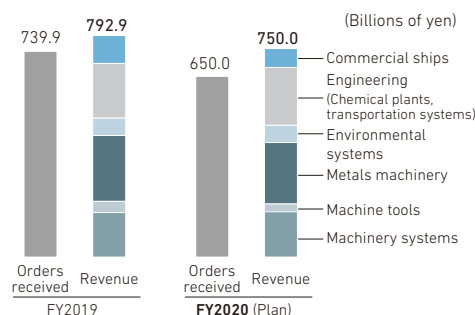


Plants & Infrastructure Systems



Main Businesses

- Commercial ships
- Transportation systems
- Chemical plants
- Environmental systems
- Metals machinery
- Machine tools
- Machinery systems

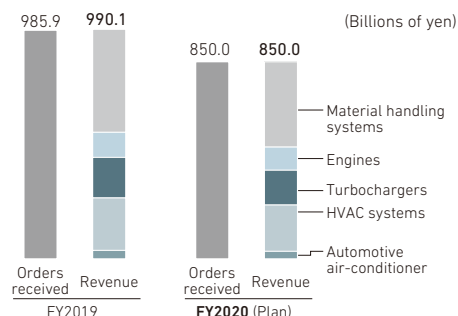


Logistics, Thermal & Drive Systems



Main Businesses

- Material handling systems
- Engines
- Turbochargers
- HVAC systems
- Automotive air-conditioner

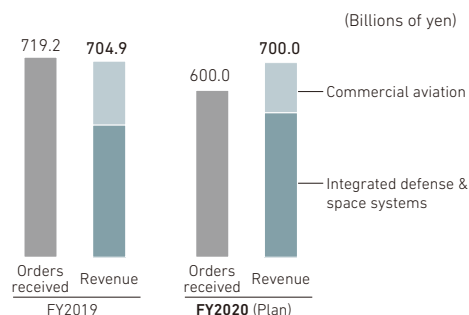


Aircraft, Defense & Space



Main Businesses

- Commercial aircraft
- Defense aircraft
- Missile systems
- Naval ships
- Special vehicles (tanks)
- Maritime systems (torpedoes)
- Space systems



Business strategies:

Energy Systems



Takasago plant, combined cycle demonstration power plant, No. 2 power generation facility

Current Status Assessment

S Strengths	Clean Gas and Steam Power	<ul style="list-style-type: none"> Systems offering world's highest levels of thermal efficiency and output Highly reliable gas turbines achieved with the world's only combined cycle power plant validation facility that realizes long-term verification from development through design, manufacture, and demonstration Wide ranging product lineup for a full range of output levels, from small and medium to large-sized Cutting-edge low-carbon and eco-friendly technologies (highly efficient GTCC, IGCC, highly efficient USC,*1 CCS/CCUS,*2 AQCS,*3 SOFC, geothermal, biomass-fired, hydrogen/ammonia-fired) and integration capabilities
	Nuclear Power Systems	<ul style="list-style-type: none"> World's only comprehensive nuclear power plant manufacturer capable of providing one-stop service from development, through design, manufacture, construction, and maintenance Covers not only light-water reactors, but the full range of the nuclear fuel cycle including reprocessing facilities, fast reactors, etc. World-highest level safety technologies and product quality, and ample track record as the leading company in domestic nuclear power
	Renewable Energy	<ul style="list-style-type: none"> Extensive track record in offshore wind turbines (No. 2 global market share in MVOW*4)
	Compressors	<ul style="list-style-type: none"> Established track record in the field of petrochemical plants
	Aero Engines	<ul style="list-style-type: none"> Technological acumen in the field of combustors and low-pressure turbines Strong partnership with engine manufacturers Synergy between Mitsubishi Heavy Industries Aero Engines' technologies and Mitsubishi Power's*5 gas turbine technologies
Marine Machinery	<ul style="list-style-type: none"> High market share in turbocharger business for two-stroke marine engine segment. Providing solution technology for energy saving and compliance to strengthened environmental regulations Wide-ranging customer network, both domestic and international 	
<p>*1 Ultra super critical *2 Carbon capture and storage/carbon capture utilization and storage *3 Air quality control systems *4 MVOW: MHI Vestas Offshore Wind *5 Mitsubishi Hitachi Power Systems Ltd.'s company name was changed to Mitsubishi Power Ltd. in September 2020</p>		
W Weaknesses	Clean Gas and Steam Power	<ul style="list-style-type: none"> Imbalanced regional coverage at the global level
	Nuclear Power Systems	<ul style="list-style-type: none"> Little experience in global business
	Renewable Energy	<ul style="list-style-type: none"> Absence of large-scale 12MW-range offshore turbines (competitors have announced launch of 12MW-14MW-range units)
	Compressors	<ul style="list-style-type: none"> Low market share in the oil & gas market
	Aero Engines	<ul style="list-style-type: none"> Limited degree of participation in engine development programs
	Marine Machinery	<ul style="list-style-type: none"> Limited scale of business and product portfolio
O Opportunities	Clean Gas and Steam Power	<ul style="list-style-type: none"> Growing need for high-efficiency, green energy due to strengthened environmental regulations Need for load fluctuation adjustments in accordance with the expansion of renewable energy Need for high-efficiency conversion of existing power plants
	Nuclear Power Systems	<ul style="list-style-type: none"> Growing need for carbon-free, large-scale stable power sources and greater energy self-sufficiency (new and replacement facilities) Rising need for effective use of existing nuclear power plants (more plants being restarted, achievement of 60 years in operation)
	Renewable Energy	<ul style="list-style-type: none"> Expanding offshore wind turbine market (Europe, North America, Japan, Taiwan, etc.)
	Compressors	<ul style="list-style-type: none"> Integration with Mitsubishi Group products, such as Mitsubishi Power's*5 gas turbines
	Aero Engines	<ul style="list-style-type: none"> Sustained growth in the aircraft market
	Marine Machinery	<ul style="list-style-type: none"> Strengthened environmental regulations aiming to CO₂ reduction and GHG zero emission
T Threats	Clean Gas and Steam Power	<ul style="list-style-type: none"> Further escalation of competition with international competitors Uncertainty of future energy portfolio
	Nuclear Power Systems	<ul style="list-style-type: none"> Escalating competition with other power sources
	Renewable Energy	<ul style="list-style-type: none"> Increased pressure to lower prices of offshore wind turbines (escalating competition)
	Compressors	<ul style="list-style-type: none"> Escalating competition, rise of Chinese manufacturers Plunge in air travel demand due to COVID-19
	Aero Engines	<ul style="list-style-type: none"> Aircraft component business changing due to technological innovation
	Marine Machinery	<ul style="list-style-type: none"> Less business opportunity due to unfavorable domestic shipbuilding market conditions

Aiming to contribute to Sustainable Development Goals (SDGs) through business operations



Overview of FY2019 and Status of Undertakings in Areas of Focus

Consolidated orders received came to ¥1,772.1 billion, up year on year, thanks notably to continuous orders for hydrogen-mixed combustion and other new GTCC*⁶ generation facilities in the North American market. Revenue was also up year on year to ¥1,590.2 billion, thanks largely to growth in aircraft engines and compressors. Profit from business activities came to ¥144.3 billion, up year on year, as although there were negative factors such as higher local construction costs, the company recorded profit associated with the out-of-court settlement with Hitachi, Inc. over contention regarding a boiler construction project in South Africa.

MHI Group will promote structural transition in Energy Businesses and propose optimal energy solutions. In clean gas and steam power businesses, we installed a long-term demonstration facility at our Takasago Plant for next-generation 1,650 °C-grade

high-efficiency JAC gas turbines, and commenced operations. We also obtained orders from the U.S. for a primarily hydrogen fired GTCC generation facility. The project plans to commence operation with a 30% hydrogen mixture in 2025 and reach 100% hydrogen by 2045. In the nuclear power business, we are supporting the restarting of light-water reactors, installation of severe accident management facilities, and attainment of the nuclear fuel cycle (reprocessing, fast reactors). Furthermore, we are also pursuing an international project to promote the use of nuclear fusion energy, in which we completed the world's first largest-ever superconducting coils*⁷. In offshore wind power, MHI Vestas Offshore Wind (MVOW), our joint venture with Denmark's Vestas, obtained orders for projects in Asia-Pacific and Japan.

*⁶ GTCC: Gas turbine combined cycle

*⁷ Completion ceremony held on January 30, 2020

Business Initiatives

Clean Gas and Steam Power	<ul style="list-style-type: none"> Utilize and make further advances in hydrogen-fired gas turbines and other green power products to achieve a decarbonized society Offer solutions utilizing the latest digital and software technologies Expand business domains by collaborating with MHI Group technologies and resources Optimize operations and resources in line with structural transition in energy business
Nuclear Power Systems	<ul style="list-style-type: none"> Provide support for the restart of domestic light-water reactor plants and the installation of severe accident management facilities, and strengthen service operations to contribute to stable supply and higher economic efficiency after restarting Support the completion of nuclear fuel reprocessing facilities, support maintenance work after completion, and achieve the nuclear fuel cycle domestically in Japan Decommission light-water reactor plants, and provide support for TEPCO's Fukushima Daiichi nuclear power plant Achieve the world's highest levels of reactor safety, and develop future reactors (fast reactors, small-modular reactors, high temperature gas cooled reactors)
Renewable Energy	<ul style="list-style-type: none"> Strategically advance into the U.S. and Asia regions in addition to the European market, and strengthen mass production to meet the needs of a growing market for offshore wind power
Compressors	<ul style="list-style-type: none"> Expand sales of compressor trains to the oil & gas market, such as LNG compressor packages combining Mitsubishi Power's*⁵ gas turbines Expand after sales service business
Aero Engines	<ul style="list-style-type: none"> Use production cutbacks and other measures to respond to the plunge in air travel demand caused by COVID-19, and assemble a configuration for eventual revival in demand market regrowth Expand MRO*⁸ business Bring the Nagasaki plant on stream
Marine Machinery	<ul style="list-style-type: none"> Participate in global R&D partnerships together with the other major players in the maritime industry to accelerate the development of technology toward GHG zero emission Expand MET turbocharger business (expand and maintain market share in the two-stroke engine market as a stable business and accelerate to penetrate in the four-stroke engine market for further business expansion)

*⁸ MRO: Maintenance, Repair and Overhaul

Business strategies:

Plants & Infrastructure Systems



World's largest post-combustion CO₂ capture project (Houston, Texas, USA)

Current Status Assessment

S Strengths	Expertise cultivated in a wide range of product fields and effective utilization of resources within the domain	
	Commercial Ships	<ul style="list-style-type: none"> Unparalleled environmental and energy-saving technologies
	Engineering group* ¹	<ul style="list-style-type: none"> Engineering capabilities that create added value through the integration of technologies
	Transportation Systems	<ul style="list-style-type: none"> Advanced system integration capabilities in urban transport and extensive experience with APM*²
	Chemical Plants	<ul style="list-style-type: none"> Advanced EPC*³ management capabilities based on extensive plant experience
	CO ₂ Capture Plants	<ul style="list-style-type: none"> Reliable and economically feasible carbon capture technology, supported by commercial records around the world
	Metals Machinery	<ul style="list-style-type: none"> Full product lineup and global presence
	Machine Tools	<ul style="list-style-type: none"> Gear manufacturing systems boasting top market share in Japan (Full product lineup including tools)
Machinery Systems	<ul style="list-style-type: none"> Broad scope of business fields and wide-ranging mechatronics technical capabilities 	
*1 Engineering group: Engineering, Environmental Systems *2 APM: Automated People Mover (fully automated, driverless vehicles)		
*3 EPC: Engineering, Procurement, and Construction		
W Weaknesses	Commercial Ships	<ul style="list-style-type: none"> Relatively weak cost competitiveness on repeated construction of ships with the same specifications
	Engineering group	<ul style="list-style-type: none"> Volatility in orders received and profit
	Metals Machinery	<ul style="list-style-type: none"> Major market volatility
	Machine Tools	<ul style="list-style-type: none"> Cost competitiveness due to build-to-order manufacturing structure
	Machinery Systems	<ul style="list-style-type: none"> Predominantly mature businesses, largely in Japan
O Opportunities	Commercial Ships	<ul style="list-style-type: none"> Low-carbon and carbon-free in maritime transport Use of digital technologies to make ships safer and more efficient
	Engineering group	<ul style="list-style-type: none"> Increase in customer needs through the entire plant lifecycle of the EPC business Rising global awareness of environmental issues
	Transportation Systems and Environmental Systems	<ul style="list-style-type: none"> Market growth in emerging countries due to economic development and urbanization
	Metals Machinery	<ul style="list-style-type: none"> Increasing demand for energy savings and low-environmental-impact products, expanding demand for high-value-added products such as advanced high strength steel
	Machine Tools	<ul style="list-style-type: none"> Advances in technological innovation, such as Industry 4.0 and 5G mobile communications
	Machinery Systems	<ul style="list-style-type: none"> Extension of new fields of businesses (that require wide-ranging technologies) to meet the social needs of electrification and intelligent systems (IoT, AI, CASE)
T Threats	Rise of manufacturers in emerging countries and uncertainty in the global economy	
	Commercial Ships	<ul style="list-style-type: none"> Increasingly severe competition as the gap between supply and demand for new ships persists, reorganization of South Korean and Chinese shipbuilding industries
	Engineering group	<ul style="list-style-type: none"> Rise of new players due to the arrival of alternative technologies Geopolitical risks
	Metals Machinery	<ul style="list-style-type: none"> Intensifying competition with overseas competitors
	Machine Tools	<ul style="list-style-type: none"> Rise of manufacturers in emerging countries (China, South Korea, Taiwan)
	Machinery Systems	<ul style="list-style-type: none"> Shrinking domestic market for existing businesses and intensifying competition for development in the new fields of electrification and intelligent systems



Aiming to contribute to Sustainable Development Goals (SDGs) through business operations

Overview of FY2019 and Status of Undertakings in Areas of Focus

Consolidated orders received declined year on year to ¥739.9 billion due to delays seen in contract negotiations and the order placement process as a result of the impacts of U.S.-China trade friction and COVID-19. Revenue declined year on year to ¥792.9 billion due to the effect of progress rates on overseas projects. Profit from business activities increased year on year to ¥25.5 billion as the effects of structural reforms and improved earnings in individual businesses compensated for lower profitability on some overseas plant projects.

Following up our established business policy, we are pursuing initiatives tailored to the market environment and business characteristics of each line of businesses, which are divided into three categories: machine tools and machinery systems for “earnings capacity enhancement,” commercial ships for “shift

area of competition,” and engineering and environmental systems for “shift to new business models.” In addition, in our domain as a solutions provider for environment-friendly products that contribute to the realization of a decarbonized society, we are expanding business opportunities by working on technology sharing and human resource mobility. Furthermore, we are continuing to promote our engineering businesses and service businesses, enhancing the life cycle business to support our customers throughout the entire plant life cycle. We are also enhancing promotion of digitalization, important to all of these initiatives, though our collaboration with Shared Technology Department, which will translate to greater competitiveness and stronger operations in each of our lines of business.

Business Initiatives

Enhance efficiency in preparation for the business environment changes	Earning capacity enhancement:
Metals Machinery	<ul style="list-style-type: none"> Focus on strategic products (expansion of low environmental-impact products) Strengthen lifecycle businesses (expansion of maintenance service businesses and digitalization)
Machine Tools	<ul style="list-style-type: none"> Pursue mass customization Strengthen our framework in micro machining system and other new fields (DED AM Systems and Room Temperature Water Bonding Machines, etc.)
Machinery Systems	<ul style="list-style-type: none"> Enhance management efficiency through internal resource sharing and flexible mobilization of human resources Advancement of the service business through digitalization Create new business in electrification and intelligent systems utilizing mechatronics technologies
Improve earning capacity through differentiation	Shift areas of competition and shift to new business models
Commercial Ships	<ul style="list-style-type: none"> Accelerate shift to high-value-added areas such as high-density outfitted ships Strengthen marine engineering businesses in response to environmental regulations, etc.
Engineering	<ul style="list-style-type: none"> New business model and portfolio for diversifying profitability (Development of business considering lifecycle, concept design to O&M management: expansion and improvement of project financing and engineering after-sales service business.) Improve profitability of large projects (Project management through digitalization)
Environmental Systems	<ul style="list-style-type: none"> Steady obtainment and fulfillment of domestic project orders Strengthen undertakings for overseas projects
Engineering • Environmental Systems	<ul style="list-style-type: none"> Further undertakings for low-carbon or decarbonized society by accelerating the development of core technologies (waste-to-energy plants, CO₂ capture plants, Automated People Mover (APM), etc.).

Business strategies:

Logistics, Thermal & Drive Systems



Laser-guided AGF (Automated Guided Forklift) helps provide solutions to issues such as labor shortages and the need for more efficient logistics

Current Status Assessment

S Strengths	Expertise cultivated in a wide range of product fields and effective utilization of resources within the domain	
	Material Handling Systems	<ul style="list-style-type: none"> • Third-largest business scale in the world
	HVAC Systems, Automotive Air-Conditioner	<ul style="list-style-type: none"> • Extensive product lineup and world-class environmental and energy-saving technologies
	Turbochargers	<ul style="list-style-type: none"> • Ability to develop high-performance and high quality products leveraging high-speed rotation and heat & fluid dynamics technologies
	Engines	<ul style="list-style-type: none"> • New technologies combining international combustion engines with renewable energy and batteries

W Weaknesses	Tendency to be affected by short-term economic fluctuations	
	Turbochargers	<ul style="list-style-type: none"> • Specialization in the single product makes the business more heavily vulnerable to customer business conditions
	Engines	<ul style="list-style-type: none"> • Small-size engines: Supplies components (engines) only, and not the mother units they power, rendering the business heavily affected by its customers • Full lineup means dispersion of technological resources

O Opportunities	Material Handling Systems	<ul style="list-style-type: none"> • Increasing market for logistics solutions with expansion of e-commerce business
	HVAC Systems, Automotive Air-Conditioner	<ul style="list-style-type: none"> • Rising awareness toward environmental preservation
	Turbochargers	<ul style="list-style-type: none"> • Growing trend toward downsized engines with turbochargers in response to environmental and fuel performance regulations
	Engines	<ul style="list-style-type: none"> • Growth of data center market and expansion in Southeast Asian gas distributed power systems market

T Threats	Adverse effects of U.S.-China trade friction and COVID-19	
	Turbochargers	<ul style="list-style-type: none"> • Shrinking market over the longer term due to growth of electric vehicles
	Engines	<ul style="list-style-type: none"> • Market downturn due to falling petroleum prices



Aiming to contribute to Sustainable Development Goals (SDGs) through business operations

Overview of FY2019 and Status of Undertakings in Areas of Focus

FY2019 consolidated orders received were hit by a drop in turbocharger orders due to the decline in auto industry demand resulting from U.S.-China trade friction. Revenues decreased for the entire domain due to a sharp decline in orders for turbochargers and engines, although there was a slight increase in sales of material handling equipment and thermal systems. Profit from business activities was also affected by the drop in turbocharger sales and consequently fell year on year.

