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.

Corporate Identity Statement

MHI Group 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

Our overarching goal is to create an affluent society in which all people, everywhere, can live with full peace of mind.

Today, a myriad of social issues—environmental issues especially—are coming to the fore as never before. In MHI Group, we believe that through our businesses we can resolve such issues, thereby enabling the realization of a sustainable planet.

In order for MHI Group to remain an entity always needed by society, we will continue to address the difficult and complex challenges facing society today, tomorrow, and well into the future. By providing products and solutions consistently responding to contemporary needs, we will confidently make steady contributions to improving the quality of people’s lives everywhere.

Hideaki Omiya
Chairman of the Board
Keeping its principles and Corporate Identity Statement as its base, MHI Group aims to continue its development alongside the changing world by responding to the present and future issues and needs of society with a variety of technologies and services.

To enhance the understanding of our philosophy among shareholders, investors, and a host of other stakeholders, from fiscal 2013 (the fiscal year ended March 31, 2014) we have integrated financial information, including management strategy and operating performance, with non-financial information related to the Group’s environmental and social activities into this MHI Report.

Previous editions of the MHI Report are available on our website.
https://www.mhi.com/finance/library/annual/

Forecasts regarding future performance in these materials are based on judgments made in accordance with information available at the time this presentation 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 movements 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.
MHI Group has set a management target for responding sustainably and harmoniously to the needs of stakeholders and society. We call this target “Triple One Proportion” (TOP), referring to a 1:1:1 ratio of net sales (scale of business), total assets, and market value.

The first step toward this target will be to improve the efficiency of our total assets, which currently exceed ¥5 trillion. We also aim to grow by increasing the efficiency and profitability of existing business. Additionally, we will make various investments based on shifting megatrends while maintaining financial soundness. For the time being, we will concentrate development of the MRJ and growth investments on business scale expansion opportunities that will produce immediate results, and through these initiatives, increase net sales to ¥5 trillion. To achieve a market value of ¥5 trillion, in addition to increasing business growth and profitability, we will enhance shareholder returns (dividends). Furthermore, we will meet the expectations of investors and customers by achieving steady growth over the medium-to-long term in alignment with shared social values, including ESG and SDGs.

**OUR TARGET: TRIPLE ONE PROPORTION (TOP)**

- **TOP** is closely connected to the basic policies of the 2018 Medium-Term Business Plan.

  1. **Step 1**: Embed business reforms and prioritize efficiency and quality (total assets).
  2. **Step 2**: Increase business scale (net sales) by implementing growth strategies.
  3. **Step 3**: Increase market value through business growth, increased profitability, and shareholder returns.
  4. **Step 4**: Increase corporate value stably over the long term.

**Management Strategies**

- **Long-term growth investment (including human resources)**
- **Optimal portfolio**
- **Employees / partners**
- **Sound financial structure**

**Net sales**

- Provide products and services matching customer needs.

**Market value**

- Improve ROE” and enhance shareholder returns.

**Total assets**

- Increased corporate value stably over the long term.

**Customers**

- Provide products and services matching customer needs.

**Investors**

- Improve ROE” and enhance shareholder returns.

**Shared Social Values (ESG*1/SDGs*2)**

- *1 ESG: Environmental, Social, and Governance
- *2 SDGs: Sustainable Development Goals
- *3 ROE: Return On Equity

**Quality and efficiency**

- Development and production of products and services matching customer needs.

**Investment base**

- Increase corporate value stably over the long term.
Over the years, MHI Group has utilized its business to meet market needs for low carbon, energy conservation, and safety. However, the business environment is changing rapidly, as demonstrated by the shift from low-carbon energy to carbon-free energy and revolutionary advances in digitalization technology, such as AI and the IoT. Amid these conditions, we will need to solve complex and difficult social issues of the present and the near future. In the future that lies beyond, we will continue to ceaselessly reform and make ongoing contributions in line with society’s developments. In this manner, we will continue striving to be the entity that humankind and society wishes to exist.

To realize the objectives of this Long-Term Vision, we will strategically and organically leverage our management resources, including our technological, human, and financial (capital) resources.

MHI’s Vision and Steps toward Its Realization

Addressing Social Issues through Our Businesses

Management Strategies

Financial and Non-Financial Data, Corporate and Stock Information

Fundamentals Supporting the Company

Overall (CEO)

President’s Message → Page 12

Finance (CFO)

CFO’s Message → Page 20

Strategy (CSO)

CSO’s Message → Page 26

Technology (CTO)

Technology Strategy → Page 28

Human Resources (Standing Executive in charge of HR)

Human Resource Strategy → Page 30

Corporate Governance (GC) → Page 35
2018 MEDIUM-TERM BUSINESS PLAN: A NEW STEP TOWARD A SUSTAINABLE GROWTH TRAJECTORY

The 2018 Medium-Term Business Plan is a three-year plan to realize MHI Group as a corporate entity that achieves global-level sustainable growth with a view to the future. The plan takes a more forward-thinking approach beyond the 2018 Medium-Term Business Plan and takes a new step toward a sustainable growth trajectory.

1 Achieve Global Corporate Structure

**KEY POINTS**
- Achieve a Business Scale of ¥5 Trillion
- Achieve Well-balanced Management through TOP

Thanks to past initiatives, we were able to strengthen our financial foundation beyond our original targets. During the 2018 Medium-Term Business Plan we will allocate capital primarily to future growth in order to expand business scale from ¥4 trillion to ¥5 trillion. At the same time, we will aim to achieve the Triple One Proportion (TOP), which is the ideal balance of business scale, total assets, and market value at a ratio of 1:1:1.

<table>
<thead>
<tr>
<th></th>
<th>FY2017 (actual)</th>
<th>FY2020 (target)</th>
<th>Market value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥4.1 Trillion</td>
<td>¥5.0 Trillion</td>
<td>¥1.3:0.3</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥5.5 Trillion</td>
<td>¥5.3 Trillion</td>
<td></td>
</tr>
<tr>
<td>Market value</td>
<td>¥1.4 Trillion</td>
<td>¥3.0 Trillion</td>
<td></td>
</tr>
<tr>
<td>TOP</td>
<td>1:1.3:0.3</td>
<td>1:1:0.6</td>
<td></td>
</tr>
</tbody>
</table>

Next target:
- ¥5.0 Trillion
- ¥5.0
- ¥5.0
- 1:1

2 Embed Business Structure Reforms

**KEY POINTS**
- Evolve Domain System
- Strengthen and Embed Risk Management
- Strengthen Global Management and Develop Human Resources

MHI Group has conducted various business structure reforms, such as introducing the strategic business evaluation systems (SBU*) and domain structure, and reviewing business portfolios. We have also focused on cultivating a risk management approach and developing human resources by strengthening risk analysis and management. To further promote these reforms and entrench a controlled risk-taking culture during the 2018 Medium-Term Business Plan, we will continue to enhance our global management, create an engaging corporate culture, and develop human resources. These will enable us to gain resilience against uncertainties and adaptability to change, which will become a strong foundation for sustainable growth. We will use this foundation and TOP management to build a stronger global corporate structure.

* SBU: Strategic Business Unit

3 Implement Growth Strategies: MHI FUTURE STREAM

**KEY POINTS**
- Restructure the MRJ Business
- Transform the Structure of the Thermal Power Generation Business
- Reinforce the Mass and Medium Lot Manufactured Products Business

Under the 2018 Medium-Term Business Plan, we aim to create growth strategies based on our Long-Term Vision leveraging MHI FUTURE STREAM, and address two urgent tasks: to radically reinforce the structure of the MRJ business and to transform the structure of the thermal power generation business. At the same time, we would like to allocate adequate resources to the mass and medium lot manufacturing business that has been expanding its scale and profits over the past few years. We are aiming not only to expand business but also to shorten the payback period. However, the mass and medium lot manufacturing business is susceptible to market volatility. Therefore, we need to maintain an ideal balance between medium and long-term resource allocation to pursue the stable growth of the entire MHI Group.

The 2018 Medium-Term Business Plan is a three-year plan to realize MHI Group as a corporate entity that achieves global-level sustainable growth with a view to the future. The plan takes a more forward-thinking approach beyond the 2018 Medium-Term Business Plan and takes a new step toward a sustainable growth trajectory.
MEMBERS OF THE BOARD OF DIRECTORS
As of July 1, 2018

President and CEO:
Shunichi Miyanaga

Chairman of the Board:
Hideaki Omiya
(Former Professor, The University of Tokyo, Policy Alternatives Research Institute)

Director, Executive Vice President, CSO,*3
and Head of Business Strategy Office
Seiji Izumisawa

Director, Senior Executive Vice President, CFO*2
Masanori Koguchi

Director:
Naoyuki Shinohara
(Chairman of the Board, Mitsubishi Corporation)

Director:
Shinichiro Ito
(Chairman of the Board, ANA Holdings Inc.)

Director:
Ken Kobayashi

Director, Audit and Supervisory Committee Member
Nobuo Kuroyanagi
(Senior Advisor, MUFG Bank, Ltd.)

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

Director, Full-time Audit and Supervisory Committee Member
Hiroki Kato

Director, Full-time Audit and Supervisory Committee Member
Toshifumi Goto

Director, Full-time Audit and Supervisory Committee Member

Directors:
Ken Kobayashi

Directors:
Shinichiro Ito

Directors:
Ken Kobayashi
Review of the 2015 Medium-Term Business Plan:
Reasons behind Unachieved Targets, and Results of Structure Reforms

Fiscal 2017 marked the end of our three-year Medium-Term Business Plan launched in fiscal 2015. Regrettably, the numerical targets we had set for business scale expansion and profitability enhancement went unachieved.

Our operating income worsened for two main reasons: deterioration of our business environment, particularly the thermal power systems market, and the MRJ’s delayed development and increased development costs. In response we implemented a variety of measures, but improvement during the period of the 2015 Medium-Term Business Plan was rather limited. In retrospect we must recognize our shortcomings—including our inadequate resiliency to cope with these unanticipated turns of events and insufficient flexibility in planning.

Amid these adverse conditions, we did however achieve some targets and score some positive results. Through rigorous cash flow management, balance sheet improvement, and robust asset management, we continued to generate a robust free cash flow after absorbing the MRJ’s development costs, the burden from the South Africa project, and outlays related to other issue-laden projects. In fiscal 2017 free cash flow reached ¥200 billion—the target we had set in our 2015 Medium-Term Business Plan. We also scored progress in reducing our interest-bearing debt and recorded a historically low debt/equity ratio of 38%, resulting in a solid financial foundation.

In addition, having learned the necessity of responses to challenges in our large-scale engineering business and new business areas, we focused on improving and reinforcing our risk management structure. The various business structure reforms we launched in earnest in our 2012 Medium-Term Business Plan, including corporate governance reforms, neared completion, clearly paving the way toward a new growth phase.

Key Business and Financial Results

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Sales (trillions of yen)</th>
<th>Operating Income (billions of yen)</th>
<th>Free Cash Flow (FCF), excluding extraordinary factors* (billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-2007 avg.</td>
<td>2.82</td>
<td>85.7</td>
<td>16.1</td>
</tr>
<tr>
<td>2008 Business Plan avg.</td>
<td>3.16</td>
<td>106.4</td>
<td>21.9</td>
</tr>
<tr>
<td>2009 Business Plan avg.</td>
<td>2.86</td>
<td>221.9</td>
<td>39.5</td>
</tr>
<tr>
<td>2010 Business Plan avg.</td>
<td>3.39</td>
<td>320.5</td>
<td>41.5</td>
</tr>
<tr>
<td>2011 actual</td>
<td>4.05</td>
<td>159.5</td>
<td>4.5</td>
</tr>
<tr>
<td>2012 actual</td>
<td>3.97</td>
<td>124.4</td>
<td>4.1</td>
</tr>
<tr>
<td>2013 actual</td>
<td>6.11</td>
<td>124.4</td>
<td>5.5</td>
</tr>
<tr>
<td>2014 actual</td>
<td>4.80</td>
<td>124.4</td>
<td>5.5</td>
</tr>
<tr>
<td>2015 target</td>
<td>5.00</td>
<td>124.4</td>
<td>5.5</td>
</tr>
<tr>
<td>2017 actual</td>
<td>358.7</td>
<td>207.9</td>
<td>200.0</td>
</tr>
</tbody>
</table>

*Expenditures relating to the cruise ship construction business, development of the MRJ, and the power plant project in South Africa; also, earnings accrued from asset management initiatives.

Slow business scale growth, missed operating income target
> Responded to unanticipated changes in external environment, but effect of improvement measures were limited during period of 2015 Medium-Term Business Plan
> MRJ development delays and cost increases

V$200 billion FCF target achieved
> Burden from the power plant project in South Africa, MRJ, etc. absorbed through CCC improvement and other measures

Based on the solid management foundations we established through our agenda of structure reforms, today we are on the threshold of a sustained growth trajectory.

Shunichi Miyanaga
President and CEO
TOP Concept:

Well-balanced Management Serving the Needs of Customers, Investors, and the Company

The history of humankind has been a progression from a lengthy period as an agrarian society to the industrial society that emerged after the Industrial Revolution. Today, society is once again in the throes of vast changes, this time caused by information and communication technologies, bringing us to the threshold of a new era—a “super-smart” era referred to in Japan as “Society 5.0.” Although machine-based industry, our sphere of excellence, won’t lose its value going forward, the world of tomorrow will clearly see new levels of demand for information, services, and systems. Moreover, society today is advancing with ever-quicker speed, the environment undergoing transformations at a dizzying pace.

