MOVE THE WORLD FORWARD MITSUBISHI HEAVY INDUSTRIES GROUP

MHI REPORT 2022

MITSUBISHI HEAVY INDUSTRIES GROUP INTEGRATED REPORT

For the Year Ended March 31, 2022

MITSUBISHI HEAVY INDUSTRIES

Contents

Purpose of Publishing This Report

Mitsubishi Heavy Industries (MHI) Group aims to achieve growth by contributing to the development of society by responding to current and future issues and needs with a variety of technologies, based on our corporate philosophy set forth in Our Principles.

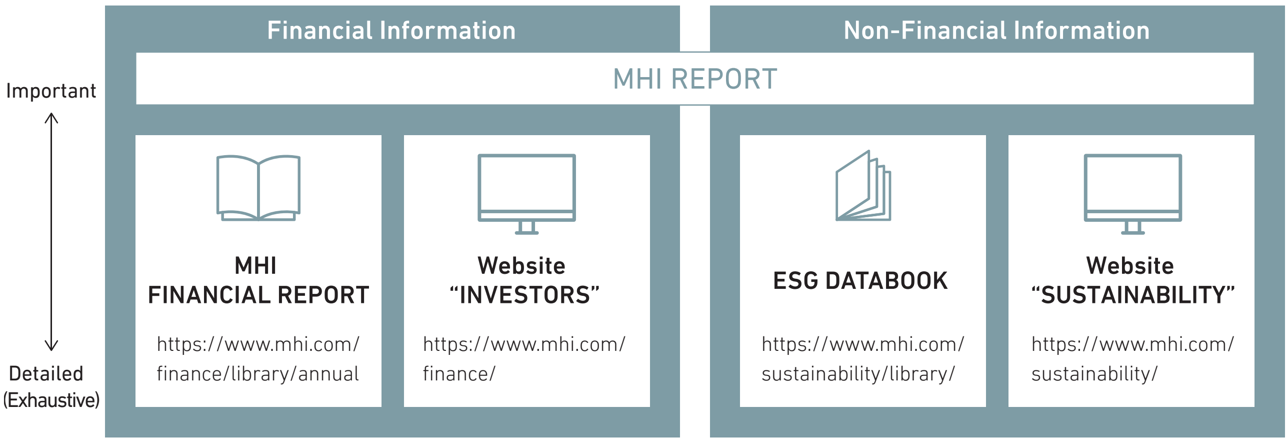
In order to help shareholders, investors, and other stakeholders better understand our philosophy, we have published this MHI Report as an integrated report that provides financial information, including management strategies and operating performance, as well as non-financial information such as management resources, corporate governance, risk management that support our strategies and performance, and the Group's environmental and social activities since fiscal year ended March 2014 (FY2013).

Reference Guidelines

Value Reporting Foundation (VRF): International Integrated Reporting Framework
Global Reporting Initiative: Sustainability Reporting Standards
Ministry of Economy, Trade and Industry of Japan: The Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation
Ministry of the Environment of Japan: Environmental Reporting Guidelines (2018 version)

Structure of Information Disclosure

MHI Report contains information that is important to understanding MHI.
More detailed information is available on our website.
https://www.mhi.com/finance



Forward-Looking Statements

Forecasts regarding future performance in these materials are based on judgments made in accordance with information available at the time this report was prepared. As such, these projections involve risks and uncertainties. Also, the results projected here should not be construed in any way as being guaranteed by the Company. For this reason, investors are recommended not to depend solely on these projections for making investment decisions.

It is possible that actual results may change significantly from these projections for a number of factors. Such factors include, but are not limited to, economic trends affecting the Company's operating environment, currency movement of the yen value to the U.S. dollar and other foreign currencies, and trends of stock markets in Japan.

Our Principles

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

1. We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide.
2. We act with integrity and fairness, always respecting others.
3. We constantly strive for excellence in our operations and technology, building on a wide global outlook and deep local insights.

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

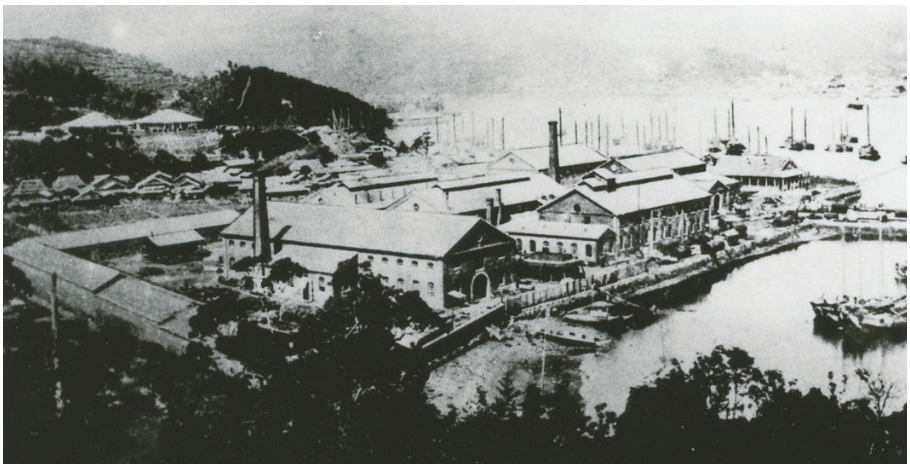
Today, as a global leader in *monozukuri* and engineering, MHI Group utilizes its advanced technology to provide integrated solutions in a wide range of fields, from infrastructure such as shipbuilding, transportation systems, commercial aircraft, and power systems, to space systems. Our activities have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

Yataro Iwasaki, MHI's first president

Purpose of Our Principles

June 1, 1970
The origins of MHI extend far back to 1870, and the fact that we are here today is the fruit of the untiring efforts of our founder, Yataro Iwasaki, as well as successive generations of management and employees. Lessons learned from these predecessors remain engraved in our minds to this day, and, recalling them, we have resolved to establish Our Principles suitable to MHI with its rich tradition in preparation for further leap forward into the future.

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



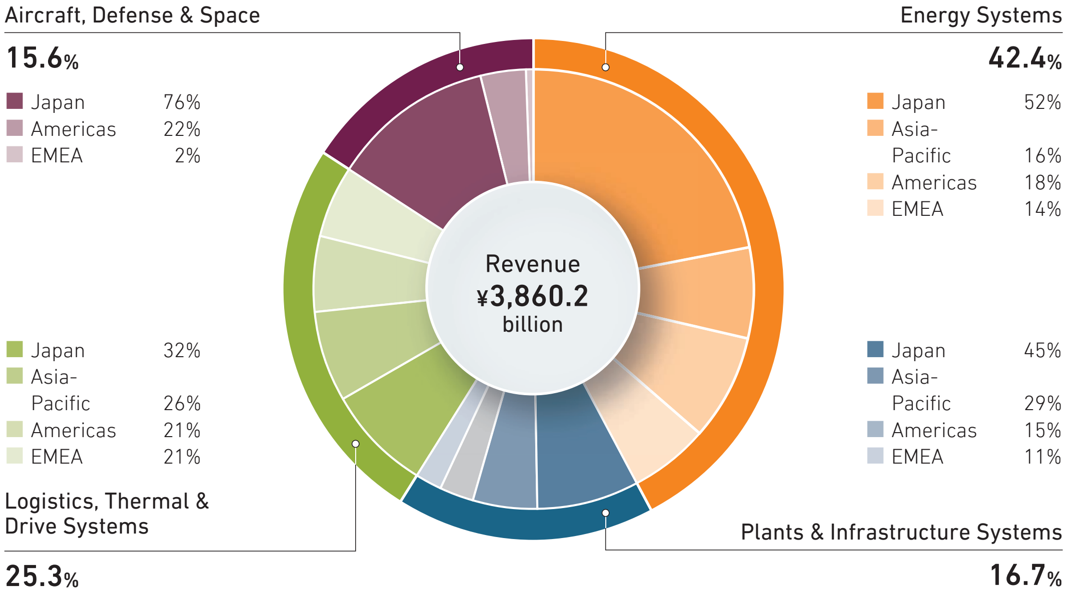
Nagasaki Shipyard & Machinery Works in 1885

Group Profile

Financial capital	Shareholders' equity* ¥1,576.6 billion	Interest-bearing debt ¥734.9 billion
Human capital	Number of employees 77,991 people	Training hours per employee 13.6 hours
Intellectual capital	R&D expenses ¥113.6 billion	Number of patents held 25,654
Manufactured capital	Property, plant and equipment ¥790.2 billion	Capital expenditures ¥122.8 billion
Social and relationship capital	Social contribution expenses ¥1.1 billion	People undergoing human rights awareness training 1,570 people
Natural capital	Renewable energy consumption 119 GWh	Water usage 6,820 thousand m^3

* Equity attributable to owners of the parent

Composition of Revenue by Segment (FY2021)



Energy Systems

Main Businesses

- Gas & steam power systems*
- Nuclear power systems
- Compressors
- Aero engines
- Marine machinery

* Includes GTCC, steam power and air quality control system

Plants & Infrastructure Systems

Main Businesses

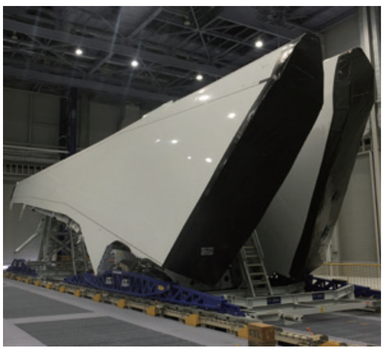
- Commercial ships
- Engineering
- Environmental systems
- Metals machinery
- Machinery systems

Logistics, Thermal & Drive Systems

Main Businesses

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

Aircraft, Defense & Space



Main Businesses

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

Progressing Along with Society

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

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

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

1880's >>

Progressing along with Japan's modernization

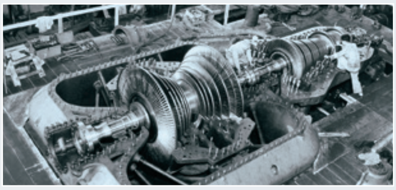
Nagasaki Shipyard & Machinery Works' first steel steamship, the Yugaomaru

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

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

1950's >>

Supporting post-war reconstruction and rapid economic growth in Japan



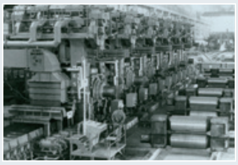
Mitsubishi Westinghouse turbine

The first MU-2A multi-purpose light aircraft

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

1970's >>

Playing a part in a technology-based nation



Rolling plant for steelworks

The first N-1 rocket

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

■Responding to growing energy demand accompanying economic development while also reducing environmental impact of economic activity is an issue we face today. MHI Group contributes to a sustainable society by providing a variety of products and solutions, such as offshore wind turbines utilizing renewable energy, clean gas power, CO_2 capture plant and flue gas desulfurization unit.

2000's >>

Contributing to a sustainable society

CO_2 capture plant

Present and Future

Energy Transition

Decarbonization

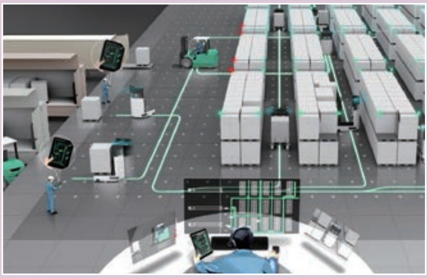
Hydrogen co-firing/100% hydrogen firing gas turbine

CCS/CCUS (CO_2 Capture, Utilization, and Storage)

▶ For details, see page 30

Smart Infrastructure

Electrification and Intelligent Systems



ΣSynX-powered AGF

A Message from the President & CEO

Shared Aspirations for a Carbon Neutral Future

President & CEO

Seiji Izumisawa

A Message from the President & CEO

MHI Group's Value Creation Proposal

Throughout our long history, Mitsubishi Heavy Industries (MHI) Group has continuously combined cutting-edge technology with extensive expertise in order to improve the lives of people around the world. At every step, we have contributed to resolving societal issues by providing products and services which respond to the demands of the day. At the time of our founding, we built ships and power plants. Later, we manufactured a variety of industrial machinery and contributed to the exploration of space. More recently, we have provided CO_2 capture plants and other advanced environmental systems. Constant contribution to society's development is, I believe, MHI's true purpose.

Today, climate change poses a challenge of utmost urgency. When I joined MHI in the early 1980s, the issues we faced involved securing substitute fuels and efficiently using energy in order to cope with depleting oil reserves. Since that time, MHI Group has continuously manufactured products responsive to those needs as a leader in the energy and environmental machinery fields. This includes high-efficiency gas turbines, energy-conserving heat pumps, and power systems employing geothermal, wind, and other renewable energies.

Creating new products and services required by society–state-of-the-art offerings unprecedented in Japan or globally–is our greatest source of pride. The pride which all of our employees hold in their work and the confidence and diligence with which they apply themselves allow us to overcome any difficulties we might face. Our strong determination to resolve societal issues is crystallized in MHI Group's fundamental philosophy, known as Our Principles. In the years ahead, we intend to continue pursuing this most noble of purposes.

As a part of MHI Group's Sustainability Management policy, we link our business operations with society's most important challenges, which we call Materiality. Our first priority today is to leverage our products, technologies, and experience in the area of decarbonization with the ultimate goal of contributing to the achievement of Carbon Neutrality and solving climate change.

In October 2021, we announced MISSION NET ZERO, our commitment to achieve Carbon Neutrality across our value chain by 2040.*1 Like many other nations, Japan is aiming to achieve Carbon Neutrality by 2050. To reach this goal, considering the lead time required for our products and technologies to enter service, we at MHI have declared our intent to realize net zero CO_2 emissions by 2040, ten years ahead of the Japanese government's target.

By our estimate, CO_2 emissions from products we have provided to our customers (Scope 3) totaled approximately 1.5 billion tons as of 2019. We are confident in our ability to make a significant contribution to global Carbon Neutrality by reducing those emissions with our technological capabilities.

In our MISSION NET ZERO announcement, we set two targets: first, to cut our Scope 3 + CCUS emissions by 50% compared to 2019 levels by 2030, and then, to reach Net Zero by 2040. Secondly, we set two targets regarding Scopes 1 and 2 emissions–CO_2 emissions resulting from our Group-wide production activities. We will reduce Scopes 1 and 2 emissions by 50% compared to 2014 levels by 2030 and then achieve Net Zero by 2040. We have already succeeded in reducing our Scopes 1 and 2 emissions by more than 40%. Today, we are proceeding with plans to demonstrate our Carbon Neutral Factory concept at Mihara Machinery Works in western Japan. We aim to achieve Carbon Neutrality at this manufacturing facility mainly by replacing conventional power sources with green energy derived from renewables, electrifying heat sources, and installing energy management systems. By applying the experience gained through these efforts and working closely with our peers in industry, we will develop innovative, carbon neutral solutions and propose them to our customers.

*1 For details, see "Special Feature: MHI Group's Carbon Neutrality Initiatives" on pages 30-40.

Carbon Neutrality Initiatives in the 2021 Medium-Term Business Plan

In accordance with our 2021 Medium-Term Business Plan (MTBP), we are pursuing two main initiatives to contribute to Carbon Neutrality: Energy Transition and Smart Infrastructure. In the Energy Transition, we are focusing on three goals: decarbonizing existing infrastructure, building a hydrogen solutions ecosystem, and realizing a CO_2 solutions ecosystem. We are also seeking to reduce CO_2 emissions through conversions to alternative fuels, such as hydrogen, and by utilizing nuclear power. In hard-to-abate industries such as steel and cement manufacturing, however, decarbonization poses an especially difficult challenge. Waste incineration, too, inevitably will produce carbon emissions. Therefore, to achieve Carbon Neutrality, such unavoidable emissions must be curtailed with CO_2 capture. That said, we must also consider how to store the captured CO_2 initially and then make use of it at a later time.

Today, the CO_2 capture market is especially active in North America, Europe, and Japan. MHI has a high global market share of large-scale CO_2 capture systems for use in the energy and chemical manufacturing industries. In FY2021, customer recognition of our proven track record in this field helped us book orders for feasibility studies equivalent to approximately 27 million tons of captured CO_2 per year. We are hopeful that the strength of our achievements and proprietary technologies will assist in converting these studies into firm orders going forward. In partnership with IBM Japan, we are now developing CO2NNEX*2, a digital platform to enable the visualization of CO_2 transactions throughout the value chain, encompassing all steps from emission and transport to storage and utilization.

*2 For details, see on page 37.

MHI Group Sustainability Initiatives

- Achievement of Carbon Neutrality is essential to realizing a sustainable society that is safe, secure, and comfortable
- MHI Group will promote decarbonization of energy supplies through the Energy Transition together with energy conservation, automation, and decarbonization of energy use with Smart Infrastructure

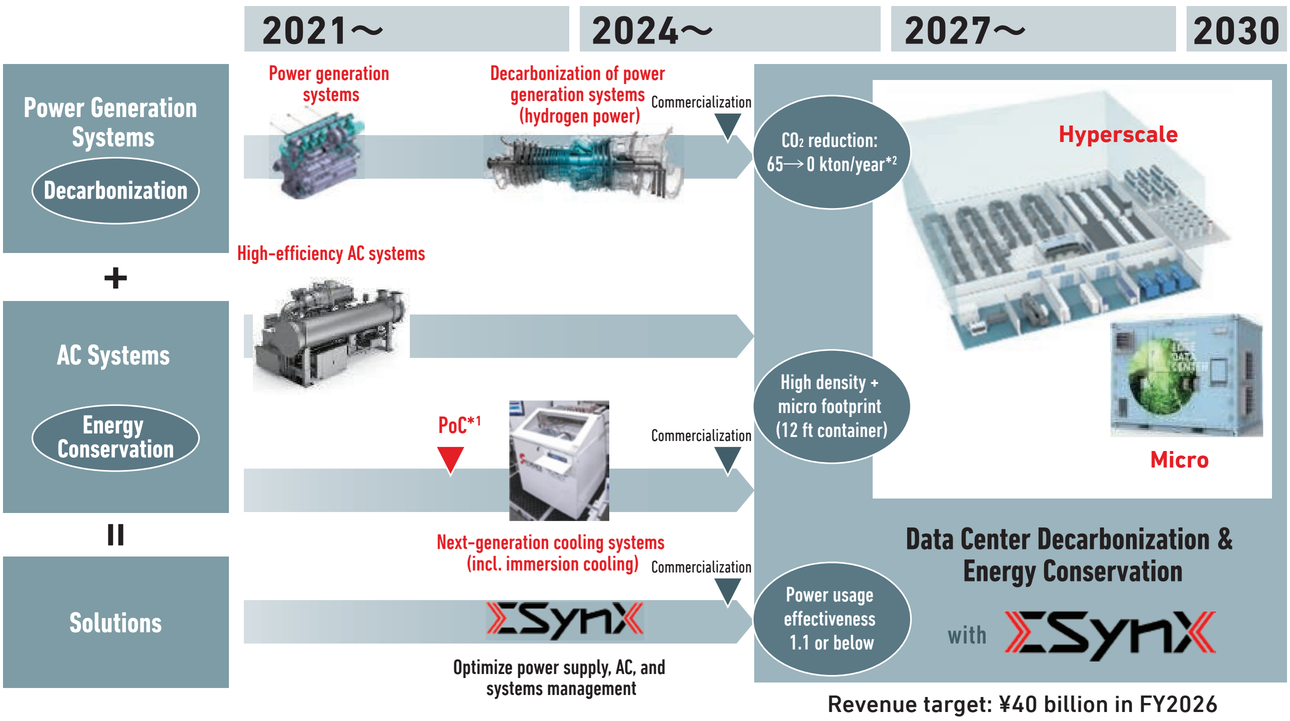
A Message from the President & CEO

Within the 2021 MTBP and in parallel with our Energy Transition initiatives, which seek to decarbonize energy supply, we are also pursuing what we call Smart Infrastructure, which aims to conserve energy, automate, and decarbonize energy use.

As digital technologies have come to occupy every facet of our lives in recent years, data centers today are seeing substantial increases in data transmission and processing volumes. The large amount of energy needed to dissipate the considerable heat generated at these data centers poses a great challenge. MHI Group today offers high-efficiency cooling and power generation systems for large-scale data centers, and going forward we aim to develop cooling systems offering even greater efficiency to help reduce CO_2 emissions further.

We have already launched highly maneuverable Automated Guided Forklifts (AGFs) into the market, as well as cooling systems with low Global Warming Potential (GWP), which use natural refrigerants CO_2 and NH_3 (ammonia). In the coming years, we will proceed with development of automated logistics solutions, such as automated refrigerated warehouses, and integration and coordination of power supply and air conditioning systems to achieve game-changing advances in energy conservation and decarbonization.