2H FY2019 was ravaged by COVID-19, with the effects extended to the entire Logistics, Thermal &

Drive Systems domain. For example, the shelter-in-place policies aimed at preventing the spread of the virus has led to stagnation in the movement of people and the distribution of goods, thus stifling product imports. This affected orders in the Thermal Systems business due to the resulting stagnation in imports of household air conditioners made overseas. The impacts of COVID-19 have also put the future of Logistics Systems in doubt as the halt in distribution has prompted many customers to postpone investment in logistics equipment.

Business Initiatives

General	Medium-lot products have generally been heavily affected by COVID-19, and the Company is currently working to reduce fixed costs in all lines of business.
Material Handling Systems	<ul style="list-style-type: none"> Carry out post-merger integration (PMI), including organizational streamlining and product lineup integration Strengthen sales (expansion of direct sales, strengthen sales network, etc.)
HVAC Systems, Automotive Air-Conditioner	<ul style="list-style-type: none"> Strengthen sales (expansion of direct sales, strengthen sales network, etc.) Develop and launch low-environmental-impact products (such as CO₂ coolant compressors)
Turbochargers	<ul style="list-style-type: none"> Respond to changes in market conditions by working to reduce fixed costs at this time and accelerate the development of electronically controlled products
Engines	<ul style="list-style-type: none"> Focus resources into core competencies

Business strategies:

Aircraft, Defense & Space

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Ninth H-II/B rocket mission, carrying the "Kounotori-9" space station supply spacecraft

Current Status Assessment

S Strengths	Commercial Aviation	<ul style="list-style-type: none"> • Business domain covering all systems for commercial aviation (aero structures, aircraft OEM business (SpaceJet), and operation support including MRO (CRJ)) • Design and manufacturing technologies for large composite main wing boxes and other structural components • Over 1,000 in service CRJ fleet as the business assets
	Integrated Defense & Space Systems	<ul style="list-style-type: none"> • Leading-edge technologies fostered through the development of defense and space products • Defense: Ability to make proposals for integrated defense systems, and expertise and channels cultivated through international joint collaboration • Space: Development capabilities in launch vehicles and launch vehicle engines and world-leading levels of reliability
W Weaknesses	Commercial Aviation	<ul style="list-style-type: none"> • Dependent on specific customers and suppliers • High sensitivity to foreign exchange fluctuations, as business is concentrated on overseas customers
	Integrated Defense & Space Systems	<ul style="list-style-type: none"> • Defense: Limited experience in pursuing and leading export projects • Space: Inadequate cost competitiveness in global markets
O Opportunities	Commercial Aviation	<ul style="list-style-type: none"> • Growth opportunity of new aircraft delivery and MRO business along with long-term passenger demand increasing • More demands by operators for "total care" operation support to their fleet
	Integrated Defense & Space Systems	<ul style="list-style-type: none"> • Defense: Cabinet approval of the Three Principles on Transfer of Defense Equipment and Technology • Growth in space, cyber, and electromagnetic domains resulting from the formulation of the National Defense Program Guidelines for FY2019 and beyond as well as the Medium-Term Defense Program • Space: Growing launch market in line with an expanding need for satellites, including the use of space in national security
T Threats	Commercial Aviation	<ul style="list-style-type: none"> • Business environment with vulnerability of the passenger demand due to event risks such as conflict, economic crisis, epidemics, natural disaster, etc. • Reorganization across industries including M&A, and more competition as the result of such industry movement
	Integrated Defense & Space Systems	<ul style="list-style-type: none"> • Defense: Lower domestic budget for front-line combat equipment expenses due to increased overseas procurement • Space: Concern regarding price-cutting by new U.S. companies entering the market for overseas launch services



Aiming to contribute to Sustainable Development Goals (SDGs) through business operations

Overview of FY2019 and Status of Undertakings in Areas of Focus

FY2019 consolidated orders received were up year on year to ¥719.2 billion thanks to orders for defense-related systems and space systems from business lines including the improvement of F-15's capability by upgrading program. Revenue also grew year on year at ¥104.9 billion as revenue was generally up with the exception of space systems and certain other products. Business profit decreased sharply compared with the previous fiscal year as loss of ¥208.7 billion, mainly due to the recording of impairment losses on SpaceJet-related assets.

In the field of commercial aircraft, we are working to improve profit margins in Aero Structures (Tier1), specifically through undertakings to boost production efficiency and elevate cost competitiveness, as well as taking action to acquire new business from the narrow body program. In the SpaceJet business, we are continuing the development with the appropriate level of budget complied with the MHI Group's overall financial condition, and also conducting the sched-

ule review of its development. In the CRJ program acquired from Bombardier Inc., we are focusing on the resources optimization and implementing the PMI*1 process.

In the defense business, we are planning to expand into new business fields, such as command and control and unmanned aerial, ground, and maritime systems, while continuing to conduct stable business operations by offering world-class products. At the same time, we will utilize the technologies we have cultivated over the years to expand our overseas business and our peripheral fields such as MRO*2. In addition, we will promote the expansion into advanced security consumer products. In the space business, we are proceeding with the development of the H3 Launch Vehicle, which will realize low-cost, highly reliable launch services, aiming for the first launch in fiscal 2020.

*1 PMI: Post Merger Integration

*2 MRO: Maintenance, Repair and Overhaul

Business Initiatives

Commercial Aviation	Tier1	Strengthen cost competitiveness to withstand severe business environment	<ul style="list-style-type: none"> • Introduce automated equipment • Automate indirect operations through AI/IoT • Enhance procurement networks in North America and Asia
		Expand into differentiated competitive advantage areas	<ul style="list-style-type: none"> • Pursue weight and cost-reducing technologies by developing advanced materials (composite materials) and engineering / manufacturing processes (metal processing)
	SpaceJet Program	Proceeding the development activities with much efficiency and appropriate level	<ul style="list-style-type: none"> • Adjusting the organization, resource and activities with reflecting the market environment, and proceeding the development with efficiency according to each development stage
	CRJ Program	Implementation of PMI	<ul style="list-style-type: none"> • Promptly break away from dependence on seller's infrastructure • Optimize resources
Secure orders and sales		<ul style="list-style-type: none"> • Implement active sales promotion to steadily capture on post-COVID recovery demand 	
Integrated Defense & Space Systems	Expansion of existing domestic and peripheral fields	Existing business	<ul style="list-style-type: none"> • Steadily get next core businesses up and running (future fighter, H3 Launch Vehicle) • Expand business scope such as command and control, M&S*3, etc.
		Peripheral fields	<ul style="list-style-type: none"> • Expand MRO business in maintenance and servicing fields • Expand into new peripheral fields (space [including satellite information usage], cybersecurity, unmanned vehicles, etc.)
	Overseas business expansion	Adapting MHI components for use in overseas equipment	<ul style="list-style-type: none"> • Utilize channels with overseas manufacturers cultivated through existing businesses • Collaborate with Japanese government in parallel with inter-company consultations
		Potential international joint development projects	<ul style="list-style-type: none"> • Start international joint development projects with alliance countries (MHI support for Japanese government) • Enter joint development projects
Establishment of dual-use development businesses		<ul style="list-style-type: none"> • Utilize core technologies of defense and space business • Meet private-sector demand particularly in safety and security field (cybersecurity, situational awareness, wide-area status observation) 	

*3 M&S: Modeling and Simulation

CFO Message

Even amid the dramatic changes occurring in our business environment, especially under the impact of the COVID-19 pandemic, we are maintaining our financial soundness and preparing for a leap to our next growth phase.

Hisato Kozawa
Director, Senior Vice President, CFO



Improving our Balance Sheets by Reducing and Eliminating Risk Assets

In fiscal 2019 we recorded our first loss from business activities in 20 years. This was attributable foremost to the impairment loss booked in our SpaceJet business, but even excluding that extraordinary factor, our margin from business activities declined by roughly 0.9 points compared to fiscal 2018. Just when we needed to improve our profitability, the global economy stagnated under the impact of the COVID-19 pandemic, creating a severe situation.

The year did see one positive development, however, with respect to progress in trimming our risk assets. Recovery of indemnification assets related to the South Africa projects, a long-pending issue, was finally realized. The settlement that was reached resulted in receipt of ¥200 billion in cash and a transfer of shareholdings that transformed Mitsubishi

Hitachi Power Systems, Ltd. (MHPS) to a wholly owned subsidiary. I expect MHPS's new status to have a positive impact on our future business development.

Concerning SpaceJet-related assets, we booked an impairment loss in light of the revised development schedule; however, we also booked deferred tax assets, a move that will be effective in curbing future cash outflows in the form of tax costs against profits to be generated Groupwide. And while we deeply regret the resulting decrease in shareholders' equity, trimming our risk assets has enabled improvement of our balance sheets, which has put us in better stead for the future.

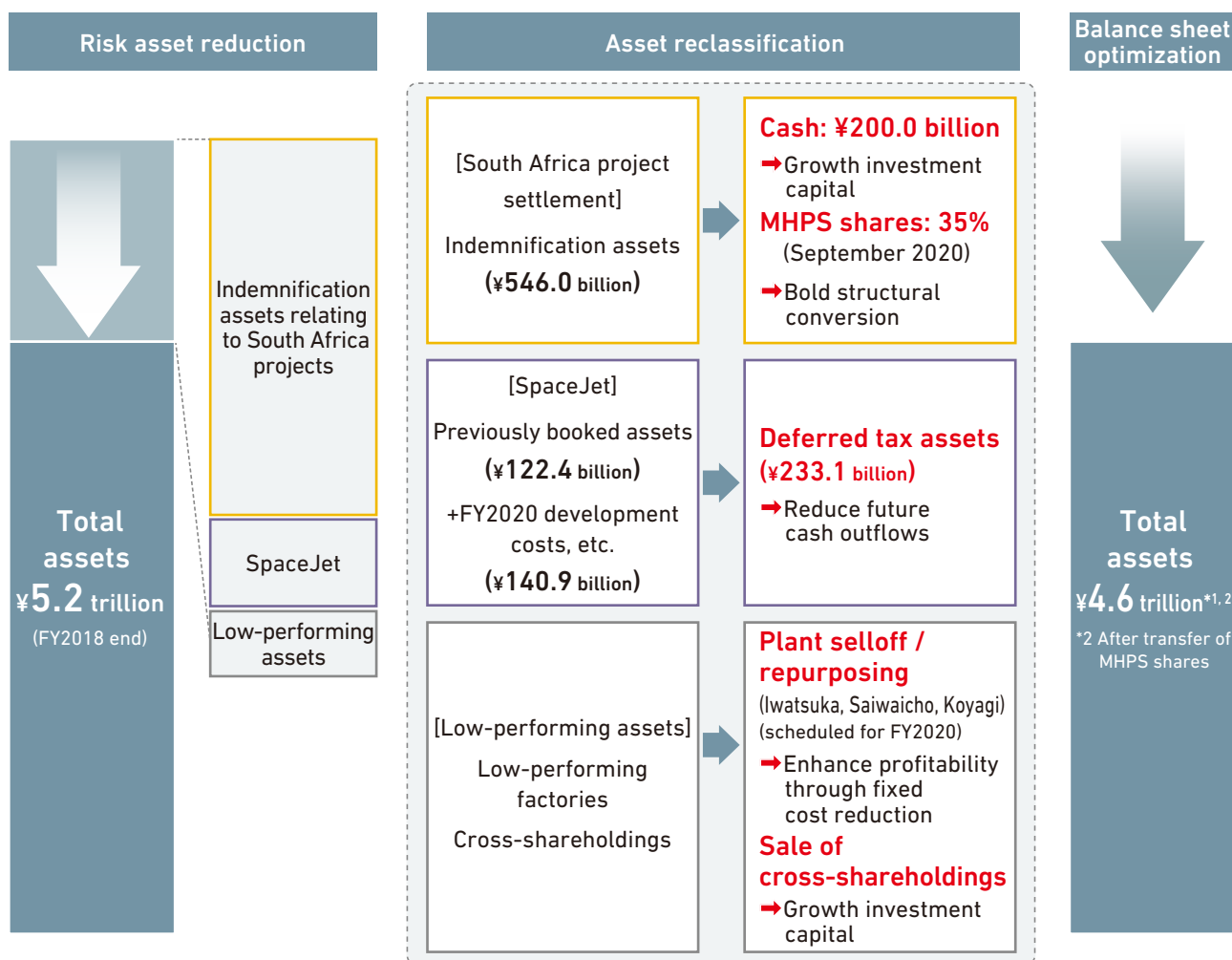
To turn briefly to topics relevant to fiscal 2020, in both fiscal 2018 and fiscal 2019 we recorded free cash flows in excess of ¥200 billion, but in fiscal 2020 we expect negative flows in the amount of ¥400 billion, thereby cancelling the positive flows of the

previous two years. That being said, the deterioration in cash flows owes largely to a decrease in net profit and the schedule for receiving advance payments on contracts; we don't expect the negative flows to continue in the coming years, and we will do our best to bring them back to positive territory in fiscal 2021.

Our cash conversion cycle (CCC) has posted continuous improvement in recent years, but in fiscal 2020 we are projecting a downturn from fiscal 2019. Besides the significant decrease in advance payments on contracts (contract liability) that I noted earlier,

earnings in the commercial aircraft business are also projected to decline, thus preventing CCC from attaining the level recorded previously. However, starting in fiscal 2021, if the impact from the COVID-19 pandemic can be brought under control and revenue is able to grow, we expect CCC to begin improving again. In fiscal 2020, in light of the severity of our business environment, we will closely monitor not only our overall numbers but the figures for each business, including trade receivables and asset inventory days.

► Improving our Balance Sheets



*1 Mitsubishi Hitachi Power Systems changed its name to Mitsubishi Power in September 2020.

CFO Message

Pandemic Impact and Countermeasures

The COVID-19 pandemic has taken a significant toll financially, but we began funding preparations to cope with this situation commencing in March 2020. Also, since before the pandemic we have taken steps to improve our financial position, so we have no anxieties concerning financing for the time being. The pandemic's impact on our businesses, however, has been immeasurable, and even if the spread of the virus is brought under control, we cannot say with certainty that the economic picture will immediately recover fully. Especially with regard to our medium-lot product business and commercial aircraft business, we are now working to minimize impact by implementing emergency countermeasures.

To weather the current difficulties, my most urgent tasks as CFO are to pursue scale optimization of our corporate sections and to improve processing in our finance-related sections so that we can reduce costs, streamline administrative work and put in place mechanisms that will enable swifter understanding of financial information that will contribute to management decision-making.

MHI Group undertakes business operations globally, and in recent years our ratios of sales costs and general administrative expenses have been trending higher. Normally, when sales sections are expanded in order to raise market coverage, simultaneously it is necessary to enlarge corporate sections as well. And to prevent expansion of the corporate sections more than necessary, we need to form the optimal organizational structure taking into consideration market coverage methods appropriate to the scale and characteristic features of each business.

To improve processing in our financial section, we established a new "Financial & Accounting Process Re-engineering Office." In addition to setting up an IT infrastructure to oversee financial matters for the

complete MHI Group, the new office will promote process reforms. Improving business administrative processes while setting down the IT infrastructure will be of crucial importance, and significant results can be expected from this two-pronged initiative.

Prioritized Fund Allocation into Growth Areas

Now that substantial progress has been achieved in reducing our risk assets, our next task is to focus on growth, and the crux here will be how to apply MHI's Groupwide technologies to social benefit. Currently, our focus is to address environmental issues, especially how to achieve decarbonization, which is a matter that affects the future of all humankind. As I noted earlier, we have made MHPS a wholly owned subsidiary, now renamed Mitsubishi Power, and with this transformation we are now in an even better position than before to provide diverse solutions to environmental issues. Going forward, I expect use of renewable energies will grow further, but there are issues in terms of unstable supplies and control difficulties. I believe that by combining renewables with the energy solutions we can provide—in thermal and nuclear power, for example—renewables will be usable with greater peace of mind and systems can be created that will enable resolution of environmental issues. Going forward, I believe MHI Group's growth will be driven by our ability to provide integrated solutions—solutions incorporating our hydrogen technologies and exhaust gas decontamination technologies, for example.

While it is difficult to project how impact from the COVID-19 pandemic will unfold ahead, in fiscal 2020 we will continue to focus our fund allocations into areas in which growth can be expected, including development of products and solutions that will contribute to solving environmental issues.

Message to Shareholders and Investors

Before closing, I would like to tell our shareholders and investors our policy on shareholder returns and our thinking towards our share price. First, concerning dividends, we have set our annual dividend per share forecast for fiscal 2020 at half the level of the previous year, with no dividend payout in the interim. Many shareholders of Mitsubishi Heavy Industries are long-term shareholders or pension fund operators, and we believe that stable dividends are one of the core values in owning our shares. For this reason, we apologize sincerely to our shareholders for the current situation.

I am also keenly cognizant of the importance of raising our share price. In MHI Group we have set Triple One Proportion (TOP)—an equal balance between net sales, total assets, and market value—as a KPI. With TOP, we aim to align the size of our balance sheets with our business scale, and simultaneously to raise our market value to that same level. To raise our market value, not only must we improve our balance sheets, as I mentioned above; we must also raise expectations towards our business growth and our evaluation by the stock market. I expect our share price to head toward recovery once we are able to get a clear picture of how the SpaceJet's development will go and firmly indicate our growth scenario.

To contribute to the creation of an ever better society, going forward MHI Group will develop diverse



businesses as we strive for our own corporate growth. Even amid adversity such as the COVID-19 pandemic, we will continue our quest to support society and the economy through provision of solutions. We will also do everything possible to achieve recovery in our business earnings, including formulation of solid growth and financial strategies in our new Medium-Term Business Plan scheduled for release in the second half of 2020. As we make every effort to return to an expanding dividend payout ratio, we ask for your sustained support through the years ahead.

Strengthening Our Technological Infrastructure

Our knowledge of the full potential of machinery uniquely positions us to contribute to solutions for social issues

Eisaku Ito

Executive Vice President,
CTO Senior General Manager of
Technology Strategy Office



Forecasting the Future and Achieving Innovation

MHI Group has contributed to the progress of society by providing various mechanical systems. At the same time, as illustrated by SDGs, social issues and human values are diversifying and technological innovation is accelerating, all of which requires a shift in business.