Starting from fiscal 2018, MHI Group is now pursuing a shift toward a more aggressive stance based on the management foundations we built up during the years of our 2015 Medium-Term Business Plan. To succeed, we will need to get a firm grasp on social changes expeditiously, and to respond continuously to the needs of both society and our stakeholders.

Toward achievement of those objectives, we have created a new management concept called “Triple One Propotion” (TOP). TOP’s target is to achieve a favorable balance—in the form of a 1:1:1 ratio—between net sales, total assets, and market value. The concept, which evolved out of commonly shared social values such as the environmental, social, and governance (ESG) criteria and the United Nations’ Sustainable Development Goals (SDGs), maintains keen cognizance of the needs of our customers, our investors, and MHI itself. We believe TOP will serve as a guidepost along the path toward reaching our next phase.

MHI FUTURE STREAM:

A Continuous Flow of Reforms to Keep MHI Always Needed by Society

In order for MHI Group to remain an entity needed by society long into the future, it is vital that we provide the technologies and services required at each stage along the steady advance of society. Today, we consistently focus on projecting what society will need, what role we can play, and how we can contribute to society 10 or 20 years into the future. We ourselves must change accordingly.

To respond to evolutionary changes in society, clearly we must proactively incorporate cutting-edge technologies and expertise in areas such as IoT and AI. But at the same time, we must also pay close heed to matters including climate change, demographic trends, and shifts in industrial structure.

Earlier, in the days when Japan prospered on the strength of its steel and marine transport industries, MHI sustained growth, in tandem with Japan’s economic development, by providing products and services to domestic customers. But with the rise of the emerging economies and developments in globalization, MHI’s core markets shifted from Japan to other countries, thrusting MHI into a protracted period of sluggish performance.

Today, in some of our business areas—air-conditioning and refrigeration systems and turbochargers, for example—production is expanding outside Japan as the overseas markets become our main markets. Even so, we need to always give constant consideration to where society’s needs are at present and how they are changing, and recalibrate our business portfolio continuously.

Recently, as a vision expressing our ongoing reform agenda toward realizing a sustainable planet, we have launched “MHI FUTURE STREAM.” Like a stream whose flow never ceases, our new concept embraces a spirit of sustained self-reinvention.

MHI possesses not only a wealth of diverse machine technologies but also a plethora of related elemental technologies accumulated through the years. In order for us to provide services matching the needs of the times, these various technologies must be adeptly combined, making full use of AI, IoT, and outside knowledge, to enable innovations that will lead to new areas of business.

In continuously taking up new challenges, obviously the outcome is at times success but at other times failure. Going forward, making active use of the know-how in risk resilience that we have cultivated over the years, we will shun bold and reckless initiatives and instead pursue “controlled risk-taking” that will enable us to carry out carefully planned challenges.

With this “controlled risk-taking” in mind, by undertaking activities continuously with a spirit of entrepreneurship, I am confident that we can be reborn as an all-new type of machine manufacturer.
The 2018 Medium-Term Business Plan: New Step toward Sustained Growth

Now that our agenda of business structure reforms is near completion and the various issues we confronted in recent years have been addressed, we are ready to proceed to the next phase. We see the 2018 Medium-Term Business Plan—a three-year program commencing in fiscal 2018—as the new step toward putting MHI on a sustained growth path. Under this new plan we will take the business structure reforms implemented until now and apply them throughout our Group, and also drive our growth strategies forward, based on our Long-Term Vision, toward realizing a corporate structure having growth potential and sustainability on a global level.

Our numerical targets set for fiscal 2020* look for orders received and net sales of ¥5 trillion, profit from business activities of ¥340 billion, profit attributable to owners of the parent of ¥170 billion, and ROE of 11%. We also aim for total assets of ¥5.3 trillion and market value of ¥3 trillion—two of our TOP indicators.

We believe that a business scale of ¥5 trillion is necessary to enable a conglomerate such as MHI Group, that encompasses numerous mature product businesses, to continue making necessary investments and continuously grow, and also to pursue scale merits within the global markets.

One measure newly implemented to put MHI Group on a solid growth trajectory is the introduction from fiscal 2018 of the position of Chief Strategy Officer (CSO). Through the period of the 2015 Medium-Term Business Plan, the CFO simultaneously served as CSO, partly because highest priority was being accorded to business structure reforms and the establishment of a strong financial foundation. We took the decision to create an independent CSO as a cornerstone of growth-oriented global management, strongly determined to achieve enhanced allocation of our management resources—financing, technologies, human resources, etc.—and continuous review and recalibration of our portfolio.

Going forward, we will strive to achieve the numerical targets of our 2018 Medium-Term Business Plan by investing more resources into mass and medium lot manufactured product businesses such as forklift trucks and air-conditioning & refrigeration systems—areas that are in expansive market trends and posting robust earnings—and by forming a new business model recalibrating our business portfolio while simultaneously responding to megatrends such as climate change and digitalization.

Two Businesses Hold the Key:
Radical MRJ Reinforcement and Structural Conversion of Thermal Power Systems Business

Within the 2018 Medium-Term Business Plan, two businesses will play especially critical roles: the MRJ and thermal power systems.

The MRJ business was placed under direct oversight by the CEO starting in fiscal 2016, and since that time the project has progressed according to schedule toward delivery of the first MRJ90—a 90-seat passenger jet—in fiscal 2020. One major hurdle that must be overcome is acquisition of type certification, i.e. safety authorization, and remaining issues and their solutions have now been clarified, making the outlook clearer than ever before. Going forward, development will continue to be accelerated and the MRJ business structure will be radically reinforced, including increasing the capitalization of Mitsubishi Aircraft Corporation, the entity in charge of the MRJ’s development. Through restructuring to a business that can endure a prolonged development period—for example, by strengthening sales and customer support structures, shifting to full-scale development of the MRJ70, and reinforcing links with the commercial aircraft (Tier 1) business—our intention is to develop the MRJ business into a major pillar of our operations in the years ahead.

The thermal power systems business, sustained by a substantial order backlog, will continue to operate at full throttle through fiscal 2020. During that period we will continue to pursue enhanced profitability through efficient work performance, plant reorganization, reallocation of staff, and expansion of servicing operations. Simultaneously we will also focus on converting the business structure with a view toward the years beyond fiscal 2020. Through the years MHI, as a global frontrunner in the industry, has already made ongoing contributions to reducing environmental burdens by improving thermal power generation efficiency, developing CO₂ recovery systems, etc. Going forward, in line with changing social needs—for example, the shift from fossil fuels to renewable energies and increased adoption of distributed power sources—we will build a new business model incorporating digitalization.
**Reinforcement of Our Management Base:**

**Culture and Mechanisms for Global Growth**

In order for MHI to get on a growth trajectory, most important will be to take our attention to cash flow management and our fixed focus on earnings—out-growth of the reforms we have carried out to date—and embed them into the deepest corners of all MHI Group companies both at home and abroad, thereby forming a new corporate culture. It may take some time, but it is imperative that we share this awareness and develop a corporate culture in which we can take up new challenges with confidence.

In terms of corporate structure, on the occasion of relocating to Tokyo’s Marunouchi district in January 2019 we will establish a new global headquarters, marking the launch of a full-fledged global management structure. Already overseas sales account for more than half our annual net sales, and in the coming years the percentage is expected to increase further, making global response capability indispensable. The global headquarters will take charge of formulating all Company strategies and allocating management resources. Meanwhile the business segments/SBUs*1 and regional headquarters will implement management and strategies suited to the traits of their respective regions. In these ways, we will pursue robust growth while maintaining a good balance between global and local needs.

Additionally, we believe that developing and making excellent use of human resources to perform global management will also be of extreme importance. In this regard we will carry out various measures that will contribute to sustained growth: for example, developing human resources based on a medium- to long-term perspective, and appointing officers from a younger generation.

In 2004 MHI became a signatory to the UN Global Compact. In addition to carrying out its Ten Principles on human rights, labor, the environment, and prevention of corruption, in 2015 we formulated the “MHI Group Global Code of Conduct” indicating rules of behavior for all MHI Group employees to follow. Going forward, we will continue to conduct our business activities with sincerity and high ethical standards appropriate to a global company.

**To Our Stakeholders:**

**We Will Strive to Fully Explain Our Growth Process**

To achieve TOP, the area requiring improvement most is our market value. Up to now we have used considerable time to respond to various challenges, but now that resolution of these issues is in sight, my determination is to win awareness by all our stakeholders that we have now entered a growth trajectory.

Of course, registering solid results is imperative. But at the same time, I hope to win the market’s trust by fully and promptly explaining, to a degree never seen before, the situation we are in and the results we achieve.

As all members of MHI Group continue to reinvent themselves and strive toward their goals, I am confident we can become the entity we seek to be.

I humbly ask all our stakeholders to keep a close eye on MHI as we mark solid growth in the years ahead.
CFO’S MESSAGE

In pursuit of Triple One Proportion, we will undertake growth investments while maintaining financial soundness.

Masanori Koguchi
Director, Senior Executive Vice President, CFO

Stronger Financial Foundations through Focused Cash Flow Management

For many years MHI Group evaluated its operating status using the financial measures of orders received, net sales, and income. All those measures were indications of results, however, and they proved insufficient for detecting management issues or contributing to activities to enhance our corporate value. The outcome was entrenched stagnation of our business scale, sluggish income levels, and a severe financial situation.

As opposed to focusing on results, I believe we need to monitor free cash flow and quality of orders received—profit potential at the time of order receipt—as effective leading indicators. Particularly in the case of MHI, we know that free cash flow has a close correlation with our income levels two to three years into the future. Furthermore, free cash flow indicates the overall state not only of our profit/loss statements but simultaneously also of our balance sheets, and for that reason I think free cash flow is the management index most appropriate for evaluating our balance sheets—an area we previously paid relatively less attention to.

Reflecting these changes in perspective, starting around 2010 we made a significant shift toward management focused on cash flows.

Cash flow has two constituent components: one derived from income and the other generated from the balance sheets. Whereas the former is vulnerable to outside factors, the latter can be generated without external input.

At the time of the financial crisis of 2008, I was serving as Senior General Manager of what was then the Finance Department, and I was gripped by the fear that we might run out of cash. From that experience I began speaking out on the importance of cash flow throughout the Company: to people in sales and procurement, in engineering, on the factory floor, everywhere. After that, our measures of working capital* and cash conversion cycle improved markedly, and I think cash flow management has now taken firm root as our corporate culture. Improving cash flow not only increases the amount of freely available capital, it also facilitates investments and boosts risk resilience. Perhaps more significantly, as an abundant cash flow enables improvements in production efficiency and business terms, it also leads to greater business competitiveness.

Our shift to management focused on cash flow, together with various initiatives implemented starting with our 2012 Medium-Term Business Plan, enabled us to generate huge cash flows from fiscal 2010 onward. This abundant cash has funded appropriate cyclical investment into existing businesses, entirely met what are in a sense our “non-cyclical” capital needs—MRJ development costs, losses suffered in our cruise ship construction business, and construction costs relating to the South Africa project, for example—and also enabled us to reduce our interest-bearing debt. Dealing with these numerous issues, achieving financial soundness, and building up new cash reserves for tomorrow’s growth qualifies as a major accomplishment.

Masanori Koguchi
Director, Senior Executive Vice President, CFO

In pursuit of Triple One Proportion, we will undertake growth investments while maintaining financial soundness.

Key Financial Results

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest-bearing debt (billions of yen)</th>
<th>D/E ratio</th>
<th>Working capital improvement and squeezing (CCC Improvement) Asset management</th>
<th>Working capital improvement and squeezing (CCC Improvement) Asset management</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,325.4</td>
<td>1.01</td>
<td>Affected by acquisition of UniCarriers</td>
<td>Affected by acquisition of UniCarriers</td>
</tr>
<tr>
<td>2011</td>
<td>1,157.1</td>
<td>0.89</td>
<td>Investment increased</td>
<td>Investment increased</td>
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<tr>
<td>2012</td>
<td>1,031.2</td>
<td>0.87</td>
<td>Investment decreased</td>
<td>Investment decreased</td>
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<tr>
<td>2013</td>
<td>977.5</td>
<td>0.81</td>
<td>Investment decreased</td>
<td>Investment decreased</td>
</tr>
<tr>
<td>2014</td>
<td>925.5</td>
<td>0.72</td>
<td>Investment decreased</td>
<td>Investment decreased</td>
</tr>
<tr>
<td>2015</td>
<td>853.1</td>
<td>0.64</td>
<td>Investment decreased</td>
<td>Investment decreased</td>
</tr>
<tr>
<td>2016</td>
<td>790.3</td>
<td>0.46</td>
<td>Investment decreased</td>
<td>Investment decreased</td>
</tr>
<tr>
<td>2017</td>
<td>727.9</td>
<td>0.38</td>
<td>Investment decreased</td>
<td>Investment decreased</td>
</tr>
<tr>
<td>2018</td>
<td>657.9</td>
<td>0.34</td>
<td>Investment decreased</td>
<td>Investment decreased</td>
</tr>
<tr>
<td>2019</td>
<td>601.0</td>
<td>0.40</td>
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<tr>
<td>2020</td>
<td>540.0</td>
<td>0.37</td>
<td>Investment decreased</td>
<td>Investment decreased</td>
</tr>
</tbody>
</table>

* Working capital = Trade receivables + Inventories - Trade payables - Advanced payment received on contracts on a Companywide basis.
TOP (Triple One Proportion) Concept

In the 2018 Medium-Term Business Plan launched this fiscal year, we adopted a comprehensive new key performance indicator (KPI) of our own invention to measure the operating status of MHI Group as a manufacturer. Known as “Triple One Proportion” (TOP), the concept’s ideal is an equal balance—1:1:1—among three management factors: net sales (business scale), total assets, and market value.