Data Center Decarbonization and Energy Conservation



Revenue target: ¥40 billion in FY2026

*1 PoC: Proof of Concept *2 For 1 standard hyperscale data center

2021 Medium-Term Business Plan Progress and Changes in the Business Environment

We finalized the 2021 MTBP, which is now underway, roughly six months earlier than usual back in 2020. At that time, rapid changes in the business environment arising from the COVID-19 pandemic, climate change, and heightened geopolitical risks compelled us to swiftly formulate and put in motion growth strategies and financial plans adapted to these developments.

Within the 2018 MTBP, we had targeted top-line growth through M&A and other methods. Contrastingly, in the 2021 MTBP, we chose to focus on growth area development–especially in the decarbonization area–and strengthening profitability with the goal of preparing the foundation for our next growth phase. In FY2021, the first year in the current MTBP period, we succeeded in achieving our goals in every area: profitability, financial stability, and dividends. I wish to express my wholehearted appreciation to all of our employees for your dedicated effort, and to all of our stakeholders for your support and cooperation, all of which were critical in helping us achieve these successes.

Personally, however, I am not contented simply with the numerical results of FY2021. I believe our true value will be tested in FY2022, the second year of the 2021 MTBP. That said, since the plan was finalized two years ago, both the society and business environment in which MHI Group operates have changed significantly. In response to these changes, we will need to take additional measures beyond the original plan.

First, concerning climate change, I have a strong sense that during the past year discussions about potential solutions took a more realistic direction than before. Under the EU Taxonomy system,*3 gas-fired thermal power and nuclear power were classified as important energy sources in the transition to Carbon Neutrality. The Japanese government's 6th Strategic Energy Plan, issued in October 2021, placed its main focus on achieving a safe, stable, low-cost energy supply that is also environmentally friendly. This concept is collectively referred to as S + 3E.*4

All along, we have believed that the final goal we seek to reach–Carbon Neutrality–is the same for everyone, only the paths toward that goal differ by country and region. In Europe, for example, renewable energy is readily available at low cost and in stable supply, and therefore the barrier to decarbonization using these renewables is relatively low. In contrast, wind power and other renewable energy sources are in short supply in Asia, so pursuit of decarbonization here by the same methods as in Europe would inevitably result in higher costs. This is therefore an unrealistic option.

For that reason, achieving Carbon Neutrality will require an approach that takes into consideration the regional characteristics and economic situation of each country. In some cases, for example, there will be an incremental approach to decarbonization through fuel conversions at existing power generation facilities. I believe realistic and achievable roadmaps of this kind are gradually obtaining acceptance globally, including here in Japan.

Increasing geopolitical instability and anxieties around energy supplies following the breakout of conflict in Ukraine have recently led to active debate concerning national and energy security. Against the backdrop of this difficult situa-

*3 EU Taxonomy is a framework of sustainable economic activities promoted in conjunction with the European Union's sustainable finance strategy. In February 2022, gas-fired thermal power and nuclear power under certain conditions were classified as sustainable economic activities during the transition to Carbon Neutrality.
*4 Safety + Energy Security, Economic Efficiency, and Environment.

A Message from the President & CEO

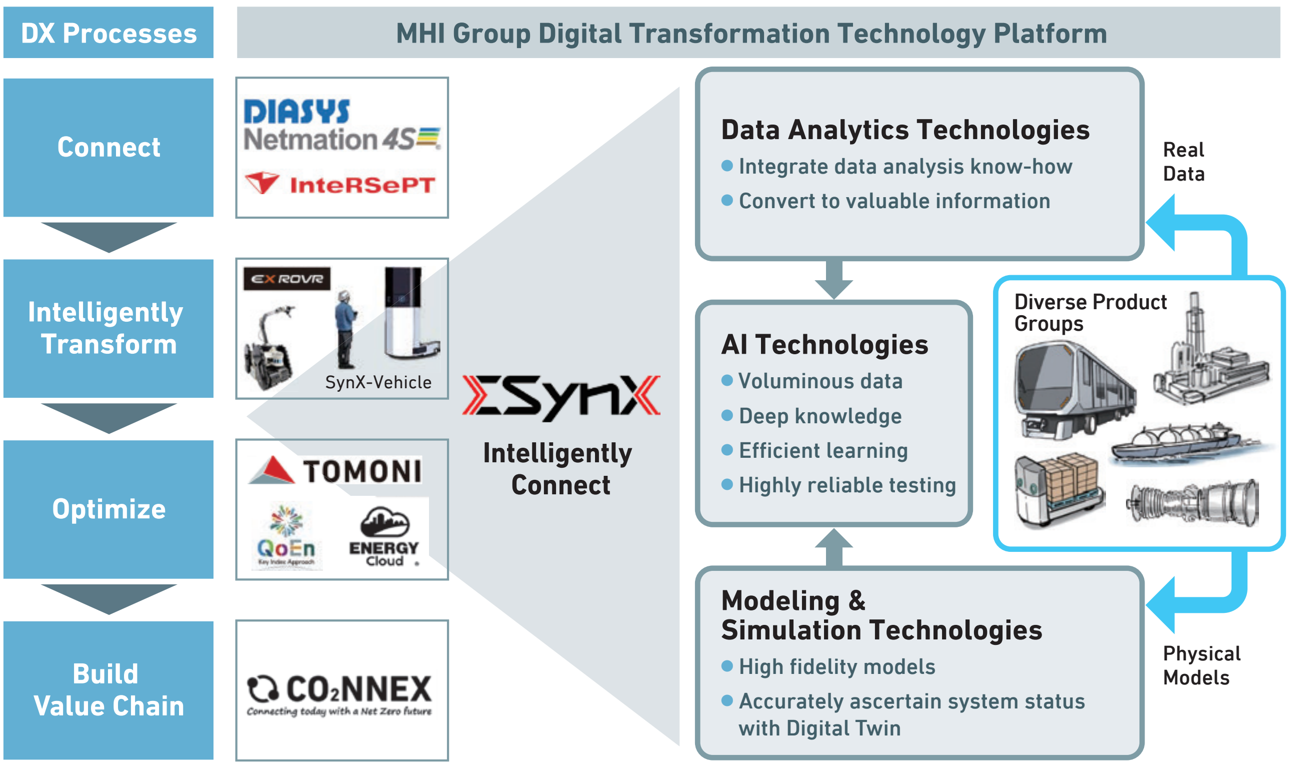
tion, we are seeing heightened global interest in MHI Group in recognition of our position as a leader in defense and nuclear power. We will do everything we can to meet these rising expectations.

However, a variety of factors also have the potential to negatively impact our businesses. These include uncertainty surrounding the future of the COVID-19 pandemic, global inflation, and shortages of semiconductors and raw materials. To cope with these changes in our external environment, we will seek to increase productivity and also gain the understanding of our customers as we request that they assume a fair share of increasing costs. In these ways, we will solidify the foundation on which achievement of our 2021 MTBP targets will be built.

Today, many disparate companies are accelerating their Digital Transformation (DX) efforts. MHI Group has core competencies in high-precision digital control and advanced security technologies, which enable the stable operation of complex machinery and infrastructure, as exemplified by our defense and nuclear power products. Specifically, we are developing technologies in modeling and simulation based on many years of research, development, and on-site validation. We are also accumulating data collection and analytics technologies based on abundant operational achievements, AI technologies applied to diverse products and systems, and security technologies developed for our defense products, among others.

By applying our strengths in these varied fields and intelligently connecting products and services, we can further enhance the potential of our machinery systems. Furthermore, we can minimize the burden on operators, reduce societal risk, and optimize energy resource usage by intelligently transforming and automating our individual machinery systems, coordinating among them, and making infrastructure more intelligent. All of this will enable the establishment of safe, secure, and efficient infrastructure.

Cooperative Development with Customers Supported by DX



In this way, our DX initiatives will create new social value by connecting machinery systems, intelligently transforming them, and optimizing their performance.

In July 2022, we established a new Digital Innovation Headquarters to oversee the sharing of existing core technologies and to drive new developments within our Group. With this new organization, we will further accelerate the intelligent connection of our product groups with digital technologies in order to provide our customers with new solutions and value.

On the topic of business portfolio optimization, in FY2021, we achieved a degree of progress in this area, divesting one business and consolidating some overseas locations in another. In this way, we have shored up our business fundamentals and addressed some issues that had been of concern. We will now proceed to the next step beyond these achievements. During this new phase, whether a given business has top-level competitiveness and sufficient growth potential, both within Japan and internationally, will be given even greater importance. Going forward, we will continue reviewing our business portfolio using our Strategic Business Assessment System, which will help us decide which businesses are positioned to experience synergies and capitalize on their strengths within MHI Group, and which businesses would have more opportunities to grow if handled by other companies.

A Message to Our Stakeholders
— Striving to Balance Environmental and Economic Needs —

Tomoiki–harmonious co-existence–is a concept I hold dear to my heart. It is a Buddhist concept broadly encompassing two aspects, one physical and the other temporal. The physical aspect has to do with harmonious co-existence with nature and your local community. The temporal aspect has to do with the connections between us in the present with our ancestors in the past and future generations to come. *Tomoiki* has a common thread with our mission to achieve Carbon Neutrality 20 to 30 years into the future.

In our collective pursuit of solutions to climate change, we have to find optimal approaches that do not focus solely on environmental or economic needs, but rather address both in equal measure. Our dream is for a world in which all people can live comfortable and fulfilling lives, regardless of the country or region where they live, enabled by stable supplies of electricity generated affordably. I have complete faith in the ability of MHI Group to achieve these dual environmental and economic goals by applying the full breadth of technologies we have developed throughout our history. I also believe that it is MHI Group's duty to make use of our multifaceted capabilities to help make this kind of world a reality.

In the years ahead, MHI will continue to hold a firm commitment to society, a commitment that we will pass on to future generations. I sincerely ask you–our shareholders and investors–for your continued understanding and support as MHI Group works toward realizing a sustainable, safe, secure, and convenient world for everyone, everywhere.

A Message from the CFO

We will raise corporate value while maintaining dialogue with shareholders and investors

Executive Vice President, CFO
Hisato Kozawa

Basic Approach to Financial Strategy

MHI Group has a unique standard of financial stability called Triple One Proportion, or TOP, which refers to an ideal 1:1:1 balance among revenue, total assets, and market value. In terms of the relationship between turnover and total assets, we view achievement of TOP to be a total asset turnover ratio of 1, which we see as one of the main financial barometers of the manufacturing industry. Regarding the relationship between total assets and net profit, given that share price mainly trends together with profitability, we believe a return on assets (ROA) above 6% is necessary, although this depends on the valuation method and general thinking around share price.

Comparing our FY2021 results against these targets, our total asset turnover ratio was only 0.75, and ROA was 2.3%. Therefore, there remains much room for improvement.

We continue to take steps to improve return on invested capital (ROIC) in each of our businesses, for example, by shortening the cash conversion cycle (CCC) and raising productivity. As CFO, one of my missions is to improve asset efficiency throughout the Company. In order to achieve this, I am working to manage assets by replacing those with inferior profitability with assets expected to contribute to future earnings. In terms of scope, this involves not only real estate holdings and past investments, but optimizing the business portfolio as well.

I fully understand that investors and shareholders focus on return on equity (ROE). In addition to pursuing higher profitability, today we maintain a conservative capital structure with a high level of equity. That said, I believe that as profitability and the asset portfolio improve going forward, we will have the option of gradually increasing leverage.

2021 Medium-Term Business Plan Progress

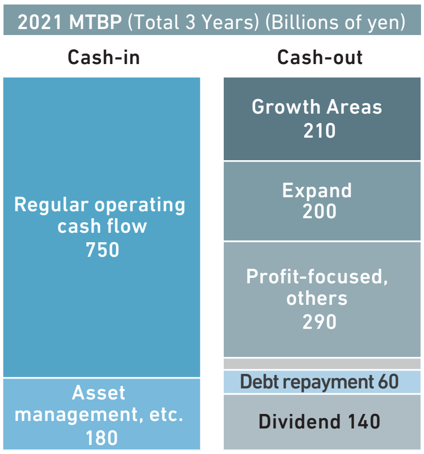
The 2021 MTBP, which began in April 2021, has two overarching goals, developing growth areas and strengthening profitability. We are focusing on three financial measures: business profit margin and ROE on the P&L side and interest-bearing debt on the BS side. In FY2023, the final year of the Plan, we are targeting a business profit margin of 7%, ROE of 12%, and interest-bearing debt of 0.9 trillion yen. To achieve these targets, as we indicated in our capital allocation plan for the three-year period of the 2021 MTBP, we seek to decrease interest-bearing debt and strengthen financial stability by improving profitability, increasing regular operating cash flow, and investing those funds into growth areas.

In FY2021, the first year of the 2021 MTBP, we exceeded our initial projections for orders received, revenue, and business profit. Business profit margin was approximately 4.2%, and ROE around 7.7%. Free cash flow reached a record 301.8 billion yen, the result of increased operating cash flow and substantial growth in investing cash flow, enabled by asset sales, including those of strategic shareholdings. In response to these results, we issued

A Message from the CFO

Financial Indicators Over Time

	FY2018	FY2020	FY2023
Revenue	¥4.1 trillion	¥3.7 trillion	¥4.0 trillion
Business profit margin	5%	1.5%	7%
ROE	7%	3.1%	12%
Total assets	¥5.1 trillion	¥4.8 trillion	¥4.5 trillion
Interest-bearing debt	¥0.67 trillion	¥0.9 trillion	¥0.9 trillion
Equity	¥1.7 trillion	¥1.4 trillion	¥1.5 trillion
Debt/Equity ratio	0.4	0.6	0.6
Equity ratio	34%	28%	33%
Dividend per share	¥150	¥75	¥160



* Adjusted from previously disclosed materials for the portion realized in advance in FY2020.

an annual dividend of 100 yen per share, exceeding our projection at the start of the term.

Turning to the balance sheet, as of the end of FY2021, total assets increased by around 300 billion yen year-on-year. This increase was largely due to three factors: inventory build-up in preparation for supply chain disruptions, increased yen valuation of foreign currency-denominated assets associated with the devaluation of the yen near the end of the fiscal year, and holding of excess cash on hand. While this increase in total assets did occur at the same time as efforts to curb assets in the lead up to TOP achievement, it was fully within our allowed range. In FY2022, effectively maintaining control of inventory levels and lead times amid supply chain instability in order to improve CCC has been a challenge, and we are implementing measures to address this. As of the end of FY2021, gross interest-bearing debt finished near 735 billion yen, down roughly 170 billion yen year-on-year. Net interest-bearing debt, which excludes cash and cash equivalents, reached approximately 420 billion yen, down some 240 billion yen compared to the end of FY2020.

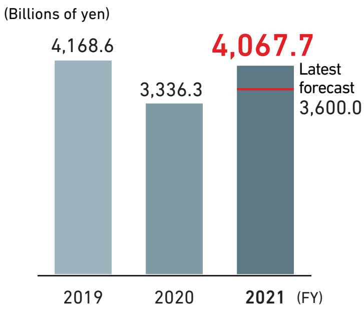
In light of the business profit margin, ROE, and interest-bearing debt figures I have just cited, overall I believe the first year of the 2021 MTBP showed acceptable results. That said, in order to achieve our targets for FY2023, especially a 7% business profit margin and 12% ROE, we will need to raise our profitability by one or two steps to meet the market's expectations.

Risk Management

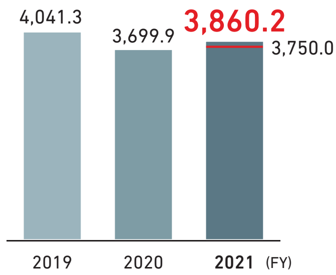
A major risk factor for the foreseeable future will be ongoing supply chain disruptions. The adversities that impacted global markets in 2021–semiconductor chip shortages, soaring material prices, and rising logistics costs–are likely to continue affecting MHI Group's earnings going forward. However, these are common challenges shared by all companies, and we hope to gain our customers' understanding as we request that they assume a fair share of increasing costs.

FY2021 Financial Results

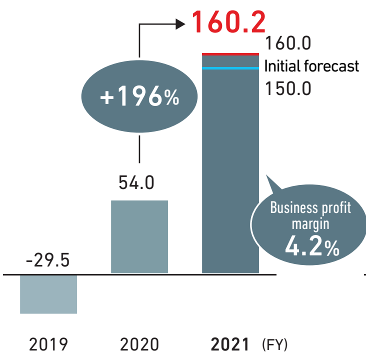
Orders Received



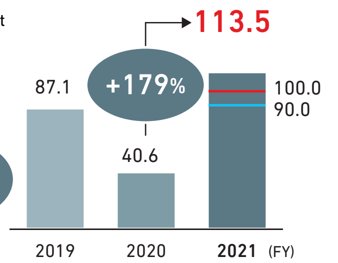
Revenue



Profit from Business Activities



Profit Attributable to Owners of Parent



EBITDA
¥292.4 billion
(+¥99.0 billion YoY)

EBITDA margin
7.6%
(+2.4% YoY)

Free Cash Flow
¥301.8 billion
(+¥579.0 billion YoY)

Operating Cash Flow
¥285.5 billion
(+¥380.5 billion YoY)

Interest-Bearing Debt
¥734.9 billion
(-¥170.6 billion YoY)

Net Interest-Bearing Debt
¥420.6 billion
(-¥239.5 billion YoY)

ROE
7.7%
(+4.6% YoY)

Dividends
¥100/share
(+¥25/share YoY)

At the same time, we will continue taking internal steps to curb costs. We see cost structure reform as an ongoing issue, and during the three years of the 2021 MTBP, we are targeting a 20% reduction in SG&A ratio. To that end, we are continuing with function sharing and consolidated purchasing while also pursuing organizational and human resource optimization through improvements in administrative processes and IT systems. For example, we are working to cut process operating costs by integrating finance and accounting systems at our Group companies worldwide and also by standardizing and sharing not only the systems themselves but also the tasks associated with them. We anticipate results beginning in FY2023.

To manage financial risk in general, we are consolidating funds at financial subsidiaries Groupwide and building a mechanism to lend surplus funds to Group companies when needed. This will not only enable us to optimize borrowing and reduce capital procurement costs for MHI Group as a whole, but it will also allow us to understand the flow of funds to and from each Group company, which should help us mitigate various risks.

Insofar as foreign exchange risk is concerned, an increase in the ratio of production outside of Japan and other factors have reduced overall impact from exchange fluctuations compared to previous periods. However, as we transition to handling more currencies, the impact from exchange fluctuations of currencies other than the U.S. dollar and euro has increased in relative terms. With respect to interest levels, policy changes are gradually underway to move away from the financial relaxation seen globally since the start of the COVID-19 pandemic. Since the markets are outside of our control, we are taking steps to minimize risk with diverse hedging methods while recognizing that a certain amount of market fluctuation is inevitable.

A Message from the CFO

Approach to Growth Investments, Capital Policy and Shareholder Return

MHI has defined the Energy Transition and Smart Infrastructure as two growth areas in which we are actively investing during the 2021 MTBP period. Both of these efforts will contribute to realizing Carbon Neutrality. Specifically, we intend to make in-house investments in plants and equipment as well as R&D. Externally, we anticipate M&A as well as investment in start-ups. For the time being, we plan to make roughly 200 billion yen in annual growth investments, with total investments to reach approximately 300 billion yen per year.

We expect the capital to fund these investments to come mainly from operating cash flow and asset sales, including those of strategic shareholdings. We also have debt borrowing capacity as our financial structure has improved through interest-bearing debt reductions. As a result, we plan to rely primarily on internal funds and debt. At present we are not planning to resort to equity financing. That said, depending on financial market trends and our capital needs, we may need to use appropriate fund-raising methods, including equity financing. So, we are continuing investigation and research in preparation for any possibility.

Concerning shareholder return, we are currently aiming for a payout ratio of around 30%. In order to respond to the medium to long-range expectations of our shareholders and investors, we believe that both dividend levels and stability are important. In the future, I believe that defining shareholder return using dividends on equity (DOE), which calculates dividends as a ratio of equity, is another possible approach.

As a short-term method of shareholder return, share buyback offers another possibility. However, in light of MHI's long business development span, I believe that combining long-term growth investments with stable dividends would likely be more acceptable to shareholders and investors. Therefore, we first plan to raise our dividend levels by improving our normalized profitability, after which we will consider other shareholder return methods as a next step.

Our Approach to Business Portfolio Management

At MHI Group, we continuously evaluate the performance of our business units, known as Strategic Business Units (SBU), using an in-house evaluation method called the Strategic Business Assessment System. Applying the results of these ongoing evaluations, we recalibrate and optimize our business portfolio through the strategic allocation of management resources. Specifically, we allocate internal equity and debt to each SBU based on our evaluation of their growth and earning potential. Management puts a lot of thought into the allocation of resources to individual SBUs. Decisions relating to allocation are reached through discussions among members of the management team taking into account each SBU's current performance as well as its future growth potential. Resources are taken away from businesses designated for scale reduction, whereas businesses we wish to grow receive ample fund allocations.

