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

The year did see one positive development, however, with respect to progress in trimming our risk assets. Recovery of indemnification assets related to the South Africa projects, a long-pending issue, was finally realized. The settlement that was reached resulted in receipt of ¥200 billion in cash and a transfer of shareholdings that transformed Mitsubishi Hitachi Power Systems, Ltd. (MHPS) to a wholly owned subsidiary. I expect MHPS’s new status to have a positive impact on our future business development.

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

To turn briefly to topics relevant to fiscal 2020, in both fiscal 2018 and fiscal 2019 we recorded free cash flows in excess of ¥200 billion, but in fiscal 2020 we expect negative flows in the amount of ¥400 billion, thereby cancelling the positive flows of the
previous two years. That being said, the deterioration in cash flows owes largely to a decrease in net profit and the schedule for receiving advance payments on contracts; we don’t expect the negative flows to continue in the coming years, and we will do our best to bring them back to positive territory in fiscal 2021.

Our cash conversion cycle (CCC) has posted continuous improvement in recent years, but in fiscal 2020 we are projecting a downturn from fiscal 2019. Besides the significant decrease in advance payments on contracts (contract liability) that I noted earlier, earnings in the commercial aircraft business are also projected to decline, thus preventing CCC from attaining the level recorded previously. However, starting in fiscal 2021, if the impact from the COVID-19 pandemic can be brought under control and revenue is able to grow, we expect CCC to begin improving again. In fiscal 2020, in light of the severity of our business environment, we will closely monitor not only our overall numbers but the figures for each business, including trade receivables and asset inventory days.

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**Improving our Balance Sheets**

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<th>Risk asset reduction</th>
<th>Asset reclassification</th>
<th>Balance sheet optimization</th>
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<tr>
<td>Indemnification assets relating to South Africa projects</td>
<td>[South Africa project settlement] Indemnification assets (¥546.0 billion)</td>
<td>Cash: ¥200.0 billion → Growth investment capital MHPS shares: 35% (September 2020) Bold structural conversion</td>
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<td>SpaceJet</td>
<td>[SpaceJet] Previously booked assets (¥122.4 billion) +FY2020 development costs, etc. (¥140.9 billion)</td>
<td>Deferred tax assets (¥233.1 billion) → Reduce future cash outflows</td>
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<tr>
<td>Total assets ¥5.2 trillion (FY2018 end)</td>
<td>[Low-performing assets] Low-performing factories Cross-shareholdings</td>
<td>Plant selloff / repurposing (Iwatsuka, Saiwaicho, Koyagi) (scheduled for FY2020) → Enhance profitability through fixed cost reduction Sale of cross-shareholdings → Growth investment capital</td>
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*2 After transfer of MHPS shares
Now that substantial progress has been achieved in reducing our risk assets, our next task is to focus on growth, and the crux here will be how to apply MHI’s Groupwide technologies to social benefit. Currently, our focus is to address environmental issues, especially how to achieve decarbonization, which is a matter that affects the future of all humankind. As I noted earlier, we have made MHPS a wholly owned subsidiary, now renamed Mitsubishi Power, and with this transformation we are now in an even better position than before to provide diverse solutions to environmental issues. Going forward, I expect use of renewable energies will grow further, but there are issues in terms of unstable supplies and control difficulties. I believe that by combining renewables with the energy solutions we can provide—in thermal and nuclear power, for example—renewables will be usable with greater peace of mind and systems can be created that will enable resolution of environmental issues. Going forward, I believe MHI Group’s growth will be driven by our ability to provide integrated solutions—solutions incorporating our hydrogen technologies and exhaust gas decontamination technologies, for example.

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

**Pandemic Impact and Countermeasures**

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

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

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

To improve processing in our financial section, we established a new “Financial & Accounting Process Re-engineering Office.” In addition to setting up an IT infrastructure to oversee financial matters for the complete MHI Group, the new office will promote process reforms. Improving business administrative processes while setting down the IT infrastructure will be of crucial importance, and significant results can be expected from this two-pronged initiative.

**Prioritized Fund Allocation into Growth Areas**

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Message to Shareholders and Investors

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

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

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