Making this shift in business will require a new trial and error “exploratory process” that takes a bird’s-eye view of the future, and formulates hypotheses for innovation in business and technology. We will undertake the challenge of innovating our business and technology from a medium- to long-term perspective without being bound by the constraints of current business. These activities constitute MHI FUTURE STREAM (MFS) and are led by our Shared Technology Framework*1.

We will share the business ideas we obtain with the Growth Promotion Office and organically connect them to our existing business foundation and organizational culture as a companywide growth strategy. This includes business ideas that require new organizations.

MFS consists of three activities. The first of these is “Mega Scan,” which explores business opportunities for MHI Group based on social mapping far into the future. We are analyzing more than 100 mega-

trends in technology, politics, society and economics. Next, with “Shift the Path,” we are considering measures for medium- to long-term conversion of businesses, and to accomplish this goal, we are using “Technology Scouting” to seek and co-create necessary technologies.

For example, we expect the values of our customers and investors to change and decarbonization to accelerate. In response, we will work to achieve carbon recycling by engaging in conversion to low-carbon in our existing businesses, creating carbon-free new businesses—as well as hydrogen power and stored energy—and achieve those goals from a variety of perspectives.

In addition, with the evolution of machinery systems, we are focusing on electrification and intelligent systems. MHI Group has many of the world’s leading hardware and control technologies. By incorporating more electrification and intelligent systems into these technologies, we can create new value.

First, in electrification, we are developing products in anticipation of future power semiconductors. Power semiconductors are devices that alter electrical frequency, and the latest models have higher output density. Furthermore, converting conventional motorized machinery to electric drive delivers a variety of

advantages, such as better efficiency, size and weight reduction, as well as easier automated control.

In intelligent systems, for many years now, MHI Group has been commercializing technologies that make use of deep learning and other forms of AI and has been applying them to uses such as autonomous driving. By combining these efforts with recent advances in digital, communication and control technologies, we can achieve optimal operation by linking multiple machines as if they were one.

For example, in the growth fields of thermal and logistics, we are working on intelligence, automation and a significant improvement in performance. We are also working to expand services by improving inspection technology using AI.

With markets and technologies changing at an unprecedented speed and scale, it is essential to incorporate external knowledge and create innovation. We are carrying out initiatives for the co-creation of innovation by collaborating with nearly 200 universities and companies and flexibly combining innovative technologies and business ideas.

*1 The Shared Technology Framework encompasses the Technology Strategy Office, Research & Innovation Center, ICT Solution Headquarters and Value Chain Headquarters.

New Initiatives to Achieve Innovation

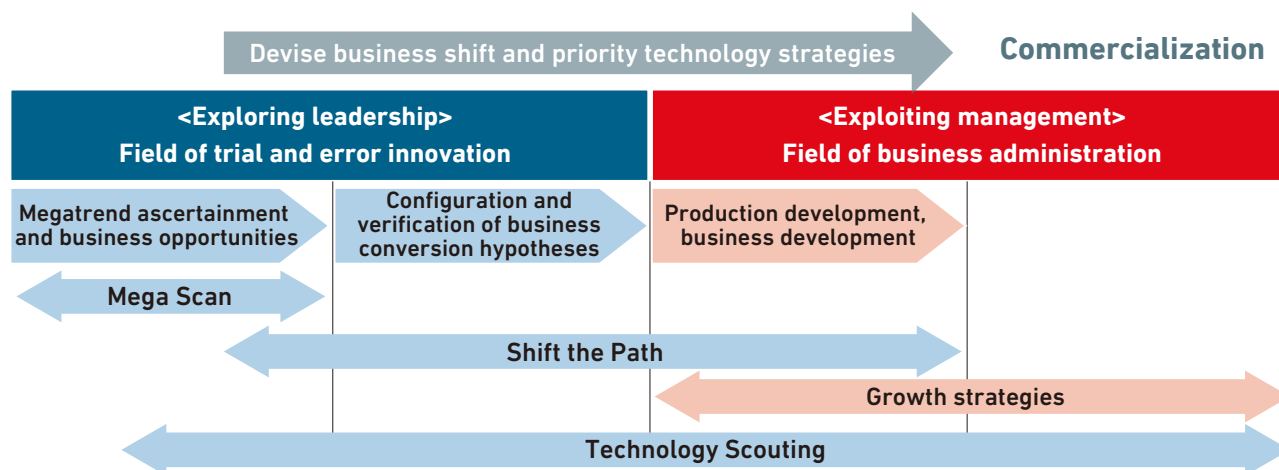
Here we would like to present three examples of new initiatives to achieve innovation through our MFS efforts.

The first of these is the MHI Innovation Accelerator, which we established in 2018. This organization works to discover new knowledge from the most advanced technologies and research fields and carry out research and development of technologies that rewrite conventional wisdom on products and business. The organization conducts R&D on ambitious innovative technologies that, if achieved, will have a great impact on society and industry. Many themes start with essential verification of the basic principles, but we are steadily improving our technical readiness. The number of themes is also increasing, and with young in-house researchers on board from the initial stage, we will accelerate future commercialization.

Furthermore, in 2020, we will establish "co-creation centers" to achieve the new ideas of venture businesses. These centers are equipped with laboratories and infrastructure for trial and error of prototypes and actual implementation and are operated with a focus on hard technologies. Several venture companies have already commenced activities, and we will accelerate commercialization by adding MHI Group technologies, equipment and human resources.

► Deployment of Growth Strategy from MHI FUTURE STREAM

(Blue: Led by the Shared Technology Framework, Red: Led by our Business Divisions)



Strengthening Our Technological Infrastructure

These centers also enable MHI Group employees to become creative, active innovators.

Another example is the acceleration of R&D and the expansion of scope in the Shared Technology Framework. We have introduced a new scheme, focused on our Research & Innovation Center, for researchers to freely come up with and verify hypotheses. This is conditioned on being able to write down ideas and business scenarios that contribute to society in their own words and being able to subdivide issues and break them down into elemental technologies. In the first few months, we received more than 100 proposals. They made up a mixed bag of ideas ranging from those at the embryonic stage to those that were quite well developed. Throughout this process, we say, "It is alright to fail." Even failed ideas help accumulate excellent data on hypothesis testing. We could see people take their own original ideas to the aforementioned "co-creation centers" and come into their own as entrepreneurs.

Moreover, new business and product ideas that are close to commercialization are also emerging from MFS. Often, there is a need for Group-spanning projects facilitated through the collaboration of multiple SBUs*², and we therefore operate a scheme to have SBU designers and Shared Technology Framework researchers handle development jointly.

*2 SBU: Strategic Business Unit

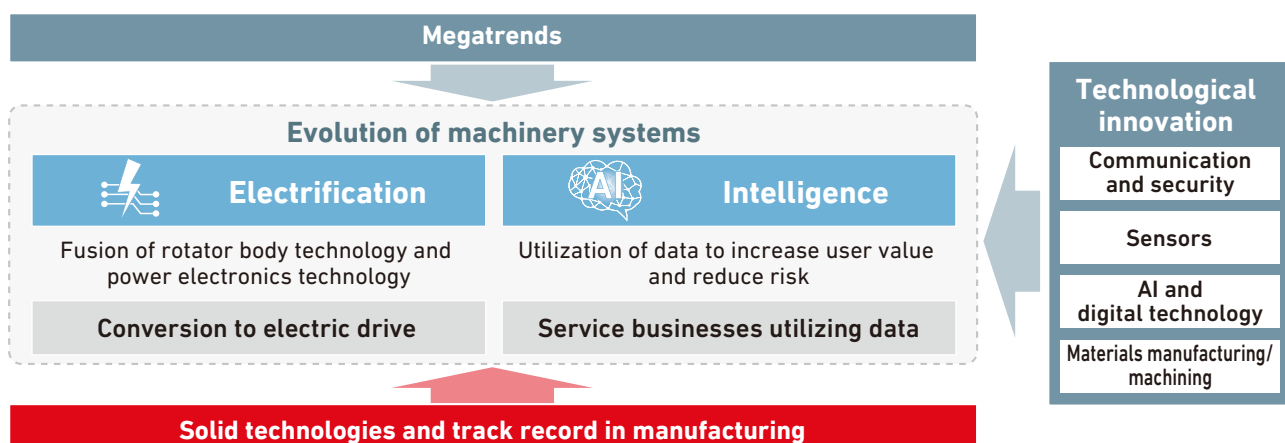
Adding a New Form to MHI Group

Operating complex and high-performance machines with high precision, while also providing reliability: That is the strength of MHI Group. We will evolve by adding electrification and intelligent systems, and that is the direction we will take in the months and years ahead.

The name MHI tends to be associated with the manufacture of rockets and other large finished products, but going forward, we will increase opportunities to "make strong components (parts) and put them into more widespread use." While focusing on machinery that utilizes complex technologies, we will also provide new types of components incorporating electric and automated features. We will continue to create innovative components that are useful to society.

For example, in automotive thermal systems, by combining a motor into a conventional system for engine vehicles, we developed an electrical version for EV vehicles in an extremely short period of time.

In addition, high-performance power components are essential for the air taxis that are being developed around the world. Leveraging the top-class expertise in rotors that we have accumulated in turbines and related technology, we will build components that integrate fans with motors, and sell them to numerous air taxi manufacturers around the world, where they will be in widespread use. This



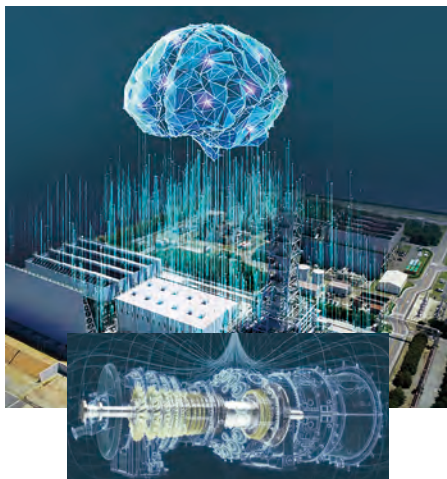
is a field where we can demonstrate our strengths since it requires the combination of difficult technological developments.

Control technology that soundly and efficiently operates complex machinery and plants is our important core competence. Above all, we lead the world in mission-critical control technologies such as social infrastructure and power plants.

In the field of intelligent systems, by attaching more sensors to equipment for monitoring, we carry out optimized operation of multiple systems. Our in-house power plants have already demonstrated technology that uses real-time data to determine optimal operation via edge computing and wireless networks. To analyze and utilize data, we are constantly improving various simulation technologies and AI technology platforms. By making full use of these technologies and platforms, we identify the signs of worn out parts that even seasoned experts may not notice and recommend their replacement. We will also increase remote control and autonomous driving.



Air taxis



Intelligent plants

We Will Continue to Provide Products and Services to Satisfy the Needs of our Customers

Some people wonder whether MHI Group has any more room left to grow, but I am convinced that we are precisely the kind of company that has the potential for future growth.

For example, electrification leads to smaller machinery that operates at higher RPMs, which presents various concerns, such as how to cool the heat generated and whether the machines are structurally sound. It also increases the need to accurately predict the timing of repair and replacement. However, when it comes to identifying the location and cause of a problem and determining the timing of repair or replacement, it is not enough to simply analyze operating data with AI. Only a company that has a deep understanding of the machine itself, has advanced design, development and manufacturing technologies, and is aware of boundaries such as operating limits and machinery lifespan can respond appropriately. Ultimately, that is where success or failure will be determined.

When it comes to advancing intelligent systems, one of the strengths of MHI Group, which is engaged in a wide range of applications for everything from defense to factories to air conditioners, is the ability to set appropriate security levels for the application in question. Diversity of technologies and breadth of practical experience are the pride of our Shared Technology Framework. This is unique to MHI Group, with our range of more than 500 products.

In the field of production, we are also working on work navigation systems and production scheduling technologies using AI technology. Basic technologies such as these can be used to transform business.

The credo of our Shared Technology Framework is to not be afraid to fail and to be faster than venture companies. By executing our MHI FUTURE STREAM, we will continue to evolve as a manufacturer of mechanical systems offering innovation to society.

Human Resources Development and Diversity Management



In order to accelerate globalization and to adapt to changing business models, it is crucial that we provide an environment that empowers diverse human resources to take active roles.

Junichiro Kakihara

Senior Vice President,
in charge of HR

Nurturing Global and Regional Talent for Management Positions

The HR department diligently pursues to sustainably nurture global and regional talent for management positions at every level. The HR department offers a broad range of initiatives, thereby driving talent to meet the sustainable growth of MHI Group.

As part of our efforts to secure talent for global management, we will facilitate training programs for executive candidates in order to promote them to executive and executive positions. At the same time, by adhering to the element of diversity when appointing executives, we will realize a flexible and diverse global management structure that will contribute to the growth of MHI Group.

We are also promoting various efforts to secure regional talent for management positions. The Regional HR Development program targets outstanding middle managers recommended from Japan, United States, Europe, and Asia. In addition to acquiring management literacy, this program helps us revitalize MHI Group employees in each region and foster a sense of unity through inter-regional employee exchanges.

Regional Management Human Resource Development Program that took place in Sydney, Australia



Orientation



Group discussion

Furthermore, the regional HR departments of Europe and United States address global and regional recruiting needs by embedding the recruitment process in intelligent cloud-based talent acquisition platforms. In Asia the regional HR department creates educational and learning programs that are relevant to regional needs and development of employees.

Through these measures, we aim to nurture talent based on local and regional needs and promote the utilization of a wider variety of human resources than in the past, thus leading to “Strengthening Global Management Structure.”

Work Style Innovation

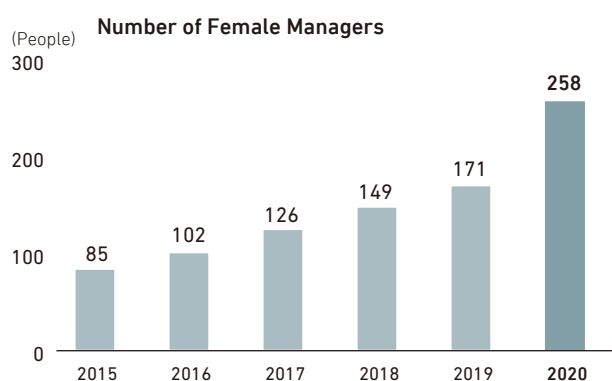
In order to promote diversity, MHI Group has enabled flexible working styles. By introducing a revised system of lesser working hours due to childcare and nursing care as well as work-from-home programs. According to the Work Style Innovation Act issued in April 2019, attention is on working styles while demands for more flexible working styles continue to increase. Thanks to the development of technology and use of ICT, flexible working environment is possible without constraints on time or location. Recognizing that MHI Group has a global presence with a diverse workforce, it has responded to the growing need of flexible working style. In August 2019 MHI Group revised the work style system as follows:

- Elimination of core time for workers using flexitime
- Increase in the number of employees eligible for teleworking

We will continue to put in place an environment where diverse people can work effectively with a sense of autonomy and can leverage their abilities.

Promote the Active Role of Female Employees

In order to foster a corporate culture where female employees play an active role, MHI Group has expanded programs that exceed those mandated by law. For instance, childcare leave and work, fertility treatment (planning to have a child) leave, re-employment after career break, and various other support grants. Additionally, since 2014 we have been introducing new initiatives to improve female employees participation and career growth under the four themes of “increasing the number of female employees recruited in MHI Group,” “supporting female employees career during childcare and nursing care,” “development of female employees who are in managerial positions,” and “nurturing of an open and diverse corporate culture.” We have been working to develop a system and environment under the four themes to support flexible working styles to return to work from childbirth and child care. As a result, we were able to achieve the target set in fiscal 2014 for “By 2020, increase the number of female managers (Positions equivalent to or higher than section managers) to three times the current level.”



*Employees in positions of section manager or higher as of April 1 of each year. In principal, figures are for MHI and Mitsubishi Hitachi Power Systems, Ltd. (Company name was changed to Mitsubishi Power, Ltd. in September 2020)

Human Resources Development and Diversity Management

In April 2019, MHI Group appointed its first female executive officer. In doing so, endorsed the “Association of Male Leaders to Accelerate the Active Role of Shining Women,” Declaration on Conduct, issued by the Gender Equality Bureau Cabinet Office.

Based on the Act on Promotion of Women’s Participation and Advancement in the Workplace, companies that meet the standards for making exceptional contributions to the promotion of active roles for female employees are awarded the Minister of Health, Labor and Welfare’s “Eruboshi” certification. In July 2020, MHI received “Three Stars,” the highest “Eruboshi” rank, in all five evaluation categories: recruitment, continued employment, working hours, proportion of women in management positions, and diversity of career courses.

Going forward, we will take further steps to enhance and promote female employees participation and advancement in the workplace as the current pillar of our diversity management strategy, aiming toward sustained growth as a global company.



Female Employees playing active roles!

Supporting Career Development of Female Employees

MHI Group develops and nurtures the career of female employees through senior colleagues that are females. For example, through roundtable discussions and lectures in various communities, we provide direct opportunities for female employees to express their opinion in an environment of respect and trust. We duly consider these opinions to identify barriers to career development and work to improve situations.

Workplace environment for the promotion of female employees is gradually improving, but there are yet various challenges to overcome.

We work to resolve these challenges one by one and we continue to take actions to support the career development of our female employees.

Employment of Persons with Disabilities

We aim to provide an inclusive workplace environment where differently abled persons can play active roles without anxiety. We have employed persons at various workplaces all over our group, and continue working to expand occupational fields such as document management and improvement of workplace environment.