During the 2021 MTBP period, we have divested some businesses and locations with issues. For example, we divested our Machine Tools business and part of Koyagi Shipyard to other companies. At the same time, we acquired Mitsui E&S's Naval and Governmental Ships business.

When considering which areas of MHI Group's business portfolio should be expanded, I look at each business from two perspectives. The first is whether or not a given business can expect market growth. I have to be cautious, however, how to define the market being considered. It is meaningless to assume a business has growth potential if there are areas of the market that we cannot access. I have to ascertain a realistic picture of the situation based on the actual ability to access the market, MHI Group's positioning versus competitors, and other factors. The second perspective is whether MHI is the best owner or not. This is based on the idea that MHI Group should acquire businesses whose value we are capable of increasing to a level unachievable by other companies. Conversely, we should release our businesses if the opposite is true. Making a comprehensive evaluation – based not only on the Company's technological strengths but also on considerations such as MHI Group's presence in the given market, and how skilled our management is in that industry–and coming to a level-headed determination of who–MHI or another company–would be more capable of growing said business and raising its value, is a perspective I believe is vital to business portfolio management.

Enhancing Corporate Value through Dialogue with Shareholders and Investors

Throughout the years, we have continued to respond to society's evolving needs and provide the world with products and technologies supporting residential and industrial infrastructure. We have followed this path in line with Our Principles, our philosophy which is rooted in the Three Principles of Mitsubishi Group.

In accordance with the 2021 MTBP, we are seeking to achieve Carbon Neutrality, a challenge of global scale. We are addressing two areas in particular, the Energy Transition and Smart Infrastructure. In order to finance these efforts, we have raised a portion of the needed funds with two Green Bonds and FY2022's Transition Bond. I hope these bonds will be widely understood to reflect our stance and actions being taken toward realizing Carbon Neutrality.

In the past, the focus of discussions with shareholders and investors was our finances and short-term results. Recently, however, I sense a growing shift toward interest in topics relating to sustainability, such as ESG. I would like to convey precisely to investors how our management is aligned with the U.N.'s Social Development Goals (SDGs) by making appropriate disclosures not only of financial information but also of non-financial information as well. Although opportunities to meet directly with shareholders and investors and to discuss such matters decreased during the COVID-19 pandemic, going forward I hope to have more direct meetings so that we may engage in communication on a deeper level.

Looking ahead, I will continue to work hard to explain our yearly initiatives in detail to shareholders and investors as well as to share the results of the 2021 MTBP with you. I sincerely ask for your continued understanding and support.

A Conversation with the CTO

MHI Group is making important contributions toward realizing Carbon Neutrality

Hydrogen technologies are key to achieving a decarbonized world

Executive Vice President and CTO
Eisaku Ito

Former Director-General of the Japan Meteorological Agency
Toshihiko Hashida

Takasago Machinery Works in western Japan is where MHI develops and manufactures gas turbines featuring world-class power generation efficiency. Today, development of hydrogen gas turbines, which are expected to play a key role in decarbonization, is underway. We invited Dr. Toshihiko Hashida, former Director-General of the Japan Meteorological Agency (JMA), to meet with Executive Vice President and CTO Eisaku Ito for a discussion on a variety of topics.

MHI Group Efforts to Address Climate Change

Ito Thank you very much for taking the time to be with us today. Takasago Machinery Works is the main manufacturing facility for MHI's production of gas turbines, which boast world-class efficiency in power generation. This is also our base for conducting R&D on hydrogen gas turbines and other hydrogen technologies. We're especially happy to have you, an expert in meteorology, here today to observe MHI's cutting-edge Carbon Neutrality initiatives.

Hashida I have many opportunities to discuss climate change issues, especially from the perspective of natural disaster prevention, but I'm eager also to learn more about what measures are being taken to mitigate climate change and to achieve decarbonization. So I was very much looking forward to my visit here today.

Earlier, I was briefed on the different types of research currently underway here at Takasago Machinery Works, including on the combustion properties of hydrogen. I learned that investigation of these properties, through computation and experimentation, supports the engineering of your products. In the field of meteorology, we too use vast numbers of simulations of the natural world in order to make numerical projections, so I feel that we have many points in common. I was especially impressed at how MHI combines elemental technologies in order to create usable products.

Ito As a climate specialist, what are your views on climate change?

Hashida Almost every year now, summers bring frequent debilitating heat waves and disaster-causing torrential rains, and these weather events are making people increasingly aware of the impact of global warming. In Japan, torrential downpours and severe heat waves are the most obvious adverse effects caused by global warming, while outside Japan, other parts of the world are also experiencing prolonged droughts. The Intergovernmental Panel on Climate Change (IPCC) has also provided evidence of how climate change has impacted our lives, livelihoods, and property in recent years.

The most urgent challenges we face today are to mitigate natural disasters caused by global warming, to lessen the physical risks arising from environmental changes, and to reduce greenhouse gas emissions, the cause of global warming. Under the Glasgow Climate Pact adopted at COP26 in November 2021, participating nations jointly committed to reducing greenhouse gas emissions in pursuit of decarbonization. Today, it's absolutely imperative that we stop the situation from deteriorating any more than it already has. This is a matter that our generation has a responsibility to deal with now, so that we can pass on a sustainable world to future generations.

Ito I completely agree. We need to address these matters with utmost urgency. At MHI, we have identified important issues–which we call Materiality–that need to be resolved in order to better society and to ensure growth as a company in the medium to long term. Foremost among

these issues are to provide energy solutions to enable a carbon neutral world and to build a safer and more secure world.

Earlier, you mentioned the physical risks arising from environmental changes, and related to that, I believe that MHI has simulation technologies that could be useful in addressing the increasing intensity of natural disasters–floods, tsunamis, and powerful windstorms which can cause buildings to collapse. Today, we're conducting research creating detailed disaster simulations which integrate data on water and air flow patterns as well as movement of people.

We also have solutions pertaining to decarbonization, which will be necessary to stop global warming. Power generation systems, for example, are one of our mainstay products. We can reduce CO_2 emissions by power plants across the globe by improving the performance of these plants and also by converting them to carbon-free fuels, such as hydrogen. I firmly believe that by combining all of MHI Group's decarbonization technologies, we will be able to make a positive impact on society.

Hydrogen Technologies: Key to Achieving Carbon Neutrality

Hashida In October 2021, MHI Group announced MISSION NET ZERO. I find your goal of achieving Carbon Neutrality by 2040 extremely ambitious.

Ito Today, efforts are being made all around the world to achieve Carbon Neutrality. In Japan, the government has declared its commitment to attain Carbon Neutrality on a national level by 2050. It's within that context that we announced our commitment to achieve Carbon Neutrality Groupwide by 2040. We set our target for 2040, because we believe that in order for Japan to achieve Carbon Neutrality by 2050, MHI needs to be carbon neutral before that, to allow for our customers to prepare for their own decarbonization efforts.

In our case, more CO_2 emissions result from customers using our products than from our own business. If

A Conversation with the CTO

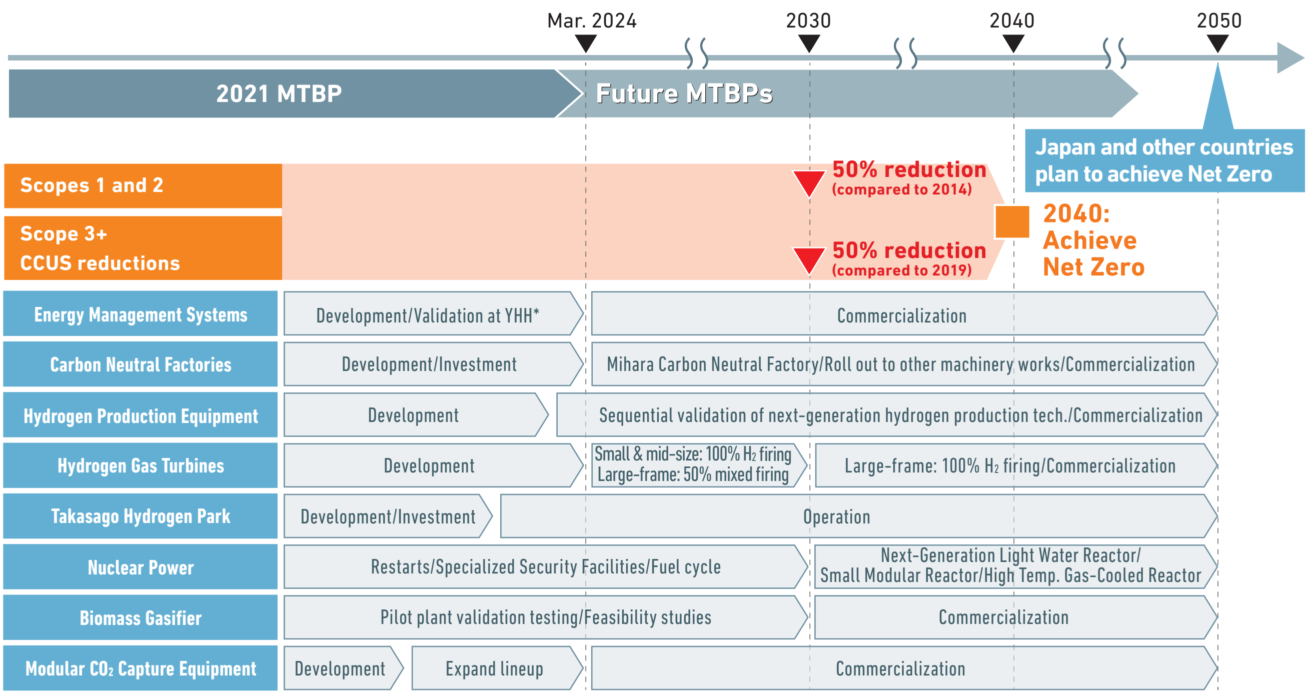
these emissions can be reduced through CO_2 capture and conversions to alternative fuels such as hydrogen, we can make a major contribution to cutting global CO_2 emissions by an estimated 3% to 4%. At MHI Group, we're also hopeful that as we take steps to achieve decarbonization, our customers and competitors will be inspired to do the same, which will produce a ripple effect reducing carbon emissions worldwide.

Hashida It seems to me that the development of hydrogen gas turbines is key to achieving Carbon Neutrality. What are some of your strengths in this area?

Ito One is hydrogen combustion. At MHI, we have been providing gas turbines to the steel industry for more than 50 years, and we have core technologies for the firing of high hydrogen-content off-gas. We have also accumulated expertise in the handling and combustion of hydrogen during our many years of rocket engine development. Today, we're applying our technologies and experience to the development of hydrogen gas turbines.

Hashida During my visit here today, I got to see the facility where gas turbines are manufactured, the Gas Turbine Combined Cycle power plant, and the site where Takasago Hydrogen Park will be built. On the premises here, you have a large-scale power generation facility for in-house technology validation, which is in fact a fully operational power plant in its own right. I think the ability to conduct validation testing on real-world equipment is an outstanding environment for your development engineers to work in.

Roadmap to a Carbon Neutral Society



* Yokohama Hardtech Hub: A co-creation space, located at the Honmoku Plant of MHI's Yokohama Dockyard & Machinery Works, where startups, manufacturing companies, local governments, and educational institutions can collaborate

Ito Exactly. What sets Takasago Machinery Works apart is the presence of four disparate functions all at one location: R&D, engineering, manufacturing, and validation testing. Since the staff involved in these respective functions are all located near each other, any problems that arise can be resolved quickly. Also, validation test results can be fed back immediately to facilitate any necessary modifications in development and engineering. The large-scale demonstration power plant facility (output: 566 MW) which you saw today went into operation in July 2020, and the power generated here is supplied to homes, factories, and other users through the local power utility's grid. If the plant were to stop operating, there would be significant impact to the community. We feel this pressure while we're working on development, and there's no room for excuses. This environment has been especially useful in our development of high-efficiency gas turbines, and it gives us a major advantage in the development of hydrogen gas turbines.

As you saw today, we have already started construction work on Takasago Hydrogen Park, which is slated to begin operations in FY2023. At this new facility, validation testing will be performed for next-generation hydrogen manufacturing technologies, including water electrolysis and turquoise hydrogen produced by methane pyrolysis. Testing of hydrogen combustion technologies and validation operations will be performed at the adjacent demonstration power plant. The resulting facility will be capable of fully integrated validation of hydrogen production, storage, and power generation.

Hashida With a setup like this, development is sure to proceed even more quickly. What innovations is MHI pursuing in the R&D of new decarbonization technologies?

Ito There are many core aspects of development that need to be resolved. One example is hydrogen combustors, which are a key component of hydrogen gas turbines.

Still, if we attempted to resolve the major technological challenges that lie before us all at once, we would be sure to fail. MHI Group has many businesses producing a wide range of products, and supporting them are more than 600 different types of technologies. When approaching a major challenge, you need to break it down into small parts,

each of which must be addressed in gradual steps through iterative hypothesis testing. If we work on these small challenges in parallel, then overall development speed can be accelerated.

Under our Shared Technology Framework, we're increasing our development speed as well as our success rate by applying this kind of approach, which we call Pivot Development. Even when the barriers to development success seem high, I firmly believe that if we set the correct targets, our development process will bring success without fail.

Toshihiko Hashida, PhD

Dr. Hashida served as the 25th Director-General of the Japan Meteorological Agency from 2016 to 2019. He has broad experience in meteorological services related to weather, the global environment, earthquakes, tsunamis, and volcanoes, and was involved in the planning and management of meteorological administration, including disaster prevention, international cooperation, and technology development. He also promoted public-private engagements, especially in the use of meteorological data.

A Conversation with the CTO

Hydrogen Gas Turbine (EU Taxonomy Compliant)

EU Taxonomy Compliant

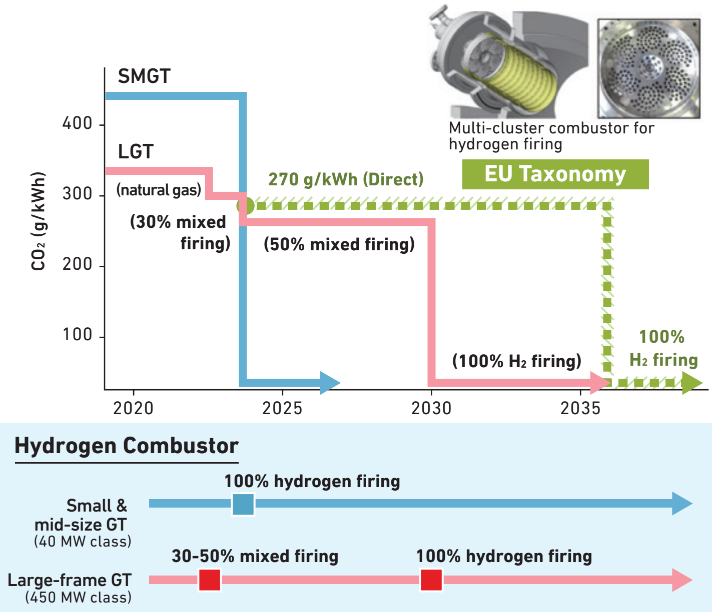
Leveraging Takasago Hydrogen Park, develop hydrogen gas turbine technology that complies with the EU Taxonomy's strict CO_2 emissions standards. Development schedule meets Taxonomy timing requirements as well.

Small & mid-size gas turbines

- Validate on actual equipment at Takasago Hydrogen Park in preparation for commercialization of hydrogen gas turbines by 2025, meeting the EU Taxonomy deadline

Large-frame gas turbines

- Development of 30% mixed hydrogen firing technology was completed in 2018. Validation will be performed at Takasago Hydrogen Park in the lead up to commercialization in 2025.
- Forecasted to achieve 100% hydrogen firing by 2030 and meet the EU Taxonomy requirements before the deadline



Hashida In the EU, steady progress is being made in adoption of the EU Taxonomy, a system that defines environmentally sustainable economic activities. I think this will have an impact on MHI's product development as well. The strict standards announced appear to serve as an incentive for pursuing the Energy Transition. How does MHI Group view the new taxonomy system?

Ito The EU Taxonomy has classified gas-fired thermal power and nuclear power as important energy sources in the transition to Carbon Neutrality. But the criteria for approval of new power plants are, as you say, difficult to achieve using conventional performance enhancement approaches. I see the taxonomy system as a mechanism to guide users to adopt hydrogen combustion and other technologies.

Even before the EU Taxonomy standards were issued, we at MHI Group have been preparing based on our own future projections. We have already completed development of large-frame gas turbine combustors for 30% mixed hydrogen firing, and we have achieved a technology to enable stable combustion of a 50% hydrogen mix. We're now at the stage where we're applying the sum of our technological resources toward achieving 100% firing in large-frame gas turbines, aiming for commercialization by 2030.

It's Important for the Energy Transition to Be Realistic

Hashida Decarbonization has become somewhat of a trend these days, but in the case of MHI Group's MISSION NET ZERO, your program is supported by concrete technologies, and you're confidently tackling the decarbonization challenge. Also, the way you're working to resolve issues of global scale with your technologies brings to mind the spirit imbued in MHI's corporate philosophy, Our Principles. Given the role that businesses play as members of society, I think expectations are high that MHI will continue to carry out business in a stable manner.

Ito As you say, business continuity is a matter of extreme importance, and for us to sustain our business, I believe the products and solutions we propose must be what the customer is looking for. What I mean to say is that, besides environmental value, our products and solutions must also make economic sense. I believe customers normally want to keep using their existing as-

Takasago Hydrogen Park

Begin operation in FY2023

A one-stop-shop for validating hydrogen-related technologies from hydrogen production to power generation

Add hydrogen production and storage equipment to existing demonstration plant

Test and validate water electrolysis, turquoise hydrogen*1, SOEC*2 and other technologies in-house and improve product reliability

*1 Turquoise hydrogen: H_2 obtained through pyrolysis of methane into H_2 and solid carbon

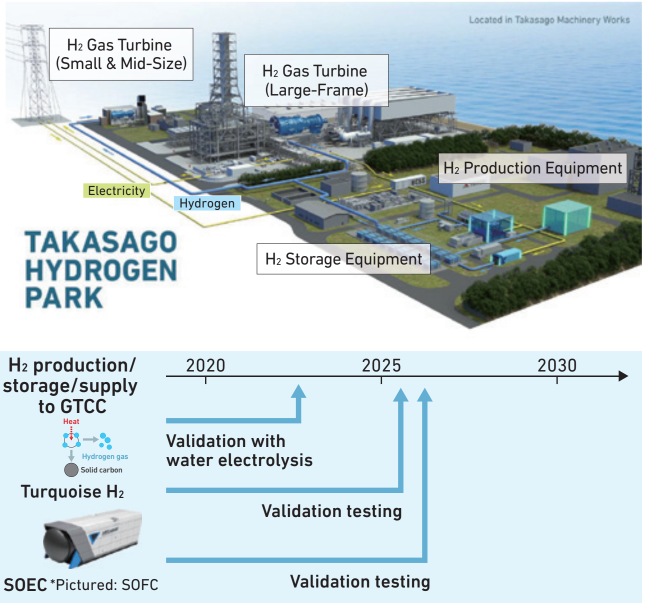
*2 SOEC (Solid Oxide Electrolyzer Cell): High temperature steam electrolysis

Validate hydrogen gas turbine technology

Validate technology in lead up to commercialization of 30% mixed firing in large-frame gas turbines and 100% hydrogen firing in small & mid-size gas turbines by 2025

Combine and evolve energy infrastructure and hydrogen technologies

Make progress toward establishing a hydrogen solutions ecosystem, which will help achieve a sustainable society by linking various industries with hydrogen technologies



sets as long as possible. They want to be able to achieve decarbonization by making the minimum necessary modifications and/or additions to their current facilities. For example, in the case of fuel conversions, a customer can achieve hydrogen mixed firing simply by replacing their gas turbine combustors and installing a hydrogen tank and production equipment next to their existing power plant. In hard-to-abate industries such as steel and cement manufacturing, we can propose installation of our proprietary CO_2 capture equipment, enabling companies to capture their carbon emissions. Making proposals like these, I believe, will be advantageous both to the customer and to society as a whole.

Hashida Also, given the nature of the infrastructure that supports daily economic activity and indeed our very lives, it's necessary to resolve the issues at hand in a realistic way, keeping infrastructure running with minimal shutdowns.