The underlying basis of TOP is our balance sheets (total assets). The fundamental role of corporate management, I believe, is to strive to maximize output—business scale, corporate value, etc.—through skillful use of the balance sheets. In order to provide ever-better products and services, we require advanced technologies, the newest production facilities, an expansive sales network, and an efficient after-sale servicing structure, and these are all projected in the balance sheets.

The second constituent component of TOP, net sales (business scale), indicates how many business opportunities were created by the balance sheets and whether success was achieved in providing products to customers through market competition. By comparing business scale and the scale of the balance sheets, judgment can be rendered as to whether or not the balance sheets are efficiently generating business scale.

Regarding TOP’s third component, market value, this is determined by a variety of factors. I believe the factor pulling the greatest weight is the steady income level generated through corporate activities.

Stated simply, if, for example, a net profit margin of 6% can be achieved with a business scale of ¥5 trillion, then profit attributable to owners of the parent is ¥300 billion. If MHI Group’s capital cost ratio is 6%, then market value is ¥5 trillion divided by the 6% capital cost of ¥300 billion in profit attributable to owners of the parent (¥5 trillion / 0.06 = ¥300 billion).

Viewing the three constituent components of TOP from a different angle, one can also say that balance sheets indicate efficiency and quality from management’s perspective, business scale is indicative of satisfaction from the customers’ perspective, and market value is corporate value from the investors’ perspective. In short, when TOP is achieved, favorable levels of satisfaction are achieved from the respective viewpoints of management, customers, and investors.

At the end of fiscal 2017 MHI Group had net sales of ¥4.1 trillion, balance sheets in the amount of ¥5.5 trillion, and market value of ¥1.4 trillion. In the context of TOP, the balance sheets are thus generating about ¥4.1 trillion below target in business scale and market value is short by roughly ¥4.1 trillion. In order for these situations to improve and MHI Group to increase its value continuously, a suitable cash flow and sustained business scale to guarantee that flow are indispensable. Stated another way, if we continue to provide products of high quality and services that meet social needs, then MHI Group will be able to achieve a suitable cash flow to drive its growth and continuously raise its corporate value. Maintaining a balance between business and finances and seeking to maximize corporate value within this framework are the crucial points of our financial strategies in the 2018 Medium-Term Business Plan and onward.
Financial Strategies in the 2018 Medium-Term Business Plan

During the three years of the 2018 Medium-Term Business Plan, we are placing greater weight on “dynamic” capital allocation, including quick-impact growth investments, based on the financial foundations formed under preceding Business Plans and our newly earned cash flow.

Over the next several years we plan to invest an additional ¥200 billion into the MRJ project in the run-up to delivery of the first aircraft, currently scheduled for fiscal 2020; the end of the aircraft’s development phase is now in sight. Construction work on the issue-laden thermal power plant project in South Africa is also thought to have peaked. In view of these improving situations, in the three years starting fiscal 2018 we plan to make dynamic investments totaling ¥960 billion, mainly directed into new businesses.

Among MHI Group’s various businesses, those that account for 70% of total net sales have already achieved TOP, and their earning capacity is stable. Going forward, we seek to improve cash flow generating capacity and earning capacity by further strengthening these businesses and steadily addressing challenging businesses that require more attention.

Our interest-bearing debt meanwhile is sufficiently low, and therefore rather than reducing debt, we aim to increase our shareholder returns. In fiscal 2018 we are planning to increase our dividend per share by ¥10, to ¥130, and in fiscal 2020 we hope to target ¥180.

To Our Shareholders and Investors

Among our shareholders and investors, some may be of the opinion that given the relative maturity of many of our businesses, MHI Group is retaining an excessive level of capital. However, a relatively flush amount of capital is necessary until we complete development of the MRJ and get the MRJ business, a major pillar of our future growth, on track. That said, our overriding aspiration is to, to the extent possible, to simultaneously undertake MRJ investments and provide solid shareholder returns. As a standard measure, MHI Group has set a payout ratio of 30%—a figure that excludes impact from the MRJ. (When MRJ investment is factored in, the ratio is slightly higher.)

For MHI Group to achieve sustained growth, we have to create businesses that will become new pillars of strength 20 to 30 years into the future. In retrospect we have confronted a variety of difficulties through the years, but nonetheless our dividends have steadily increased—a manifestation of the steady improvement of our management capabilities.

At the same time, though, a gap still remains between our current market value and the level we aspire to. Achieving TOP is the path toward bridging that gap, and we will devise an array of management measures toward reaching that goal. Through robust dialogue with the market, we will continue to convey precisely what MHI Group is doing as we set out toward our next growth phase.

### Dividend per share

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>¥80</td>
</tr>
<tr>
<td>2014</td>
<td>¥110</td>
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<tr>
<td>2015</td>
<td>¥120</td>
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<td>2018</td>
<td>¥130</td>
</tr>
<tr>
<td>2019</td>
<td>¥180</td>
</tr>
<tr>
<td>2020</td>
<td>¥180</td>
</tr>
</tbody>
</table>
CSO’S MESSAGE

Roles of the CSO

Starting in fiscal 2018, MHI Group has taken a new step in its quest to enter a sustained growth trajectory toward becoming a conglomerate with global levels of continuity and growth potential. This year, to vigorously advance growth-oriented Group management, the office of Chief Strategy Officer (CSO) was newly instituted. The duties of the CSO are to determine how to allocate and utilize Groupwide management resources, and then to play a leading role in propelling the strategies, taking market trends and social needs into consideration. In short, my core duties are to devise growth strategies and to promote globalized management.

Growth Strategies for Tomorrow

At MHI Group today, growth strategies encompass two types of initiatives: initiatives toward achieving the targets of the 2018 Medium-Term Business Plan, and initiatives taken from a medium- to long-term perspective considering the subsequent Business Plan.

With regard to the former, as CSO I closely monitor the progress being achieved toward the targets set for each SBU, confirm whether the resources needed to compete globally are being properly allocated as planned, and when necessary I promptly prepare any additional measures that are needed. In that respect, coordination with the other Chief Officers—the CFO and CTO, for example—is vital, so I communicate with them closely on a regular basis.

Regarding our longer-range initiatives, as we have set out in “MHI FUTURE STREAM,” our focus is on developing and creating new technologies, new products, and new business models that respond to current and future social challenges.

Previously, MHI Group tended to first develop technologies and then apply them in its business operations, or we made products we ourselves thought were good and supplied them to our customers. Then starting around 10 years ago, top management began striving to change such tendencies. What I aim to do now as CSO is consider what social challenges currently exist, decide into which areas we should invest our resources, and in what amounts, in order to solve those social issues, and then develop growth strategies that further integrate our technologies and our various businesses. Then, based on those growth strategies, I will continuously review and recalibrate our business portfolio.

MHI-style Global Management

In recent years, in tandem with ongoing globalization, MHI Group is increasingly establishing new Group companies individually capable of more nimble and flexible business operations. As a Group that undertakes myriad operations worldwide, with employees from backgrounds of remarkable diversity, we will pursue local management attuned to each specific location. Meanwhile, we will simultaneously strive to enhance the cohesive strength of MHI Group as a whole, in order to avail ourselves fully of the advantages we possess as a conglomerate.

Our pursuit will focus not on the Japanese-style management of the past, nor on a copy of Western-style management. Ours will be a global management style unique to MHI.

At the same time, we have aspects of our corporate culture that we want to pass on to future generations. I believe MHI should be a Group that provides safety, peace of mind, and comfort to people all around the world. Our insistence on delivering ever-better products to the customer that they can use with peace of mind—better not just in terms of monozukuri, the traditional concept of Japanese craftsmanship, but also with respect to kotozukuri, loosely translatable as value creation—and our professionalism are things we do not want to change.

I also believe that we can improve ourselves by providing new solutions and resolving issues faced by the customer through combinations of our products and services. To that end, collaboration between Group companies and crossing segment boundaries is indispensable. As an example, a variety of approaches can be taken toward today’s low-carbon and carbon-free trends, such as integrating products that promote greater power generation efficiency, systems for recovering CO2, and products that use hydrogen fuel. What I aim for is to nurture a corporate culture in which, before the customer even voices a demand, we proactively propose solutions of high added value that make optimal use of the broad spectrum of our business areas.

Through optimal allocation of management resources, I will execute growth-oriented Group management.

Seiji Izumisawa
Director, Executive Vice President, CSO
Realization of Conglomerate Synergies

Under our “Shared Technology Framework,” MHI Group is striving to strengthen its technological and marketing infrastructures, optimize the value chain across the Group (including procurement), and reinforce the competitiveness of its businesses in the medium-to-long term. MHI Group handles a greater variety of products than its competitors, and in order to turn this product diversity into competitiveness, we are promoting Groupwide technology and knowledge sharing in product development. Applying cutting-edge technology from gas turbine development to numerous other products, such as centrifugal chillers, and turbochargers is one example of what we are doing to realize conglomerate synergies by technology and knowledge sharing.

Promotion of MHI FUTURE STREAM

Today’s business environment surrounding MHI Group is both complex and uncertain owing to changes in social needs arising from climate change, urbanization, population aging, and other serious issues. In the energy field, for example, as the supply/consumption structure changes, use of renewable energies will expand and consumers will increasingly adopt electricity over other energy sources. Accordingly, MHI Group today is required to achieve continuous growth while responding to society’s evolving needs with agility and flexibility, and simultaneously contributing to realization of a sustainable planet.

To achieve those multiple aims, MHI Group is now implementing a program known as “MHI FUTURE STREAM.”

Under this program, we are scanning for both new business opportunities and potential business threats based on social mapping long into the future, to enable us to create measures for medium- to long-term shifts of our existing businesses. Specifically, we will pursue innovations in mobility and logistics, a clean recycling-oriented society, robotics, and other areas that will enable the achievement of a low-carbon and then carbon-free society, and resolve urban problems. To realize these shifts, today we are scouting for and investing in cutting-edge technology in a quest for new products, services, and businesses. In implementing MHI FUTURE STREAM, we will make active use of the Shared Technology Framework’s multifaceted market and technology sensing capabilities, and also pursue synergies by introducing and actively using innovative outside knowledge and technology through open innovation together with Innovation Accelerator LLC, established in April 2018, and centers of excellence.

Active Use of AI

Today MHI Group is actively applying artificial intelligence (AI) technology to diverse products and production facilities. Areas of application include work navigation systems, operation monitoring, malfunction detection and diagnosis, operation optimization, product inspection, automated welding, and scheduling.

In areas relating to business processes, we have begun applying a “contract risk reduction system” jointly developed with IBM to actual projects, as a way of enhancing our risk management. Furthermore, we are also applying AI to design work and to analysis of big data such as information on our business partners and expenditures, as a way of making our procurement operations more advanced and efficient. We will continue focusing on these initiatives going forward.

Promotion of MHI FUTURE STREAM

Creative expansion of added value and entering into new business domain

Make active use of ST framework’s multifaceted market and technology sensing capabilities

Introduce and actively use innovative outside knowledge and technologies (Innovation Promotion Research Institute, etc.)
Our goal is to be a flexible and diverse global company where all members can work with confidence.

Hideaki Yanai
Executive Vice President, Standing Executive in charge of HR, and Human Resources & Labor Relations Department Manager

In our 2018 Medium-Term Business Plan announced in May 2018, we established two core HR-related strategies. Going forward, we aim to cultivate a vibrant and diverse corporate culture and to develop the human resources needed to drive sustained growth into the future.

Promoting Group Members’ Engagement and Enhancement of Organizational Strength

As the driving force that will enable our sustained growth and development, MHI must become a company where the diverse people who support our Group activities all work with confidence, and to achieve that goal we will focus on promoting Group member engagement and enhancing our organizational strength. Specifically, we will concentrate on 1) internal sharing of strategies, visions, and goals, 2) reform of work practices, including more flexible delegation of authority (subsidiarity), review of rules, and improvement of work processes and content, and 3) review of our HR systems and their operation. Making active use of employee awareness surveys, we will implement these measures throughout the Company on a continuous basis.

In conjunction with our pursuit of greater diversity in management, today we are vigorously promoting active participation by female employees. In July 2014 we set a target of expanding our ranks of women in management positions—i.e. Section Manager and higher—threefold by 2020. We are focusing on four areas: 1) expansion of the total number of female employees, 2) support of female employees who are raising children or caring for relatives by providing opportunities for female managers to work on project basis, 3) planned development of female managers, and 4) nurturing of an open and diverse corporate culture. In pursuit of flexible workstyles that will enable employees who have given birth or who are raising children to return to their jobs as early as feasible, we are enhancing our systems enabling shorter work hours or telecommuting. We are also creating an environment and mechanisms that will enable female employees to advance further in their career, through informal gatherings of employees on leave for childrearing, seminars on providing nursing care, and training programs starting with young employees.

Acquisition and Retention of Global and Regional Managerial Talent

To achieve sustainable business development well into the future, MHI is pursuing the establishment of a flexible and diverse global management system. In order to continuously produce and secure global and regional managerial talent at every level to serve as the driving force of our corporate growth, HR will accelerate the following initiatives in carrying out the 2018 Medium-Term Business Plan:

- Redefine criteria such as experience, qualifications, etc. required in management positions
- For Section Manager and higher, select candidates for future executive positions under a new framework based on the redefined requirements cited above
- For the candidates selected above, introduce a development process focused on younger employees that will provide them the experience needed as executives and enable them to proceed along the evaluation cycle

Going forward, we will also take steps to achieve earlier appointments and expand diversity in officers and executives, striving to produce and thereby manage professional talent in various ways; for example, by creating and applying more flexible compensation systems with incentives suited to global management and global mobility policies affecting international assignments.