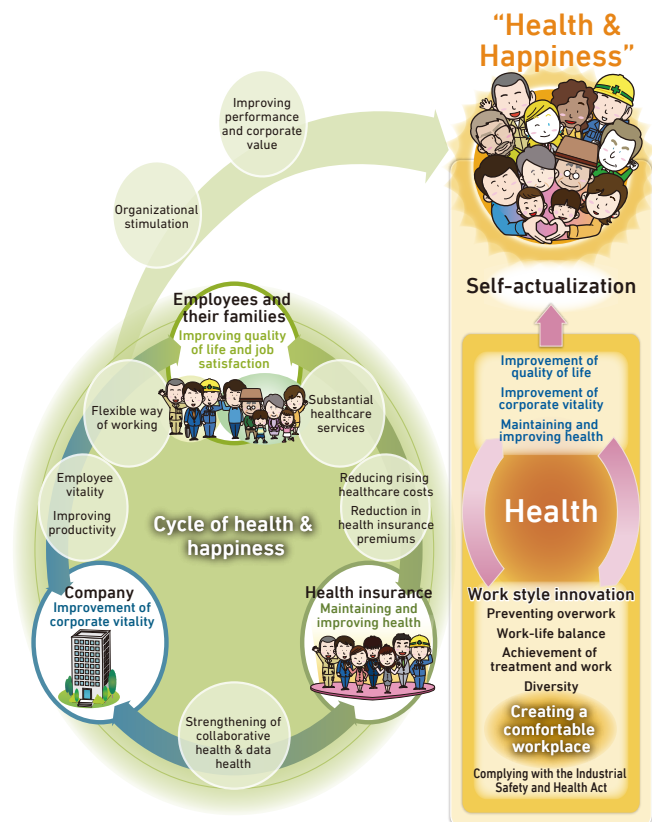
Health and Safety

MHI Group embraces a basic policy for employee health and safety, which is founded on the following three commitments: (1) Safety is our number one priority. We will do everything possible to protect lives; (2) We devote every effort to safety by creating outstanding products that contribute to the development of society; and (3) Our physical and mental well-being is fundamental to everything we do at MHI Group. We must continue to elevate and embrace a culture of health and safety across our workplaces. Under this policy, we operate an occupational health and safety management system to create a safe and pleasant workplace. As part of our efforts related to occupational health and safety, the Central Production Committee, chaired by the Senior Vice President in charge of HR performs regular consultations and follow-up on progress regarding health and safety management plans. Every month, the health and safety committee at each work location, comprising of the Health and Safety General Manager, employees, and the labor unions, meet with the health and safety committees in each division. In addition, we consult with labor unions on a regular basis.

MHI Group also promotes health management, which oversees that employees have a sense of job

satisfaction and that they are mentally and physically healthy. Based on the “Health Management Declaration” issued by the President, the Group implements an “MHI Group Health Management Model,” which seeks to raise health literacy, including measures to prevent lifestyle diseases, measures to prevent second-hand smoking, and measures for mental health. We are also taking further efforts by formulating our “Fiscal Year 2020 MHI Group Action 5 Health and Happiness!!” health management plan, which contains specific actions to set three-year objectives for criteria including metabolic syndrome ratios, second-hand smoking ratios, and regular health checkup ratios.

► MHI Group Health Management Model



Message from the Chairman

The goal of our Board of Directors is to engage our corporate officers to grow corporate value and achieve sustainable growth.

In recent years, the role expected from the Board of Directors has changed and expanded. In the past, the Board's role had been to oversee executive functions from the perspective of pursuing stable profits and maintaining legal compliance. Today, the Board is also expected to take steps to improve the Company's overall corporate value and strengthen its sustainability in a broader way through candid discussion with corporate officers. To achieve this objective, the Board has had to 1) enhance the diversity of its members' experience and insights, 2) engage in regular, mutually stimulating dialogue with corporate officers, and 3) confirm that the Company's activities are aligned with the demands of all stakeholders, while promoting even greater transparency and accountability around our business activities.

With these changes front of mind, MHI Group has fundamentally reformed its business structure and corporate governance, effecting changes to its organization and business systems, including to its Board of Directors. This year we welcomed Ms. Noriko Morikawa as a new outside director. She adds depth and diversity to the experience of our Board members and further enhances the soundness and transparency of management decision-making. Under the business structure reforms implemented across four business plans since our 2010 Medium-Term Business Plan, MHI Group has transitioned to a business portfolio management based on a strategic business evaluation system, and has concentrated on the core competencies of our businesses. We have also built organizational strength to pursue growth by shifting to a cash flow management approach and bolstering our financial foundation. In addition, the Company has signifi-

cantly strengthened its response to and management of emerging risks, successfully exiting from a period of stagnation caused by internal and external factors.

However, change never stops and we have been in the midst of new shifts in our business landscape and the world as a whole, as demonstrated by the increasing global demands for a transition to a decarbonized, net-zero emission society, digital transformation, as well as the reality of global pandemics. Above all, the onward march of digitalization is certain to bring about huge changes in the shape and value of our existing businesses. We will upgrade and fortify these existing businesses by incorporating changes into our manufacturing processes in a way that blends MHI's long-standing edge in quality control with advances in artificial intelligence and related technologies. But we also need to work collaboratively with companies outside our Group to bolster our businesses, realign our organizations and frameworks, and promote more imaginative idea generation and new endeavors.

By addressing these issues, the Board of Directors will work to improve the Company's enterprise value and strengthen sustainability through active engagement based on diverse viewpoints and experiences with our corporate officers, and in so doing will fulfill our role to propel MHI Group toward a path for future growth.

Shunichi Miyanaga
Chairman of the Board

Introducing Members of the Board

As of July 1, 2020



Shunichi Miyanaga

Chairman of the Board

Having been involved in operations of Machinery & Steel Structures, Mr. Miyanaga served as President and CEO from April 2013 to March 2019, and promoted management reforms including the shift to a domain business structure and led the expansion in the scope of MHI's business. From April 2019, he has been serving as a Chairman of the Board and conducting MHI's management oversight and invigorating activity at the Board of Directors.



Seiji Izumisawa

President and CEO*¹

Mr. Izumisawa has engaged in research and development, technology management and operations related to strategic technology development, and has made significant contributions to strengthening and developing MHI's technology infrastructure. From June 2017 to June 2018, he filled the role of Director who is serving as an Audit and Supervisory Committee Member. Since April 2019 he has served as President and CEO (Member of the Board), in which roles he has drawn up and promoted strategy for MHI as a whole, and driven the development of a global structure. He participates in MHI's management decision-making, providing management direction.



Masahiko Mishima

Director
Executive Vice President, GC*²

Mr. Mishima has been involved in Machinery & Steel Structures and business risk management, and has made a contribution to reducing MHI's business risk as a whole and dealing with major projects, etc. He has been serving as GC since October 2018, promoting operations such as risk management, legal & general affairs, and management audits in response to MHI's business environment, etc. He participates in MHI's management decision-making as a person with expertise in the governance of MHI.



Hisato Kozawa

Director
Senior Vice President, CFO*³

Mr. Kozawa has been engaged for many years in the financial and accounting operations of MHI, and having served as general manager of finance and accounting departments at a major subsidiary. He served as CoCFO from October 2019, and has been serving as CFO from April 2020, and promoting financing activities that respond to economic conditions and the business environment. He participates in MHI's management decision-making as a person with expertise in the finances of MHI.

(Appointed to the Board on June 26, 2020)

*1 CEO: Chief Executive Officer *2 GC: General Counsel *3 CFO: Chief Financial Officer

Introducing Members of the Board



Naoyuki Shinohara

Director

Mr. Shinohara has a wide range of insights related to financial policy gained as a regulator and a global perspective gained as an international institution executive when he served as Vice Minister of Finance for International Affairs and Deputy Managing Director of the International Monetary Fund (IMF). He contributes to the improvement of the soundness and transparency of MHI's management decision-making through providing insightful views and frank assessments to MHI's management as an outside director.



Ken Kobayashi

Director
(Chairman of the Board,
Mitsubishi Corporation)

Mr. Kobayashi has extensive knowledge and experience as a top executive who can perform well in global markets and because of his expertise in various fields, having served as a Member of the Board, President and CEO, and Chairman of the Board of Mitsubishi Corporation. He contributes to the improvement of the soundness and transparency of MHI's management decision-making through providing insightful views and frank assessments to MHI's management as an outside director.



Noriko Morikawa

Director

Ms. Morikawa has experience in internal audit and accounting operations at foreign companies operating in Japan, in addition to which she possesses extensive knowledge and experience in global companies related to business management and organizational operation, such as overseeing administration departments in the role of manager. She contributes to the improvement of the soundness and transparency of MHI's management decision-making through providing insightful views and frank assessments to MHI's management as an outside director.

(Appointed to the Board on June 26, 2020)

**Toshifumi Goto**

Director
Full-time Audit and Supervisory
Committee Member

Mr. Goto has been involved in human resources, planning, and general affairs departments, and has contributed to the strengthening of MHI's corporate governance system. Mr. Goto has been a Director serving as an Audit and Supervisory Committee Member since June 2017. He participates in MHI's management decision-making from the perspective of Full-time Audit and Supervisory Committee Member and contributes to ensuring effective audits and ensuring soundness and appropriateness and improving transparency of its management decision-making.

**Koji Okura**

Director
Full-time Audit and Supervisory
Committee Member

Mr. Okura has long experience in finance and accounting divisions at MHI, and has served in various important positions in administrative division and business division, and serving as the president of a major subsidiary. Mr. Okura has been a Director serving as an Audit and Supervisory Committee Member since June 2020. He participates in MHI's management decision-making from the perspective of Full-time Audit and Supervisory Committee Member and contributes to ensuring effective audits and ensuring soundness and appropriateness and improving transparency of its management decision-making.

(Appointed to the Board on June 26, 2020)

**Christina Ahmadjian**

Director
Audit and Supervisory Committee
Member
(Professor, Hitotsubashi University,
Graduate School of Business
Administration)

Ms. Ahmadjian has wide-ranging insight and global perspectives gathered as a scholar of corporate governance and corporate management. She contributes to the improvement of the soundness and transparency of MHI's management decision-making through providing insightful views and frank assessments to MHI's management as an outside director and Audit and Supervisory Committee member.

Introducing Members of the Board



Hiroo Unoura

Director
Audit and Supervisory Committee
Member
(Executive Advisor, Nippon Tele-
graph and Telephone Corporation)

Mr. Unoura has extensive knowledge and experience as a top executive active in cutting-edge fields, having served as President of Nippon Telegraph and Telephone Corporation and worked to strengthen domestic business competitiveness and earning power as well as expand international business. He contributes to the improvement of the soundness and transparency of MHI's management decision-making through providing insightful views and frank assessments to MHI's management as an outside director and Audit and Supervisory Committee member.



Nobuyuki Hirano

Director
Audit and Supervisory Committee
Member
(Member of the Board of Directors,
Chairman (Corporate Executive),
Mitsubishi UFJ Financial Group, Inc.)

Mr. Hirano has extensive knowledge and experience as an executive at an international financial institution, having served as President of Mitsubishi UFJ Financial Group and President and Chairman of MUFG Bank. He contributes to the improvement of the soundness and transparency of MHI's management decision-making through providing insightful views and frank assessments to MHI's management as an outside director and Audit and Supervisory Committee member.



Corporate Governance

Basic Approach to Corporate Governance

As a company responsible for developing the infrastructure that forms the foundation of society, MHI's basic policy is to execute management in consideration of all stakeholders and strive to enhance corporate governance on an ongoing basis in pursuit of sustained growth of MHI Group and improvement of its corporate value in the medium and long terms. In accordance with this basic policy, MHI endeavors to improve its management system, such as by enhancing its management oversight function through the separation of management oversight and execution

and the inclusion of outside directors. MHI is also working to develop transparent, "Japanese-style global management" that focuses on diversity and harmony to ensure that it can continue to realize stable growth over the medium to long term. MHI has also established our basic framework for and approach to corporate governance in our "Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.," which is posted on our official website.

► https://www.mhi.com/finance/management/governance/pdf/corporate_governance.pdf

► Recent Corporate Governance Reforms

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Corporate governance										<ul style="list-style-type: none"> Introduced the Chief Officer System 	<ul style="list-style-type: none"> Transitioned to a Company with an Audit and Supervisory Committee 				<ul style="list-style-type: none"> Turned the Nomination and Remuneration Meeting into an advisory body for the Board of Directors 	
Directors										<ul style="list-style-type: none"> Reduced the number of directors from 19 to 12 						<ul style="list-style-type: none"> Abolished the Advisors System (includes transitional measures to be completed by the end of the 2021 Medium-Term Business Plan)
Remuneration of directors																
Engagement																

Corporate Governance

Corporate Governance Framework

MHI has adopted the form of a Company with an Audit and Supervisory Committee as its corporate structure under the Companies Act. Our corporate governance structure is as follows.

1 Directors (Board of Directors)

MHI's Board of Directors consists of 12 directors (of whom five are serving as Audit and Supervisory Committee Members), and six directors (of whom three are serving as Audit and Supervisory Committee Members) are outside directors. By obtaining beneficial views and frank assessments from outside directors to MHI's management from a standpoint neutral to operational divisions, MHI is enhancing its management oversight function and ensuring that the oversight function by outside directors is more effective. Accordingly, MHI ensures that the number of outside directors who meet MHI's independence criteria*¹ constitutes one-third or more of all members of the Board of Directors. The Board of Directors comprises members with a variety of backgrounds, ensuring a balanced structure with which to supervise people handling business execution (we refer you to "Balance of Skills in the Board of Directors" on the following page).

Moreover, in accordance with MHI's Articles of Incorporation and a resolution by the Board of Directors, MHI delegates decisions on execution of important operations to the President (CEO), excluding matters designated by laws and ordinances as matters to be decided exclusively by the Board of Directors, business plans, and the appointment, dismissal, and remuneration of directors, chief officers, and administrative executive officers, as well as other important individual business plans and investments, etc. This approach facilitates timely decision-making and flexible business execution while also enabling the Board of Directors to focus on the oversight of those in charge of business execution.

*1: Listed in "Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd."

2 Audit and Supervisory Committee

To secure the soundness and appropriateness of MHI's management decision-making and improve transparency, MHI's Audit and Supervisory Committee conducts a range of activities as listed in the "Status of Audit and Supervisory Committee Activities" section below. The Audit and Supervisory Committee monitors the execution of duties of directors and prepares Audit Reports. It also has authorizations provided for by laws and ordinances and Articles of Incorporation, including determining the details of agenda items presented to the General Shareholders Meeting related to the appointment, dismissal, or non-reappointment of accounting auditors, and the statement of opinions related to the appointment or dismissal of Directors who are not Audit and Supervisory Committee Members.

3 Chief Officers and Standing Executives in Charge of Operations

MHI has introduced a chief officer system. Specifically, portions of the President (CEO*²)'s responsibilities and authority are delegated a number of chief officers reporting to President. These chief officers consist of domain CEOs (the heads of individual business domains) as well as the CSO*³, CFO*⁴, and CTO*⁵. The CEO takes charge of overall business operations, and the domain CEOs take control of executing businesses within their individual domains based on overall Group strategies. The CSO is in charge of the planning of all business strategies and the CFO takes charge of finance, accounting, and management planning. The CTO is in charge of the supervision and execution of overall operations related to technology strategies, research and development of products and new technologies, ICT, value chain, marketing, innovation, and engineering in general. In addition, the CSO, CFO, and CTO have Companywide authority to give instructions and commands and provide support to business

domains. The GC*6 and standing executive in charge of HR*7 assist the CEO with his duties by supervising and executing activities in line with the CEO's mission. The GC takes overall control of management audits, general administration, and legal affairs. The standing executive in charge of HR takes overall responsibility for human resources and labor relations. Within the business execution framework consisting of the President (CEO) and primarily these chief officers, there is an Executive Committee chaired by President Seiji Izumisawa (and consisting of executive officers, including the President, chief officers, and standing executives in charge of operations). This deliberative body uses a council system to deliberate on vital items pertaining to execution of duties, thereby enabling appropriate management decision-making and execution of duties.

*2 Chief Executive Officer
 *3 Chief Strategy Officer
 *4 Chief Financial Officer
 *5 Chief Technology Officer
 *6 General Counsel
 *7 Human Resources

4 Nomination and Remuneration Meeting

In January 2016, MHI established the Nomination and Remuneration Meeting. The profile of this institution and its record of meetings are indicated in the table below.

Positioning	Advisory institution*8 to the Board of Directors
Objectives	Obtain the opinions and advice of outside directors and further enhancing transparency and fairness prior to deliberations by the Board of Directors on matters relating to the nomination of candidates for directors, the dismissal of directors, and the appointment and dismissal of other executives and officers, and matters relating to the remuneration of directors (excluding directors who are serving as Audit and Supervisory Committee members).
Participants	Chairman, President and all outside directors
Number of meetings held	Held six times in FY2019

*8 In April 2019, MHI converted the Nomination and Remuneration Meeting into an advisory body to the Board of Directors and added the Chairman of the Board to its participants

► Balance of skills in the Board of Directors



Corporate Governance

Board of Directors' Main Deliberation Items

The main items deliberated by the Board of Directors in fiscal 2019 are presented in the table below.

Main Deliberation Items

Shareholders Meeting	<ul style="list-style-type: none"> Resolution on matters for calling Annual General Meeting of Shareholders
Items related to financial results	<ul style="list-style-type: none"> Financial results Shareholder return policy
Items related to Executive and Board Member	<ul style="list-style-type: none"> Board Evaluation, remuneration of Directors, and executive appointments (including chief officers)
Management plan	<ul style="list-style-type: none"> Status of progress on business plans
Internal controls	<ul style="list-style-type: none"> Status of internal control systems operation
Resolutions on and status of execution of important operations	<ul style="list-style-type: none"> Status of business in individual domains and segments Status of execution of operations by individual chief officers Future direction of commercial aircraft business Acquisition of CRJ program Concluding a settlement agreement pertaining to South Africa project
Other	<ul style="list-style-type: none"> Study of the appropriateness of strategic shareholding Results of periodic employee engagement surveys

In addition to the above, the agenda items for the Board of Directors meetings are explained in advance to outside directors for the purpose of free and vigorous discussion and exchange of opinions at the meetings. In addition, as described in the "Board Evaluation Results and Future Initiatives," in fiscal 2019 MHI group addressed issues identified in the Board Evaluation Results, including explaining its growth strategy to outside directors and setting out a discussion forum with management.

Board Evaluation Results and Future Initiatives

MHI has introduced an annual evaluation of the Board of Directors (hereinafter referred to the "Board Evaluation") aiming at ensuring further effectiveness of the Board of Directors by verifying its functional efficiency as an entity and being fully accountable for stakeholders, by conducting holistic analysis and evaluation of the Board. In the process of, and as a result of, our fiscal 2019 Board evaluation, the status of activity concerning the issues recognized in the Board evaluation conducted in the previous year (fiscal 2018), as well as major issues recognized this time, and future responses are as presented in the table below.

Process and Results of FY2019 Board Evaluation

Process	<p>Continuing on from fiscal 2018, the Board of Directors conducted an evaluation process based on the following 4 points: "Composition of the Board of Directors" "Operation of the Board of Directors" "Supervisory function of the Board of Directors" and "Structure to support outside directors."</p> <ol style="list-style-type: none"> 1. Self-Evaluation based on questionnaire survey of all directors including outside directors. 2. Discussing results of the self-evaluation at the Board of Directors meeting. 3 The results of the Board Evaluation has been resolved by the Board of Directors based on the above self-evaluation and discussions.
Results	<p>The overall effectiveness of the Board of Directors in 2019 has been ensured with no major concerns.</p>

Initiatives to Address Issues Recognized in the Previous Year (fiscal 2018)

1. We explained MHI growth strategies (evolution in machinery systems, the "Shift the Path" program for our existing businesses, etc.) to our outside directors, and set up a discussion forum with management.
2. Each domain continued to implement business status reporting for the Board of Directors, and materials of the Board of Directors were designed to have a well-defined content with a focus on longer-term scenarios and specific product businesses, as well as supplement that content through meetings between outside directors and individual domains, thereby expanding opportunities for outside directors to gather information.
3. In addition to continuing to provide prior explanations to outside directors, we prepared and explained materials that clarify the key points of deliberations, thereby enhancing deliberations at the Board of Directors.