Ito Exactly. We firmly embrace the pursuit of a realistic Energy Transition. As a manufacturer, we have a responsibility to come up with solutions that simultaneously address all S+3E issues: Safety, Energy Security, Economic Efficiency, and the Environment. Without doing so, we will not be able to achieve Carbon Neutrality. Some people may think this issue could be solved simply by immediately changing all existing infrastructure, but not only is this not economically feasible, carrying out such upgrades would be unsustainable. We approach the situation by considering whether our proposals would truly be good for society. At MHI Group, we aim to contribute to society by setting clear transitional goals: targeting what we want to accomplish by 2030, 2040, and beyond.

Hashida Hearing what you have told me today, I have gotten a sense that MHI Group not only possesses advanced technological capabilities but also clear strategies for achieving its targets for 2040. I strongly feel that MHI will play a leading role in the global effort to achieve a carbon neutral world, and I have high expectations that MISSION NET ZERO will be a success.

Ito Thank you for your kind words of encouragement. At MHI Group, we see the decarbonization of both energy supply and use as growth opportunities. In addition to the hydrogen solutions which you saw here today, we offer numerous other solutions as well which will allow us to meet our commitment to help achieve Carbon Neutrality. We pledge to keep taking on new challenges to realize a future where everyone in the world can live in peace and security.

Special Feature

MHI Group's Carbon Neutrality Initiatives

To enhance corporate value and achieve growth in the medium to long term by resolving some of society's most pressing issues, MHI Group identified what we call Materiality to address in 2020. One of these issues was to provide energy solutions to enable a carbon neutral world.
Then, in October 2021, as a company-wide goal that put this Materiality into concrete terms, we announced MISSION NET ZERO, our commitment to achieve Carbon Neutrality by 2040. Here, we introduce our general approach to realizing Carbon Neutrality along with details on specific initiatives.

2040 Carbon Neutrality Declaration

MHI has defined two growth areas to focus on in its 2021 Medium-Term Business Plan (MTBP), announced in 2020: "Energy Transition," which aims to decarbonize the energy supply side, and "Smart Infrastructure", which aims to realize the decarbonization, and promote the energy efficiency, and manpower saving in the energy demand side. MHI Group is committed to promoting the business strategies of these two areas, and to advancing the decarbonization of the existing businesses, electrification, and intelligence, in order to achieve Net Zero by 2040, and to help create a carbon neutral society.

Realizing a carbon neutral society is a global issue and we believe that as a technology leader, with a proven track record in the field of decarbonization, it is MHI's responsibility to help lead the fight against climate change. To this end, each and every one of us will act to implement a Net Zero future, working closely with all of our stakeholders, including clients, partners, academia and local and national governments.

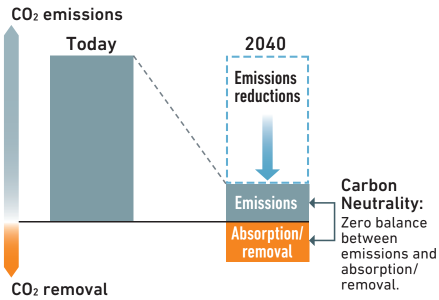
►For more details about our 2040 Carbon Neutrality Declaration, please visit our website at:
https://www.mhi.com/expertise/carbon-neutral

MISSION NET ZERO

What Is Carbon Neutrality/Net Zero?

Carbon Neutrality refers to the state where net CO_2 emissions – after subtracting CO_2 absorption and removal – become zero. In other words, after reducing CO_2 emissions as far as possible, we will offset the remaining emissions that cannot be eliminated either by absorption with afforestation or reuse, or removal through methods such as underground sequestration to achieve a balance of zero, or Net Zero.

The diagram on the right explains the concept of Carbon Neutrality.



Roadmap to MISSION NET ZERO

2021 | 2023 | 2040 | 2050

2021 Medium-Term Business Plan

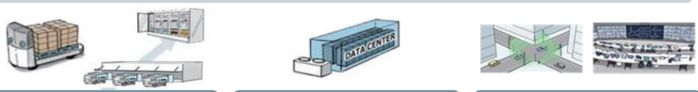
Energy Transition

Decarbonization of energy supply

- Decarbonization of existing infrastructure
- Hydrogen solutions ecosystem
- CO_2 solutions ecosystem

Smart Infrastructure

Decarbonization, energy conservation, and automation of energy use



- Intelligent logistics systems
- Decarbonization and energy conservation of data centers
- Infrastructure supporting autonomous mobility

Existing Businesses

Decarbonization, electrification, and development of intelligent systems

MISSION NET ZERO

Achieve Carbon Neutrality across MHI Group

Contribution to commercialization in the leadup to achievement of Carbon Neutrality in all countries and regions

MHI Group's Carbon Neutrality Initiatives

CO_2 Emissions Reduction Targets

Under MISSION NET ZERO, our 2040 Carbon Neutrality Declaration, MHI Group's first goal is to reduce our CO_2 emissions (Scopes 1 and 2) to 50% of 2014 levels by 2030 and reach Net Zero emissions by 2040.

Our second goal focuses on Scope 3 emissions, the majority of which arise from customers' use of our products. We aim to reduce CO_2 emissions throughout our entire value chain to 50% of 2019 levels by 2030 after deducting reductions from CCUS* and to reduce them to Net Zero by 2040.

*CO_2 Capture, Utilization, and Storage

Target year	Reduce CO_2 emissions across MHI Group Scopes 1 and 2	Reduce CO_2 emissions across MHI's value chain Scope 3 + CCUS reductions
2030	-50% (Compared to 2014)	-50% (Compared to 2019)
2040	Net Zero	Net Zero

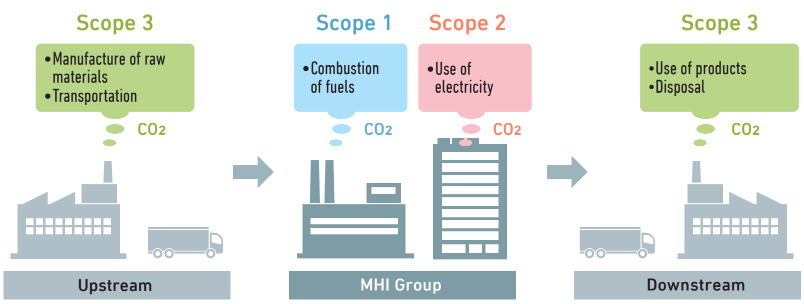
* Scopes 1 and 2: Calculation based on GHG Protocol
Scope 3: Calculation based on GHG Protocol. However, we also account for reductions achieved by CCUS as an MHI original index.

What Are Scopes 1, 2, and 3?

The definitions of Scopes 1, 2, and 3 CO_2 emissions provided by the GHG Protocol* are presented in the figure to the lower right. Scope 1 is MHI Group's direct CO_2 emissions, which are generated mainly from the combustion of fuels. For example, if the heat needed for production equipment in a production facility is generated by a boiler installed on-site, the CO_2 emitted as exhaust gas from that boiler falls under Scope 1. Scope 2 is indirect emissions associated with the use of electricity, heat, and steam provided by other companies. The main component of this is electricity use. For example, when using electricity purchased from a power utility in buildings and production facilities, the CO_2 emitted during the generation of that electricity falls under Scope 2. Scope 3 is emissions from other companies up- and downstream from our Group in the value chain. Upstream, CO_2 emitted during the production and transportation of raw materials, for example, falls under Scope 3. Downstream, CO_2 emitted from the operation and disposal of our Group's products, such as electric generation equipment, falls under Scope 3.

GHG Greenhouse Gas

*GHG Protocol
A globally recognized standard for calculating and reporting greenhouse gas (GHG) emissions. This standard was developed with the involvement of government agencies around the world under the leadership of the World Resources Institute (WRI), a U.S.-based environmental think tank, and the World Business Council for Sustainable Development (WBCSD).

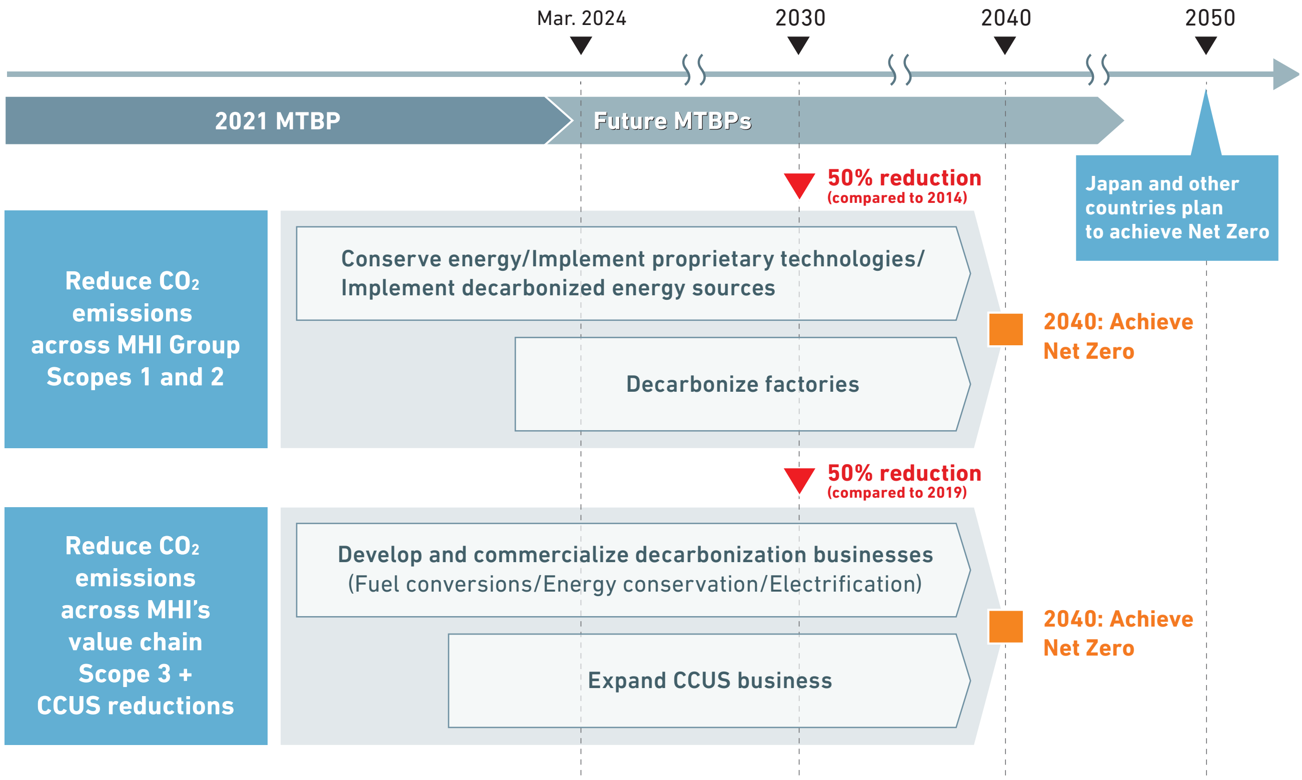


Roadmap and Initiatives for Realizing Carbon Neutrality

Under MISSION NET ZERO, our 2040 Carbon Neutrality Declaration, MHI Group aims to achieve net zero CO_2 emissions by 2040, ten years earlier than the 2050 goal announced by many countries including Japan. We chose this timing by taking into account the lead time for our Group's products and technologies to enter service.

This goal is an expression of our determination to set an example by realizing Carbon Neutrality before the rest of the world does.

Roadmap and Initiatives for Realizing Carbon Neutrality



MHI Group's Carbon Neutrality Initiatives

Scopes 1 and 2

MHI Group's Scopes 1 and 2 emissions were approximately 940,000 metric tons in 2014. In 2021, these emissions were already reduced by over 40% to approximately 550,000 metric tons. To accelerate these efforts even further, we will implement decarbonization solutions at our own production facilities first. Then, we will realize Net Zero Scopes 1 and 2 emissions by 2040 utilizing clean energy.

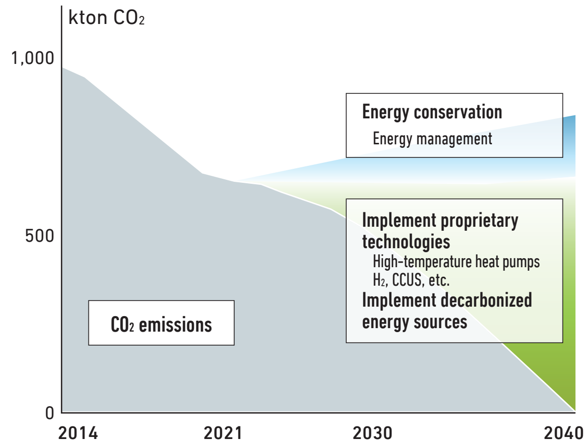
Specifically, we have started considering implementation of decarbonization products and solutions, such as streamlined energy use in production processes, electrification of heat sources with heat pumps, CCUS, and efficient use of non-fossil fuels with AI-enabled energy management systems.

In June 2022, MHI concluded a basic agreement with The Chugoku Electric Power Co., Inc., under which Chugoku Electric will supply MHI with green power generated by solar panels installed at MHI's Mihara Machinery Works under a combination of on-site and off-site power purchase agreements (PPAs). In this way, we plan to decarbonize all electricity consumed at the facility by the end of 2023. As a result, annual CO_2 emissions from Mihara Machinery Works will be reduced by approximately 10,000 metric tons.

Scopes 1 and 2 emissions present a challenge for the decarbonization of not only MHI's but also other companies' facilities. By using our own facilities as test beds for decarbonization solutions and applying the results of these efforts to our customers' plants, we can unlock some of MHI Group's businesses' latent potential and become a major driving force toward achieving Carbon Neutrality in industry overall.

Reduce CO_2 emissions across MHI Group Scopes 1 and 2

Implement proprietary technologies at MHI facilities



Scope 3 + CCUS Reductions

Reducing Scope 3 Emissions

MHI Group's Scope 3 emissions in 2019 were calculated at approximately 1.5 billion metric tons. The scale of these emissions has a significantly higher impact on the world compared with that of Scopes 1 and 2.

With regard to these Scope 3 emissions, we are developing core products and technologies to decarbonize both energy supply and use. We are working to achieve rapid commercialization in order to reduce emissions.

MHI Group's Energy Transition initiatives are aimed at the decarbonization of the energy supply. As a first step, we are increasing efficiency by replacing existing thermal power plants. MHI's JAC-Series large-frame gas turbines offer the world's highest level of efficiency, and MHI is steadily accumulating experience winning orders, delivering, and operating this product all over the world. By replacing standard thermal power plants with these highly efficient gas turbines, which emit less CO_2, we can make progress in reducing our Scope 3 emissions.

Utilization of Hydrogen and Ammonia

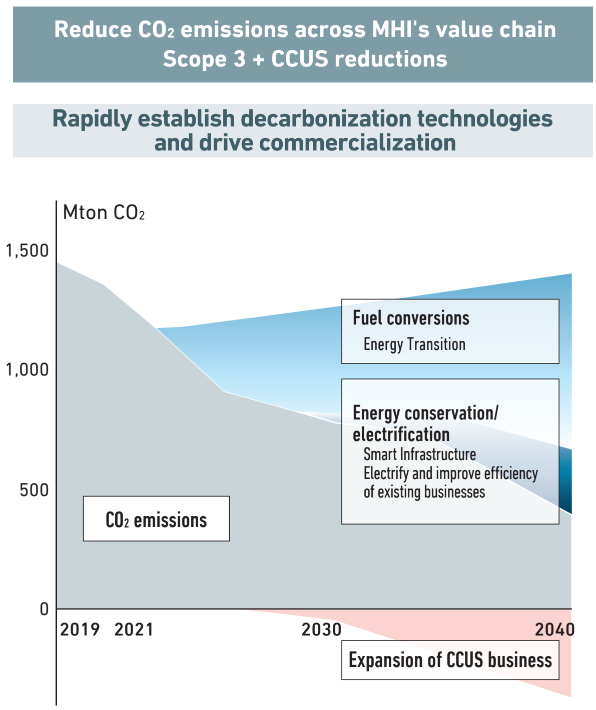
Using hydrogen and ammonia is expected to achieve dramatic reductions in CO_2 emissions. Hydrogen is a clean energy source that does not emit CO_2 during combustion. Furthermore, earth has abundant supplies of hydrogen in the form of water. Ammonia is also drawing attention as a carbon-free fuel. Like hydrogen, it emits no CO_2 during combustion and offers the additional benefit of being easier to transport and store than hydrogen. There is also much infrastructure already in place around the world to manufacture ammonia.

MHI Group will promote the decarbonization of existing thermal power plants through fuel conversions to hydrogen and ammonia, thereby decarbonizing existing infrastructure. For example, during hydrogen combustion tests, we have completed development of up to 30% mixed hydrogen firing in large-frame gas turbines, and we have overcome technical challenges to attain stable combustion of a 50% hydrogen mix. We are conducting validation testing of 100% hydrogen firing with the aim of commercializing for small and mid-sized gas turbines in 2025 and large-frame gas turbines in 2030. Furthermore, we are jointly developing a combustor that can handle both mixed and 100% ammonia firing for use in existing coal-fired boilers, with validation planned to start by 2028. Since single-fuel and mixed hydrogen and ammonia firing can be achieved in existing power plants after a certain amount of modification, this existing power generation infrastructure can continue to be utilized, thereby allowing us to realize decarbonization while reducing the cost to the wider community.

Furthermore, in the area of energy use, we are developing breakthrough hydrogen technologies to decarbonize the steel industry, which accounts for 7 to 10% of global GHG emissions. Currently, coal is used in the iron ore reduction process (the process of removing oxygen from iron oxide, the primary component of iron ore), which generates large quantities of GHG. Since April 2021, MHI has operated a pilot plant with the world's first hydrogen-based fine ore reduction (HYFOR) process aiming to convert the industry to a decarbonized process using hydrogen. We are conducting validation tests in the leadup to commercialization of this technology.

Furthermore, as a part of our efforts to establish a value chain encompassing all processes from hydrogen production to use, MHI is currently building Takasago Hydrogen Park, an integrated testing facility for hydrogen production, storage, and electricity generation, which is slated to begin operations in 2023. Takasago Hydrogen Park will be located adjacent to Takasago Machinery Works' combined cycle demonstration power plant. Its hydrogen production facility will use a water electrolysis system and will also conduct sequential testing and validation of next-generation hydrogen production technologies such as methane pyrolysis, which produces turquoise hydrogen by splitting methane into hydrogen and solid carbon.

► Please see "A Conversation with the CTO: MHI Group is making important contributions toward realizing Carbon Neutrality" on page 24 for details.



MHI Group's Carbon Neutrality Initiatives

CCUS' Contributions to Net Zero

We have introduced our multifaceted approach to reducing Scopes 1, 2, and 3 emissions. However, what makes MHI's 2040 Carbon Neutrality Declaration unique is its deduction of emissions reductions achieved through CCUS from Scope 3 emissions.

While it is possible to reduce CO_2 emissions by decarbonizing existing infrastructure and the other methods already mentioned, it is not possible to eliminate emissions completely. According to our current estimates, even in 2050, approximately 4 to 13 billion metric tons of annual CO_2 emissions are expected to remain. This is due to the existence of industries where CO_2 emissions are hard to abate, such as steel and cement manufacturing. To realize Carbon Neutrality, it will be necessary to capture the CO_2 coming from these industries.

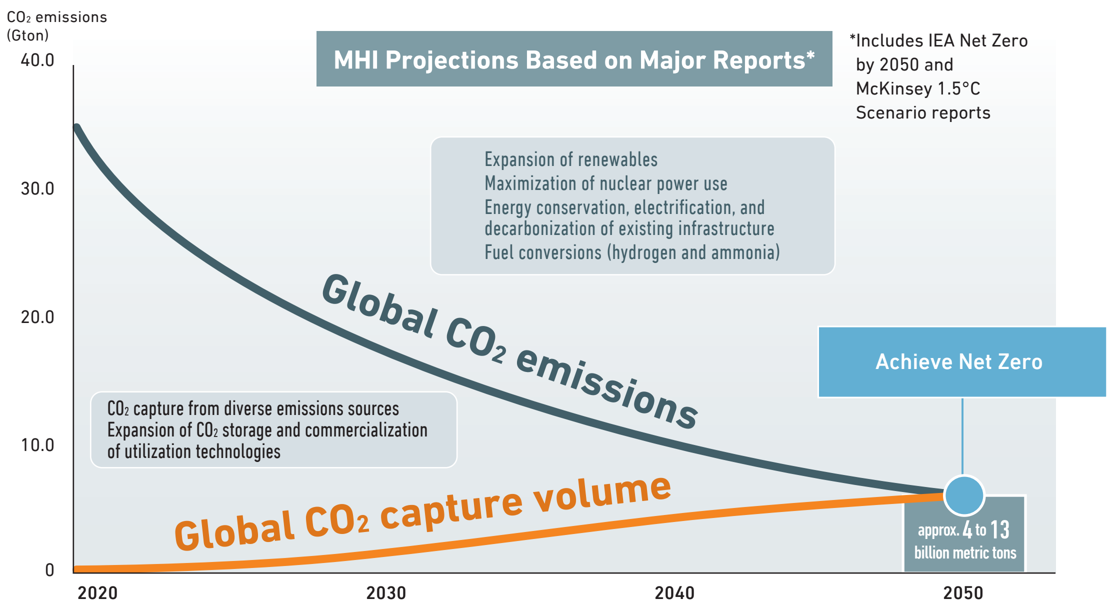
MHI Group has worked with Kansai Electric Power Co., Inc. since 1990 to develop a chemical-based CO_2 capture process using an amine absorbent. Today, MHI Group has a strong track record in delivering commercial CO_2 capture plants to projects in countries around the world, and we are the global market share leader in CO_2 capture from exhaust gas on a capacity basis.