In addition, as a cross-regional measure, we are now implementing a development program targeted at expanding horizons through acquisition of management literacy and HR exchanges with other regions. Under this program, outstanding middle managers recommended from Japan, the Americas, Europe, and Asia gather together in India. The program is effective in energizing our Group members from every region and nurturing a sense of unity among them.

Furthermore, to secure outstanding human resources irrespective of nationality, we are implementing the following measures making use of the special traits of each region:

- U.S. / Europe: Acquisition of superior personnel through introduction of talent acquisition platforms and active use of social media
- Asia: Reinforcement of HR development functions through provision of development programs common to the Asia region

Through these measures, we are seeking to promote active use of diverse human resources as never before, hopeful that doing so will lead to a stronger global management system.
MHI is globalizing its management and operations. What are the goals from managerial perspectives? What changes are occurring and what challenges do we have in the workplace? Here we will share a discussion in English between Prof. Ahmadjian (outside director, member of the Board, Audit and Supervisory Committee member) and five members of the Global Finance & Accounting Department.

Globalization is not a goal, but a method

Ahmadjian: To my mind, a finance department is a group of relatively homogeneous specialists, but the people gathered here today seem to have followed a variety of career paths. What do you think are some of the benefits of having such diversity in the workplace?
Arakawa: We have been working to make our operations more visible and more global. Explaining to people with different career paths how to go about their roles and operational responsibilities in the Global Finance & Accounting Department has made our operations more visible. We have begun using English for internal communications since Ms. Jagoda-Schauwecker joined our team. In that sense, communication has become smoother in the video and telephone conferences we hold with finance subsidiaries around the world.

Nakayama: I agree. It has allowed the Global Finance & Accounting Department to embrace a new form of communication and begin new activities like the global workshop with finance staff members from around the world.

Hirowatari: Another big benefit is that it gives employees a higher level of confidence through interactions with overseas members. It also offers various ideas, which broadens our perspectives.

Jagoda-Schauwecker: When I joined MHI, I encountered new situations almost every day, some of which were challenging. It is not always easy to decide whether differences, for example in working style, are based on the uniqueness of Japanese culture, MHI’s culture, or the working culture within my team. In this way, I learn new things every day.

Arakawa: With foreign or mid-career members in the team, it is important that everything is explained clearly and precisely to ensure they are on the same page. While this may seem to be just additional work, it can actually give you a more comprehensive understanding of all your operations, including the tasks you might usually overlook, which then leads to reducing unnecessary errands and making for more efficient operations overall.

Nakayama: Exactly. I believe it ultimately fosters a significant competitive edge for the Company. Globalization is not our end goal; rather it is just one method of growth.

We are only at the beginning

Ahmadjian: What are your opinions on the current state of globalization in MHI Group?
Arakawa: Well, although the Company has been promoting globalization, we still have a long way to go. Currently, the flow of human resources tends to be one-way; we have many Japanese employees working overseas, but not many foreign employees working in Japan. We need to put more emphasis on making this a mutual exchange.

Nakayama: Many Japanese employees who are currently working overseas may find it difficult to fit back into our conservative corporate culture when they return. Situations like this make it difficult for companies and people to grow. I believe we must create a workplace where everyone can make full use of their skills and capabilities.

Hirowatari: Career advancement for women is another important step in promoting globalization. When I joined MHI, I was surprised at how few women were in the Company, and how few opportunities there were for women to voice their opinions during meetings. Creating a culture that embraces a greater diversity
CORPORATE GOVERNANCE

We are taking all stakeholders into consideration and working to enhance corporate governance on an ongoing basis.

Mutsuo Hiroe
Executive Vice President, GC*

Basic Approach

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, and develop global management, focusing on the improvement of the soundness and transparency of its management as well as on diversity and harmony.

Recent Corporate Governance Reforms

<table>
<thead>
<tr>
<th>Year</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>• Shortened the term of office for directors from two years to one&lt;br&gt;• Increased the number of outside directors from one to two and outside statutory auditors from two to three&lt;br&gt;• Introduced an executive officer system&lt;br&gt;• Abolished the system of director retirement allowances and bonuses, switching to a system of monthly remuneration and performance-linked remuneration&lt;br&gt;• Introduced a stock option system for directors, except outside directors&lt;br&gt;• Increased the number of outside directors from two to three</td>
</tr>
<tr>
<td>2007</td>
<td>• Consolidated and restructured the nine Business Headquarters, transitioning to the Business Domain Structure&lt;br&gt;• Introduced the Chief Officer System&lt;br&gt;• Reduced the number of representative directors from 12 to six&lt;br&gt;• Decreased the number of directors from 17 to 12&lt;br&gt;• Abolished stock options and introduced a new stock remuneration system for directors and executive officers&lt;br&gt;• Formulated the Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.</td>
</tr>
<tr>
<td>2011</td>
<td>• Established the Nomination and Remuneration Meeting&lt;br&gt;• Reduced the number of representatives to 11 (the number of outside directors remaining constant at four)</td>
</tr>
<tr>
<td>2015</td>
<td>• Restructured into three business domains</td>
</tr>
</tbody>
</table>

of opinions would allow more female employees to actively develop their careers.

Itaoka: By the way, Professor Ahmadjian, you are the only female director, right?

Ahmadjian: That’s right. The other day I was showing my daughter the page with pictures of all the directors and executive officers in MHI Group. She said she was able to pick out my photo immediately, as I was the only woman among the 100 or so on the page. I thought she picked up on a good point regarding the reality of MHI Group.

Nakayama: Indeed, we should embrace diversity in management, as well.

Ahmadjian: Yes, but don’t forget about the more positive and encouraging aspects. MHI Group is promoting globalization and diversity management throughout the organization, and this is only the beginning. What matters most is that we continue to move forward with globalization.

Jagoda-Schauwecker: I agree. Becoming more global prompts major changes in the environment around us. This has certainly been the case for me. I faced many obstacles at first. Sometimes we may not be sure where to turn, but beyond this change lies growth.

We need to be good cross-cultural communicators

Itaoka: When most Japanese people hear the word “globalization,” we tend to associate it with the ability to speak English. While there is indeed a language barrier, it is imperative that we remind and motivate ourselves to keep trying to make a change.

Hirowatari: English capabilities are of course important, but so are abilities to understand different cultures and perspectives. For example, in Japan we often separate employees into “new graduates” and “mid-career hires.” In other countries, by contrast, changing careers is common, and even diversity within one’s career is considered to be important, I understand.

Jagoda-Schauwecker: Another example is the difference in how countries and cultures think of the word “meeting.” In Japan, the word has the context of confirmation or checking, whereas in some countries meetings are considered places for discussion and problem solving.

Nakayama: In other words, rather than being good English speakers, we need to focus on being good cross-cultural communicators.

Ahmadjian: The first step toward making this change in ourselves is to accept differences. As good cross-cultural communicators, let’s turn MHI Group into a strong group. We know it can be done.
Corporate Governance Structure and Roles (Including Internal Control Systems)

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, which includes internal control systems, is as follows.

1. Directors (Board of Directors)
   Of the Company’s 11 directors (of whom five are Audit and Supervisory Committee members), five (of whom three are Audit and Supervisory Committee members) are elected from outside the Company. In addition, in accordance with a resolution by the Board of Directors based on the Company’s Articles of Incorporation, the Company delegates decisions on the execution of important operations to the president and CEO. This approach enables swifter decision making and enhances the flexibility of business execution while also strengthening the Board of Directors’ oversight of business execution.

2. Audit and Supervisory Committee
   To ensure the effectiveness of the Audit and Supervisory Committee’s activities, the Company’s Articles of Incorporation stipulate the selection of full-time members of the Audit and Supervisory Committee. Accordingly, two full-time members of the Audit and Supervisory Committee are mutually selected by the committee’s members. The full-time members of the Audit and Supervisory Committee attend meetings of the Executive Committee and other key meetings related to business planning, enabling them to accurately assess and monitor the status of management in a timely manner. As part of the audit, Audit and Supervisory Committee members make sure the execution of directors’ duties complies with laws and regulations and the Articles of Incorporation and ascertain whether or not business operations of the Company are being executed appropriately by conducting spot checks and verifying compliance with relevant laws and regulations, and by monitoring the status of the establishment and operation of internal control systems, including those in relation to financial reporting.

   The Audit and Supervisory Committee periodically exchanges information and opinions with the Management Audit Department and accounting auditors, and it collaborates closely with them in other ways, including receiving audit results and attending accounting audits. Audit and Supervisory Committee members also receive reports from the internal control department and other departments concerning the status of compliance, risk management, and other activities on both a regular and an individual basis. To support auditing activities, an Audit and Supervisory Committee’s Office has been set up with its own dedicated staff of five to facilitate the work carried out by the Audit and Supervisory Committee.

3. Chief Officers and Standing Executives in Charge of Operations
   The CEO*1 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*2 is in charge of the planning of all business strategies and the CFO*3 takes charge of finance, accounting, and management planning. The CTO*4 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 and standing executive in charge of HR*5 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, legal affairs, and global base support. The standing executive in charge of HR takes overall

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*1 CEO: Chief Executive Officer  
*2 CSO: Chief Strategy Officer  
*3 CFO: Chief Financial Officer  
*4 CTO: Chief Technology Officer  
*5 HR: Human Resources
Board of Directors Structure (Supervision and Execution)

The Board of Directors comprises members with a variety of backgrounds, ensuring a balanced structure with which to supervise people handling business execution.

Outside Directors

The Company has five outside directors (of whom three are Audit and Supervisory Committee members). Outside directors are expected to enhance the soundness and transparency of the Company’s management decision-making by providing beneficial views and candid assessments on the Company’s management from an objective standpoint that is not biased by an internal company perspective. These individuals have diverse experience, knowledge, and skills in such areas as corporate management, public finance, and corporate governance.

Each of the outside directors meets MHI’s independence criteria for outside directors.* Accordingly, the Company judges them as independent directors to the Tokyo Stock Exchange and other financial instruments exchanges in Japan.

All the outside directors are independent from management and supervise or audit management. At meetings of the Board of Directors, they receive reports on the status of the establishment and operation of internal control systems, including compliance, risk management, and other activities, and the results of internal audits, and they state their opinions when appropriate. The Audit and Supervisory Committee, a majority of whose members are outside directors, also conducts audits in collaboration with the Internal Audit Department, Management Audit Department, and accounting auditor. In addition, the Audit and Supervisory Committee shares information about the status of audits with outside directors who are not serving as Audit and Supervisory Committee members.

Board Evaluation

MHI took the enactment of Japan’s Corporate Governance Code as an opportunity to analyze and evaluate the effectiveness each year of the overall Board of Directors. We seek to increase the effectiveness of the Board of Directors and ensure it is substantially fulfilling its duty of accountability to shareholders by verifying the overall effectiveness and role of the Board of Directors.

Based on a questionnaire of all directors, Board of Directors discussions, and so on, the Board of Directors confirmed that it functioned effectively in fiscal 2017.
Corporation Governance

Officers’ Remuneration Structure

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 earnings and sharing values with shareholders.

Performance-linked remuneration is determined based on consolidated earnings while also taking into account the roles of each director and the business performance and accomplishments of the business of which he or she is in charge, etc.

For stock remuneration, the Board Incentive Plan Trust structure is used. MHI shares are issued, and remuneration is paid based on stock award points that are granted in accordance with return on equity (ROE) and other such indicators linked to MHI’s medium/long-term earnings and stock price.

Nomination and Remuneration Meeting

The Nomination and Remuneration Meeting is composed solely of the five outside directors and the president and CEO. Prior to deliberation by the Board of Directors, this meeting serves as a forum for eliciting the opinions and advice of outside directors on the nomination of director candidates, the dismissal of directors, the appointment and dismissal of the CEO and other chief officers, and matters related to remuneration.*2 The aim of this meeting is to further augment transparency and fairness. In fiscal 2017, the Nomination and Remuneration Meeting met three times.

Taking into consideration the content of Japan’s Corporate Governance Code (Revised Edition), we are considering measures to revise officer-related personnel and remuneration processes from the perspective of enhancing procedural objectivity and transparency.

Remuneration of Directors

<table>
<thead>
<tr>
<th>Position</th>
<th>Monetary remuneration</th>
<th>Stock remuneration</th>
<th>Total amount of remuneration (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Base remuneration</td>
<td>Performance-linked remuneration</td>
<td>People</td>
</tr>
<tr>
<td>Directors who attend Audit and Supervisory Committee meetings</td>
<td>6</td>
<td>268</td>
<td>4</td>
</tr>
<tr>
<td>Of which, outside directors</td>
<td>2</td>
<td>129</td>
<td>2</td>
</tr>
<tr>
<td>Directors who are Audit and Supervisory Committee members</td>
<td>7</td>
<td>190</td>
<td>—</td>
</tr>
<tr>
<td>Of which, outside directors</td>
<td>3</td>
<td>54</td>
<td>—</td>
</tr>
</tbody>
</table>

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

*2 Excluding directors who are serving as Audit and Supervisory Committee members.