Issues Recognized This Time and Future Initiatives

1. Discussion of companywide growth strategies

Amid a rapidly changing business environment, we will provide opportunities for regular discussions on MHI group's overall medium- to long-term growth and business strategies, focusing on the development of new businesses through decarbonization, electrification, and intellectualization, as well as the growth strategies of existing businesses.

2. Discussion that takes Company stakeholders into consideration

In order to incorporate opinions of various stakeholders into management improvement, we will report to the Board of Directors topics including how financial markets view MHI's management, MHI's ESG and SDG initiatives and external evaluation on them, and provide opportunities for discussion on the direction of future action.

3. Discussion related to key risks and management processes

In light of strengthened disclosure of risk information, we will report on and provide opportunities for discussion on companywide risk management processes, and selected and specified important risks.

Status of Audit and Supervisory Committee Activities

The Audit and Supervisory Committee comprises five directors, the majority of whom (three) are outside directors. In order to ensure the effectiveness of the activities of the Audit and Supervisory Committee, our company stipulates in its Articles of Incorporation that full-time Audit and Supervisory Committee Members shall be appointed, and in accordance with said provisions, two full-time Audit and Supervisory Committee Members have been appointed from among the Audit and Supervisory Committee Members. One of these full-time members has extensive work experience in accounting and financial divisions, giving him a considerable amount of insight on financial and accounting affairs.

Auditing by the Audit and Supervisory Committee is conducted in accordance with the auditing standards laid down by the Committee and its audit and supervisory action plan.

Moreover, in order to support the duties of the Audit and Supervisory Committee, the Audit and Supervisory Committee's Office has been set up with its own dedicated staff of six to facilitate the work carried out by the Audit and Supervisory Committee. The Audit and Supervisory Committee primarily monitors the execution of duties of directors, the appropriateness of business reports, etc., adequacy of audits by the accounting auditor, and the effectiveness of internal control systems. The results of this monitoring and verification are provided to the Company's shareholders via audit reports. In fiscal 2019, the Audit and Supervisory Committee took action on designated "priority points," namely those measures planned in the 2018 Medium-Term Business Plan that are deemed to require the Committee's attention as well as the status of response to individual matters that have substantial impact on management.

Full-time Audit and Supervisory Committee members attend important meetings such as Executive Committee meetings, business plan meetings, and compliance committee meetings, and endeavor to

Corporate Governance

identify and monitor how management is performing in a timely and appropriate matter, as well as conduct audits to ascertain whether the duties of the directors are being executed in compliance with laws and ordinances and the Articles of Incorporation, and whether the corporate operations are being performed properly through inspection regarding, and confirmation of, legal compliance status, and through the monitoring and verification of the preparedness and implementation of the internal control system, including internal controls over financial reporting and other relevant items.

Additionally, through the monitoring and verification of the directors' execution of duties throughout the fiscal year, the Audit and Supervisory Committee forms its audit opinion on the appropriateness of the Accounting Auditor's auditing methods and results pertaining to whether or not the financial statements in a given fiscal year present fairly the financial position and results of the Company.

Furthermore, the Audit and Supervisory Committee periodically exchanges information and opinions with the Management Audit Department and accounting auditors, and takes other such measures to achieve close coordination. Full-time Audit and Supervisory Committee members attending monthly meetings to exchange information with the Management Audit Department, through which they obtain timely confirmation of the status of the formulation and progress of the Department's auditing programs, and receive reports on the results of those audits. The Audit and Supervisory Committee and the accounting auditor regularly exchange opinions on the accounting auditor's auditing plans and results, and full-time Audit and Supervisory Committee members hold monthly meetings to exchange information with the accounting auditor.

In addition, the Audit and Supervisory Committee commented on the appointment and remuneration of directors who are not members of the Audit and Supervisory Committee at the June 26, 2020, Annual General Meeting of Shareholders. The Committee also assessed the accounting auditor KPMG AZUSA LLC on criteria including ensuring a system for the proper

execution of duties, independence, appropriateness of audits, and auditing ability and expertise. Having determined that all requirements were satisfied, the Committee resolved to reappoint KPMG AZUSA LLC as the accounting auditor.

Officers' Remuneration Structure

1 Remuneration of Directors (Excluding Audit and Supervisory Committee Members and Outside Directors)

The remuneration of directors (excluding Audit and Supervisory Committee Members and outside directors) consists of base remuneration, performance-linked remuneration, and stock remuneration from the viewpoint of reflecting business performance and sharing interests with shareholders.

After revising the share remuneration system through a resolution passed at the 94th General Meeting of Shareholders, which was held on June 27, 2019, the standard for the remuneration of the Company's president was set at roughly 30% base remuneration, 40% performance-linked remuneration, and 30% stock remuneration (in the event that profit before income taxes reached ¥200.0 billion; calculated based on the fair value of stock award points granted during fiscal 2018), making for a remuneration structure in which the higher a director's position is, the greater his or her performance-linked remuneration will be. The Company has also established profit before income taxes as the core indicator for determining performance-linked remuneration and stock remuneration in order to reflect the results of the Company's business activities, including financial income and expenses, in these remunerations. (However, there may be partial adjustment in terms of compensation computation based on assessment of the impact of changes in accounting principles).

In fiscal 2019, the Company had a loss before income taxes of ¥32.6 billion, thus missing the target (initial forecast) of a profit of ¥210.0 billion, which was set at the start of fiscal 2019.

However, in calculating performance-linked remuneration for fiscal 2019, depending on the position of each individual director, we made partial corrections for the sake of fair remuneration commensurate with

earnings for the term, such as by excluding the effect on the relevant earnings performance of write-downs on figures recorded for other fiscal years.

Methods for Determining Each Type of Remuneration

(Remuneration of directors who are not Audit and Supervisory Committee members (excluding outside directors))

Base remuneration: Standard amount based on role + Additional amount based on duties

- The standard amount based on role is determined in accordance with a director's role and the details of his or her duties, etc.
- The additional amount based on duties is determined within a range that shall not exceed ¥500,000 a month.

Performance-linked remuneration: Role-based payment coefficient × Profit before income taxes for the given fiscal year ÷ 10,000 × Coefficient of business results

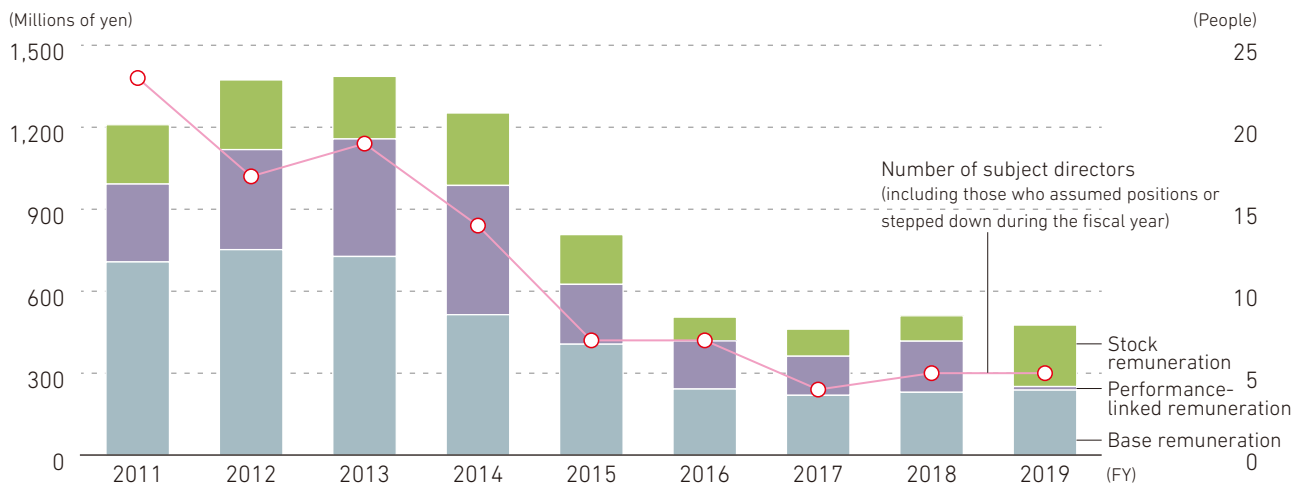
- Performance-linked remuneration is paid when the Company records a profit before income taxes (or after adjustment in the event that partial adjustments are made) and carries out dividend payments.
- The role-based payment coefficient is determined in accordance with a director's role and the details of his or her duties, etc.
- The coefficient of business results evaluates the performance and results of a business of which a director is in charge. It is determined within a range from 1.3 to 0.7.

Stock remuneration: Role-based standard points × Coefficient of business results

- As a general rule, shares and cash are delivered to directors after three years have passed since the granting of stock award points
- Role-based standard points are determined in accordance with a director's role and the details of his or her duties, etc.
- The coefficient of business results is based on profit before income taxes in the previous fiscal year.
- In the event that a director engages in improper conduct, the Company suspends the granting of stock award points and the delivery of shares to said director. There are also cases where the Company asks such a director to submit a payment equivalent to the amount of shares that have been delivered to him or her.

▶ Remuneration of Directors

(Remuneration of directors who are not Audit and Supervisory Committee members (excluding outside directors))



Corporate Governance

2 Outside Directors

The Company expects that the outside directors offer their objective opinions and guidance, primarily on their vision for the Company over the medium to long term, from an independent standpoint. Accordingly, the outside directors are only paid a base remuneration, which is set at an appropriate amount.

3 Directors Who Serve as Audit and Supervisory Committee Members

The amount of remuneration for directors who are serving as Audit and Supervisory Committee Members and the policy for deciding on its calculation method are determined through discussions by those directors.

Directors who serve as Audit and Supervisory Committee members are only paid a base remuneration. The amount for this base remuneration is determined in consideration of each member's roles and responsibilities and based on whether he or she is a full-time or part-time member.

However, the base remuneration for full-time Audit and Supervisory Committee members can be reduced in consideration of the status of the Company's management and other factors.

► Remuneration of Directors (Fiscal 2019)

Position	Monetary remuneration				Stock remuneration		Total amount of remuneration (Millions of yen)
	Base remuneration		Performance-linked remuneration		People	Total amount (Millions of yen)	
	People	Total amount (Millions of yen)	People	Total amount (Millions of yen)	People	Total amount (Millions of yen)	
Directors who are not Audit and Supervisory Committee members	7	268	1	13	4	225	507
(Of which, outside directors)	(2)	(30)	(—)	(—)	(—)	(—)	(30)
Directors who are Audit and Supervisory Committee members	7	197	—	—	—	—	197
(Of which, outside directors)	(5)	(55)	(—)	(—)	(—)	(—)	(55)
Total	14	466	1	13	4	225	705
(Of which, outside directors)	(7)	(85)	(—)	(—)	(—)	(—)	(85)

Notes:

- The recipients include one director who was not an Audit and Supervisory Committee member and two directors who were Audit and Supervisory Committee members who stepped down in fiscal 2019.
- The maximum permitted monetary remuneration amount for directors who are not serving as Audit and Supervisory Committee members is ¥1,200 million per year (resolution of the 90th Ordinary General Meeting of Shareholders on June 26, 2015).
- The total amount of stock remuneration is the amount of expenses recognized for the 519,000 stock award points granted in total during fiscal 2019 (equivalent to 51,900 shares of MHI) concerning the Board Incentive Plan Trust, which is a stock remuneration system that delivers or provides shares of MHI and money in the amount equivalent to the liquidation value of MHI shares based on stock award points granted to directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members) in accordance with, among other factors, the rank of the position of each director and the financial results of MHI. In addition, the maximum permitted amount of stock award points is 1,000,000 points (based on resolution of the 94th Ordinary General Meeting of Shareholders on June 27, 2019) per fiscal year for directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members).
- The maximum permitted monetary remuneration amount is ¥300 million per fiscal year for directors who are serving as Audit and Supervisory Committee members (resolution of the 90th Ordinary General Meeting of Shareholders on June 26, 2015).

Status of Strategic Shareholding

Shareholding Policy

MHI holds shares of other companies only when it recognizes the necessity of holding those for achieving the long-term enhancement of its corporate value. Also, for improving capital efficiency and reducing financial risk arising from share price fluctuations, MHI promotes divesting such shareholdings.

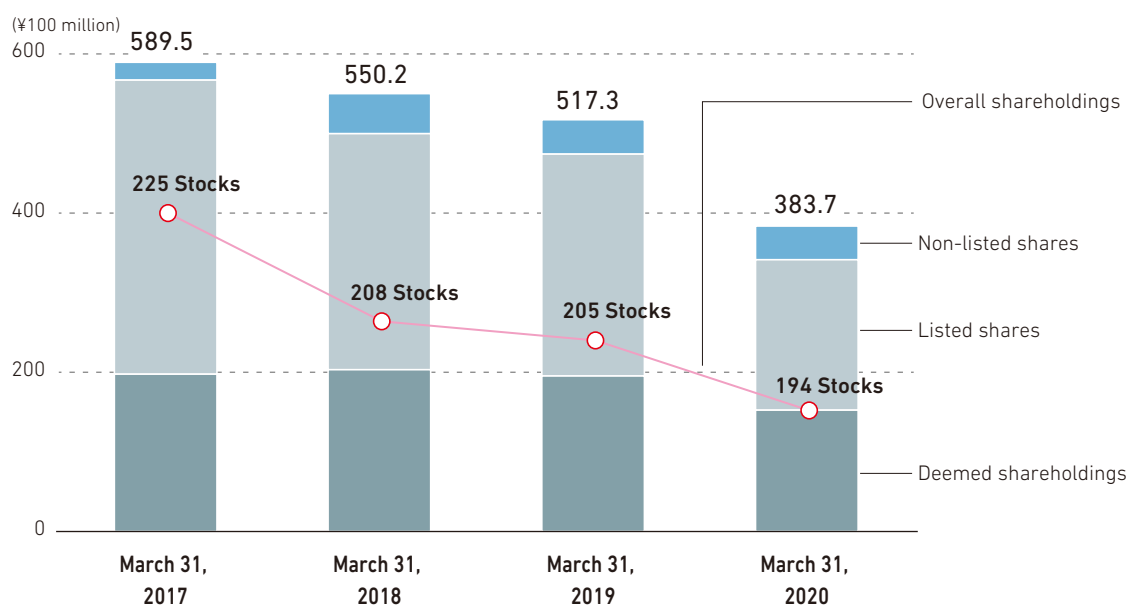
Verification Policy for Holding Individual Stocks

The Board of Directors verifies all the listed shares held by MHI from the perspectives of consistency with its business strategies, contribution to business profits (economic rationale) and strengthening business, etc. The economic rationale is confirmed by whether or not the related earnings from each stock, such as dividends and related business profits on transactions, exceed MHI's capital cost (weighted average cost of capital).

Verification Results at the Board of Directors and MHI's Action

Verification was conducted by the Board of Directors for all listed shares held by MHI at the meeting held in August 2019. As the result of the verification, some stocks were confirmed the decreased importance of the expected purpose. In terms of economic rationale, as a whole, the related earnings outweigh the cost of capital, but around 10% of those stocks deliver lower earnings than the cost of capital. Based on the verification result and dialogues with the companies in which we hold shares, MHI sold 14 individual stocks in FY2019 (12 stocks sold entirely, and 2 stocks sold partially).

► Balance of shareholdings / number of individual stocks



March 31, 2019
205 stocks

All shares sold off
- 12 stocks

Other*
+ 1 stock

= March 31, 2020
194 stocks

* Change in classification from equity method subsidiaries to investment stocks

Operational Risks and MHI's Response to Them

Management acknowledges key risks as described below with the potential to significantly influence our financial position, operating results, and cash flow status of MHI Group. Two key risks that could emerge within the next ten years are: 1) the spread of the novel coronavirus disease (COVID-19), and 2) delayed development of Mitsubishi SpaceJet. Both of these risks have a particularly strong potential to manifest themselves and have a material impact on the Group.

From a medium- to long-term perspective, some of these key risks could bring about further changes to the business environment surrounding the Group as well as to the structure of society. As such, the Group acknowledges the need for foresight and for proactive measures to enable us to adapt to such developments. Items relating to the future are based on the judgment of the Group as of the end of fiscal 2019, the year ended March 31, 2020.

Key risks	Details of key risks	Countermeasures
The Spread of the COVID-19 Pandemic	<ul style="list-style-type: none"> • Delayed progress in project orders leading to delayed recording of sales • Travel restrictions and supply chain disruption • Delays on contract negotiations and the order-taking process • Impact on production and service operations • Reduced or suspended plant operation and other production adjustments • Supply chain disruption 	We have taken action on staffing and other measures to reduce fixed costs, temporarily furloughed parts of our workforce, revised plant operating rates, reduced output, cut down on outflows, revised investment plans, made more effective use of surplus resources, and made use of subsidy programs available in various countries.
Delayed Development of Mitsubishi SpaceJet	<ul style="list-style-type: none"> • Delayed recording of sales • Customer cancellation of contracts • Claims for damages from customers, business partners, or other stakeholders 	We are working to monitor the state of the market ahead and maintain relations with stakeholders. Concurrently, we continue to assess our development schedule, and we are taking steps to keep budgets at appropriate levels.
Disasters	<ul style="list-style-type: none"> • Damage or destruction of production equipment • Supply chain impediment or disruption • Shortages of materials and parts or suspension of services necessary to production • Reduced operation or idling of production plants • Loss of alternative production equipment or suppliers • Damage not covered by insurance • Shrinkage in product and service demand due to events such as acts of terrorism or global pandemics 	We have developed a global group management structure, make use of disaster measure support tools, and establish and maintain communication systems and a business continuity plan. We implement regular plant inspections and training, and take additional measures to gather information on the state of affairs and safety in various countries.