For example, MHI delivered a plant with a capacity to capture 4,776 metric tons* of CO_2 per day to the Petra Nova Carbon Capture Project in the U.S., the world's largest CO_2 capture plant. MHI's CO_2 capture technology was also selected for use in a project to capture CO_2 emissions from a biomass power plant belonging to Drax Group, a major U.K. power utility. If this project is realized, it will reduce CO_2 emissions by over 8 million metric tons per year.

*Capacity as of the publishing of this report.

We are also promoting various initiatives in response to diverse needs associated with building a CO_2 solutions ecosystem, creating businesses that will not only capture CO_2 but will also encompass all aspects of CCUS, including transportation, storage, and utilization.

We defined our CO_2 reductions target as Scope 3 + CCUS reductions not only because MHI Group is the established global leader in CO_2 capture technology and delivered capacity, but also to show our contributions to achieving Carbon Neutrality through the commercialization of CCUS and the establishment of a CO_2 solutions ecosystem.



CO2NNEX

Connecting today with a Net Zero future

A Digital Platform Connecting the CCUS Value Chain

Practical application of CCUS (CO_2 Capture, Utilization, and Storage) will be essential for achieving Carbon Neutrality. Below, we introduce CO2NNEX, a digital CCUS platform that MHI is developing together with IBM Japan, Ltd. to accelerate its implementation.

Current Status of CCUS and Challenges to Be Addressed

CCUS involves the capture of CO_2, its storage underground, and its recycle as, for example, a raw material in chemical products.

Today, global CO_2 emissions are around 40 billion metric tons per year. Many countries are taking steps to reduce this volume by shifting away from fossil fuels to renewable energy, among other measures. However, even with these efforts, annual emissions of around 4 to 13 billion metric tons are projected to remain in 2050.To achieve Carbon Neutrality, it will be necessary to capture this CO_2.

However, CO_2 capture is struggling to grow, as the applications and storage capacities for captured CO_2 are currently limited, and the high costs associated with CCUS make it uneconomical. For this reason, of the approximately 40 billion metric tons of CO_2 emitted in 2022, the amount captured remained at less than 0.1 billion metric tons.

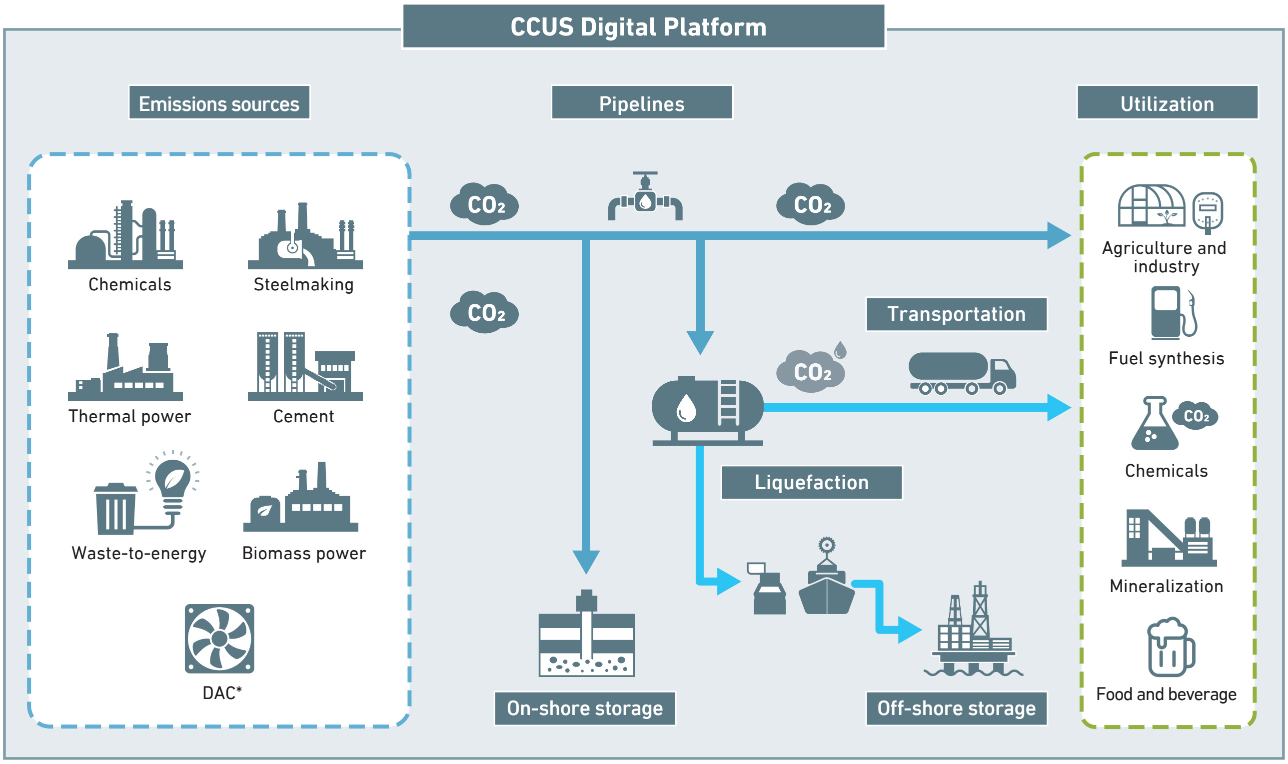
Connecting the CCUS Value Chain

All captured CO_2 needs to be transported downstream in the CCUS value chain for reuse or storage. Furthermore, businesses utilizing CO_2 as a raw material cannot operate with confidence without a stable and economical supply of CO_2. Moreover, it is not possible to actively increase the amount of CO_2 capture without assurance that all remaining unused CO_2 will be safely sequestered underground.

Conversely, if we can effectively build a CCUS value chain connecting all of the parties active in CO_2 capture, transportation, utilization, and storage, then both utilization and capture volumes can be expected to grow dramatically. In addition, if carbon pricing schemes–details to come later in this article–can give CO_2 economic value, then many parties will participate in economic transactions in the CCUS value chain, thus giving rise to a CO_2 solutions ecosystem from which completely new business models can emerge.

MHI Group's Carbon Neutrality Initiatives

Realizing a CO_2 Solutions Ecosystem



*Direct Air Capture

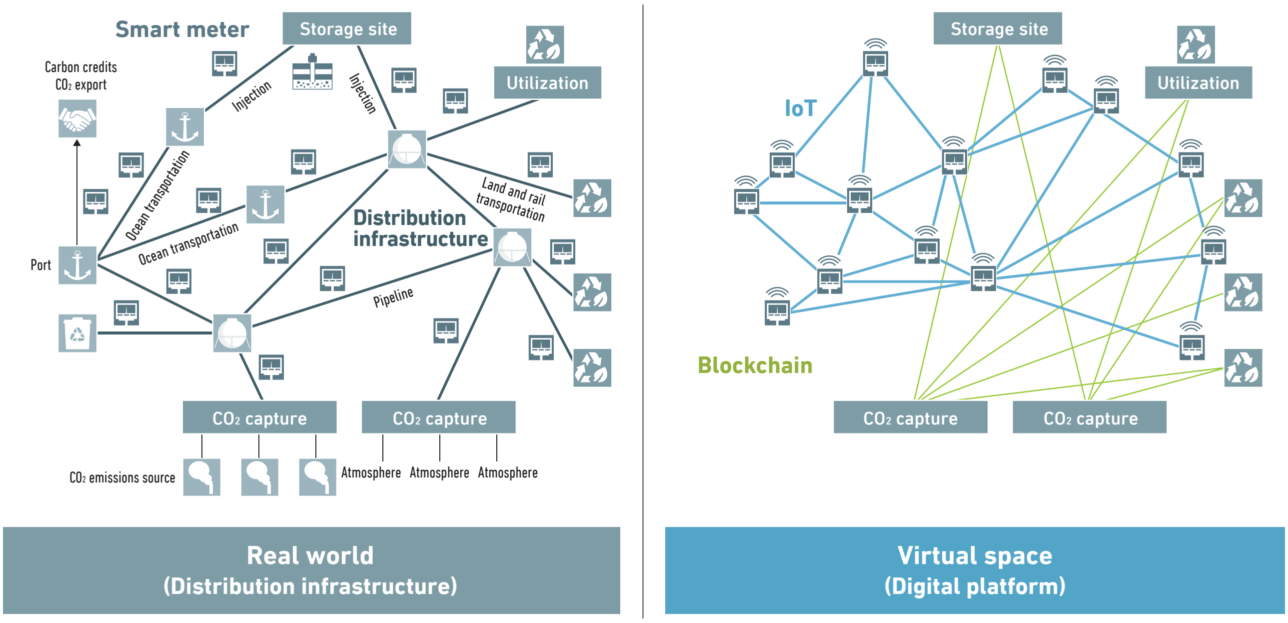
Connecting the Real and Virtual Worlds of CCUS

CO_2NNEX is a digital platform designed to maximize the environmental value of CO_2 reductions. When CO_2 is circulated among the users connected by the platform, CO_2 transaction-related information will be converted into data, visualized, and tracked. Those records will be certified and provided by a secure, tamper-proof method.

Users in the CCUS value chain include businesses involved in the capture, utilization, storage, and transportation of CO_2 as well as the carbon trading. These various businesses will be connected through infrastructure in the form of pipelines, shipping lines, railways, and trucking lines, forming distribution channels.

One important aspect of this project is the digitalization of distribution. CO_2NNEX will use smart meters with a common interface at key points in distribution channels to enable users to see at a glance the volume, origin, and destination of CO_2. This will enable CO_2 reductions to be tracked with hard data. The system will be a digital twin, a mirror image of the real world in virtual space.

The CO2NNEX Concept



Accurate Visualization of CO_2 Distribution

Currently, the CCS and CCU value chains are mainly formed based on agreements between individual parties including emitters and transportation, utilization, and storage providers. CO2NNEX will connect these individual value chains to create a network of CCUS value chains which has an even broader user base. The realization of this kind of CCUS value chain is expected to enable freer and more flexible transactions of environmental value derived from CO_2 reductions. As a result, the volume of CO_2 capture and distribution is expected to grow exponentially.

Along with tracking the distribution of CO_2, CO2NNEX will also use blockchain technology to ensure a high level of security, enabling safe and fair CO_2 transactions and ensuring that distribution information is recorded in a tamper-proof format.

The introduction of carbon pricing schemes* around the world in the near future will enable environmental value trading in monetary form by emitters, with certifying organizations verifying companies' CO_2 reductions in the form of credits. In addition, these credits will likely be able to be traded like financial instruments in a credit market by various parties, including individual investors. Accurate record-keeping and tracking by CO2NNEX will provide evidence of environmental value, which will be essential for many parts of the carbon economy, such as the assessment of subsidies and the monetary value of credits.

*Carbon pricing curbs greenhouse gas emissions by placing a fee on emitting and/or offering an incentive for emitting less. The price signal created shifts consumption and investment patterns, making economic development compatible with climate protection.
(Source) The United Nations Framework Convention on Climate Change. "About Carbon Pricing." Accessed November 2, 2022.
https://unfccc.int/about-us/regional-collaboration-centres/the-ciaca/about-carbon-pricing#What-is-Carbon-Pricing?-

CO2NNEX will also enable the supply of highly reliable data to various service providers. This will attract diverse business operators to monetize this new environmental value within CO2NNEX, forming a completely new business ecosystem related to CCUS. For example, in addition to funding providers – such as governments and financial institutions – individual investors as well as businesses and consumers within virtual spaces – such as the metaverse and Web 3.0 – are expected to play a part in the new CO_2 solutions ecosystem.

MHI Group's Carbon Neutrality Initiatives

Future Outlook

On the topic of CCUS, in addition to projects already operational in North America including Enhanced Oil Recovery (EOR), CO_2 commercial storage operations are expected to reach full scale in North America and Europe around 2025. Large-scale CO_2 storage projects are being announced one after another, mainly in Europe, the U.S., and Canada, where various systems have been put in place, such as tax incentives, subsidies, and carbon pricing, which are expected to promote investment.

Meanwhile, in Japan, serious discussions are taking place regarding the design of systems for the storage and use of CO_2. For example, the CCS Long-Term Roadmap Study Group of the Ministry of Economy, Trade and Industry released its interim summary in May 2022. In this document, the government committed to establishing a business environment to enable the start of commercial CO_2 storage in Japan or overseas by 2030. In the area of CO_2 utilization, progress is being made on the development of CO_2 absorbing concrete and implementation of CO_2 as a raw material for chemical products.

MHI Group intends to seize the business opportunities created by the rapid expansion of the CCUS market, which is expected to start in the mid-2020s. We aim to become a key player by 2030 or thereafter, when the CCUS market is expected to be in full-scale operation. We are planning for the CO_2NNEX digital platform to be fully implemented by around 2025.

That said, the CO_2NNEX concept cannot be realized by MHI alone. MHI Group and IBM Japan, as the coordinators of this open platform, will create new solutions within CO_2NNEX while collaborating with CCUS service providers in both the real and virtual worlds.

In this way, MHI Group is moving beyond our conventional manufacturing businesses and our role as a follower to encompass new sales channels related to CO_2 – including the possibility of expansion into B2C. As a CCUS platform developer, we will contribute to the realization of a CO_2 solutions ecosystem and the achievement of Carbon Neutrality.

CO_2NNEX
Connecting today with a Net Zero future

[Contribution] Carbon Neutrality and Corporate Value

—MHI Group's Initiatives and Contributions—

**MHI Group is addressing sustainability issues such as the realization of a carbon neutral society.
Professor Nobuyuki Isagawa of the Graduate School of Management, Kyoto University, who specializes in corporate finance, explained the significance of the Group's initiative based on the latest research on the relationship between companies' ESG indicators and financial performance.**

Professor, Graduate School of Management, Kyoto University
Nobuyuki Isagawa

It is not an overstatement to say that avoiding the risk of climate change and maintaining the global environmental sustainability is the mission given to the current generation. In Japan, the government, industry and research institutes such as universities are ramping up a variety of initiatives aimed at the realization of Carbon Neutrality by 2050.

The notes to General Principle 2 of the Corporate Governance Code revised in FY2021 state the following: "... given that the Sustainable Development Goals (SDGs) were adopted at the United Nations Summit and the number of organizations supporting the recommendation of the FSB's Task Force on Climate-related Financial Disclosure (TCFD) has increased, there is a growing awareness that sustainability (mid- to long-term sustainability including ESG factors) is an important management issue from the perspective of increasing mid- to long-term corporate value. In light of this, it is important for Japanese companies to further promote positive and proactive responses to sustainability issues. The appropriate actions of companies based on the recognition of their stakeholder responsibilities will benefit the entire economy and society, which will in turn contribute to producing further benefits to companies, thereby creating a virtuous cycle."

MHI Group's carbon neutral initiatives are aligned with the approach of the Corporate Governance Code, and are beginning to produce actual results. For example, MHI REPORT 2021 has a special feature on "New Challenges Toward a carbon neutral Society" including a roadmap for carbon-free power generation fueled by hydrogen/ammonia. Validation and commercialization of carbon-free power generation fueled by hydrogen/ammonia, realization of a hydrogen solutions ecosystem and development of CO_2 capture technology are explained in an accessible way that can be understood even by me without an engineering background.

The President's Message in this MHI REPORT 2022 describes the passion to realize global Carbon Neutrality by reducing CO_2 emitted through products delivered by MHI Group to client companies. In the conversation with the CTO, the decarbonization technology and hydrogen-related technology of MHI Group underpinning the President's Message are explained in detail. Strength and confidence can be felt in the CTO's comments that the volume of CO_2 emitted by power plants worldwide can be reduced using power generation facilities that are a core product for MHI, aggregating technical capabilities.

Against the backdrop of the integration of ESG and management that is progressing in the business community, there are also movements to integrate the non-financial elements of ESG with companies' financial performance in corporate valuation and finance that are my areas of research. Due to the advances in disclosure

[Contribution] Carbon Neutrality and Corporate Value

of data by companies, it has become possible to statistically verify the connectivity of ESG factors and ESG ratings, which are regarded as non-financial information, with companies' financial performance. As it is still a new area, there is no consensus on many of the results, but it has been confirmed that ESG initiatives such as decarbonization may have a positive impact on financial indicators such as return on capital and cost of capital*1. Furthermore, investors have also indicated the possibility of positive evaluation of the issuance of green bonds.

Figure 1 shows the results of the empirical analysis performed by the Isagawa Laboratory at Kyoto University. Using data on Japanese companies from 2010, we conducted a detailed investigation of the relationship between changes in emissions of greenhouse gas (GHG) including CO_2 and the subsequent return on invested capital (ROIC). As can be seen in the figure, a reducing in GHG emissions increases subsequent ROIC (the sign of the coefficient is negative) and reduces the cost of shareholder's equity (the sign of the coefficient is positive). It can be seen that in recent years, Japanese companies have realized the improvement of financial performance and reduction of cost of capital by engaging in curbing of greenhouse gas emissions. Financial value creation is realized when the return on capital exceeds the cost of capital. It could be said that companies aggressively and actively reducing CO_2 and GHG emissions can achieve both climate change initiatives and improvement of financial corporate value.

*1 A recent paper, Gillan, S., Koch, A., and L. Starks (2021) Firms and social responsibility: A review of ESG and CSR research in corporate finance, *Journal of Corporate Finance* is comprehensively summarizing research on companies' ESG activities and financial performance. This paper indicates that risk indicators and cost of capital are lower in companies with a higher ESG rating, and return on capital and share price performance are higher in companies with a higher ESG rating.

Figure1: Relationship between Greenhouse Gas Emissions and Financial Performance

	Explained variables	
	Change in ROIC	Change in cost of shareholder's equity
Change in greenhouse gas emissions (tons per million yen in sales)	−0.015**	0.009**
Logarithm of total assets	−1.254**	−0.944*
Tobin's q	2.057**	−0.490**
Financial leverage	0.638**	1.312
Number of companies	646	662

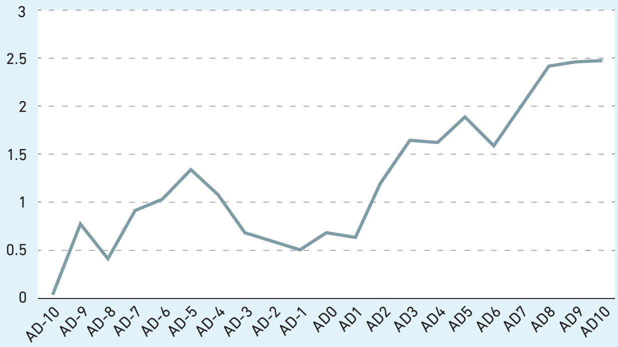
- The scope is companies listed on Section 1 of the Tokyo Stock Exchange between 2012 and 2020 from which data could be obtained. Greenhouse gases and cost of shareholder's equity was obtained from Bloomberg, and financial data was obtained from Nikkei Media Marketing's NEEDS-FinancialQUEST.
- The change in greenhouse gases is the change from year t-1 to year t. The changes in ROIC and cost of shareholder's equity is the change from year t-1 to year t+1.
- Fixed effect model of panel data analysis is applied. ** indicates a significance level of 1% and * indicates a significance level of 5%.

Investors also appreciate companies that take a proactive approach to Carbon Neutrality. Figure 2 shows movements in share prices (stock return) for the issuance of green bonds and SDG bonds. Research results are shown for the Japanese equity market in Panel A and for the global equity market in Panel B. It can be seen that share prices rose due to the issuance of green bonds and SDG bonds*2.

Combining the results of Figure 1 and Figure 2 tells the following story. Funds raised through the issuance of green bonds and SDG bonds are invested in environmental projects and activities to resolve social issues, and produce the output of reduction of CO_2 and improvement of environmental factors (E factors). As shown by the results in Figure 1, reduction of CO_2 and improvement of E factors are expected to be linked to the outcome of improvement of financial corporate value through increased return on capital and reduced cost of capital. Equity markets that anticipate the future are believed to incorporate expectations of increase in corporate value in the form of higher share prices.