<table>
<thead>
<tr>
<th>Year</th>
<th>Monetary remuneration (Millions of yen)</th>
<th>People</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1,500</td>
<td>50</td>
</tr>
<tr>
<td>2011</td>
<td>1,200</td>
<td>50</td>
</tr>
<tr>
<td>2012</td>
<td>900</td>
<td>50</td>
</tr>
<tr>
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<td>2015</td>
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</tr>
<tr>
<td>2017</td>
<td>25</td>
<td>50</td>
</tr>
</tbody>
</table>

General Meeting of Shareholders

Six directors who are not Audit and Supervisory Committee members (of whom two are outside directors)

Five directors who are Audit and Supervisory Committee members (of whom three are outside directors)

Nomination and Remuneration Meeting (from January 2016)

Positioning: Advisory institutional to the CEO

Objective: To explain the CEO’s policies on director nomination and remuneration to outside directors and to obtain the opinions and advice of outside directors

Participants: CEO and all outside directors

Meetings: Held three times in fiscal 2017, in July 2017 and January and March 2018
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, 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 “controlled risk-taking” that will enable us to carry out carefully planned challenges toward expanding our business.

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).

**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, headed by the CEO**
   - Share information on important risks and discuss policy response by top-level management

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**Matrix of Business Risk Management**

<table>
<thead>
<tr>
<th>Strategy risks</th>
<th>Cultural risks</th>
<th>Process risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risks associated with business strategies (entry, continuance, and withdrawal)</td>
<td>Risks associated with corporate culture (internal customs, corporate character, history, values, and human resource system)</td>
<td>Risks associated with business execution (planning and execution)</td>
</tr>
</tbody>
</table>

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**Top management (Officers)**

**Middle management (Department and SBU* managers)**

**Execution (People doing actual work)**
Content of Activities
With the Business Risk Management Department acting since April 2016 as the responsible department that reports directly to the CEO, MHI Group engages in business risk management activities bringing together management, business segments, and corporate departments.

The chart below (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 training by the Group’s management team.

MHI Group attaches importance to complying with applicable laws and social norms and promoting fair and honest business practices. The Compliance Committee, established in May 2001, meets twice annually to draw up groupwide compliance promotion plans, confirm progress, and engage in other activities.

Since 2003, to increase awareness of compliance among individual employees, we have conducted discussion-based compliance training every year at the workplace level, themed on compliance cases and MHI’s Global Code of Conduct. As a global group, 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 to promote our business under a common corporate culture.

This code of conduct sets out the basic principles and policies that all MHI employees should follow. We disseminate this code of conduct among MHI Group employees around the world through e-learning and by distributing booklets.

In order to ensure thorough compliance throughout MHI Group, we are conducting e-learning and study sessions for Group employees in Japan and overseas on anti-trust laws, anti-bribery, and export-related laws and regulations. In addition, we have created a compliance guidebook for employees engaging in technical and skilled jobs at MHI and Group companies in Japan, and we are promoting face-to-face education at each worksite to enhance compliance awareness.

In September 2017, we formulated the “MHI Compliance Global Policy,” clarifying basic matters related to compliance promotion, such as the organizational framework, roles, and administration standards that each Group company should follow. Along with the Global Code of Conduct, this policy clarifies our common code of conduct and basic rules that must be complied with throughout the Group. In this way, we are working to strengthen internal controls and enhance the level of compliance throughout the entire Group.

Business Risk Management Process

Occurrence of business risk
Create special response team and carry out response (monitoring, etc.) in PDCA cycle

Apply results of monitoring and improvement to management processes

Business risk management infrastructure
Establish a participation system for experts
Prepare management tools (visualization, knowledge sharing)
Educate business department managers, SBM managers

Risk designation
Consideration / execution of countermeasures
Consideration of Risk Response Policy (reduce, avoid, shift, and retain)

Risk analysis / evaluation

Execution

CHECK/ACT

Designation of residual risks

Business risk prevention and reduced frequency of occurrence

Business risk management infrastructure
Establish a participation system for experts
Prepare management tools (visualization, knowledge sharing)
Educate business department managers, SBM managers

Compliance Promotion System (as of January 1, 2018)

Chair: GC
Members: senior general managers / general managers of Business Strategy Office / corporate departments, general managers from all administration departments of Research & Innovation Center / each headquarters, business domain, and segments.
Functions: promote compliance across MHI Group
Secretariat: Management Audit Department

Departmental Compliance Committee

All managers
All employees

Group companies
Guidance on initiatives for the specific country/region to be provided by administrative department of MHI

External Whistleblower Hotlines

Number of participants at compliance training
Approximately 84,300 (FY2017)
MHI GROUP × SDGS

We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide and contribute toward the achievement of the SDGs.

MHI Group has been an innovative partner to society through a broad range of businesses for more than 130 years. We are now being called on as a company to play an even greater role in responding to the megatrends society faces and helping resolve the various issues outlined by the Sustainable Development Goals (SDGs).

Going forward, and in keeping with the spirit of its principles (“We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide”) and as a manufacturing company, MHI Group will deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide. We provide the world with products and technologies that support the social and industrial infrastructure. We also contribute toward the resolution of issues on a global scale.

*MHI Group is well-placed to focus its energies on Goal 13 of the SDGs: “Take urgent action to combat climate change and its impacts.” In addition to decreasing greenhouse gas emissions, we are striving to reduce environmental impact of all processes across our business activities. At the same time, we are pursuing specific measures to address climate change, such as by providing power plants with low environmental impact, renewable energy facilities, and CO₂ recovery plants.

Our Principles

Please see the inside cover page for details of our principles.

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

Gas and steam power generation systems, nuclear power plant equipment (light-water reactors/nuclear fuel cycle & advanced solutions), wind power generators, aerogenerators, compressors, marine machinery

**Overview of Fiscal 2017**

Having been hit by global market factors such as the acceleration of the shift to low-carbon approaches and the switch to renewable energy, coal-fired power plants saw a significant decline, and order volumes for gas turbine combined cycle (GTCC) systems also fell considerably. As a result, consolidated orders received decreased year on year, to ¥1,437.5 billion. Consolidated net sales rose year on year to ¥1,493.9 billion, driven by steady progress in work related to orders for gas and steam power generations, as well as increases in aero engines.

Although there were improvements in the profitability of the gas and steam power generation after-sales service, due to such factors as the decline in nuclear power plant equipment, operating income was flat year on year at ¥108.9 billion.

**Industry & Infrastructure**

Metals machinery, environmental systems, paper converting machinery, mechatronics systems, ITS,*1 material handling equipment, engines, turbochargers, air-conditioning & refrigeration systems, automotive thermal systems, machine tools, commercial ships, transportation systems, chemical plants

**Overview of Fiscal 2017**

In addition to increases in metals machinery on the back of strong infrastructure investment, orders grew for turbochargers, material handling equipment, air-conditioning & refrigeration systems, and other items due to economic expansion, primarily in developed countries. Consequently, consolidated orders received rose year on year, to ¥1,711.3 billion. Consolidated net sales exceeded the level of the previous fiscal year and rose to ¥1,898.9 billion, driven by increases in material handling equipment and turbochargers, for which orders were strong, and in commercial ships. Although higher sales had the effect of raising operating income, declines in transportation systems and chemical plants led to a year-on-year decrease, to ¥40.8 billion.

**Aircraft, Defense & Space**

Commercial aircraft, defense aircraft, missile systems, naval ships, special vehicles (tanks), maritime systems (torpedoes), space systems

**Overview of Fiscal 2017**

In commercial aircraft, orders for main wing boxes for the Boeing 787 increased, but orders fell for defense aircraft and missile systems, for which significant orders had been received in the previous fiscal year, and orders for space systems decreased, leading to a year-on-year decline in consolidated orders received, to ¥721.5 billion. Consolidated net sales rose year on year, to ¥722.9 billion, due in part to space systems, where launches of H-IIA launch vehicles increased, but higher MRJ development costs and other factors resulted in an operating loss of ¥15.1 billion.

*1 ITS: Intelligent Transport Systems

**Operating Data**

<table>
<thead>
<tr>
<th>Total assets</th>
<th>Number of employees</th>
<th>R&amp;D expenses</th>
<th>Capital investment</th>
<th>Orders received</th>
<th>Order backlog</th>
<th>Net sales</th>
<th>Operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥5,487.6 billion</td>
<td>80,652 people</td>
<td>¥176.8 billion</td>
<td>¥144.0 billion</td>
<td>¥3,875.7 billion</td>
<td>¥6,111.6 billion</td>
<td>¥4,110.8 billion</td>
<td>¥126.5 billion</td>
</tr>
</tbody>
</table>

*2 Million and medium lot manufacturing, such as turbochargers and air conditioners, is not included. *3 Order backlog/stock exchange close of fiscal 2017 amount does not include past orders for MRJ. *4 Others, eliminations or corporate. *5 Operating income for Aircraft, Defense & Space. *6 In 1.5 billion. *7 Others, eliminations or corporate. *8 In 4.1 billion.
The Power Systems segment offers a variety of energy solutions, including gas turbine combined-cycle (GTCC) systems, geothermal, and wind power generation. Nuclear power generation that can be used as a baseload power and does not emit CO₂ gas and steam power generation that can be stably supplied with superior economic efficiency. Additionally, we manufacture compressors for use in fertilizer plants that are indispensable in solving food issues, and engines for commercial aircraft that support comfortable travel.

We are a Power & Energy Solution Provider that responds to social progress and diverse needs by offering new products created through solution proposals and turbomachinery synergies, along with our advancing and improving core machineries.

**Operating Environment and Addressing Social Issues**

MHI believes that electric power demand will expand even further as electrification progresses, due to phenomena such as economic development in emerging countries and the spread of electric vehicles. At the same time, global warming is expected to spur movement toward low-carbon and carbon-free energy.

Geographic, economic, and social conditions differ depending on country and region, so it is important to offer power sources that correspond to these diverse needs. Demand for renewable energy, such as wind power, is continuously increasing. Simultaneously, we can see a growing need for supply and demand load regulation systems and energy storage systems that secure necessary stabilization of electric power sources and address requirements for improved generation efficiency and lower generating costs.

**The Value We Deliver**

MHI Group provides stable electrical power with superior economic efficiency and offers solutions that allow for both societal development and comfortable livelihoods. We do this by promoting a harmonious coexistence between renewable energy and stable sources of electric power such as gas, coal-fired power, and nuclear power.

For example, we also deal in hydrogen mixed-fuel combustion power generation, which has a low environmental impact. MHI Group is aiming to conduct hydrogen mono-fuel combustion power generation that does not emit CO₂ in the future, and will drive the construction of an energy supply chain by combining its diverse technologies. Additionally, we are able to offer environmentally friendly solutions in existing power generation fields, such as coal-fired generation systems equipped with IGCC—which generates power with a low environmental impact by extracting gas from coal—and with technology that recovers about 90% of CO₂ emissions.

MHI Group will propose an electricity supply system that fits societal needs and fulfills the basic requirements of 3E+S (economy, energy security, and environmental protection and safety), as outlined in Japan’s Strategic Energy Plan.
Throughout the duration of the 2018 Medium-Term Business Plan, we will steadily execute ongoing projects involving our abundant gas and steam power systems and endeavor to secure profit. At the same time, we will promote the growth strategies below, which were formulated in anticipation of the 2021 Medium-Term Business Plan.

We will work to improve profitability by establishing new gas and steam power systems, performing revamp work on existing power generation facilities to reduce carbon emissions and enhance efficiency, and expand the service business by making use of leading-edge digital technologies.

In the nuclear power business, we will focus on the safe and reliable construction of facilities that are compliant with new Japanese safety criteria and that can handle specific large accidents. After restarting facility operations, we will engage in maintenance work. Furthermore, we will continue to provide support for the Fukushima Daiichi Nuclear Power Station of Tokyo Electric Power Company Holdings, Inc.

In terms of aero engines, we will strive to expand resources in order to respond to robust demand for commercial aircraft and focus on our engine overhaul and parts repair business.

MHI is also aiming to strengthen its competitiveness in renewable energy. To this end, we will respond to an expanding offshore wind power market by bolstering our system of mass production and by releasing an offshore wind power generation device with a higher output than any other. Furthermore, we will propose solutions that raise added value through a combination of flexible power sources (small size gas turbines, etc.) and energy storage (storage batteries, power to fuel, etc.).

In the compressors business, we will secure orders for petrochemical plants, which has been an area of strength for us. In addition, we will demonstrate our turbomachinery synergies and strive to expand our business into the upstream oil and gas market with the support of technologies such as our gas turbine-driven LNG compressor train, which combines compressors with small- to medium-size gas turbines.

Furthermore, MHI will work to open up new fields of business through its power and energy solution business, which incorporates an integrated management system that utilizes AI and IoT technologies such as MHPS-TOMONI® and ENERGY CLOUD®.

