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[1. Reason for Filing]

Due to the occurrence of an event that may have serious effects on the financial position, operating results and cash flow conditions of Mitsubishi Heavy Industries, Ltd. ("the Company" or "MHI"), the Company is filing this Extraordinary Report pursuant to Article 24-5, Clause 4 of Financial Instruments and Exchange Act and Article 19, Clause 2, Item 12 of Cabinet Office Ordinance on Disclosure of Corporate Information, etc.

[2. Text of Report]

Settlement Agreement Concluded with Hitachi in Relation to South African Projects

(1) Date on which the Event Occurred

December 18, 2019 (the date on which the settlement agreement concluded)

(2) Details of the Event

a. Overview of the Arbitration Request and Sequence of Events Resulting in Settlement

On July 31, 2017, MHI submitted an arbitration request to The Japan Commercial Arbitration Association ("JCAA") seeking that Hitachi fulfill its obligation to pay ZAR 90,779 million (equivalent to approximately 774.3 billion yen when converted at a rate of 8.53 yen to 1 ZAR) as the price adjustment and other payments relating to succession of the South African projects. Subsequent to the request submission, arbitration procedures have gone forward within the JCAA; however, in consideration of various circumstances, including the points given below, MHI has decided to conclude the settlement agreement described below in order to achieve an early resolution of its dispute with Hitachi.

(a) Through pursuit of an early recovery of the "indemnification assets for South African projects" (approximately 550 billion yen) incorporated into MHI's Consolidated Statement of Financial Position, MHI will squeeze its total assets and achieve a more solid financial position. This will enhance MHI's capacity to undertake growth investments into the areas aligned with its growth strategy: namely, decarbonization / low-carbonization, electrification and intelligent systems; and will also drive achievement of TOP*, MHI's unique management indicator.

*Triple One Proportion = MHI Group Management Indicator that aims at a 1:1:1 balance between Net Sales (Scale of Business): Total Assets: Market Value.

(b) Mitsubishi Hitachi Power Systems, Ltd. ("MHPS") today generates more solid profits and cash flows than its global competitors, and by making MHPS a wholly owned subsidiary, MHI will stand to raise its consolidated profits in its fundamental business.

(c) While maintaining MHPS's business execution capability strengthened through the joint venture with Hitachi, MHI will restructure its business to enable swift response to changes in the business environment, and MHI will implement innovative changes in its Power Systems business to respond to the megatrend toward decarbonization / low-carbonization, bringing together cross-domain and cross-SBU strengths of MHI Group.
(d) Corporate and other costs will be reduced by developmentally reorganizing overlapping functions between MHI and MHPS which has been kept in MHPS from the perspective of maintaining management independence during the period of its joint venture with Hitachi.

b. Outline of Settlement Agreement
(a) Hitachi's Obligations
   • Hitachi will transfer to MHI its total shareholdings (35%) in MHPS, the company jointly established by MHI and Hitachi to conduct business mainly in thermal power systems.
   • Hitachi will pay MHI the sum of 200 billion yen in March 2020.

(b) MHI's Obligations
   • MHI shall, following completion of the payment and the share transfer described in (a) above, swiftly withdraw its pending request for arbitration previously submitted to the JCAA.
   • Upon completion of the abovementioned payment and share transfer, MHI shall waive any other claims held by MHI Group toward Hitachi concerning succession of the South African projects.

(c) Other Matters
   Because the transfer of shares described in (a) above requires acquisition of approval from the authorities in multiple countries overseeing anti-monopoly laws, completion of the share transfer is expected to occur in around spring 2020. For these reasons, Hitachi and MHI shall jointly request to the JCAA that the aforementioned arbitration procedures be suspended swiftly after conclusion of the settlement agreement.

(3) Effect of the Event on Profit and Loss
The effect of the Settlement on Company's Financial Statement is expected as follows:
(a) Cash flow
   The 200 billion yen received from Hitachi will be added to this term's operating cash flow.
   Hitachi currently has a loan of 70 billion yen extended to the MHPS subsidiary Mitsubishi Hitachi Power Systems Africa Proprietary Limited. Upon conclusion of the settlement agreement, MHI shall take over the claim pertaining to said loan, by the same amount from Hitachi, with plans to swiftly recover said debt in its entirety.

(b) Financial position
   With the 200 billion yen and shares of MHPS to be received under the settlement, the "indemnification assets for South African projects" in MHI's Consolidated Statement of Financial Position shall be recovered fully.
(c) Profit/loss
The difference between the "indemnification assets for South African projects" and the aggregate total of above 200 billion yen plus the fair valuation value of the MHPS shares shall be booked as net profit in MHI’s Consolidated Statement of Profit or Loss in FY 2019. And an extraordinary gain of about the same amount shall be booked in MHI’s Non-consolidated Statement of Income in FY2019.

(d) Conversion of MHPS to wholly owned subsidiary
After the transfer of shares expected in around spring 2020, MHPS will become a wholly owned subsidiary of MHI. In line with this, profit attributable to owners of parent will increase in FY2019.