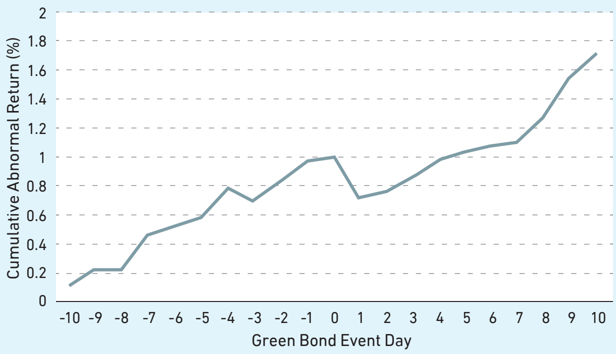
Figure 2: Equities Markets Evaluation of SDG Bond and Green Bond Issuance

(A) Research on Japan



- Using the date of announcement of the issuance of 42 SDG bonds issued by Japanese companies in the period from 2016 to 2020 as AD0, a standard method was used to calculate stock returns during the 10 days before and after that date.
- Stock returns were confirmed to be significantly positive.
- A rise in share price could not be confirmed for the issuance of bonds (straight bonds) other than SDG bonds during the same period.
- (Source) Excerpt from results of a study conducted by Isagawa Laboratory.

(B) Research on Europe and the U.S.



- Reaction of the share price of 132 companies that issued green bonds in global markets during the period from 2007 to 2017. Using the date of the announcement of issuance as 0 (Green Bond Event Day), a standard method was used to calculate stock returns (Cumulative Abnormal Return (%)) during the 10 days before and after that date.
- Stock returns were confirmed to be significantly positive.
- (Source) Tang, D., and Y. Zhang, 2020, Do shareholders benefit from green bonds? *Journal of Corporate Finance* 61.

MHI Group also issues green bonds, and has developed the Mitsubishi Heavy Industries, Ltd. Green/Transition Finance Framework. The serious stance of engaging in the improvement of corporate value aimed at 2030, 2040 and 2050 by integrating the Green/Transition Finance Framework into the carbon neutral strategy aggregating technical capabilities is clearer. As stated in the CFO Message in this MHI Report, investors' interest in ESG and sustainability is rising. The Company's share price is rising (as of July 2022), reflecting the recovery in financial indicators such as business profit margin and ROE, and expectations in the carbon neutral strategy.

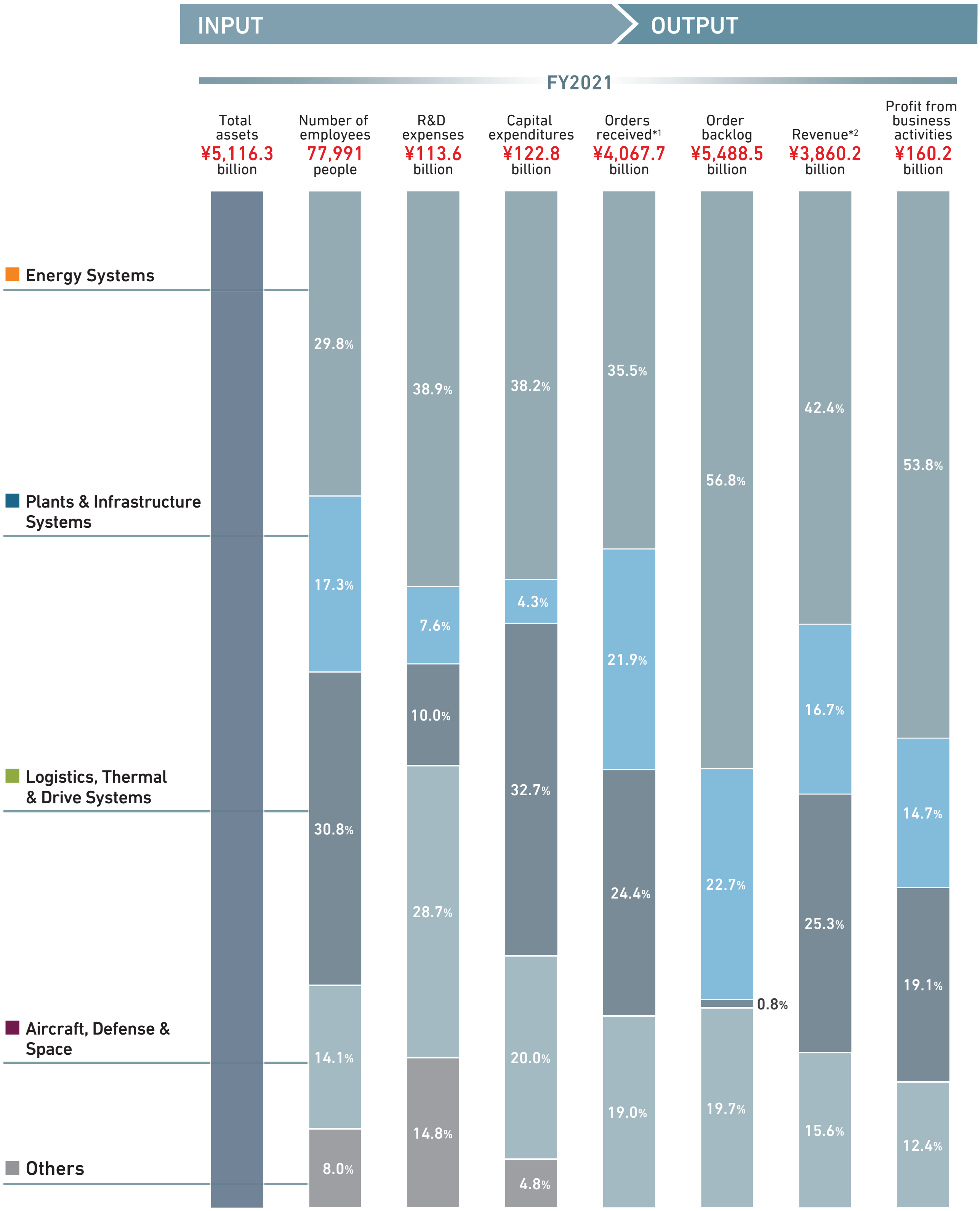
To reiterate, MHI Group's business is firmly linked to the realization of Carbon Neutrality of client companies and society. Utilizing the technology and know-how historically accumulated by MHI Group to contribute to the reduction of CO_2 and GHG emissions from client companies will lead to progress toward Carbon Neutrality of society. Improvements in the E factors of client companies are linked to improvements in financial performance and corporate value of client companies. MHI Group's carbon neutral initiatives could truly be said to simultaneously benefit society, client companies and MHI Group itself. This is the best practice of "the appropriate actions of companies based on the recognition of their stakeholder responsibilities will benefit the entire economy and society, which will in turn contribute to producing further benefits to companies, thereby creating a virtuous cycle" as set forth in the Corporate Governance Code.

In addition to supporting MHI Group's management policy of "Shared Aspirations for a carbon neutral Future," I have great expectations of it as a person living on earth.

*2 Research results similar to those in Figure 2 can also be confirmed in Flammer, C., 2021, Corporate green bonds, *Journal of Financial Economics*. In addition, research by Flammer indicates that the share prices of companies that issue certified green bonds that have received third-party certification increase, but the share prices of companies that issue noncertified green bonds that have not received third-party certification do not increase. Based on these results, the importance of certification of green bonds and SDG bonds can be understood.

Overview

Business Segment Highlights



*1 Others, eliminations or corporate ¥–32.4 billion *2 Others, eliminations or corporate ¥–45.7 billion

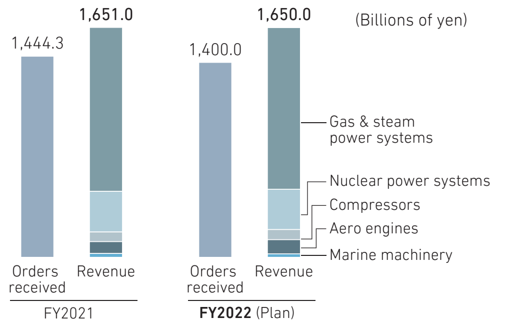
Revenue by Segment (FY2021 results and FY2022 plan)

Energy Systems

Main Businesses

- Gas & steam power systems*
- Nuclear power systems
- Compressors
- Aero engines
- Marine machinery

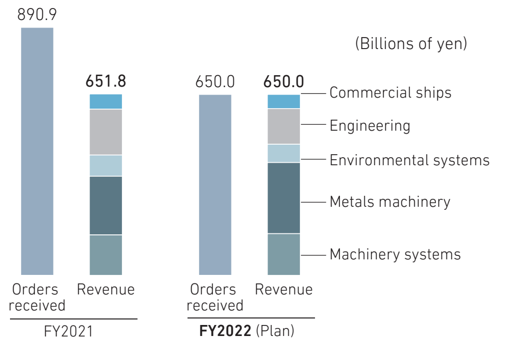
* Includes GTCC, steam power and air quality control system



Plants & Infrastructure Systems

Main Businesses

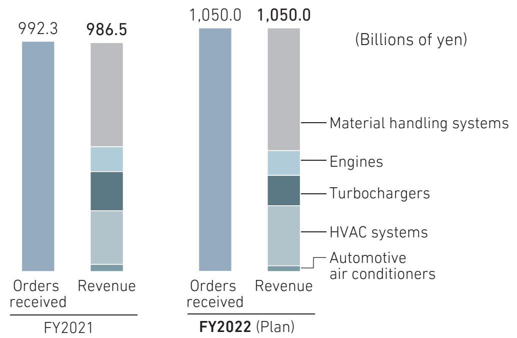
- Commercial ships
- Engineering
- Environmental systems
- Metals machinery
- Machinery systems



Logistics, Thermal & Drive Systems

Main Businesses

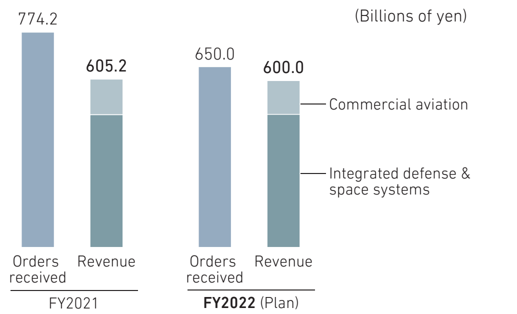
- Material handling systems
- Engines
- Turbochargers
- HVAC systems
- Automotive air conditioners



Aircraft, Defense & Space

Main Businesses

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



Energy Systems

GTCC Power Plant (Thailand)

Current Status Assessment

Strengths S	Gas & Steam Power Systems	• Systems offering world's highest levels of thermal efficiency and output • Integrated system for gas turbine development, design, manufacture, verification and after-sales service • Extensive product portfolio • Combustion technology supporting diverse fuels such as hydrogen, ammonia coke oven gas (COG) and blast furnace gas (BFG) • Integration capabilities combining cutting-edge decarbonization and other eco-friendly technologies • Technological capabilities and systems enabling integrated verification from hydrogen production to power generation
	Nuclear Power Systems	• World's only comprehensive nuclear power plant manufacturer capable of providing a one-stop service from development through design, manufacture, construction, and maintenance • Encompassing not only light-water reactors but also the entire nuclear fuel cycle, including fuel manufacturing/reprocessing facilities and fast reactors • World-highest level safety technologies and product quality, and ample track record as the leading company in domestic nuclear power
	Renewable Energy	• Building wind power systems business in collaboration with partners
	Compressors	• Extensive track record in chemical (ethylene and fertilizer) market • Integrated production and quality control processes encompassing every step from optimal pairing of internally manufactured steam turbines and compressors to test operation • Synergy with turbo-machinery technology of MHI Group
	Aero Engines	• Technological capabilities in combustors and low-pressure turbines • Robust coordination with manufacturers of aircraft engines • Synergy with turbo-machinery technology of MHI Group
	Marine Machinery	• High market share in MET turbocharger business for two-stroke marine engine segment • Providing solution technology for energy saving and compliance with strengthened environmental regulations • Wide-ranging customer network, both domestic and international
Weaknesses W	Gas & Steam Power Systems	• Imbalanced regional coverage at the global level
	Nuclear Power Systems	• Little experience in global business
	Compressors	• Low share of oil and gas market
	Aero Engines	• High impact of the business strategies deployed by manufacturers of aircraft engines
	Marine Machinery	• Limited scale of business and product portfolio
Opportunities O	Gas & Steam Power Systems	• Acceleration of global decarbonization movement and demand for highly efficient, clean electric power in response to environmental regulatory tightening • Need for load adjustments in connection with growth in renewable energy • Need for diversification of power generation methods and power generation fuels associated with strengthening of energy security • Need for high-efficiency conversion and strengthening of resilience of existing power plants
	Nuclear Power Systems	• Growing need for carbon-free, large-scale stable power sources and greater energy self-sufficiency (new and replacement facilities) • Rising need for effective use of existing nuclear power plants (more plants being restarted, achievement of 60 years in operation) • Increased need to supply equipment associated with plans for new equipment overseas
	Compressors	• Replacement demand due to aging plants • Growth in demand for CO_2 compressors for CCUS*1 and compressors for promising carbon-free fuels such as hydrogen and ammonia due to acceleration of Energy Transition • Increase in energy demand due to high oil prices
	Aero Engines	• Engine market expansion driven by growth in aircraft demand
	Marine Machinery	• Increasing demands for new projects by acceleration of new initiatives for CO_2 reduction and zero GHG emissions in the maritime industries
Threats T	Gas & Steam Power Systems	• Further escalation of competition with international competitors • Uncertainty of future energy portfolio • Geopolitical risk caused by destabilization of the international situation
	Nuclear Power Systems	• Escalating competition with other power sources
	Compressors	• Escalating competition, rise of Chinese manufacturers • Impact of industry restructuring and new chemical processes
	Aero Engines	• Change of aircraft business model due to technological innovation • Industry changes including supply chains after COVID-19
	Marine Machinery	• Less business opportunity due to unfavorable domestic shipbuilding market conditions

Overview of FY2021 and Priority Strategies in the 2021 Medium-Term Business Plan

As the trend of decarbonization accelerates globally, we believe that MHI Group's GTCC*[2], nuclear power systems and biomass power systems will play an important role in the Energy Transition. Consolidated orders received were up year on year to ¥1,444.3 billion due to orders for new installations of GTCC, nuclear power systems and biomass power systems. Revenue totaled ¥1,651.0 billion, a year-on-year increase attributable largely to increased sales of GTCC and nuclear power systems. Although stable earnings were secured in GTCC and nuclear power systems, profit from business activities was ¥86.2 billion, an overall decrease due to recording a gain on sales of securities related to the offshore wind power systems business in the previous year.

MHI Group is working toward a carbon neutral society by implementing specific measures concerning the Energy Transition. In the gas & steam power systems business, we are developing hydrogen gas turbines to decarbonize existing infrastructure, and are steadily proceeding to perform verification aimed at commercialization by 2025, such as successfully conducting hydrogen combustion trials at the Takasago Machinery Works, and with large-frame gas turbines at a power plant in Georgia, U.S. In addition, we began establishing Takasago Hydrogen Park, which will be the world's first facility enabling integrated validation from hydrogen production to power generation. At the same time, as a measure for the transition phase, we will also engage in reduction of carbon emissions through improvement of efficiency of existing thermal power generation facilities and the combustion of biomass and ammonia.

In the nuclear power business, we are working with electric utilities to restart existing light-water reactor plants, installing severe accident management facilities and preparing for completion of a fuel cycle facility's construction. In FY2021, we performed work on safety measures for Kansai Electric Power Mihama Unit 3 and contributed to the resumption of operations at a plant more than 40 years old for the first time in Japan, in addition to contributing to the completion of the severe accident management facilities at Shikoku Electric Power's Ikata Unit 3. We are also designing a next-generation light-water reactor that will bring to fruition some of the safest reactors in the world thanks to the deployment of revolutionary technologies. We are aiming for commercial operation by the mid-2030s. Additionally, we are developing future reactors (e.g., small modular light-water reactors, high temperature gas-cooled reactors, fast reactors, micro-reactors, nuclear fusion reactors) to be able to meet diverse needs for power sources in the future. In FY2021, MHI decided to cooperate with the development of the fast reactor (Natrium reactor) under development by U.S.-based TerraPower (whose largest investor is Bill Gates).

Lastly, we are building out our wind power systems business in collaboration with partners.

In the compressors business, we are proposing CO_2 compressors for CCUS and compressors for applications in hydrogen and ammonia supply chains. Furthermore, in the marine machinery business we participated in a global joint research project, focused on R&D activities of new technologies and engaged in the acceleration of decarbonization and the establishment of international rules in the maritime industry. Aero engines are expected to recover to the market size before COVID-19, and we will strengthen the cost competitiveness of the Nagasaki plant that began production in 2020. In response to growing energy demand and decarbonization, MHI Group has established a system for responding to market needs in a wide range of businesses.

Business Initiatives in the 2021 Medium-Term Business Plan

Gas & Steam Power Systems	● Develop and demonstrate hydrogen-fired gas turbines and other clean power products in pursuit of a decarbonized society ● Expand the number of gas turbine order bookings and improve profitability by reducing costs ● Expand advanced maintenance and innovation businesses ● Expand industrial businesses through energy solutions
Nuclear Power Systems	● Provide support for the restart of domestic light-water reactor plants and the installation of severe accident management facilities, and strengthen service operations to contribute to stable supply and higher economic efficiency after restarting ● Support the completion of nuclear fuel reprocessing facilities, support maintenance work after completion, and achieve the nuclear fuel cycle domestically in Japan ● Decommission light-water reactor plants, and provide support for TEPCO's Fukushima Daiichi nuclear power plant ● Promote development of next-generation light-water reactors and future reactors (e.g., small modular light-water reactors, high temperature gas-cooled reactors, fast reactors, micro-reactors, nuclear fusion reactors) that will achieve some of the world's safest reactors thanks to the deployment of revolutionary technologies
Compressors	● Expand operations by allocating more resources, including staff, to after-sales service ● Strengthen competitiveness in new construction projects; maintain stable order bookings in oil and gas sector and top market share in chemical sector ● Accelerate new-energy initiatives (ultra-high-tip-speed compressors for hydrogen sector, geared compressors for CCUS)
Aero Engines	● Ramp up MRO*[3] business's new model (PW1100G-JM) service operations and parts repair business ● Further strengthen internal production capabilities and cost competitiveness through integrated production of combustors at the Nagasaki plant ● Strengthen design and technological capabilities by deepening collaboration, including joint development programs, with aircraft engine makers
Marine Machinery	● Participate in global R&D partnerships together with the other major players in the maritime industry to accelerate the development of technology toward zero GHG emissions ● Expand MET turbocharger business (expand and maintain market share in the two-stroke engine market as a stable business and accelerate to penetrate the four-stroke engine market for further business expansion) ● Expand service business by strengthening global network

*1 CCUS: CO_2 Capture, Utilization, and Storage *2 GTCC: Gas turbine combined cycle *3 MRO: Maintenance, repair and overhaul

Plants & Infrastructure Systems

CO₂ Capture Plant (U.S.)