### OUR GOALS

**Technology that contributes to the achievement of low-carbon and carbon-free societies**

- Evolution of core technologies and commercial machinery
  - Improvement of existing power generation systems
    - (Safety improvements in high-efficiency and large-capacity GTCC, hydrogen, ammonia, and methane-fueled gas turbines and light-water reactor plants)
  - Renewable energy power generation
    - (Wind, geothermal, hydroelectric, and organic Rankine cycle)

**Turbomachinery synergies**

- Efficient business expansion through mutual use of turbine technology, human resources, and facilities
  - (Turbine products such as our gas turbines, aero engines, aero-derivative gas turbines, compressors, pumps, MET turbochargers, and organic Rankine cycle)

**Power and energy solutions**

- Services for power generating stations
  - (Flexible operation, performance improvement, and O&M optimization)
- Services for customers
  - (Support for energy infrastructure, O&M support, EMS*, and utility optimization systems, and maintenance support)

**Integrated management that utilizes AI and IoT technologies**

- *EMS: Energy Maintenance System*

**Breakdown of Sales Plan**

- **FY2017 Net sales (actual)**: 1,493.9
- **FY2020 Net sales (forecast)**: 1,900.0

*Note: Results for our affiliate MHI Vestas Offshore Wind A/S (MVOW), which deals in offshore wind power systems, are not included in this graph because the company is accounted for using the equity method.*

**Measures Aimed at Achieving Goals in the 2018 Medium-Term Business Plan**

- **Gas and steam power generation systems**
  - Improvement in profitability through efficient construction in ongoing projects
  - Expansion of the service business (modification to existing facilities aimed at reducing carbon emissions and improving efficiency, digitalization, and O&M optimization, etc.)
  - Improvement in operating efficiency with continued implementation of PMI

- **Nuclear power**
  - Response to new Japanese safety criteria and promotion of safe and reliable construction of facilities that can handle specific large accidents
  - Implementation of maintenance after restarting facility operations
  - Support for the completed construction of nuclear fuel cycle facilities
  - Support for stabilization of the Tokyo Electric Power Company’s Fukushima Daiichi Nuclear Power Station
  - Strengthening of risk management for participation in overseas projects

- **Aero engines**
  - Expansion of business scale in response to robust demand for commercial aircraft
  - Expansion of engine overhaul and parts repair business

- **Renewable energy**
  - Strengthening of competitive power in response to an expanding offshore wind power market

- **Others (compressors, turbomachinery synergies, power and energy solution business, etc.)**
  - Creation of new compressor facilities and enhancement of service facilities as the oil and gas market environment recovers
  - Business creation and demonstration of synergies of our wide-ranging turbomachinery technologies
  - Opening of new business fields through the power and energy solution business

### As a Member of the Local Community

Mitsubishi Hitachi Power Systems Americas, Inc. (MHPS Americas), a power business company in the Americas, invites multiple local high school and college student groups every year to its Orlando Service Center. Through this opportunity, the students learn how power plants work, and how natural gas turbines are manufactured and repaired. MHPS Americas aims to promote science, technology, engineering and mathematics (STEM) and manufacturing careers.
The Industry & Infrastructure and its diverse range of environmentally friendly products support people’s daily lives in countless ways: air-conditioning systems in households and offices; forklifts in logistics; transportation systems and ships in the movement of people and things; and metals machinery, chemical plants, and a wide range of machinery in the industries and societies. We help to make people’s lives and society happier and more fulfilling.

Operating Environment and Addressing Social Issues

Recently, achieving environmental development while reducing environmental impact has become an increasingly important social issue. Environmental regulations are growing more stringent in various fields, prompting MHI Group to increase social contribution through its technologies and experience. For example, more stringent international emissions regulations on ship exhaust gas will go into effect in 2020. We forecast that demand for compliant equipment will rise in response. At the same time, needs are rising for turbochargers that help improve fuel consumption and reduce CO2 emissions in automobiles and for centrifugal chillers adapted for use with low-environmental-impact refrigerants.

At the same time, the rapid expansion of e-commerce has exacerbated labor shortages in the global logistics market and prompted the need to improve distribution efficiency. In the medium and long term, we expect a greater demand for initiatives that respond to urban issues such as waste treatment, as well as the shift to electrification and automation in logistics and transportation systems.

We offer a variety of value based on the principle of creating a society that helps people live happier and more fulfilled lives. We help prevent climate change with turbochargers that reduce CO2 emissions by enabling engine downsizing and with centrifugal chillers with low-environmental-impact refrigerants.

At the same time, we are offering more direct solutions to climate change through marine exhaust gas cleaning systems and CO2 recovery plants with the highest processing capacity in the world. Additionally, we are strengthening our solutions business initiatives related to the logistics market, which is changing and growing remarkably. At the center of these initiatives is our AGF*. Through automated, unmanned, and labor-saving technologies such as the AGF, we respond to needs for safety, security, and increased efficiency. MHI will also mitigate traffic congestion and secure comfortable travel for people through transportation systems such as ITS* and APM. Furthermore, we will create environmentally friendly urban spaces with a variety of environmental systems, including waste-to-energy systems. We will also support industrial technology innovation with our metals machinery and machine tools. Through all of these products and solutions, we will contribute to the realization of sustainable societies.

The Value We Deliver

We offer a variety of value based on the principle of creating a society that helps people live happier and more fulfilled lives. We help prevent climate change with turbochargers that reduce CO2 emissions by enabling engine downsizing and with centrifugal chillers with low-environmental-impact refrigerants. At the same time, we are offering more direct solutions to climate change through marine exhaust gas cleaning systems and CO2 recovery plants with the highest processing capacity in the world. Additionally, we are strengthening our solutions business initiatives related to the logistics market, which is changing and growing remarkably. At the center of these initiatives is our AGF*. Through automated, unmanned, and labor-saving technologies such as the AGF, we respond to needs for safety, security, and increased efficiency. MHI will also mitigate traffic congestion and secure comfortable travel for people through transportation systems such as ITS* and APM. Furthermore, we will create environmentally friendly urban spaces with a variety of environmental systems, including waste-to-energy systems. We will also support industrial technology innovation with our metals machinery and machine tools. Through all of these products and solutions, we will contribute to the realization of sustainable societies.

2018 Medium-Term Business Plan: Growth Strategies

After three years of portfolio management under our 2015 Medium-Term Business Plan, we have established a new structure that allows for the sustainable growth of each business. In the growing market for material handling equipment and thermal systems, we will invest proactively to expand sales and improve profitability. For turbochargers and engines, we will enhance profitability with advanced production systems and through technology differentiation. In the metals machinery, commercial ships, and engineering-related businesses*, we will promote structural reforms to secure earnings. Through resource sharing and better efficiency, our machinery systems, which are involved in a wide range of businesses, will function as a base for domain earnings. Meanwhile, we will aim to build a continuously stable profit structure in our machine tools business. Finally, our domain will provide a common base to enhance technical capabilities and innovation to properly execute each business’s strategies and maximize value.

*Chemical plants, transport systems, and environmental systems

**MHI's Vision and Steps toward Its Realization**

**Addressing Social Issues through Our Businesses**

**Management Strategies**

**Financial and Non-Financial Data,**

As a Member of the Local Community

Mitsubishi Heavy Industries-Mahajak Air Conditioners Co., Ltd. (MACO), the base of our air conditioner business in Thailand, has been donating facilities to be used as schoolhouses or classrooms to local elementary schools since 1998. Since its establishment, MACO has been doing its part to improve economic development in Thailand through initiatives such as job creation, export expansion, and technology exchange. MACO also endeavors to be a good corporate citizen by directly contributing to the resolution of issues facing societies in Thailand; employees listen to requests and demands from local residents and MACO works to respond to them.

Moving forward, the company will continue cooperating with surrounding regions to raise the quality of people’s lives.
BUSINESS SEGMENT OVERVIEW

AIRCRAFT, DEFENSE & SPACE

In the Aircraft, Defense & Space, we deal in structural parts, such as fuselage panels and main wings, for commercial aircraft, which are increasing their market presence as a means of transportation. In addition, we are currently promoting the development of MRJ. These 70-90 seater regional jets are more environmentally friendly and comfortable. Furthermore, we contribute to safe and secure livelihoods through initiatives such as developing defense equipment and launching space vehicles with payloads such as observation satellites.

Operating Environment and Addressing Social Issues

The number of operating aircraft is expected to double over the next 20 years as travel intensifies due to globalization. Demand for the development of more fuel-efficient aircraft has surfaced in response to emissions regulations regarding future environmental impact and fluctuations in oil prices. Due to these conditions, the commercial aircraft business is expected to expand.

On the other hand, as values diversify, world affairs are becoming increasingly complicated. In the defense and space fields, by the request of our main customer, the Japanese government, we are doing our part to achieve and maintain societies in which people can live safely and securely.

The Value We Deliver

In the commercial aircraft business, we are responsible for manufacturing main wing boxes for the Boeing 787, which uses a composite material instead of aluminum alloy. The composite material helps reduce airframe weight and improve fuel efficiency. We are also applying technologies such as cutting-edge fluid analysis in our development of MRJ airframes.

In the defense and space business, we are utilizing the most advanced technologies to offer products and services that contribute to the safety and security of society. For example, our H-IIA launch vehicle, which handles the launch of payloads such as observation and communication satellites, boasts a world-leading success rate of 97.4% (as of June 30, 2018). This success provides evidence of the high quality of the products and services that we offer.

We also use the cutting-edge technologies we have cultivated through this field in various other fields, applying them in product materials, structures, and control. With these diverse technological applications, we are able to demonstrate our strengths, even in fields where competing companies struggle.

We will continue to engage in activities aimed at preserving a society in which people can live more safely and securely while making full use of these sophisticated technology development capabilities.
2018 Medium-Term Business Plan: Growth Strategies

In the commercial aircraft business, we continue to proceed with business structure reforms and work to improve productivity through measures such as introducing automated equipment. The Company is aiming to deliver its first MRJ to customers by mid-2020. This product, which is currently under development, is receiving high praise from the market and is expected to become a large pillar for the future of the Company.

Furthermore, we will strengthen the collaborative relationship between our MRJ and Tier 1 businesses and aim to advance into new lines of business, such as airplane operation support and high-value-added fields, which include airframe accessories.

In the defense and space 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 existing fields such as MRO*. In addition, we will promote expansion into advanced security consumer products.

### Tier 1
- **Improve productivity**
  - Accelerate labor savings by introducing automated equipment
  - Automate indirect work processes using AI/IoT
  - Concentrate production capacities to achieve highly efficient parts manufacturing

- **Reduce fixed costs**
  - Replace auxiliary/routine work with IT systems to reduce labor costs
  - Upgrade and diversify personnel skills, reallocate and equalize deployment of resources

- **Control external expenses**
  - Reduce working capital and generate cash flow with advanced procurement processes
  - Integrate localized operations using optimal human resources

- **MRJ (Secure a long-term, sustainable business)**
  - Strengthen ties with Tier 1 businesses and expand into new business fields, such as airplane operation support and advanced security consumer products.

- **Strengthen sales and customer support structures**
  - Build a business foundation by establishing a position in the largest RJ market early

- **Strengthen sales and customer support structures**
  - Expand profitability through business synergy and entry into high value-added markets

- **Strengthen sales and customer support structures**
  - Enhance human resources and consider partnerships with outside agencies

- **Pursue full-scale development and early TI acquisition of MRJ70**
  - Build a business foundation by establishing a position in the largest RJ market early

### Integrated Defense & Space Systems
- **Expand existing domestic fields and peripheral fields**
  - Steadily start up our next core businesses
  - Expand our business fields (command and control, M&S*, etc.)

- **Expand overseas business**
  - Utilize core technologies from the defense business
  - Expand private demand, primarily in the commercial security field

- **Establish dual-use development businesses**
  - Utilize core technologies from the defense business
  - Expand private demand, primarily in the commercial security field

### Activities Focused on the 2018 Medium-Term Business Plan and Beyond

**Commercial Aviation Systems**
- **Tier 1 business: strengthening of current businesses**
  - MRJ business: MRJ90 development, TC (type certificate) acquisition, first delivery by mid-2020 (Airframe OEM)

- **Promote automation (labor-saving to full automation)**

- **Upskill and cross-train human resources**

**Land, sea, and air**
- **Front line combat equipment**

**Space**
- **Launch vehicles**

**Integrated Defense & Space Systems**
- **Collaboration between the Tier 1 business and the full-scale commercial aircraft business**
  - Advance into differentiated competitive advantage areas

- **Land, Sea, Air, Space, and Cyberspace**
  - Dual-use business
  - Peripheral field business

- **Land, Sea, Air, Space, and Cyberspace**
  - Safety and secure total solutions

**OUR GOALS**

- **Advance into new lines of business**
  - Future aircraft
  - Traffic control

**Breakdown of Sales Plan** (Billions of yen)

<table>
<thead>
<tr>
<th>FY2017 Net sales</th>
<th>FY2020 Net sales (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>722.9</td>
<td>720.0</td>
</tr>
</tbody>
</table>

* MRO: Maintenance, Repair, and Overhaul

MHI continually operates its special science classroom, the Tanegashima Space School, in Tanegashima, Kagoshima. This school supports the dreams of children who will lead the next generation by offering tours of launch vehicle production facilities and opportunities to view launches. In this classroom, our engineers provide education regarding aerospace science and technologies and conduct mock launches using plastic bottle rockets that the children make. Through activities such as these, the Tanegashima Space School raises children’s curiosity and interest regarding craftsmanship and develops human resources ready to spread their wings and soar into the future.
### Initiatives Addressing Material ESG Issues

#### An Optimal Governance Structure Based on Our Corporate Culture

**Objective:**
- Enhance transparency (ensure universality)
- Enhance disclosure and stakeholder engagement

**Key topics in fiscal 2017**
- Promoting measures to address struggling businesses
  - Accelerate measures in the MRI and Tier 1 businesses
  - Move forward with post-merger integration (PMI) at major joint ventures
  - Implement structural reforms and measures at engineering businesses