Key risks	Details of key risks	Countermeasures
Changes in the Business Environment	<ul style="list-style-type: none"> The scale of business could shrink and it could become harder to recoup invested capital due to growing environmental consciousness and the resulting decline in product and service demand. Weaker demand for fossil-fuel derived electric power could cause decline in orders for construction work and after sales service. Failure to realize M&A and alliances could lead to the write-down of assets and the recording of impairment losses. 	<p>To enhance our product performance, reliability, and price competitiveness, we are working to maintain and strengthen the competitiveness of our products, particularly through R&D and capital investment. We are also focusing efforts on incorporating external knowledge to propose new functions and solutions that anticipate market trends. We are also pursuing initiatives for new business development under the guidance of the Growth Strategy Office, which we set up in April 2020. Specific measures include combining existing lines of business and cultivating business domains beyond the reach of our existing business units.</p>
Product Issues	<ul style="list-style-type: none"> Claims for damages Damages not covered by insurance 	<p>All divisions including design, manufacturing, quality assurance, and procurement work together to implement proper quality management and safety assurance. The Group also implements measures including the formulation and administration of global policies on business risks and other regulations, maintains and upgrades business risk management frameworks, prior review and post-order monitoring of individual projects, education for department manager class executives, and ongoing product safety seminars.</p> <p>▶ For details, please see page 74.</p>
Intellectual Property Issues	<ul style="list-style-type: none"> Liability for damages Situations that could prevent the use of certain technologies Risk of being unable to execute our business due to being unable to introduce licenses for certain technologies necessary to the execution of our business from third parties 	<p>We prevent intellectual property-related problems by thoroughly investigating intellectual property held by other parties at each project stage, basic planning, design, and manufacture. We also use training and human resource cultivation to improve the specialization of our Intellectual Property division.</p>
Legal and Regulatory Violations and Information Leaks	<ul style="list-style-type: none"> Situations that lead to the imposition of administrative penalties Liability for damages Situations that threaten the execution of our business. Substantial loss of competitiveness and damage to reputation and credibility 	<p>We implement rigorous, ongoing internal training on subjects such as compliance, information management, and brand strategies, and we formulate and administer global policies and rules. We also implement a cybersecurity program under the control of the chief technology officer (CTO) to minimize the risks of cyberattacks. Under this program, we perform initiatives such as cybersecurity governance (establishing standards, implementation of measures, self-assessments, and internal audits) and incident response.</p> <p>*Chief Technology Officer</p> <p>▶ For details, please see page 76.</p> <p>▶ For details on information leaks, please see page 77.</p>

Business Risk Management

Throughout its history, MHI Group has achieved sustained growth by taking up diverse new challenges and initiatives in numerous business areas. At the same time, on occasion we have experienced losses on a large scale. In recent years especially, with the globalization of its business activities, the expanding scale of individual projects, and ongoing development of increasingly complex technologies, the scale of attendant risks is becoming larger than ever before.

In order for MHI Group to mark sustained growth amid an ever-changing business environment, it is necessary to continue to take up challenges in new fields, new technologies, new regions, and new customers as well as to improve and strengthen operations in its existing business markets. Such challenges will entail business risks, and a company's ability to curb risks wields significant influence on its business results and growth potentials.

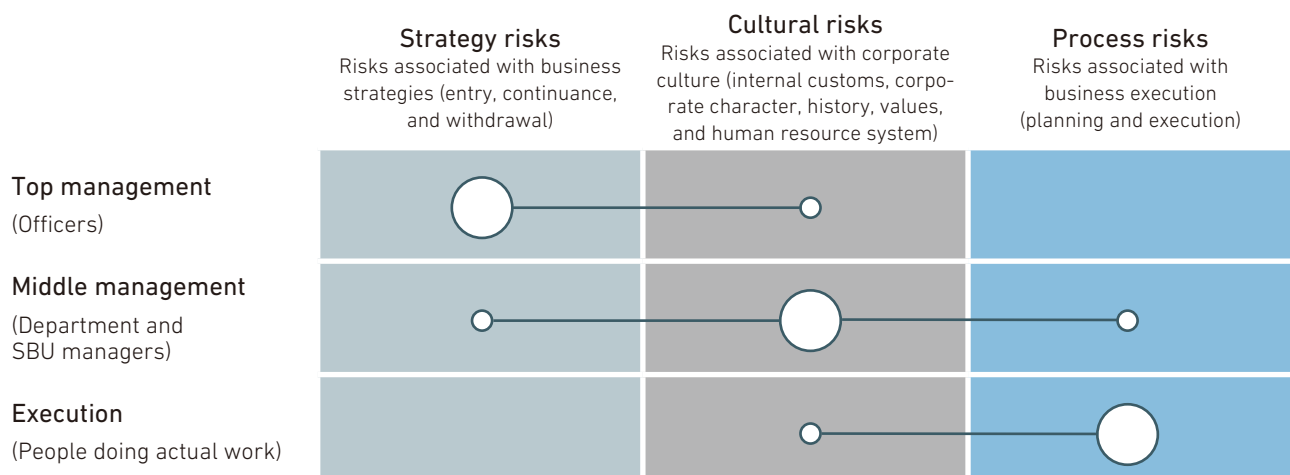
To promote challenges of this kind and prepare for the next leap into the future, MHI Group, applying its past experience and lessons learned, aims to create the mechanisms that will ensure the effective execution of business risk management. At the same time, we reinforce advanced, intelligent systems and process monitoring, both of which support top management's strategy decisions. Through these approaches, we will pursue "controlled risk-taking" that will

enable us to carry out carefully planned challenges toward expanding our business.

Outline of Business Risk Management

No corporation can avoid taking risks. We believe that risk management is a part of governance and functions only when the elements of systems and processes, corporate culture, and human resources are in place. For our Group to succeed in the global market, we need to take bold and daring risks, but we also need to manage those risks. That is the perfect combination for continually increasing our corporate value. In this sense, it is very important that all business participants, from people engaged in the actual business to management, comprehend and control risks in business, from processes to strategies. For details, please see the chart below (Matrix of Business Risk Management).

▶ Matrix of Business Risk Management

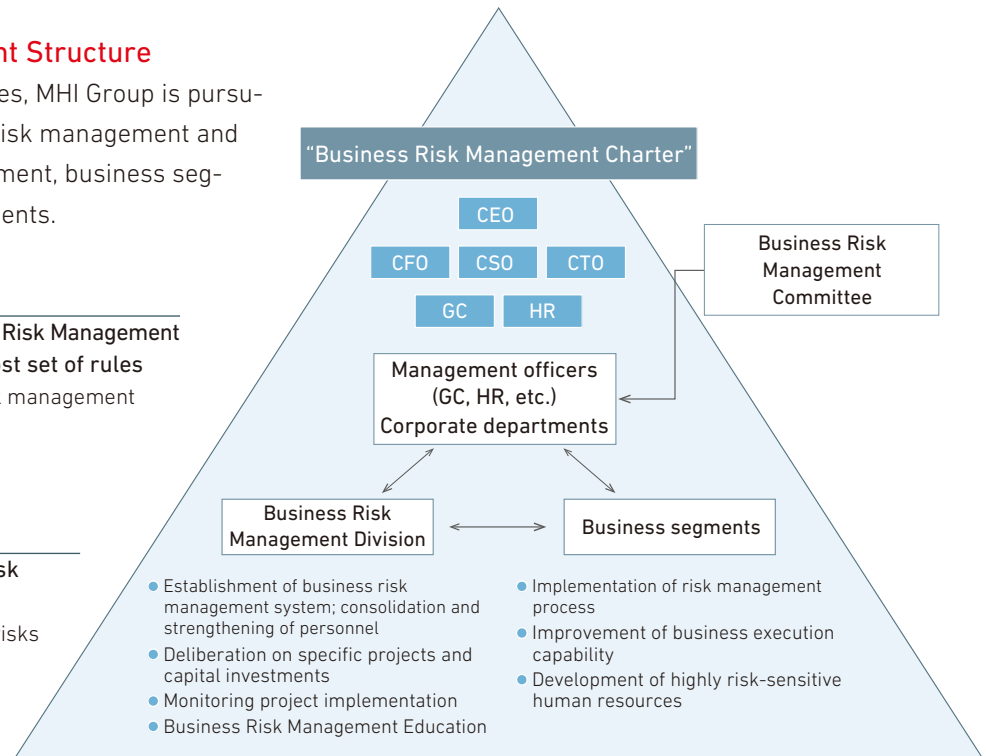


Business Risk Management Structure

Through the following measures, MHI Group is pursuing more organized business risk management and clarifying the roles of management, business segments, and corporate departments.

1
Observe and practice the Business Risk Management Charter as the Company's foremost set of rules
 → Clarify, observe, and practice risk management targets, etc.

2
Hold meetings of the Business Risk Management Committee
 → Share information on important risks and discuss policy response by top-level management

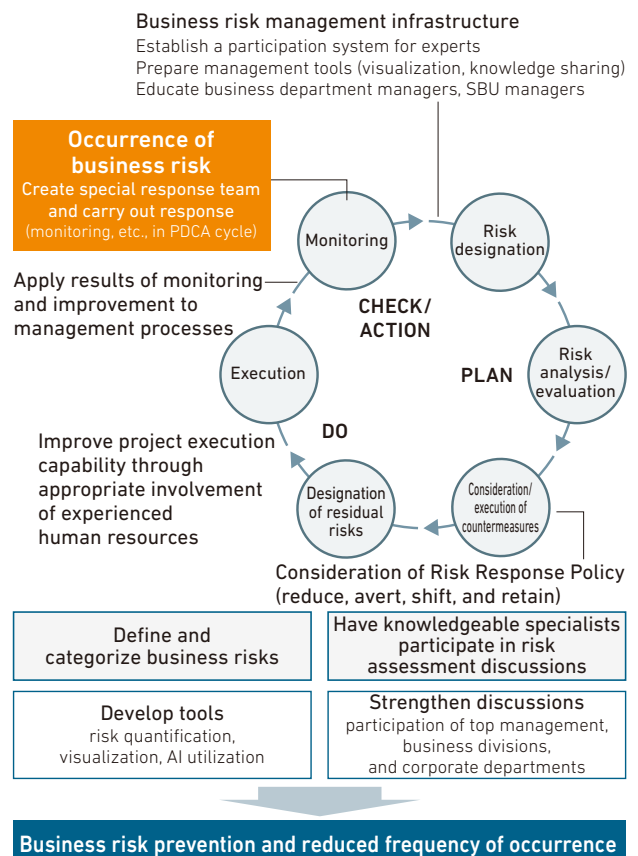


Content of Activities

With the Business Risk Management Department acting as the responsible department, MHI Group engages in business risk management activities bringing together management, business segments, and corporate departments.

The chart on the right (Business Risk Management Process) outlines specific activities. In addition to improving systems and processes to prevent business risks and reduce the frequency with which such risks manifest themselves, we also develop human resources in charge of business risk management and cultivate a culture of responding to risks through such efforts as providing training with the involvement of the Group's management team.

Business Risk Management Process



Compliance

MHI Group attaches importance to complying with applicable laws and social norms and is promoting fair and honest business practices. For the promotion of such practices, MHI Group established the Compliance Committee, which is chaired by the General Counsel (executive vice president). The Compliance Committee draws up and implements Groupwide compliance promotion plans and confirms their progress. In addition, the Committee works to strengthen compliance on a continuous basis through such means as sharing compliance-related initiatives and cases within the Group.

In addition, MHI Group has also set up whistleblowing hotlines in Japan and overseas in an effort to swiftly respond to various compliance-related risks, including compliance violations or actions that run the risk of becoming compliance violations.

As a global organization, MHI Group employs thousands of individuals from different backgrounds, nationalities, and cultures. This diversity of talent and perspectives is one of our greatest assets. Having diverse backgrounds, it is important to work together and promote our business under a common corporate culture. To that end, MHI Group has formulated the "MHI Group Global Code of Conduct." Through such efforts as e-learning and the distribution of booklets, we strive to disseminate this code of conduct among MHI Group employees around the world. At the same time, we have formulated the "Compliance Promotion Global Policy," clarifying basic matters and rules for promoting compliance, such as the organizational framework, roles, and administration standards.

To increase awareness of compliance among individual employees, we conduct discussion-based training every year that focuses on various compliance-related themes. We also conduct e-learning and training programs for Group employees on antitrust, anti-bribery, and export-related laws and regulations. In addition, we are striving to further enhance compliance awareness through the compliance guidebook, which targets employees engaging in technical work on the frontlines of manufacturing.

With an even greater focus on ensuring compliance in overseas, MHI Group appointed Regional Audit & Compliance Officers (RAO) in each of the four regions of the Americas, Europe, Asia Pacific, and China, to promote the Compliance activities for the MHI Group in the relevant region, as well as carry out internal audit functions. Through compliance liaison conferences, compliance monitoring and other activities, which are organized mainly by the RAO, in each country and region, we are making efforts to reinforce compliance promotion at overseas Group companies.

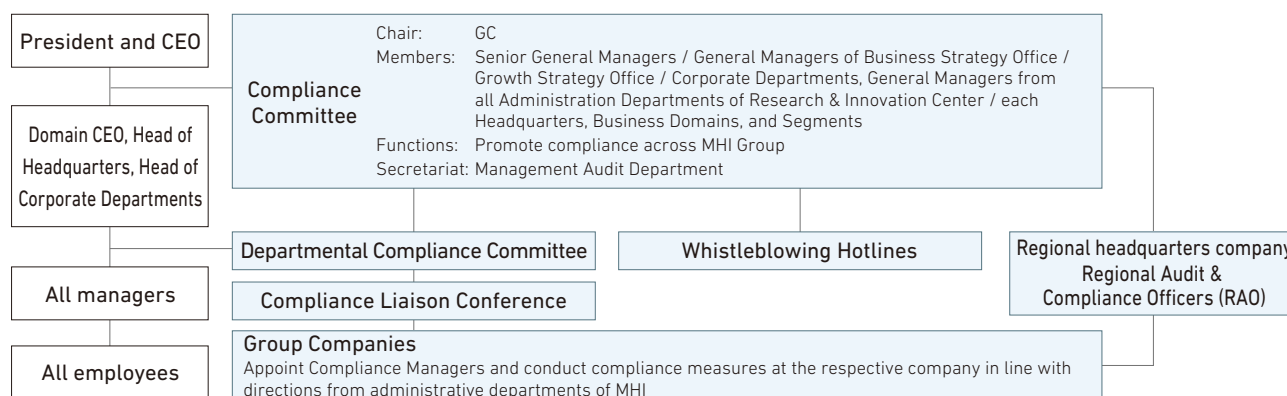
Number of participants in compliance training (e-learning)

Approximately **88,100** (FY2019)

	FY/cases			
Number of whistleblowing cases, by type	2016	2017	2018	2019
Labor and the work environment	42	49	81	69
Overall discipline and breaches of manners	28	17	13	13
Transaction-related laws	11	11	15	12
Consultations and opinions	3	0	1	2
Other	34	36	32	44
Total	118	113	142	140
(number of corrections and improvements)	(64)	(59)	(59)	(66)

► Compliance Promotion System

(as of April 1, 2020)



Efforts toward Cybersecurity

Providing a large number of critical infrastructures to society, MHI Group recognizes its responsibility in protecting business information (including intellectual property, technical information, sales information, personal information, etc.). To fulfill this responsibility, MHI has established a cybersecurity policy and strategy to ensure and enhance our cybersecurity. Recognizing cybersecurity as a critical risk, President and CEO supervises the cybersecurity strategy and CTO reports at least once a year to the Executive Committee and Board of Directors.

Based on the policy and strategy, a cybersecurity program has been implemented under the control of the CTO to minimize the risks of cyberattacks. Cybersecurity governance (establishing standards, implementation of measures, self-assessments, and internal audits), incident response, training and awareness, etc., are performed under this program. At the same time, MHI Group is contributing to the establishment of a global framework.

Cybersecurity Governance

MHI Group has defined a cybersecurity standard according to the NIST-CSF*¹ providing a multi-layer protection mechanism as well as threat detection and prevention. Vulnerability test and analysis of collected threat information have been implemented to maintain and improve cybersecurity. Periodic self-assessments and internal audits are also performed to examine the compliance of security measures against MHI Group cybersecurity standard. Through these activities, MHI Group is gaining intelligence of the latest cybersecurity threats which are becoming more sophisticated every day. In addition, industrial control systems provided in MHI Group products are secured through the implementation of a framework

that controls cyberrisks for control systems. Furthermore, MHI Group will continue enhancing and developing next-generation solutions in this area.

*1 National Institute of Standards and Technology Cybersecurity Framework

Response to Cybersecurity-Related Incidents

In the event of a cybersecurity incident, a Computer Security Incident Response Team (CSIRT) immediately handles analysis and examination of cybersecurity-related incidents, recovers systems after an incident, and carries out measures to prevent reoccurrence. If necessary, the incidents are to be reported to relevant government agencies and disclosed. Serious incidents are reported to related members including Directors, and measures are taken according to the crisis management system of the company.

Cybersecurity Education

MHI Group maintains and improves cybersecurity literacy among all employees on a regular basis, by conducting cybersecurity education.

Contributing to the Establishment of a Global Cybersecurity Framework

Through participation in the Study Group for Industrial Cybersecurity*², the Charter of Trust*³, promotion of the Declaration of Cyber Security Management*⁴, and other cybersecurity initiatives, MHI Group is contributing to the establishment of a global cybersecurity framework.

*2 An initiative by the Ministry of Economy, Trade and Industry to examine industrial cybersecurity measures. MHI began participation in this initiative in December 2017.

*3 An initiative by private corporations to build trust in cybersecurity. MHI began participation in this initiative in April 2019.

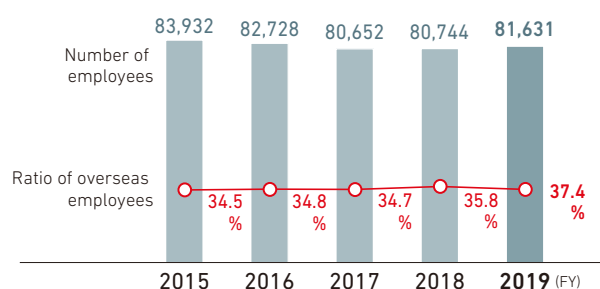
*4 Announced by the Keidanren (Japan Business Federation) in March 2020.

Financial and Non-Financial Highlights

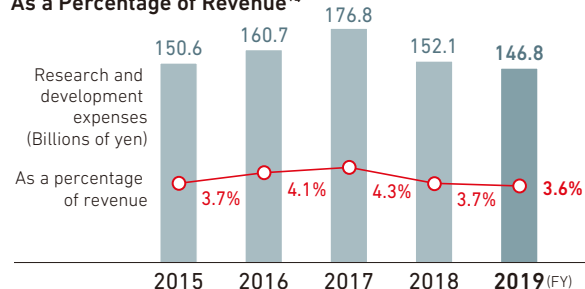
INPUT	OUTPUT	
As of March 31, 2019	(Year-on-year change)	
Total assets ¥ 5,240.3 billion	Research and development expenses ¥ 146.8 billion ▼ 3.5% DOWN	Orders received ¥ 4,168.6 billion ▲ 8.2% UP
Total equity ¥ 1,728.6 billion	Capital investment ¥ 161.5 billion ▲ 9.6% UP	Revenue ¥ 4,041.3 billion ▼ 0.9% DOWN
Interest-bearing debt ¥ 665.1 billion	Energy input*1 14,671 TJ ▼ 0.4% DOWN	Profit from business activities ¥ -29.5 billion ▼ ¥230.0 billion DOWN
Number of employees 80,744 people	Number of overseas employees 30,501 people ▲ 5.6% UP	
Number of patents held 23,201		

MHI Group has adopted the International Financial Reporting Standards (IFRS) from fiscal 2018. Actual financial numbers for FY2017 are also shown here in accordance with IFRS.