Current Status Assessment

Strengths S	Commercial Ships	• Unparalleled environmental and energy-saving technologies • Gas-handling technologies cultivated on LNG/ LPG carriers
	Engineering	• Unique CO_2 capture technology with abundant commercial records around the world • Engineering capabilities that respond to the decarbonization business (Ammonia, Methanol, CO_2 capture technology, etc.) applying abundant experience • Advanced project management and system integration capabilities for chemical plants and transportation systems • Integrated response capabilities for transportation systems spanning from planning to design, manufacturing, construction, testing, operation and maintenance
	Environmental Systems	• Comprehensive engineering capabilities for waste-treatment plants spanning entire project phase, from EPC to O&M • Plant provided with after-sales service based on extensive track record as a plant contractor
	Metals Machinery	• Full line from upstream to downstream with global footprints • Differentiated technologies in particular in combining automation and implementation of AI • Utilization and integration of MHI Group technologies particularly in the area of decarbonization
	Machinery Systems	• Broad scope of business fields and wide-ranging mechatronics technical capabilities

Weaknesses W	Commercial Ships	• Relative cost competitiveness of large hull ratio ships (e.g., cargo ships)
	Engineering	• Volatility in orders and profit
	Environmental Systems	• Cost competitiveness due to build-to-order manufacturing structure
	Metals Machinery	• Resource flexibility
	Machinery Systems	• Predominantly mature businesses, largely in Japan

Opportunities O	Commercial Ships	• Environmental regulations aimed at low-carbon and carbon-free initiatives in marine transportation • Growing demand for improved vessel safety/efficiency
	Engineering	• Global acceleration of decarbonization in all industrial sectors • Growth in demand for O&M*1 / service business
	Environmental Systems	• Growing commitment to decarbonization and environmental impact mitigation • Digital automation of plant operations
	Metals Machinery	• Growing demand from governments to steel producers to decarbonize and mitigate the environmental impact of steel production, growing demand for high-value-added products such as magnetic steel sheets and high tensile strength steel sheets
	Machinery Systems	• Extension of new (mobility) businesses in response to electrification and smartification (IoT, AI, CASE*2) of society

*1 O&M: Operation & Maintenance *2 CASE: Connected, Autonomous, Shared & Service, Electric

Threats T	Commercial Ships	• Intensified competition with competitors • High prices of materials, equipment and supplies
	Engineering	• Increase in new entrants • Accelerated development of new decarbonization technologies by competitors
	Environmental Systems	• Intensified competition with competitors • Long-term domestic market shrinkage
	Metals Machinery	• Competitive market
	Machinery Systems	• Shrinking domestic market for existing businesses and intensifying competition for development in the new fields of electrification and smartification

Overview of FY2021 and Priority Strategies in the 2021 Medium-Term Business Plan

Due to global increases in steel demand, orders in metals machinery are expanding, and the commercial ships and engineering markets are also trending toward recovery, resulting in consolidated orders received rising year on year to ¥890.9 billion. Revenue rose year on year to ¥651.8 billion, driven mainly by increases in metals machinery and environmental systems. Despite some additional expenses in overseas construction work, the effects of structural reforms and other factors led to increases in engineering and metals machinery, resulting in profit from business activities recording improvement over the previous year, to ¥23.6 billion.

Under the 2021 Medium-Term Business Plan, we are pursuing initiatives tailored to each business's characteristics and market environment in the aim of stabilizing and enhancing its earning capacity. In addition, in our domain as a solutions provider for environment-friendly products that contribute to the realization of a decarbonized society, we are expanding business opportunities by internal flexible mobilization of human resources and by sharing technology across the businesses. We will continue to strengthen service businesses leveraging digitalization and expand life-cycle businesses that support customers throughout entire life cycles of facilities and plants.

Business Initiatives in the 2021 Medium-Term Business Plan

General	• Pursue initiatives tailored to each business's characteristics and market environment in the aim of stabilizing and increasing its earning capacity • Expand business opportunities by internal flexible mobilization of human resources and by sharing technology across businesses as a solutions provider for environment-friendly products that contribute to the realization of a decarbonized society • Strengthen service businesses leveraging digitalization • Expand life-cycle businesses that support customers throughout entire life cycles of facilities and plants
Commercial Ships	• Build high-density, outfitted ships like government vessels and ferries • Extend engineering businesses in response to environmental regulations, etc.
Engineering	• Strengthen initiatives in the clean-fuel business (Ammonia, Methanol, Hydrogen) • Expand applications in industrial areas through expansion of the lineup of CO_2 capture systems (large to small) • Expand O&M and service business through proprietary remote monitoring and operational support services using the developed digitized platforms
Environmental Systems	• Strengthen ability to provide best solution and cost competitiveness to win orders for new construction projects • Upgrade engineering capabilities to drive sustained profit growth
Metals Machinery	• Focus R&D on strengthening decarbonization and other environmental initiatives centered on collaboration within MHI Group • Expand life-cycle businesses (expand maintenance service businesses, roll out advanced services that leverage digitalization) • Improve cost competitiveness and diversify our supply chains
Machinery Systems	• Enhance management efficiency through internal resource sharing and flexible mobilization of human resources • Strengthen sale of products and expand services focusing on adding value to customers' needs through the utilization of DX • Accelerate development of new products and new businesses combining technologies

Logistics, Thermal & Drive Systems

New AGF concept "SynX-Vehicle"

Current Status Assessment

Strengths S	Expertise cultivated in a wide range of product fields and effective utilization of resources within the domain	
	Material Handling Systems	• A product lineup that can be consistently offered from ports to warehouses, as well as a strong sales network
	HVAC Systems, Automotive Air Conditioners	• Extensive product lineup and world-class environmental and energy-saving technologies
	Turbochargers	• Ability to develop high-performance and high-quality products leveraging high-speed rotation and heat & fluid dynamics technologies
	Engines	• Technological capability to use alternative fuels such as hydrogen

Weaknesses W	Tendency to be affected by short-term economic fluctuations	
	Turbochargers	• Specialization in the single product makes the business more heavily vulnerable to customer business conditions

Opportunities O	Material Handling Systems	• Growing market for logistics solutions with expansion of e-commerce business
	HVAC Systems, Automotive Air Conditioners	• Expansion of market for products meeting environmental and energy-saving regulations
	Turbochargers	• Increase in installation of turbochargers in hybrid vehicles during the shift to electric, and subsequent expansion of demand for new products applying turbocharger technologies
	Engines	• Growing data center market and expanding gas distributed power systems market in Southeast Asia

Threats T	Adverse effects of U.S.-China trade friction and COVID-19	
	Turbochargers	• Shrinking market over the longer term due to accelerated growth of electric vehicles
	Engines	• Medium to long-term decline in demand for diesel and gas engines due to Energy Transition

Overview of FY2021 and Priority Strategies in the 2021 Medium-Term Business Plan

Due to increases in material handling and HVAC systems, which recovered from the effects of COVID-19, consolidated orders received increased year on year to ¥992.3 billion. Revenue was up year on year to ¥986.5 billion due to increases in material handling systems, HVAC systems and engines. Profit from business activities was up year on year to ¥30.6 billion due to an increase in profit associated with the overall increase in revenue, despite the impacts of rising material expenses and logistics expenses, and production adjustments by auto manufacturers due to semiconductor shortages.

COVID-19 has wreaked havoc since the second half of FY2019, and the entire Logistics, Thermal & Drive Systems domain has been affected, but revenue bottomed out in the first quarter of FY2020 and is on a trend of recovery. Furthermore, the impact on profit from business activities was minimized by quickly implementing measures such as the optimization of fixed costs.

The 2021 Medium-Term Business Plan positions automation and unmanned areas in material handling systems, and energy saving and environment-response in HVAC systems to be growth businesses due to expanding markets. For engines, we are focusing on backup generator sets for data centers and gas-engine distributed power systems, as both markets are expected to grow further. Furthermore, we are expanding sales of turbochargers for gasoline engine vehicles and hybrid vehicles, and accelerating development of products supporting electrification, while in automotive air conditioners we are focusing on electric driven compressors for electric vehicles as the market for electric vehicles expands.

Business Initiatives in the 2021 Medium-Term Business Plan

General	Medium volume products have recovered to pre-COVID levels in FY2021, followed by a steady expansion of the market. The Company will continue to optimize resources and prepare for further growth.
Material Handling Systems	• Promote growth strategies in the expanding of our engineering and solutions business • Strengthen sales strategy (reorganization of sales network, introduction of new products)
HVAC Systems, Automotive Air Conditioners	• Grow BtoB area through expansion of product lineup matching the needs of each region • Strengthen sales (proceeding with direct sales, etc.) • Expand lineup of environmentally friendly products
Turbochargers	• Flexibly respond to changes in demand and generate stable profit by optimizing fixed costs • Accelerate development of new products supporting electrification
Engines	• Focus resources on medium and large core products • Concentrate promotional activities on promising markets such as data centers and gas-engine distributed power systems in Southeast Asia. • Develop 100% hydrogen and hydrogen blend fueled engines

Aircraft, Defense & Space

H-IIA Launch Vehicle No. 44 carrying aboard the QZS-1R quasi-zenith satellite.

Current Status Assessment

Strengths S	Commercial Aviation	• Business domain covering the entire value chain of commercial aviation (aerostructure Tier 1, aircraft OEM and aftermarket) • Engineering and manufacturing technologies for structural components including composite wings • Business assets for the aftermarket with a fleet of more than 1,000 in-service CRJs
	Integrated Defense & Space Systems	• Leading-edge technologies cultivated by the development of defense and space products • Defense: Ability to make proposals for integrated defense systems, and expertise and channels cultivated through past and ongoing international projects • Space: Development capabilities in launch vehicles and rocket engines and their world-leading reliability
Weaknesses W	Commercial Aviation	• Less diversified commercial aviation business portfolio and supply chain • High sensitivity to foreign exchange fluctuations, because of a business structure with an overseas customer base
	Integrated Defense & Space Systems	• Defense: A lack of experience in export projects • Space: Inadequate cost competitiveness in global markets
Opportunities O	Commercial Aviation	• Growth potential of new aircraft demand and aftermarket business in line with long-term growth in passenger demand • Growing customer demands for “total care” fleet and operation support • Increasing need for innovative technology for environmental adaptation, such as decarbonization and electrification
	Integrated Defense & Space Systems	• Defense: A decision on the Three Principles on Transfer of Defense Equipment and Technology by the Japanese Cabinet The Basic Policy on Economic and Fiscal Management and Reform 2022, approved by the Cabinet, states the policy to place greater emphasis on maintaining and strengthening domestic defense production and technological bases, and the National Defense Program Guidelines and Mid-Term Defense Program are planned to be revised by the Japanese government based on this policy. • Space: Growing launch market in line with an expanding need for satellites, including the use of space in national security
Threats T	Commercial Aviation	• Business environment with vulnerability of the passenger demand due to event risks such as conflict, economic crisis, epidemics, natural disaster, etc. • Global industry consolidation, and intensified market competition as a result
	Integrated Defense & Space Systems	• Defense: Budget cuts for Japanese-made frontal combat equipment due to an increase in imported equipment • Space: A risk of price-cutting of overseas launch services due to the entry of U.S. start-ups

Overview of FY2021 and Priority Strategies in the 2021 Medium-Term Business Plan

Consolidated orders received increased year on year to ¥774.2 billion due to increases in defense products such as defense aircraft, missile systems and naval ships. Revenue was down year on year to ¥605.2 billion due to decreases in commercial aviation, missile systems and space systems. Profit from business activities improved year on year to ¥20 billion due to the effect of cost reduction measures such as reducing fixed costs, and the decrease in expenses related to Mitsubishi SpaceJet.

In commercial aviation, one of the main activities in the aerostructure Tier 1 business is improving profitability such as reducing fixed costs to a level appropriate for the business scale, and another is establishing a highly profitable production base such as improving production efficiency and enhancing the supply chain for the coming recovery phase. Furthermore, we will utilize the composite manufacturing technologies we have developed over the years to proceed with initiatives aimed at participation in new programs. In the aftermarket business, we will further improve productivity of the existing MRO*1 business including CRJ, and also expand business scale and improve profitability through the provision of CR&O*2 business, etc. In the SpaceJet business, we are continuing to review the business environment.

In the defense business, we will advance into new business fields, such as Command and Control systems and unmanned vehicles, while continuing to conduct stable business operations by offering world-class products. At the same time, we will utilize our technologies cultivated over the years to expand our overseas business and our related businesses, such as MRO&U*3, and education and training. In addition, we will expand our business into advanced security consumer products. In the space business, we are developing the H3 Launch Vehicle, which will realize low-cost, highly reliable launch services.

*1 MRO: Maintenance, Repair and Overhaul
*2 CR&O: Component Repair and Overhaul
*3 MRO&U: Maintenance, Repair, Overhaul, and Upgrade

Business Initiatives in the 2021 Medium-Term Business Plan

<table>
<tr><td rowspan="3">Commercial Aviation</td><td>Structure Tier1 business</td><td></td><td>● Continuing the action for improvement of profitability such as reducing fixed costs to a level appropriate for the business scale
● Participate in new development program utilizing composite technology and automated assembly technology</td></tr>
<tr><td>Aftermarket business</td><td></td><td>● Expand maintenance hangars and component repairs</td></tr>
<tr><td>SpaceJet Program</td><td></td><td>● Review business environment
● Utilize acquired knowledge and expertise</td></tr>
<tr><td rowspan="5">Integrated Defense & Space Systems</td><td rowspan="2">Expansion of existing domestic and peripheral fields</td><td>Existing business</td><td>● Steadily conduct our next core projects (F-X: Japanese next generation fighter, H3 Launch Vehicle)
● Expand business for Command and Control systems and M&S*4, etc.</td></tr>
<tr><td>Related business</td><td>● Expand MRO&U, and education and training
● Expand into new related business fields (space [including utilization of satellite information], cyberspace, unmanned vehicles, etc.)</td></tr>
<tr><td rowspan="2">Overseas business expansion</td><td>Application of MHI products for foreign military equipment</td><td>● Utilize channels with overseas manufacturers cultivated through existing businesses
● Cooperate with the Japanese government in parallel with intercompany talks</td></tr>
<tr><td>International development projects</td><td>● Launch international development projects with allies (supporting the Japanese government)
● Enter international development projects</td></tr>
<tr><td>Establishment of civil businesses using dual-use technologies</td><td></td><td>● Utilize core technologies of defense and space
● Expand civil business particularly in the safety and security field (cybersecurity, warning surveillance, wide-area status observation)</td></tr>
</table>

*4 M&S: Modeling and Simulation

Introducing Members of the Board

As of July 1, 2022

Chairman of the Board

Shunichi Miyanaga

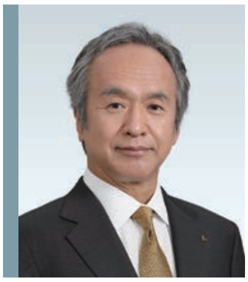
(DOB: April 27, 1948)

Career summary

Apr. 1972	Joined MHI
Apr. 2006	Senior Vice President, Deputy Head of Machinery Headquarters
May 2006	Senior Vice President, Deputy Head of Machinery & Steel Structures Headquarters
Apr. 2008	Executive Vice President, Head of Machinery & Steel Structures Headquarters
Jun. 2008	Director (Member of the Board), Executive Vice President, Head of Machinery & Steel Structures Headquarters
Apr. 2011	Director (Member of the Board), Senior Executive Vice President, Head of the Presidential Administration Office
Apr. 2013	President and CEO (Member of the Board)
Apr. 2014	President and CEO (Member of the Board)
Apr. 2019	Chairman of the Board (present position)

Rationale behind appointment

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



President and CEO*1

Seiji Izumisawa

(DOB: September 3, 1957)

Career summary

Apr. 1981	Joined MHI
Apr. 2008	Senior General Manager, Technology Management Department, Technical Headquarters
Apr. 2011	Senior General Manager, Technology Management Department, Technology & Innovation Headquarters
Apr. 2013	Senior Executive Officer, Mitsubishi Motors Corporation
Jun. 2013	Director, Mitsubishi Motors Corporation
Apr. 2016	Senior Vice President, Senior General Manager, Technology Strategy Office
Jun. 2017	Director (Member of the Board), Full-time Audit and Supervisory Committee Member
Jun. 2018	Director (Member of the Board), Executive Vice President, CSO*2
Apr. 2019	President and CEO (Member of the Board), CSO
Apr. 2020	President and CEO (Member of the Board) (present position)

Rationale behind appointment

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

Director (Member of the Board), Executive Vice President, CFO*3

Hisato Kozawa

(DOB: April 2, 1962)

Career summary

Apr. 1986	Joined MHI
Oct. 2019	Senior Vice President, CoCFO
Apr. 2020	Senior Vice President, CFO
Jun. 2020	Director (Member of the Board), Senior Vice President, CFO
Apr. 2021	Director (Member of the Board), Executive Vice President, CFO (present positions)

Rationale behind appointment

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

*1 CEO: Chief Executive Officer *2 CSO: Chief Strategy Officer *3 CFO: Chief Financial Officer

Director (Member of the Board), Executive Vice President, CSO; President & CEO, Energy Systems

Hitoshi Kaguchi

(DOB: February 15, 1960)

Career summary

Apr. 1984	Joined MHI
Apr. 2018	Senior Vice President, Deputy Head of Business Strategy Office
Apr. 2019	Senior Vice President, CoCSO, Head of Marketing & Innovation Headquarters
Apr. 2020	Executive Vice President, CSO
Apr. 2021	Executive Vice President, CSO; President and CEO, Energy Systems
Jun. 2021	Director (Member of the Board), Executive Vice President, CSO; President and CEO, Energy Systems (present positions)

Rationale behind appointment

After working for many years in nuclear power generation systems technological development and operations, Mr. Kaguchi served as CoCSO from April 2019 and has served as CSO since April 2020. In these roles, he formulates and implements Company-wide strategies under the CEO and is involved in management decision-making as the executive in charge of all planning functions related to MHI's management policies.

Director

Naoyuki Shinohara

(DOB: February 8, 1953)

Career summary

Apr. 1975	Joined Ministry of Finance
Jul. 2006	Director-General of the International Bureau, Ministry of Finance
Jul. 2007	Vice Minister of Finance for International Affairs, Ministry of Finance
Jul. 2009	Special Advisor to the Minister of Finance
Feb. 2010	Special Advisor to the International Monetary Fund (IMF)
Mar. 2010	Deputy Managing Director, IMF (until February 2015)
Jun. 2015	Director (Member of the Board), MHI (present position)
Jul. 2015	Professor, Policy Alternatives Research Institute, The University of Tokyo (until March 2018)

Rationale behind appointment

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

Director

Ken Kobayashi

Corporate Advisor, Mitsubishi Corporation

(DOB: February 14, 1949)

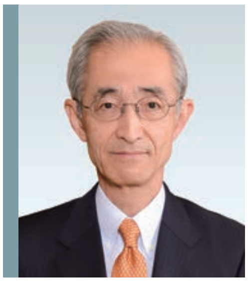
Career summary

Jul. 1971	Joined Mitsubishi Corporation
Jun. 2007	Member of the Board, Executive Vice President, Mitsubishi Corporation
Jun. 2008	Executive Vice President, Mitsubishi Corporation
Apr. 2010	Senior Executive Vice President, Mitsubishi Corporation
Jun. 2010	Member of the Board, President and CEO, Mitsubishi Corporation
Apr. 2016	Chairman of the Board, Mitsubishi Corporation
Jun. 2016	Director (Member of the Board), MHI (present position)
Apr. 2022	Member of the Board, Corporate Advisor, Mitsubishi Corporation
Jun. 2022	Corporate Advisor, Mitsubishi Corporation (present position)

Rationale behind appointment

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

Introducing Members of the Board



Director

Nobuyuki Hirano

Senior Advisor, MUFG Bank, Ltd.

(DOB: October 23, 1951)

Career summary

Apr. 1974	Joined The Mitsubishi Bank, Limited (now MUFG Bank, Ltd.)
Jun. 2005	Member of the Board of Directors, Managing Executive Officer, The Bank of Tokyo-Mitsubishi, Ltd. Member of the Board of Directors, Mitsubishi Tokyo Financial Group, Inc.
Oct. 2008	Member of the Board of Directors, Senior Managing Executive Officer, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Jun. 2009	Member of the Board of Directors, Deputy President, The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Managing Executive Officer, Mitsubishi UFJ Financial Group Inc. (MUFG)
Jun. 2010	Member of the Board of Directors, MUFG
Oct. 2010	Member of the Board of Directors, Deputy President, MUFG
Apr. 2012	President & CEO, The Bank of Tokyo-Mitsubishi UFJ, Ltd. Member of the Board of Directors, MUFG
Apr. 2013	President & CEO, MUFG
Jun. 2015	Member of the Board of Directors, President & Group CEO, MUFG
Apr. 2016	Chairman of the Board of Directors, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Apr. 2019	Member of the Board of Directors, Chairman (Corporate Executive), MUFG Member of the Board of Directors, MUFG Bank, Ltd. (until April 2020)
Jun. 2019	Director (Member of the Board), Audit and Supervisory Committee Member, MHI
Apr. 2021	Member of the Board of Directors, MUFG (until June 2021) Senior Advisor, MUFG Bank, Ltd. (present position)
Jun. 2021	Director (Member of the Board), MHI (present position)

Rationale behind appointment

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

Director
Full-time Audit and Supervisory Committee Member

Setsuo Tokunaga

(DOB: October 20, 1958)

Career summary

Apr. 1984	Joined MHI
Apr. 2017	Fellow, General Manager, Research & Innovation Center
Jun. 2017	Fellow, Senior General Manager, Technology Strategy Office
Apr. 2019	Senior Fellow, Senior Chief Researcher, Research & Innovation Center
Jun. 2021	Director (Member of the Board), Full-time Audit and Supervisory Committee Member (present positions)

Rationale behind appointment

Mr. Tokunaga has been contributing to strengthening MHI's technological development organizations, partly through his long tenure at the Research & Innovation Center. He has been Director serving as an Audit and Supervisory Committee member since June 2021. He participates in MHI's management decision-making from the perspective of Full-time Audit and Supervisory Committee member and contributes to ensuring effective audits and ensuring soundness and appropriateness and improving transparency of its management decision-making.