**Strategic KPIs:**
- EBITDA margin

**KPI: Number of whistleblowing cases**
-变革 (FY) 2014 2015 2016 2017
- 63 59 49 67

**KPI: Number of female managers**
- 2014 2015 2016 2017
- 194 219 318 390

**Greenhouse Gas (CO2) Emissions**
- 2014 2015 2016 2017
- 24,487 22,248 17,648 14,973

#### The Use of Global Human Resources

**Objective:**
- Diversity and equal opportunity, including the empowerment of female employees

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

**Strategic KPIs:**
- Number of overseas employees

**KPI: Ratio of overseas employees**
- 2014 2015 2016 2017
- 35.6% 36.7% 36.8% 36.7%

**KPI: Number of female managers**
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- 194 219 318 390

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#### Response to Mega Trends

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- 2014 2015 2016 2017
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**Greenhouse Gas (CO2) Emissions**
- 2014 2015 2016 2017
- 24,487 22,248 17,648 14,973

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**MHI REPORT 2018 | MITSUBISHI HEAVY INDUSTRIES GROUP**

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**Number of Employees**

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>80,606</td>
</tr>
<tr>
<td>2015</td>
<td>80,452</td>
</tr>
<tr>
<td>2016</td>
<td>80,452</td>
</tr>
<tr>
<td>2017</td>
<td>80,452</td>
</tr>
</tbody>
</table>

**Research and Development Expenses**

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>¥3,875.7 billion</td>
</tr>
<tr>
<td>2015</td>
<td>¥3,875.7 billion</td>
</tr>
<tr>
<td>2016</td>
<td>¥3,875.7 billion</td>
</tr>
<tr>
<td>2017</td>
<td>¥3,875.7 billion</td>
</tr>
</tbody>
</table>

**Greenhouse Gas (CO2) Emissions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>24,487</td>
</tr>
<tr>
<td>2015</td>
<td>22,248</td>
</tr>
<tr>
<td>2016</td>
<td>17,648</td>
</tr>
<tr>
<td>2017</td>
<td>14,973</td>
</tr>
</tbody>
</table>

---

**MHI REPORT 2018 | MITSUBISHI HEAVY INDUSTRIES GROUP**
### Consolidated Balance Sheets

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries  
As of March 31, 2018 and 2017

<table>
<thead>
<tr>
<th>Assets</th>
<th>2018</th>
<th>2017</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash and deposits</strong></td>
<td>¥313,648</td>
<td>¥248,040</td>
<td>$2,950,470</td>
</tr>
<tr>
<td><strong>Trade receivables</strong></td>
<td>1,232,742</td>
<td>1,180,143</td>
<td>11,604,369</td>
</tr>
<tr>
<td>Merchandise and finished products</td>
<td>173,152</td>
<td>178,884</td>
<td>1,629,819</td>
</tr>
<tr>
<td>Work in process</td>
<td>899,839</td>
<td>989,336</td>
<td>8,469,870</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>139,822</td>
<td>157,333</td>
<td>1,316,055</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>108,964</td>
<td>114,274</td>
<td>1,025,565</td>
</tr>
<tr>
<td>Indemnification asset for the South African project</td>
<td>400,000</td>
<td>294,955</td>
<td>3,773,559</td>
</tr>
<tr>
<td>Other current assets</td>
<td>319,337</td>
<td>368,088</td>
<td>3,005,807</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>58,998</td>
<td>85,939</td>
<td>66,499</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>3,599,212</td>
<td>3,522,095</td>
<td>33,689,871</td>
</tr>
<tr>
<td><strong>Non-current assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant, and equipment, net:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>340,447</td>
<td>351,310</td>
<td>3,206,508</td>
</tr>
<tr>
<td>Machinery and transportation equipment</td>
<td>236,890</td>
<td>262,129</td>
<td>2,209,054</td>
</tr>
<tr>
<td>Tools, equipment and furniture</td>
<td>67,798</td>
<td>64,511</td>
<td>449,929</td>
</tr>
<tr>
<td>Land</td>
<td>179,936</td>
<td>178,674</td>
<td>1,693,674</td>
</tr>
<tr>
<td>Leased assets</td>
<td>5,224</td>
<td>5,004</td>
<td>48,171</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>59,828</td>
<td>62,448</td>
<td>563,160</td>
</tr>
<tr>
<td><strong>Total property, plant, and equipment, net</strong></td>
<td>687,884</td>
<td>735,079</td>
<td>6,169,086</td>
</tr>
<tr>
<td><strong>Intangible assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>105,125</td>
<td>120,552</td>
<td>989,504</td>
</tr>
<tr>
<td>Others</td>
<td>107,655</td>
<td>128,849</td>
<td>1,013,174</td>
</tr>
<tr>
<td><strong>Total intangible assets</strong></td>
<td>212,781</td>
<td>249,401</td>
<td>2,002,678</td>
</tr>
<tr>
<td><strong>Investments and advances:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>605,634</td>
<td>578,758</td>
<td>5,698,738</td>
</tr>
<tr>
<td>Long-term loans</td>
<td>18,623</td>
<td>17,778</td>
<td>175,291</td>
</tr>
<tr>
<td>Asset for retirement benefit</td>
<td>73,426</td>
<td>60,556</td>
<td>691,133</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>27,350</td>
<td>13,060</td>
<td>297,425</td>
</tr>
<tr>
<td>Others</td>
<td>109,568</td>
<td>113,407</td>
<td>1,031,137</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(6,608)</td>
<td>(8,204)</td>
<td>(62,198)</td>
</tr>
<tr>
<td><strong>Total investments and advances</strong></td>
<td>827,774</td>
<td>795,358</td>
<td>7,791,567</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>1,908,640</td>
<td>1,974,445</td>
<td>17,763,478</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>3,507,852</td>
<td>3,501,540</td>
<td>51,453,350</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Net Assets</th>
<th>2018</th>
<th>2017</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables</td>
<td>¥771,324</td>
<td>¥736,502</td>
<td>$7,260,203</td>
</tr>
<tr>
<td>Electronically recorded obligations</td>
<td>106,968</td>
<td>99,560</td>
<td>1,006,852</td>
</tr>
<tr>
<td>Short-term borrowings</td>
<td>229,584</td>
<td>205,679</td>
<td>2,160,993</td>
</tr>
<tr>
<td>Current portion of long-term borrowings</td>
<td>69,956</td>
<td>97,729</td>
<td>469,058</td>
</tr>
<tr>
<td>Current portion of bonds</td>
<td>30,000</td>
<td>60,000</td>
<td>282,379</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>27,251</td>
<td>31,233</td>
<td>256,504</td>
</tr>
<tr>
<td>Provision for product warranties</td>
<td>13,936</td>
<td>14,899</td>
<td>131,176</td>
</tr>
<tr>
<td>Provision for loss on construction contracts</td>
<td>64,946</td>
<td>69,853</td>
<td>610,843</td>
</tr>
<tr>
<td>Provision for loss on passenger vessel construction business</td>
<td>—</td>
<td>18,443</td>
<td>—</td>
</tr>
<tr>
<td>Provision for business structure improvement</td>
<td>6,739</td>
<td>6,585</td>
<td>63,431</td>
</tr>
<tr>
<td>Provision for share-based payment arrangements</td>
<td>781</td>
<td>366</td>
<td>7,351</td>
</tr>
<tr>
<td>Advance payments received on contracts</td>
<td>899,642</td>
<td>777,654</td>
<td>8,448,015</td>
</tr>
<tr>
<td><strong>Other current liabilities</strong></td>
<td>318,138</td>
<td>428,734</td>
<td>2,994,521</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>2,538,219</td>
<td>2,527,262</td>
<td>23,091,266</td>
</tr>
<tr>
<td><strong>Non-current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>205,000</td>
<td>215,000</td>
<td>1,929,593</td>
</tr>
<tr>
<td>Long-term borrowings</td>
<td>279,630</td>
<td>347,197</td>
<td>2,632,059</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>77,590</td>
<td>85,689</td>
<td>750,327</td>
</tr>
<tr>
<td>Provision for stock benefits</td>
<td>1,148</td>
<td>1,247</td>
<td>10,805</td>
</tr>
<tr>
<td>Provision for treatment of PCB waste</td>
<td>6,911</td>
<td>6,485</td>
<td>65,050</td>
</tr>
<tr>
<td>Liability for retirement benefit</td>
<td>137,893</td>
<td>123,160</td>
<td>1,297,938</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>76,789</td>
<td>71,858</td>
<td>722,788</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>766,763</td>
<td>690,959</td>
<td>7,388,562</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>3,332,183</td>
<td>3,277,820</td>
<td>31,479,826</td>
</tr>
<tr>
<td><strong>Net assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Stockholders’ equity:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stock, without par value:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authorized shares: 600,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issued shares: 2018-337,364,781 and 2017-3,373,647,813</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital surplus</td>
<td>213,899</td>
<td>203,658</td>
<td>2,013,347</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>1,246,492</td>
<td>1,214,749</td>
<td>11,713,968</td>
</tr>
<tr>
<td>Treasury stock (2018-1,370,499 shares and 2017-156,173,875 shares) at cost</td>
<td>(4,609)</td>
<td>(4,609)</td>
<td>(38,613)</td>
</tr>
<tr>
<td><strong>Total stockholders’ equity</strong></td>
<td>1,219,918</td>
<td>1,209,460</td>
<td>16,168,987</td>
</tr>
<tr>
<td><strong>Accumulated other comprehensive income (loss):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>100,021</td>
<td>100,600</td>
<td>941,462</td>
</tr>
<tr>
<td>Deferred gains or losses on hedges</td>
<td>(880)</td>
<td>(1,882)</td>
<td>(8,283)</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>(6,999)</td>
<td>(2,287)</td>
<td>(65,879)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>12,732</td>
<td>3,683</td>
<td>119,841</td>
</tr>
<tr>
<td><strong>Total accumulated other comprehensive income (loss)</strong></td>
<td>106,874</td>
<td>99,713</td>
<td>987,162</td>
</tr>
<tr>
<td><strong>Share subscription rights</strong></td>
<td>2,129</td>
<td>2,536</td>
<td>20,037</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>337,567</td>
<td>322,059</td>
<td>3,177,211</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>2,146,469</td>
<td>2,104,116</td>
<td>20,373,399</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>¥9,687,652</td>
<td>¥9,481,978</td>
<td>¥51,653,350</td>
</tr>
</tbody>
</table>

MHI REPORT 2018 | MITSUBISHI HEAVY INDUSTRIES GROUP
# CONSOLIDATED STATEMENTS OF INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries

For the fiscal years ended March 31, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td></td>
</tr>
<tr>
<td><strong>Net sales</strong></td>
<td>¥4,110,816</td>
<td>$38,693,674</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>3,379,874</td>
<td>31,813,573</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>730,942</td>
<td>6,880,101</td>
</tr>
<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td>604,412</td>
<td>5,689,118</td>
</tr>
<tr>
<td><strong>Operating income</strong></td>
<td>126,530</td>
<td>1,190,982</td>
</tr>
<tr>
<td><strong>Non-operating income (expense):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>4,155</td>
<td>39,109</td>
</tr>
<tr>
<td>Dividend income</td>
<td>12,211</td>
<td>114,937</td>
</tr>
<tr>
<td>Foreign exchange gain</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Income from equity method investments</td>
<td>3,230</td>
<td>30,402</td>
</tr>
<tr>
<td>Gain on arbitration expenses awarded in the arbitration relating to nuclear equipment in the US</td>
<td>—</td>
<td>30,402</td>
</tr>
<tr>
<td>Other income</td>
<td>15,674</td>
<td>147,533</td>
</tr>
<tr>
<td><strong>Total non-operating income (expense)</strong></td>
<td>(12,067)</td>
<td>(113,582)</td>
</tr>
<tr>
<td><strong>Ordinary income</strong></td>
<td>114,462</td>
<td>1,077,390</td>
</tr>
<tr>
<td><strong>Extraordinary gain (loss):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on sales of investment securities</td>
<td>31,303</td>
<td>294,644</td>
</tr>
<tr>
<td>Gain on sales of fixed assets</td>
<td>—</td>
<td>594,728</td>
</tr>
<tr>
<td>Business structure improvement expenses</td>
<td>(14,548)</td>
<td>(136,935)</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>(1,790)</td>
<td>(29,875)</td>
</tr>
<tr>
<td>Loss on passenger vessel construction business provision</td>
<td>—</td>
<td>(6,272)</td>
</tr>
<tr>
<td>Compensation for damages decided in the arbitration relating to nuclear equipment in the US</td>
<td>—</td>
<td>(29,875)</td>
</tr>
<tr>
<td>Loss on revaluation of investment securities</td>
<td>—</td>
<td>(16,076)</td>
</tr>
<tr>
<td><strong>Total extraordinary gain (loss)</strong></td>
<td>13,579</td>
<td>127,814</td>
</tr>
<tr>
<td><strong>Profit before income taxes</strong></td>
<td>128,042</td>
<td>1,205,214</td>
</tr>
<tr>
<td><strong>Income taxes:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current</td>
<td>63,184</td>
<td>594,728</td>
</tr>
<tr>
<td>Deferred</td>
<td>(31,315)</td>
<td>(294,757)</td>
</tr>
<tr>
<td><strong>Total income taxes</strong></td>
<td>31,868</td>
<td>299,962</td>
</tr>
<tr>
<td><strong>Profit attributable to non-controlling interests</strong></td>
<td>29,623</td>
<td>278,830</td>
</tr>
<tr>
<td><strong>Profit attributable to owners of the parent</strong></td>
<td>70,484</td>
<td>663,441</td>
</tr>
</tbody>
</table>

## Per share information of common stock:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic</td>
<td>¥209.82</td>
<td>¥267.24</td>
</tr>
<tr>
<td>Diluted</td>
<td>209.39</td>
<td>260.71</td>
</tr>
</tbody>
</table>

**Notes:**
1. The Company conducted a 1-for-10 reverse stock split on common shares on October 1, 2017. Taking this reverse stock split into account, dividends for fiscal 2017 amount to ¥120 per share.