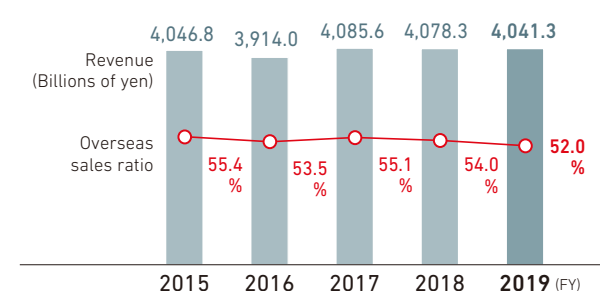
Number of Employees/Ratio of Overseas Employees



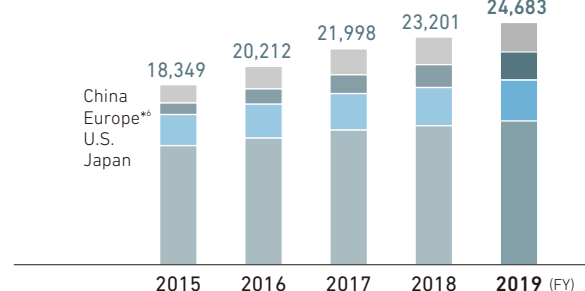
Research and Development Expenses/As a Percentage of Revenue*4



Revenue/Overseas Sales Ratio*4



Number of Patents Held*5



*1 Data are for MHI and 163 group companies.

*2 Base lines were determined (base year/comparison target) in accordance with the characteristics of each product. Using these base lines, the amount of CO₂ reduced through product use was calculated in accordance with such factors as the number of products in operation and the number of units sold in the relevant fiscal year.

*3 Data are for MHI and Mitsubishi Hitachi Power Systems, Ltd.'s (company name was changed to Mitsubishi Power Ltd. in September 2020) Nagasaki, Takasago, and Yokohama plants.

*4 In regard to revenue, the figures up until fiscal 2016 are net sales (JGAAP).

*5 Data are for MHI and major consolidated subsidiaries.

*6 Data are for European regional patents.

*7 Data are for MHI on a non-consolidated basis. However, 23 Group companies are included from FY2017 onward.

OUTCOME

EBITDA

¥ **115.1** billion ▼ 63.1% DOWN

EBITDA margin

2.8% ▼ 4.8pt DOWN

Greenhouse gas (CO₂) emissions*1

711 kilotons ▼ 10.5% DOWN

Profit attributable to owners of the parent

¥ **87.1** billion ▼ 21.0% DOWN

Free cash flows

¥ **212.9** billion ▼ 17.6% DOWN

ROE

6.6% ▼ 1.3pt DOWN

Dividend payments (for FY2019)

¥ **50.4** billion ▲ 15.4% UP

Reduction in CO₂ from using MHI's products*2

61,438 kilotons ▼ 6.0% DOWN

As of March 31, 2020

Total assets (Compared with fiscal 2018)

¥ **4,985.6** billion ▼ 4.9% DOWN

Total equity

¥ **1,290.0** billion ▼ 25.3% DOWN

Interest-bearing debt

¥ **598.2** billion ▼ 10.0% DOWN

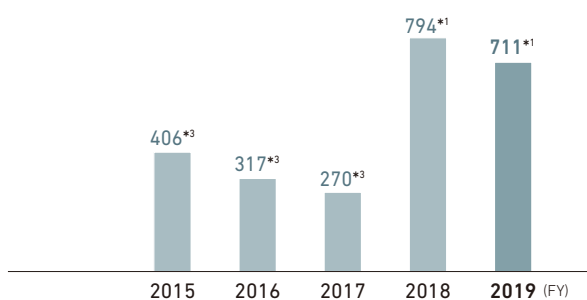
Number of employees

81,631 people ▲ 1.0% UP

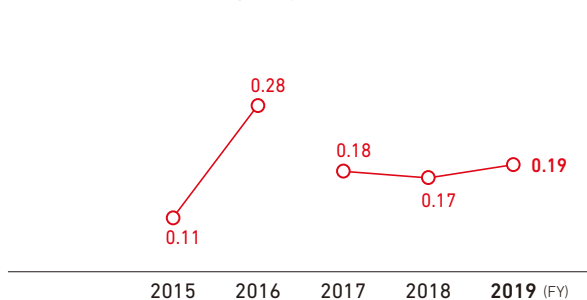
Number of patents held

24,683 ▲ 6.4% UP

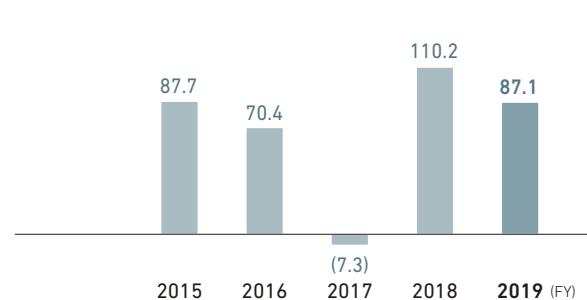
Greenhouse Gas (CO₂) Emissions (Kilotons)



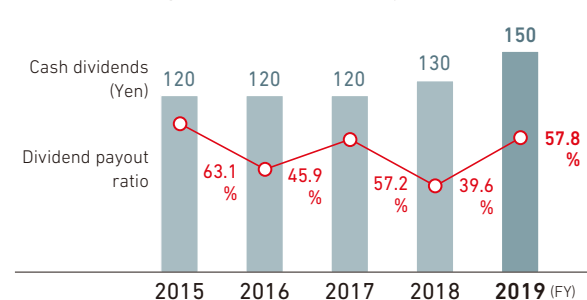
Industrial Accident Frequency Rate*7



Profit Attributable to Owners of the Parent (Billions of yen)

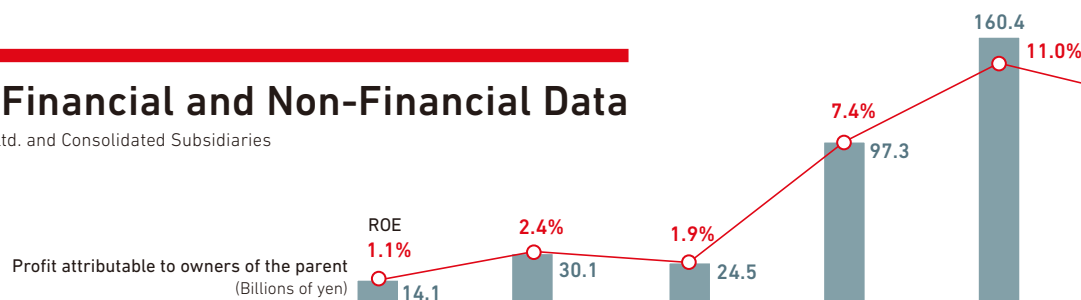


Cash Dividends per Share/Dividend Payout Ratio



Eleven-Year Financial and Non-Financial Data

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31



	2010/3	2011/3	2012/3	2013/3	2014/3
(Years ended March 31 or as of March 31)	2008 Medium-Term Business Plan	2010 Medium-Term Business Plan		2012 Medium-Term Business Plan	
Billions of yen					
Orders received	¥ 2,476.2	¥ 2,995.4	¥ 3,188.8	¥ 3,032.2	¥ 3,420.0
Revenue	2,940.8	2,903.7	2,820.9	2,817.8	3,349.5
Profit from business activities	65.6	101.2	111.9	163.5	206.1
Profit before income taxes	28.1	39.4	69.8	155.4	214.4
Profit attributable to owners of the parent	14.1	30.1	24.5	97.3	160.4
Research and development expenses	¥ 129.2	¥ 123.2	¥ 121.4	¥ 120.0	¥ 138.5
Capital investment	177.1	126.6	120.7	118.8	148.6
Depreciation	140.4	134.4	126.2	119.4	134.9
Total assets	¥ 4,262.8	¥ 3,989.0	¥ 3,963.9	¥ 3,935.1	¥ 4,886.0
Total equity	1,328.7	1,312.6	1,306.3	1,430.2	1,774.2
Interest-bearing debt	1,495.3	1,325.6	1,157.1	1,031.2	957.4
Cash flows from operating activities	¥ 117.9	¥ 337.8	¥ 200.3	¥ 288.3	¥ 296.2
Cash flows from investing activities	(180.7)	(137.2)	(47.0)	(76.7)	(151.5)
Free cash flows	(62.7)	200.5	153.3	211.6	144.6
Cash flows from financing activities	(105.2)	(169.7)	(183.6)	(154.2)	(136.6)

Per share information of common stock*2 Yen

Profit attributable to owners of the parent—basic	¥ 42.20	¥ 89.74	¥ 73.14	¥ 290.09	¥ 478.13
Total equity	3,807.98	3,761.68	3,740.84	4,109.00	4,599.86
Cash dividends	40.00	40.00	60.00	80.00	80.00

Ratios

Overseas sales ratio	50.3%	49.0%	41.9%	44.8%	49.3%
Ratio of profit from business activities	2.2%	3.5%	4.0%	5.8%	6.2%
Return on equity*3	1.1%	2.4%	1.9%	7.4%	11.0%
Return on assets*4	0.3%	0.7%	0.6%	2.5%	3.6%
Current ratio	181.7%	167.9%	153.9%	155.0%	139.2%
D/E ratio*5	113%	101%	89%	72%	54%
Equity ratio*6	30.0%	31.6%	31.7%	35.0%	31.6%
Dividend payout ratio*7	94.8%	44.6%	82.0%	27.6%	16.7%

MHI Group has adopted the International Financial Reporting Standards (IFRS) from fiscal 2018. Actual financial numbers for fiscal 2017 are also shown here in accordance with IFRS. The IFRS categories under Japanese GAAP are as follows: revenue corresponds to net sales; profit from business activities corresponds to operating income; profit (loss) attributable to owners of the parent corresponds to net income (loss) attributable to owners of the parent; total equity corresponds to total net assets; earnings (losses) per share correspond to profit (loss) per share; and ratio of equity attributable to owners of the parent corresponds to shareholders' equity ratio.

"Profit from business activities" on the consolidated statement of profit or loss is presented as a measure that enables continuous comparison and assessment of the Group's business performance. "Profit from business activities" is calculated by subtracting "cost of sales," "selling, general and administrative expenses," and "other expenses" from "revenue" and adding "share of profit (loss) of investments accounted for using the equity method" and "other income" to the resulting amount. "Other income" and "other expenses" consist of dividend income, gains or losses on sales of fixed assets, impairment losses on fixed assets, and others.

*1 U.S. dollar amounts in this report are translated from yen, for convenience only, at the rate of ¥108.83 = U.S.\$1, the exchange rate prevailing at March 31, 2020.

*2 The Company conducted a 1-for-10 reverse stock split on common shares on October 1, 2017. The interim dividend for fiscal 2017 and data for fiscal 2016 and earlier is calculated as if the reverse stock split had been conducted at the beginning of the respective fiscal years. Calculations of per-share data are based on these assumptions.

*3 Return on equity = profit attributable to owners of the parent / (total equity—share subscription rights—non-controlling interests)

*4 Return on assets = profit attributable to owners of the parent / total assets

*5 D/E ratio = interest-bearing debt / total equity

*6 Equity ratio = (total equity—share subscription rights—non-controlling interests) / total assets

*7 Dividend payout ratio = dividends / profit attributable to owners of the parent

*8 People in positions of section manager or higher as of April 1 of each year. In principle, data are for MHI on a non-consolidated basis and Mitsubishi Hitachi Power Systems, Inc. (Company name was changed to Mitsubishi Power Ltd. in September 2020).

*9 Data are for MHI on a non-consolidated basis. However, data for FY2017 (CY2018) onward include 23 Group companies.

*10 Base lines were determined (base year/comparison target) in accordance with the characteristics of each product. Using these base lines, the amount of CO₂ reduced through product use was calculated in accordance with such factors as the number of products in operation and the number of units sold in the relevant fiscal year.

*11 Data are for MHI on a non-consolidated basis (production plants and offices).

*12 Data are for MHI on a non-consolidated basis.

*13 Data are for MHI on a non-consolidated basis and 163 Group companies.

Non-financial indexes

Number of employees

Number of overseas employees

Number of female managers*8

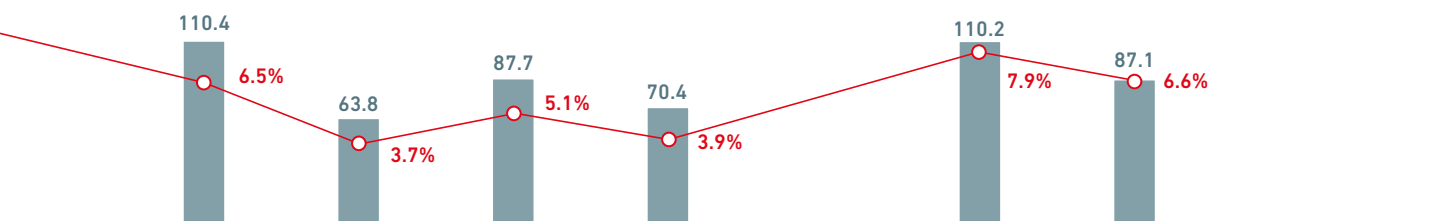
Industrial accident frequency rate*9

Reduction in CO₂ from using MHI's products*10 (Kilotons)

Energy input*11 (TJ)

Greenhouse gas (CO₂) emissions*12 (Kilotons)

Social contribution expenses (Billions of yen)



	2015/3	2016/3	2017/3	←JGAAP 2018/3	IFRS→ 2018/3	2019/3	2020/3	2020/3
	2015 Medium-Term Business Plan						2018 Medium-Term Business Plan	
								Millions of U.S. dollars*1
¥	4,699.1	4,485.5	4,275.6	3,875.7	3,868.7	3,853.4	¥ 4,168.6	\$38,303
	3,992.1	4,046.8	3,914.0	4,110.8	4,085.6	4,078.3	4,041.3	37,134
	296.1	309.5	150.5	126.5	58.1	200.5	(29.5)	(271)
	232.6	132.6	169.7	128.0	39.2	195.0	(32.6)	(300)
	110.4	63.8	87.7	70.4	(7.3)	110.2	87.1	800
¥	145.5	150.6	160.7	176.8	176.8	152.1	¥ 146.8	\$ 1,349
	156.1	175.5	204.4	158.4	158.4	147.3	161.5	1,483
	157.0	158.7	172.7	176.1	176.1	135.6	144.6	1,329
¥	5,520.3	5,500.7	5,481.9	5,487.6	5,248.7	5,240.3	¥ 4,985.6	\$45,811
	2,120.0	1,999.7	2,104.1	2,164.4	1,693.8	1,728.6	1,290.0	11,854
	975.5	1,052.1	925.5	813.1	813.1	665.1	598.2	5,496
¥	212.8	270.0	95.9	345.1	405.7	420.3	¥ 452.5	\$ 4,158
	(174.1)	(262.4)	8.7	(137.1)	(238.1)	(161.8)	(239.5)	(2,201)
	38.6	7.5	104.6	207.9	167.5	258.4	212.9	1,957
	(45.8)	(23.1)	(162.0)	(152.1)	(112.3)	(271.0)	(204.4)	(1,878)
								U.S. dollars
¥	329.04	190.17	261.24	209.82	(21.79)	328.52	¥ 259.39	\$ 2,383
	5,306.47	5,003.00	5,299.14	5,431.02	4,153.46	4,204.71	3,627.73	33,333
	110.00	120.00	120.00	120.00	120.00	130.00	150.00	1,378
	53.4%	55.4%	53.5%	54.2%	55.1%	54.0%	52.0%	
	7.4%	7.6%	3.8%	3.1%	1.4%	4.6%	(0.7)%	
	6.5%	3.7%	5.1%	3.9%	(0.5)%	7.9%	6.6%	
	2.1%	1.2%	1.6%	1.3%	(0.1)%	2.0%	1.7%	
	146.2%	135.7%	139.4%	141.0%	122.2%	121.7%	101.1%	
	46%	53%	44%	38%	48%	38%	46%	
	32.3%	30.5%	32.5%	33.3%	26.6%	26.9%	24.4%	
	33.4%	63.1%	45.9%	57.2%	—	39.6%	57.8%	
	81,845	83,932	82,728	80,652	80,652	80,744	81,631	
	27,489	28,941	28,751	27,954	27,954	28,875	30,501	
	85	102	126	149	149	171	258	
	0.09	0.11	0.28	0.18	0.18	0.17	0.19	
	—	46,067	62,592	49,791	49,791	65,331	61,438	
	9,885	7,398	5,976	5,179	5,179	14,723*13	14,671*13	
	548	406	317	270	270	794*13	711*13	
	1.9	2.1	2.5	1.7	1.7	1.6	1.3	

Consolidated Financial Statements [IFRS]

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of April 1, 2018 / March 31, 2019 / March 31, 2020

	Millions of yen			Thousands of U.S. dollars
	As of April 1, 2018	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
ASSETS				
Current assets:				
Cash and cash equivalents	¥ 299,237	¥ 283,235	¥ 281,626	\$ 2,587,760
Trade and other receivables	759,902	717,414	611,976	5,623,228
Other financial assets	27,591	25,180	28,539	262,234
Contract assets	744,707	625,749	576,061	5,293,218
Inventories	748,574	739,820	726,228	6,673,049
Indemnification asset for South African projects	445,920	546,098	407,800	3,747,128
Other current assets	214,962	222,390	206,261	1,895,258
Total current assets	3,240,895	3,159,890	2,838,493	26,081,898
Non-current assets:				
Property, plant and equipment	770,163	777,228	792,920	7,285,858
Goodwill	121,563	121,117	124,500	1,143,986
Intangible assets	103,003	113,131	78,908	725,057
Right-of-use assets	55,195	90,335	96,201	883,956
Investments accounted for using the equity method	205,198	209,929	177,569	1,631,618
Investments in securities and other financial assets	485,047	447,888	391,538	3,597,702
Deferred tax assets	133,703	133,511	382,729	3,516,760
Other non-current assets	198,673	187,320	102,827	944,840
Total non-current assets	2,072,550	2,080,463	2,147,196	19,729,817
Total assets	¥5,313,445	¥5,240,353	¥4,985,690	\$45,811,724