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# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries

For the fiscal years ended March 31, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td></td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>¥96,173</td>
<td>$905,242</td>
</tr>
<tr>
<td><strong>Other comprehensive income (loss):</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>(648)</td>
<td>(6,099)</td>
</tr>
<tr>
<td>Deferred gains or losses on hedges</td>
<td>2,488</td>
<td>23,618</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>(1,790)</td>
<td>(16,848)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>9,501</td>
<td>89,429</td>
</tr>
<tr>
<td>Share of other comprehensive income (loss) of entities accounted for by the equity method</td>
<td>(857)</td>
<td>(8,064)</td>
</tr>
<tr>
<td><strong>Total other comprehensive income (loss)</strong></td>
<td>8,694</td>
<td>81,833</td>
</tr>
</tbody>
</table>

## Comprehensive income (loss)

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
<td></td>
</tr>
<tr>
<td><strong>Comprehensive income (loss)</strong></td>
<td>¥104,868</td>
<td>$1,087,085</td>
</tr>
<tr>
<td><strong>Comprehensive income (loss) attributable to:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owners of the parent</td>
<td>¥75,244</td>
<td>$708,245</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>29,623</td>
<td>278,830</td>
</tr>
</tbody>
</table>

---

**Notes:**
1. The Company conducted a 1-for-10 reverse stock split on common shares on October 1, 2017. Taking this reverse stock split into account, dividends for fiscal 2017 amount to ¥120 per share.
### CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

**Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries**

For the fiscal years ended March 31, 2018 and 2017

<table>
<thead>
<tr>
<th>Component of Equity Method</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock subscription rights</td>
<td>¥169,718</td>
<td>¥169,718</td>
</tr>
<tr>
<td>Common stock other than subscription rights</td>
<td>¥169,718</td>
<td>¥169,718</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>¥155,158</td>
<td>¥155,158</td>
</tr>
<tr>
<td>Treasury stock</td>
<td>¥21,470</td>
<td>¥21,470</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>¥10,077</td>
<td>¥10,077</td>
</tr>
<tr>
<td>Balance as of March 31, 2018</td>
<td>¥300,267</td>
<td>¥2,500,075</td>
</tr>
</tbody>
</table>

**Revised Balance**

<table>
<thead>
<tr>
<th>Component of Equity Method</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits attributable to owners of the parent</td>
<td>¥128,042</td>
<td>¥167,605</td>
</tr>
<tr>
<td>Adjustments to reconcile profit (loss) before income taxes to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>¥21,716</td>
<td></td>
</tr>
<tr>
<td>Amortization of goodwill</td>
<td>¥151,158</td>
<td></td>
</tr>
<tr>
<td>Increase (decrease) in liability for retirement benefits</td>
<td>¥61,212</td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>¥15,898</td>
<td></td>
</tr>
<tr>
<td>Interest expense (gain)</td>
<td>¥14,466</td>
<td></td>
</tr>
<tr>
<td>Foreign exchange loss (gain)</td>
<td>¥(3,337)</td>
<td></td>
</tr>
<tr>
<td>Income loss from equity method investments</td>
<td>¥(20,860)</td>
<td></td>
</tr>
<tr>
<td>Gain/loss on sales of investment securities</td>
<td>¥(294,644)</td>
<td></td>
</tr>
<tr>
<td>Loss on revaluation of investment securities</td>
<td>¥(6,272)</td>
<td></td>
</tr>
<tr>
<td>Gain/loss on sales of fixed assets</td>
<td>¥(15,935)</td>
<td></td>
</tr>
<tr>
<td>Gain on disposal of fixed assets</td>
<td>¥64,095</td>
<td></td>
</tr>
<tr>
<td>Gain on negative goodwill</td>
<td>¥60,702</td>
<td></td>
</tr>
<tr>
<td>Business structure improvement expenses</td>
<td>¥15,270</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>¥(647,736)</td>
<td></td>
</tr>
<tr>
<td>Balance of retained earnings</td>
<td>¥155,158</td>
<td>¥155,158</td>
</tr>
</tbody>
</table>

**MHI’s Vision and Steps toward Its Realization**

Addressing Social Issues through Our Businesses

Management Strategies

Financial and Non-Financial Data,

### CONSOLIDATED STATEMENTS OF CASH FLOWS

**Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries**

For the fiscal years ended March 31, 2018 and 2017

<table>
<thead>
<tr>
<th>Type of Activity</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>¥128,042</td>
<td>¥167,605</td>
</tr>
<tr>
<td>Adjustments to reconcile profit (loss) before income taxes to net cash provided by operating activities</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Balance of retained earnings</td>
<td>¥155,158</td>
<td>¥155,158</td>
</tr>
</tbody>
</table>

### Cash Flows from Investing Activities

- Net increase in time deposits: ¥(8,549) ¥505,064
- Purchases of property, plant and equipment and intangible assets: ¥(155,618) ¥(1,559,648)
- Proceeds from sales of property, plant and equipment and intangible assets: ¥8,231 ¥79,575
- Purchases of investment securities: ¥(104,514) ¥(99,924) ¥(390,750)
- Proceeds from sales and redemption of investment securities: ¥112,122 ¥77,376 ¥1,055,345
- Proceeds from sales of investments in subsidiaries that result in change in scope of consolidation: ¥1,102 ¥102,436 ¥17,884
- Payment for sales of investments in subsidiaries that result in change in scope of consolidation: ¥(928) ¥(102,436) ¥(17,884)
- Proceeds from transfer of business: ¥1,600 ¥13,777
- Disposition of long-term loans: ¥2 ¥(15,996) ¥(978,529)
- Collection of long-term loans: ¥15,998 ¥13,868 ¥169,662
- Other: ¥17,710 ¥17,710

### Cash Flows from Financing Activities

- Net increase (decrease) in time deposits: ¥(8,549) ¥505,064
- Purchases of property, plant and equipment and intangible assets: ¥(155,618) ¥(1,559,648)
- Proceeds from sales of property, plant and equipment and intangible assets: ¥8,231 ¥79,575
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- Other: ¥17,710 ¥17,710

### Net cash provided by (used in) investing activities: ¥157,381 ¥1,295,239

### Effect of exchange rate changes on cash and cash equivalents: ¥1,607 ¥1,056

### Net increase (decrease) in cash and cash equivalents: ¥57,422 ¥59,657

### Cash and cash equivalents at the end of the year: ¥2,013,347 ¥2,500,075

### Thousand of yen

2018 | 2017
---|---
Profit before income taxes | ¥128,042 | ¥167,605
Depreciation and amortization | ¥21,716 | |
Amortization of goodwill | ¥151,158 | |
Increase (decrease) in liability for retirement benefits | ¥61,212 | |
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Gain on disposal of fixed assets | ¥64,095 | |
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Other | ¥(647,736) | |
Balance of retained earnings | ¥155,158 | ¥155,158

Cash flows from investing activities:

- Net increase (decrease) in time deposits: ¥(8,549) ¥505,064
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Cash and cash equivalents at the end of the year: ¥2,013,347 ¥2,500,075
CORPORATE DATA

As of March 31, 2018

Head Office: 16-5, Konan 2-chome, Minato-ku, Tokyo 108-8215, Japan
Phone: +81-3-6716-3111
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: 270,890
Number of Employees: 80,652 (Consolidated) 14,717 (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
Independent Auditors: KPMG AZSA LLC

Stock Price Range and Trading Volume (Tokyo Stock Exchange)

Note: The Company conducted a 1-for-10 reverse stock split on common shares on October 1, 2017. Data on share price and trading volumes for periods prior to this date has been retroactively calculated as if the reverse stock split had taken place previously.

GLOBAL NETWORK

Overseas Head Offices and Networks

North America
1 Mitsubishi Heavy Industries America, Inc.
2 MHI Shared Services Americas, Inc.

Latin America
3 Mitsubishi Indusitrias Pesadas do Brasil Ltda.
4 Mitsubishi Heavy Industries Mexicana, S.A. de C.V.

Europe and CIS
5 Mitsubishi Heavy Industries France S.A.S.
6 Mitsubishi Heavy Industries Europe, Ltd.
7 MHI Russia LLC

Asia and Oceania
9 Mitsubishi Heavy Industries (China) Co., Ltd.
10 Mitsubishi Heavy Industries (Shanghai) Co., Ltd.
11 Mitsubishi Heavy Industries, (Hong Kong) Ltd.
12 Mitsubishi Heavy Industries Asia Pacific Pte. Ltd.
13 Mitsubishi Heavy Industries (Thailand) Ltd.
14 Mitsubishi Heavy Industries India Private Ltd.
15 MHI Australia, Pty. Ltd.

Overseas Offices

Europe and CIS
16 Turkey Liaison Office
Middle East
17 Middle East Office
Asia and Oceania
18 Taipei Office
19 Hanoi Liaison Office
20 Ho Chi Minh City Liaison Office
21 Kuala Lumpur Office
22 Jakarta Liaison Office

Overseas Offices

Africa
8 MHI Technologies S.A.E.

Asia and Oceania
9 Mitsubishi Heavy Industries (China) Co., Ltd.
10 Mitsubishi Heavy Industries (Shanghai) Co., Ltd.
11 Mitsubishi Heavy Industries, (Hong Kong) Ltd.
12 Mitsubishi Heavy Industries Asia Pacific Pte. Ltd.
13 Mitsubishi Heavy Industries (Thailand) Ltd.
14 Mitsubishi Heavy Industries India Private Ltd.
15 MHI Australia, Pty. Ltd.
Although growth in Japan has leveled off, the economies of overseas emerging countries have been expanding rapidly, pushing up demand for infrastructure development. Also, amid a growing sense of crisis about climate change and the depletion of natural resources, this situation has presented new opportunities for growth, and we are pursuing the path to becoming a global company.

A “J-Series” gas turbine achieved the world’s highest turbine inlet temperature 1,600°C, during verification testing. (2011)

Toward an Era of Sustainability and Diversity—Pursuit of New Growth by Becoming a Global Company

Although growth in Japan has leveled off, the economies of overseas emerging countries have been expanding rapidly, pushing up demand for infrastructure development. Also, amid a growing sense of crisis about climate change and the depletion of natural resources, environmental protection has become a consistent theme worldwide.

For MHI, which has supplied diverse infrastructure over many years and pursued environmentally friendly technologies since the oil crisis, this situation has presented new opportunities for growth, and we are pursuing the path to becoming a global company.

Status of Inclusion in ESG Indexes (As of August 2018)

We have been chosen for inclusion in the FTSE Blossom Japan Index, an ESG index comprising companies that excel in their response to the environment, society, and governance.

We have been selected for inclusion in the Asia Pacific Index, an Asia Pacific regional index for the Dow Jones Sustainability Index (DJSI), a global stock index for socially responsible investing (SRI).

We have been selected for inclusion in the MSCI Japan Empowering Women (MIN) index. This ESG index is composed of those top-500 Japanese companies by market value that are included in various categories within the international industry classification standards and excel at gender diversity.

Meetings with Overseas Investors

We visit overseas investors located in North America, Europe, and Asia, explaining our operating performance, management strategies, and other information. Several times each year, we also participate in conferences held in Japan and overseas.

Establishment: Pre-WWII—Helping Japan along the Path to Becoming a Modern Nation

The history of MHI begins with our 1884 start of a full-fledged shipbuilding business in Nagasaki. After that point, we made rapid progress as we pursued the advances taking place in Europe and the United States. In addition to shipbuilding, we drove our growth by building automobiles, aircraft, turbines, and internal-combustion engines. Later, we also turned our world-leading technologies to the manufacture of products to meet military demand, such as battleships and fighters.

Post-WWII: High-Growth Period—A Key Player in Turning Japan into a Nation of Abundance

Post-war, in 1950, in line with the GHQ’s policy of dissolving large industrial groups (zaibatsu), MHI was divided into three independent and competing companies. In addition to providing such heavy equipment as tankers and gas turbines, we supported Japan’s reconstruction across a broad range of product fields, including motor scooters and air conditioners. The three companies integrated in 1964, and we played a role in Japan’s rapid economic growth through the development and production of such social infrastructure as power plants and bridges as well as container carriers, monorail systems, and other transportation equipment.

Status of IR Activities

Briefings for Individual Investors

We hold briefings for individual investors in locations throughout Japan, centered on the major cities. In these meetings, we provide a corporate overview and explain our business strategies, shareholder returns, CSR initiatives, and other topics. We also conduct factory tours for individual investors on an ad hoc basis.

Briefings for Analysts and Institutional Investors

We conduct financial results briefings each quarter, where the CFO explains performance details. At the fiscal 2017 financial results briefing in May 2018, the president also explained about the 2018 Business Plan, a three-year medium-term business plan beginning in fiscal 2018. In addition, we hold business strategy briefings, small meetings, and factory tours on an ad hoc basis.

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Tower parking garage (1963)

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As of August 2018

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This year marks our fifth publication of the MHI Report. In this edition, we communicate our vision for contributing to people’s lives in order to remain a company whose ongoing existence is considered necessary by society. Based on consistent targets for realizing this vision, we attempt to portray how individual resources function organically within the Company. We hope that this report will serve as a tool for promoting an understanding of the Company among shareholders and investors, as well as a tool for dialogue. We look forward to hearing your frank opinions.

August 2018

Investor Relations & Shareholder Relations Department