LIABILITIES AND EQUITY	Millions of yen			Thousands of U.S. dollars
	As of April 1, 2018	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Liabilities				
Current liabilities:				
Bonds, borrowings and other financial liabilities	¥ 531,206	¥ 459,548	¥ 769,099	\$ 7,066,976
Trade and other payables	801,154	862,174	824,030	7,571,717
Income taxes payable	27,251	27,024	28,994	266,415
Contract liabilities	914,697	875,294	835,465	7,676,789
Provisions	202,797	215,475	199,496	1,833,097
Other current liabilities	188,121	157,273	151,657	1,393,522
Total current liabilities	2,665,228	2,596,790	2,808,742	25,808,527
Non-current liabilities:				
Bonds, borrowings and other financial liabilities	734,621	637,204	601,770	5,529,449
Deferred tax liabilities	6,738	4,012	7,318	67,242
Retirement benefit liabilities	142,242	154,105	145,890	1,340,531
Provisions	20,546	47,583	58,173	534,530
Other non-current liabilities	79,334	71,964	73,718	677,368
Total non-current liabilities	983,483	914,870	886,871	8,149,140
Total liabilities	3,648,711	3,511,660	3,695,614	33,957,677
Equity				
Share capital	265,608	265,608	265,608	2,440,577
Capital surplus	185,937	185,302	49,667	456,372
Treasury shares	(4,081)	(5,572)	(5,374)	(49,379)
Retained earnings	801,838	869,238	886,307	8,143,958
Other components of equity	117,968	96,987	22,133	203,372
Equity attributable to owners of the parent	1,367,271	1,411,564	1,218,343	11,194,918
Non-controlling interests	297,462	317,128	71,732	659,119
Total equity	1,664,733	1,728,693	1,290,076	11,854,047
Total liabilities and equity	¥5,313,445	¥5,240,353	¥4,985,690	\$45,811,724

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Profit	¥137,388	¥ 107,284	\$ 985,794
Items that will not be reclassified to profit or loss :			
Net gain (loss) from financial assets measured at FVTOCI	(12,753)	(50,873)	(467,453)
Remeasurement of defined benefit plans	(6,996)	(23,201)	(213,185)
Share of other comprehensive income (loss) of entities accounted for using the equity method	(178)	(24)	(220)
Total	(19,928)	(74,098)	(680,860)
Items that may be reclassified to profit or loss :			
Cash flow hedges	(893)	(1,713)	(15,740)
Hedge cost	(242)	(639)	(5,871)
Exchange differences on translating foreign operations	4,724	(25,106)	(230,690)
Share of other comprehensive income (loss) of entities accounted for by the equity method	(8,828)	941	8,646
Total	(5,239)	(26,517)	(243,655)
Total other comprehensive income (loss)	(25,167)	(100,616)	(924,524)
Comprehensive income	¥112,220	¥6,668	\$ 61,269
Comprehensive income attributable to:			
Owners of the parent	¥ 85,577	¥ (8,201)	\$ (75,356)
Non-controlling interests	26,642	14,869	136,625

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2019 and 2020

	Millions of yen							
	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total		
Balance as of April 1, 2018	¥265,608	¥ 185,937	¥(4,081)	¥830,057	¥118,015	¥1,395,537	¥ 298,327	¥1,693,865
Cumulative effect of changes in accounting policies				¥ (28,219)	¥(47)	¥(28,266)	¥ (865)	¥ (29,131)
Restated balance	¥265,608	¥ 185,937	¥(4,081)	¥801,838	¥117,968	¥1,367,271	¥ 297,462	¥1,664,733
Profit				110,271		110,271	27,117	137,388
Other comprehensive income (loss)					(24,693)	(24,693)	(474)	(25,167)
Comprehensive income (loss)				110,271	(24,693)	85,577	26,642	112,220
Transfer to retained earnings				(3,712)	3,712	—		—
Purchase of treasury shares			(2,116)			(2,116)		(2,116)
Disposal of treasury shares		22	1			24		24
Dividends				(41,974)		(41,974)	(6,348)	(48,323)
Put options held by non-controlling shareholders		689				689	548	1,238
Transactions with non-controlling interests		33				33	(60)	(27)
Other		(1,381)	623	2,816		2,059	(1,115)	943
Total transactions with owners	—	(635)	(1,491)	(39,157)	—	(41,284)	(6,976)	(48,261)
Balance as of March 31, 2019	¥265,608	¥ 185,302	¥(5,572)	¥869,238	¥ 96,987	¥1,411,564	¥ 317,128	¥1,728,693
Profit				87,123		87,123	20,161	107,284
Other comprehensive income (loss)					(95,324)	(95,324)	(5,291)	(100,616)
Comprehensive income (loss)				87,123	(95,324)	(8,201)	14,869	6,668
Transfer to retained earnings				(22,287)	22,287	—		—
Purchase of treasury shares			(14)			(14)		(14)
Disposal of treasury shares		57	467			524		524
Dividends				(47,016)		(47,016)	(5,866)	(52,883)
Put options held by non-controlling shareholders		11,214				11,214	8,912	20,127
Transactions with non-controlling interests		(146,568)			(1,816)	(148,385)	(259,449)	(407,835)
Other		(337)	(253)	(750)		(1,341)	(3,862)	(5,204)
Total transactions with owners	—	(135,634)	198	(47,766)	(1,816)	(185,019)	(260,265)	(445,285)
Balance as of March 31, 2020	¥265,608	¥ 49,667	¥(5,374)	¥886,307	¥ 22,133	¥1,218,343	¥ 71,732	¥1,290,076

	Thousands of U.S. dollars							
	Equity attributable to owners of the parent						Non-controlling interests	Total equity
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total		
Balance as of March 31, 2019	\$2,440,577	\$ 1,702,673	\$(51,199)	\$7,987,117	\$ 891,178	\$12,970,357	\$ 2,913,975	\$15,884,342
Profit				800,542		800,542	185,252	985,794
Other comprehensive income (loss)					(875,898)	(875,898)	(48,617)	(924,524)
Comprehensive income (loss)				800,542	(875,898)	(75,356)	136,625	61,269
Transfer to retained earnings				(204,787)	204,787	—		—
Purchase of treasury shares			(128)			(128)		(128)
Disposal of treasury shares		523	4,291			4,814		4,814
Dividends				(432,013)		(432,013)	(53,900)	(485,922)
Put options held by non-controlling shareholders		103,041				103,041	81,889	184,939
Transactions with non-controlling interests		\$(1,346,761)			(16,686)	(1,363,456)	(2,383,984)	(3,747,450)
Other		(3,096)	(2,324)	(6,891)		(12,321)	(35,486)	(47,817)
Total transactions with owners	—	(1,246,292)	1,819	(438,904)	(16,686)	(1,700,073)	(2,391,482)	(4,091,564)
Balance as of March 31, 2020	\$2,440,577	\$ 456,372	\$(49,379)	\$8,143,958	\$ 203,372	\$11,194,918	\$ 659,119	\$11,854,047

CONSOLIDATED STATEMENT OF CASH FLOWS

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Cash flows from operating activities:			
Profit (loss) before income tax	¥ 195,059	¥ (32,660)	\$ (300,101)
Depreciation, amortization and impairment loss	202,789	323,967	2,976,817
Finance income and costs	7,234	2,324	21,354
Share of profit of investments accounted for using the equity method	(10,937)	(12,898)	(118,515)
Loss (gain) on sale of property, plant and equipment, and intangible assets	(41,218)	(978)	(8,986)
Loss on disposal of property, plant and equipment, and intangible assets	6,519	7,842	72,057
Decrease (increase) in trade receivables	34,863	65,082	598,015
Decrease (increase) in contract assets	115,185	46,447	426,784
Decrease (increase) in inventories and advanced payments	17,229	39,162	359,845
Increase (decrease) in trade payables	51,014	(27,859)	(255,986)
Increase (decrease) in contract liabilities	(33,589)	(34,185)	(314,113)
Increase (decrease) in provisions	45,522	(12,559)	(115,400)
Increase (decrease) in retirement benefit liabilities	2,162	(126)	(1,157)
Decrease (increase) in indemnification asset of South African projects	(110,615)	131,777	1,210,851
Others	(15,464)	8,715	80,079
Subtotal	465,759	504,051	4,631,544
Interest received	5,149	7,218	66,323
Dividends received	15,232	14,903	136,938
Interest paid	(8,074)	(10,444)	(95,966)
Income taxes paid	(57,718)	(63,164)	(580,391)
Net cash provided by operating activities	420,349	452,564	4,158,448
Cash flows from investing activities:			
Purchases of property, plant and equipment and intangible assets	(224,263)	(246,291)	(2,263,080)
Proceeds from sales of property, plant and equipment and intangible assets	43,509	31,133	286,070
Purchases of investments (including investments accounted for using equity method)	(8,547)	(13,924)	(127,942)
Proceeds from sales and redemption of investments (including investments accounted for using equity method)	26,975	23,981	220,352
Payments for acquisition of subsidiaries	—	(28,733)	(264,017)
Proceeds from sale of subsidiaries	—	1,652	15,179
Net decrease (increase) in short-term loans receivable	(417)	201	1,846
Disbursement of long-term loans	(2,669)	(807)	(7,415)
Collection of long-term loans	1,165	237	2,177
Others	2,377	(7,015)	(64,458)
Net cash provided by (used in) investing activities	(161,869)	(239,566)	(2,201,286)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	(60,613)	(19,800)	(181,935)
Proceeds from long-term borrowings	7,039	65,341	600,395
Repayment of long-term borrowings	(68,439)	(45,506)	(418,138)
Payment for redemption of bonds	(30,000)	(65,000)	(597,261)
Proceeds from issuance of stock to non-controlling interests	1,749	19	174
Payments for acquisition of interests in subsidiaries from non-controlling interests	—	(13,908)	(127,795)
Dividends paid to owners of the parent	(41,888)	(46,933)	(431,250)
Dividends paid to non-controlling interests	(7,781)	(5,837)	(53,634)
Proceeds from factoring agreements	169,271	145,264	1,334,779
Repayment of liabilities under factoring agreements	(218,519)	(192,502)	(1,768,832)
Repayments of lease liabilities	(17,135)	(23,256)	(213,691)
Others	(4,684)	(2,332)	(21,427)
Net cash provided by (used in) financing activities	(271,002)	(204,452)	(1,878,636)
Effect of exchange rate changes on cash and cash equivalents	(3,478)	(10,153)	(93,292)
Net increase (decrease) in cash and cash equivalents	(16,001)	(1,608)	(14,775)
Cash and cash equivalents at the beginning of the year	299,237	283,235	2,602,545
Cash and cash equivalents at the end of the year	¥ 283,235	¥ 281,626	\$ 2,587,760

Corporate Data

As of March 31, 2020

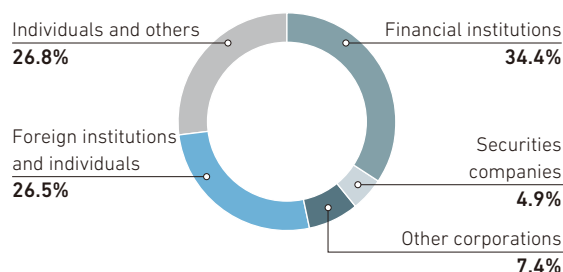
Head Office:	2-3, Marunouchi 3-chome, Chiyoda-ku, Tokyo, 100-8332, Japan Phone: +81-3-6275-6200
Established:	January 11, 1950
Paid-in Capital:	¥265.6 billion
Total Number of Issuable Shares:	600,000,000
Total Number of Shares Issued:	337,364,781
Number of Shareholders:	241,224
Number of Employees:	81,631 (Consolidated) 14,501 (Non-consolidated)

Stock Listings:	Tokyo, Nagoya, Fukuoka, and Sapporo Stock Exchanges
Ticker Code:	7011
Manager of the Register of Shareholders:	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan
Independent Auditors:	KPMG AZSA LLC 1-2 Tsukudo-cho, Shinjuku-ku, Tokyo 162-8551, Japan

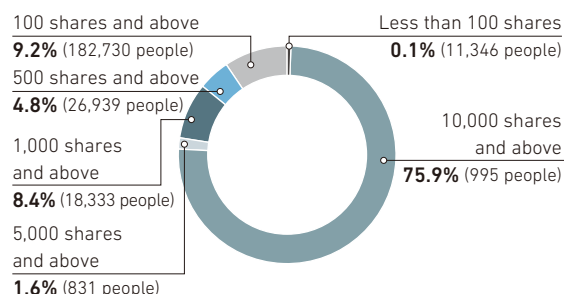
Major Shareholders

	Number of shares owned by major shareholders	Shareholder composition (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	24,847,100	7.3
Japan Trustee Services Bank, Ltd. (Trust Account)	17,980,400	5.3
Japan Trustee Services Bank, Ltd. (Trust Account 9)	8,401,300	2.4
Meiji Yasuda Life Insurance Company	8,002,274	2.3
Japan Trustee Services Bank, Ltd. (Trust Account 7)	7,018,800	2.0
Japan Trustee Services Bank, Ltd. (Trust Account 5)	6,825,000	2.0
The Nomura Trust and Banking Co., Ltd. (Retirement Benefit Trust Account for The Bank of Tokyo-Mitsubishi UFJ, Ltd.)	6,526,300	1.9
State Street Bank West Client - Treaty 505234	5,154,505	1.5
JP MORGAN CHASE BANK 385151	4,996,179	1.4
Mitsubishi Heavy Industries Employee Shareholding Association	4,611,969	1.3

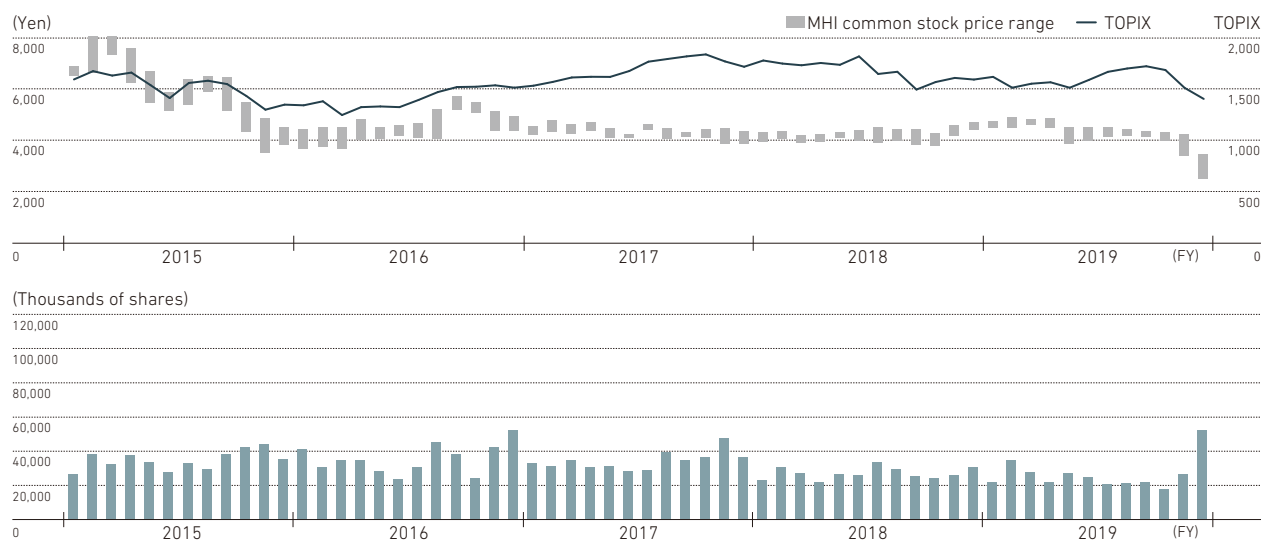
Classified by Type of Shareholder



Classified by Number of Holdings



Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Status of IR Activities

Briefings for Individual Investors

We hold small meetings for individual investors. In these meetings, we provide a corporate overview and explain our business strategies, shareholder returns, and other topics. We also conduct factory tours for individual shareholders on a regular basis.

Briefings for Analysts and Institutional Investors

The CFO briefs financial results on a quarterly basis. At the fiscal 2019 earnings briefing, the president also explained emergency measures and strategic update in light of the impact of the COVID-19 pandemic. In addition, we hold business strategy briefings, and small meetings from time to time as needed to enhance the dissemination of information.

Meetings with Overseas Investors

We hold meetings with institutional investors in North America, Europe, and Asia to explain our operating performance and management strategies, and solicits their opinions on our management. We also participate in conferences for overseas investors throughout the year.

Status of Inclusion in ESG Indexes (As of September 2020)

MHI Group promotes CSR-oriented management and focuses on various activities and information disclosure. Through these efforts, we have been selected for the third year in a row for inclusion in the Asia Pacific Index of the Dow Jones Sustainability Index, which is a global ESG investment index (as of September 2020). We have also been selected by premier ESG investment indices the MSCI Japan ESG Select Leaders Index, the MSCI Japan Empowering Women Index (WIN), the FTSE Blossom Japan Index, and the S&P/JPX Carbon Efficient Index, and we have been selected for the third year in a row for inclusion in all of the ESG investment indices used by Japan's Government Pension Investment Fund (GPIF), which is the largest pension fund in the world. We have also been continuously selected for inclusion in SOMPO Asset Management's SOMPO Sustainability Index since 2012.



MSCI Japan Empowering Women Index (WIN)



MSCI Japan ESG Select Leaders Index



The inclusion of Mitsubishi Heavy Industries, Ltd. in any MSCI index, and the use of MSCI logos, trademarks, service marks or index names herein, do not constitute a sponsorship, endorsement or promotion of Mitsubishi Heavy Industries, Ltd. by MSCI or any of its affiliates. The MSCI indexes are the exclusive property of MSCI. MSCI and the MSCI index names and logos are trademarks or service marks of MSCI or its affiliates.

Publication of our MHI Report 2020

MHI Report 2020 focuses particularly on the contributions MHI Group can make to provide solutions for the social challenge of transitioning to a decarbonized economy, as well as detailed explanations of how the group is adapting to technological trends such as electrification and intelligent systems.

We hope that this report will contribute to the better understanding of MHI Group among shareholders and investors, as well as a tool for dialogue and engagement.

We look forward to hearing your frank opinions.

September 2020
Investor Relations & Shareholder Relations Department

MITSUBISHI HEAVY INDUSTRIES, LTD.