Director
Full-time Audit and Supervisory Committee Member

Ryutaro Takayanagi

(DOB: August 26, 1958)

Career summary

Apr. 1981	Joined MHI
Apr. 2013	Chief Administrator, Management Audit Department
Feb. 2014	Statutory Auditor (Full-time), Mitsubishi Hitachi Power Systems, Ltd.
Sep. 2020	Statutory Auditor (Full-time), Mitsubishi Power, Ltd.
Jun. 2021	Advisor Fellow, Statutory Auditors' Office, Mitsubishi Power, Ltd.
Oct. 2021	Advisor Fellow, Internal Control Department of Energy Systems, MHI
Jun. 2022	Director (Member of the Board), Full-time Audit and Supervisory Committee Member (present positions)

Rationale behind appointment

Mr. Takayanagi has long experience in finance and accounting divisions at MHI, and has served in various important positions in administrative divisions, and has also served as the full-time statutory auditor of major subsidiaries. He participates in MHI's management decision-making from the perspective of Full-time Audit and Supervisory Committee member and contributes to ensuring effective audits and ensuring soundness and appropriateness and improving transparency of its management decision-making. (Appointed to the Board on June 29, 2022)

Director
Audit and Supervisory Committee Member

Hiroo Unoura

Senior Advisor, Nippon Telegraph and Telephone Corporation (NTT)

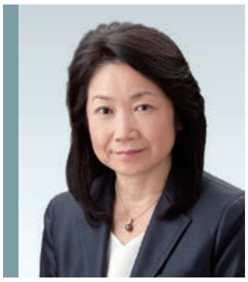
(DOB: January 13, 1949)

Career summary

Apr. 1973	Joined Nippon Telegraph and Telephone Public Corporation
Jun. 2002	Senior Vice President, Member of the Board, NTT
Jun. 2007	Executive Vice President, Member of the Board, NTT
Jun. 2008	Senior Executive Vice President, Representative Member of the Board, NTT
Jun. 2012	President and Chief Executive Officer, Representative Member of the Board, NTT
Jun. 2018	Advisor, NTT
Jun. 2019	Director (Member of the Board), Audit and Supervisory Committee Member, MHI (present positions)
Jul. 2021	Senior Advisor, NTT (present position)

Rationale behind appointment

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



Director
Audit and Supervisory Committee Member

Noriko Morikawa

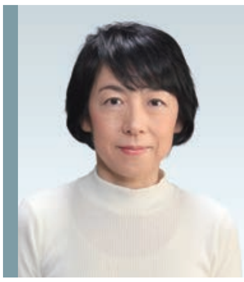
(DOB: October 18, 1958)

Career summary

Apr. 1981	Joined CHORI CO., LTD.
Aug. 1988	Joined Daiwa Securities America, Inc.
Sep. 1991	Joined ARTHUR ANDERSEN & CO.
Mar. 1995	Joined Motorola Inc.
Mar. 2005	Director of the Board, Motorola Inc.
Jun. 2009	Joined Bosch Corporation
Aug. 2010	Executive Vice President and Director, Bosch Corporation (until December 2018)
Jun. 2020	Director (Member of the Board), MHI
Jun. 2021	Director (Member of the Board), Audit and Supervisory Committee Member, MHI (present positions)

Rationale behind appointment

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



Director
Audit and Supervisory Committee Member

Masako Ii

Professor, School of International and Public Policy, Hitotsubashi University
Professor, Graduate School of Economics/Faculty of Economics, Hitotsubashi University

(DOB: February 8, 1963)

Career summary

Jul. 1990	Researcher, The World Bank
Apr. 1995	Associate Professor, Department of Economics, Yokohama National University
Apr. 2004	Professor, Graduate School of International Corporate Strategy, Hitotsubashi University Business School
Apr. 2005	Professor, School of International and Public Policy, Hitotsubashi University (present position) Professor, Graduate School of Economics/Faculty of Economics, Hitotsubashi University (present position)
Jun. 2021	Director (Member of the Board), Audit and Supervisory Committee Member, MHI (present positions)

Rationale behind appointment

Ms. Ii possesses a high level of expertise cultivated as a researcher and graduate school professor in the field of healthcare economics. She also has a wealth of global experience, having served as a researcher at The World Bank and member of the Japan Broadcasting Corporation's Board of Governors. She contributes to ensuring effective audits and ensuring the soundness and appropriateness and improving the transparency of MHI's management decision-making through providing insightful views and frank assessments to MHI's management as an outside director and Audit and Supervisory Committee member.

A Conversation with the Chairman and Two Outside Directors

How Board of Directors Meetings Support MHI's Sustainability Management

Chairman of the Board
Shunichi Miyanaga

Director, Audit and Supervisory Committee Member (Outside Director)
Masako Ii

Director, Audit and Supervisory Committee Member (Outside Director)
Hiroo Unoura

MHI Group's Business Environment and Materiality

—— These days there is uncertainty about the global situation, first caused by the COVID-19 pandemic, and then exacerbated by heightened geopolitical risks, including the conflict in Ukraine. How do you each view these events?

Miyanaga I think the current situation can be attributed to negative aspects of various changes that have taken place across the globe in the 30 years since the end of the Cold War–for example, the political turmoil accompanying the democratization of Eastern Europe, which is related to the current conflict between Russia and Ukraine, the rise of the emerging nations, uneven wealth distribution and deeply entrenched wealth inequality under globalism, energy shortages, and increasingly serious issues linked to climate change.

As the world undergoes these tremendous changes, in order to predict where global society will head in the future, I think it's important for us, today, to consider how things we have long valued are likely to change, and project what new things are likely to emerge going forward.

Unoura I agree with Mr. Miyanaga's assessment. In recent years, events previously thought unimaginable have occurred in rapid succession, including the withdrawal of the UK from the European Union, the global pandemic, and the conflict between Russia and Ukraine. Whether these developments have a shared background is something I cannot say at this point in time. But for those of us alive today, I believe it's important that we take measured steps toward achieving a world in which all people can live safe and rewarding lives.

—— MHI Group redefined its Materiality in 2020 against this backdrop in order to meet the challenges faced by society today.

Unoura As an outside director, I took part in the discussions on redefining the MHI's Materiality, and I also held discussions with young employees concerning how to set the related KPIs.

The newly defined Materiality is outstandingly articulated, and when the original proposal was submitted to the Board of Directors, it was well received for its clarity in indicating the direction in which MHI Group should proceed moving forward. Our next concern was how to implement and achieve them. This was incorporated into the 2021 MTBP and eventually led to our MISSION NET ZERO announcement. In these ways, I believe MHI Group has set out a clear path for achieving its future goals.

Ii I teach public policy at a university, and my areas of specialization include national financial administration policy formulation and the tax code. Of the various items incorporated into MHI Group's Materiality, I take particular interest in the aim to provide energy solutions to enable a carbon neutral world. Issues related to energy and protection of the global environment are important public policy matters, and my appointment as a director at MHI enables me to learn how a private corporation is addressing the challenge of turning the resolution of these issues into viable businesses. Though the task is not an easy one, it is definitely one of great significance.

I also focus on the Materiality that calls for MHI Group to promote diversity and improve employee engagement. This is an area in which I think I can be of assistance. Through town hall meetings and similar opportunities, I have had direct contact with employees, and my impression is that MHI has many truly outstanding people. Some, however, have voiced the opinion that their work involves too much procedure–such as gaining authorization from their superiors, for example. This overly cautious approach, they say, is a hindrance to speedy decision-making. In my role, therefore, I hope to push for changes to the Company's traditional corporate culture in order to ensure that employees can fully realize their potential, with the proper systems and work environment in place to enable this.

Miyanaga Exhaustive discussions went into reframing our Materiality, ultimately producing definitions with greater clarity that are easier to understand.

The issue concerning our aim to provide energy solutions to enable a carbon neutral world was addressed first in recognition that climate change is a fundamental issue that threatens humanity's very existence. Society today is undergoing a vast transition as we pursue Carbon Neutrality together. MHI Group has technologies that will be useful in this transition phase, including those for improving existing thermal power plants and CO_2 capture technologies. At the same time, we are also developing altogether new, advanced technologies to be applied after the transition phase has ended. We will continue adapting our product mix to the changes taking place in society, answering the call for Carbon Neutrality with technologies for both the transition and post-transition periods. As such, I am confident that MHI Group can make realistic

"I hope to push for changes to the Company's traditional corporate culture in order to ensure that employees can fully realize their potential."

—— Ms. Ii

A Conversation with the Chairman and Two Outside Directors

and effective contributions to world's pursuit of Carbon Neutrality. This firm commitment has been incorporated into MISSION NET ZERO, which was announced in October 2021, in which we committed to achieving Carbon Neutrality Groupwide by 2040.

Supporting Carbon Neutrality with Corporate Governance

—— How would you assess MHI Group's Carbon Neutrality initiatives?

Unoura Frankly speaking, when MISSION NET ZERO was first explained to me, I was surprised at how bold it was. It sets down a convincing roadmap not only for Scope 1 and 2 emissions, but even for Scope 3 emissions–CO_2 emissions throughout the Company's value chain. So, I thought the declaration deserves high praise as a proclamation of MHI Group's firm determination to exercise leadership in this area and to fulfill its responsibility to society.

"Carbon Neutrality is a matter that must be addressed by the entire world."

—— Mr. Unoura

That said, the target set in the declaration–Carbon Neutrality–cannot be achieved singlehandedly by MHI Group alone. Moreover, I don't envision that all of the technological challenges can be overcome at once, nor do I think implementation of the many necessary measures will proceed very quickly. Carbon Neutrality will take a very long time indeed. It's a challenge that must be taken up by successive generations: not only the present generation and the next, but also by generations beyond that.

As such, MHI Group should not attempt to achieve the extremely difficult goal of Carbon Neutrality all on its own. Rather, the Company should share its awareness of the issue with its corporate customers and all other partners. Then we should work collectively to develop new technologies and make the necessary investments to bring about changes in society as a whole. In that sense, Carbon Neutrality is a matter that must be addressed by the entire world.

Ii In connection with what Mr. Unoura just said about collaborating with partners, clearly, energy policy isn't something that can be decided by MHI Group alone.

The Japanese government, however, says that the central role in carrying out energy policy must be filled by the private sector, and it has stated its intent to promote private investment by assuring predictability, including fiscal spending to support technology development. So, I believe that MHI Group, as a technology and market leader, should not only contribute products responding to government-generated demand as in the past, but also proactively make contributions in the ideas space. MHI should come up with its own grand design and offer it up for consideration by the government and by society at large.

Miyanaga The points you have both made are very informative. I, too, think it's important for MHI Group to make society more aware that we are aggressively developing technologies and collaborating with numerous partners to achieve Carbon Neutrality. My hope is that we can inspire other companies to follow our example, expanding the scope of and number of participants in these efforts. There is also the possibility of forging mutually beneficial relationships with startups, both domestic and international, that have ideas and technologies amazingly different from ours.

Market competition will not only lead to further advances but will also spur broad discussions, including those with our customers and governments worldwide, which in turn will encourage greater understanding and acceptance of the costs to society at large necessary for achieving Carbon Neutrality. In this way, I believe MHI Group's MISSION NET ZERO will cause a stir, in a positive sense.

Board of Directors Meetings Befitting a Global Company

—— What are your impressions of MHI Group's corporate governance framework, especially its Board of Directors meetings?

Ii Board of Directors meetings always have an atmosphere conducive to free expression of opinions. In consideration of the needs of outside directors, we are given quite detailed explanations of the current status and future direction of the Company's businesses. In my case, I pay special attention to how the Company's actions will contribute to society–starting with achievement of Carbon Neutrality–and how they will raise the Company's corporate value.

As for corporate governance, I think it's important to respect the culture and history of each country and company rather than fixating on formalism. I think making Japanese companies' governance methods similar to those of American or European companies should not be a goal in and of itself. Ultimately, I think the role of governance should consist entirely of improving management performance and elevating a company's value.

Unoura I agree with Ms. Ii. I, too, think the Company's Board of Directors meetings have a very open and collegial atmosphere. And as outside directors, we are always given opportunities to present our views on important issues.

An integral part of MHI's governance framework is the Audit and Supervisory Committee, a system unique to Japan, and I think it's very important for the committee to function smoothly. As a committee member, I focus on monitoring for business-related risks, that is, risks affecting both current operations and new businesses. To that end, I believe my basic role is to ask questions, to exchange opinions, and, whenever possible, to offer advice.

Miyanaga Since my tenure as president–April 2013 to March 2019–I have always felt it important to be as frank and open as possible when a problem occurs. Management decisions aren't always successful, and I think it's important, especially when something has gone wrong, to provide a clear explanation of what happened and why.

When conducting Board of Directors meetings, too, instead of discussing a problem only to the minimal extent necessary to comply with relevant laws and regulations,

A Conversation with the Chairman and Two Outside Directors

I have always sought to be as forthcoming as possible to everyone, including our outside directors, in explaining what is happening in the Company and what we are planning to do. I believe that the steps taken by MHI to separate supervisory and executive functions, including our transition to the Audit and Supervisory Committee structure, have strengthened the Board's supervisory capabilities. We have arrived at a governance structure that enables management to take risks that are backed by decisions reached after careful consideration.

It was in 2019, when those reforms were being implemented, that we invited Mr. Unoura to become an outside director. Mr. Unoura comes from a field entirely different from ours, and in his capacity as leader of an extremely large, global corporate group, he has confronted various challenges and carried out various reforms. Based on his experience and expertise, since he joined us, we have received a great deal of valuable advice on matters such as how an organization must continuously evolve amid changing times and the kind of values a company such as ours should embrace.

Ms. Ii is an expert in public policy. Throughout our history, MHI Group has undertaken public and socially beneficial projects of great variety. Today, in response to our changing times, as new solutions are being called for, we eagerly welcome Ms. Ii's close monitoring of our operations and her views. Particularly we are eager to hear her views concerning whether management has grown complacent, or whether, in the name of public benefit, we are pursuing projects that lack business viability. We also welcome her very valuable advice concerning our business operations.

Unoura MHI Group engages in a broad spectrum of businesses, which means that there is always the possibility of diverse risks. I agree with what Mr. Miyanaga said about the fundamental importance of management always maintaining a stance that shuns concealment and provides full, coherent explanations.

For corporate governance to be effective, it should not just be the head of an organization preaching about it. All employees need to approach the Company's various challenges, such as safety management, quality enhancement, compliance, and corporate culture reforms, with the same intensity of awareness as management and see these issues as their own.

To achieve this, in my position as outside director, I hope to continue to have opportunities to engage in discussions with employees across the spectrum. I would like to speak casually with them about their aspirations so that I can actively offer advice and assistance based on an awareness of the people who are personally involved in the Company's daily operations.

Ii In connection with governance, it's been pointed out that enabling employees to speak freely with each other in an open environment is very important from the standpoint of preventing wrongdoing on the job. I think MHI Group needs to consciously promote dialogue and personal connections across organizational units.

From discussions I've had with today's university students, I sense they aren't very interested in spending their entire lives at one company, organization, or group. Today, a career path should be available that permits an individual to break away from the organization or entity they belong to, accumulate diverse experience at other companies or by starting their own company, and then, at some point, return to their original place of employment. If MHI communicates its openness to people wishing to pursue such a career path, it might gain an advantage in acquiring highly skilled human resources.

—— **Mr. Miyanaga, what are your thoughts after hearing the views expressed today by Mr. Unoura and Ms. Ii concerning corporate governance and the Board of Directors meetings?**

Miyanaga I am very happy to hear how positively they view our corporate governance. At the same time, although we have taken important steps to strengthen our governance and we are now actively responding to issues such as ESG and the SDGs, I strongly feel that much remains to be done.

Over the next 20 to 30 years, if not longer, I believe MHI Group will face extremely challenging but also–provided the proper approach–very rewarding times.

We are blessed with many employees who perform their jobs with great dedication–men and women who faithfully carry out the tasks before them. Thanks to this, we have enjoyed remarkable stability for such a large organization. Also, the supportive way in which we treat our employees, together with our system for nurturing their long-term development, cultivates their ability to endure hardship, which is one of our Group's foremost strengths. It is this strength that underpins our sustainability as a corporate organization.

In the years ahead, however, in order to respond to our rapidly changing business environment, we cannot merely content ourselves with the stability of the status quo. We must also boldly take on new challenges. I would like to see MHI Group become an organization that allows its employees to go out into the world beyond the Company–and then welcomes back those who may choose to return later in their career.

Also, as a company that conducts business worldwide, MHI Group must be an organization that welcomes diversity–an organization that seeks commonalities with countries or communities with values different from our own as a framework for working together.

At the same time, we need to win the understanding of our many different stakeholders – shareholders, investors, and many others – for the principles and ideas which we hold dear by explaining our thinking to them. And to ensure that those principles and ideas, as well as our explanations of them, are never self-centered or self-serving, we hope that our outside directors will carry out their supervisory functions and offer us objective advice based on their wealth of experience.

Thanks to the participation of our outside directors, our Board of Directors meetings invite extremely lively discussions of the issues before us, and I wish to express our sincere appreciation for their valuable contributions. Going forward, we will continue to exercise corporate governance led by the Board of Directors in order to ensure sustained, sound, and transparent management and continuously increase our value as a corporation that contributes to resolving diverse societal issues.

"We will boldly take on new challenges to respond to our rapidly changing business environment."

——— *Mr. Miyanaga*

Corporate Governance

Basic Approach to Corporate Governance

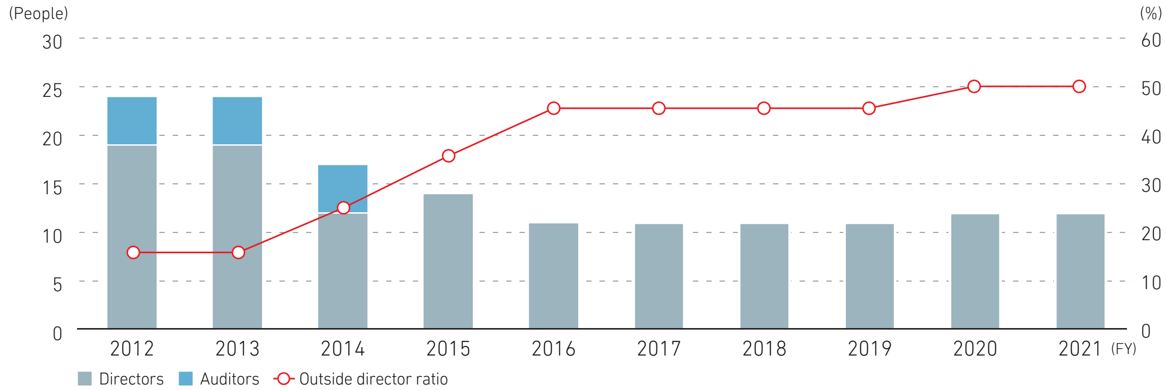
As a company responsible for developing the infrastructure that forms the foundation of society, MHI's basic policy is to execute management in consideration of all stakeholders and strive to enhance corporate governance on an ongoing basis in pursuit of sustained growth of MHI Group and improvement of its corporate value in the medium and long terms. In accordance with this basic policy, MHI endeavors to improve its management system, such as by enhancing its management oversight function through the separation of management oversight and execution and the inclusion of outside directors. MHI is building a Japanese-style global management model that places priority on sounder, more transparent management, diversity and harmony. MHI has also established our basic framework for and approach to corporate governance in our Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd., which is posted on our official website.

► Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.
https://www.mhi.com/finance/management/governance/pdf/corporate_governance.pdf

Actions Taken to Strengthen Corporate Governance

	Action	Composition of Board of Directors Total directors/outside directors (outside director ratio)	Other (Officer remuneration, engagement)
2012			• Commenced shareholder relations (SR) visits for overseas institutional investors
2014	• Introduced Chief Officer System	12/3 (25%)	
2015	• Transitioned to company with Audit and Supervisory Committee	14/5 (35.7%)	• Introduced new stock remuneration system for officers
2016	• Established Nomination and Remuneration Advisory Council • Commenced Board Evaluation • Commenced meetings of independent outside directors	11/5 (45.5%)	
2019	• Turned Nomination and Remuneration Advisory Council into advisory body for the Board of Directors • Abolished Advisor System		
2020		12/6 (50%)	

Board Seats and Outside Director Ratio*



*Auditor seats were eliminated when MHI became a company with an Audit and Supervisory Committee from FY2015.

Corporate Governance Framework

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

1 Directors (Board of Directors)

MHI's Board of Directors consists of 12 directors (of whom five are serving as Audit and Supervisory Committee Members), and six directors (of whom three are serving as Audit and Supervisory Committee Members) are outside directors. By obtaining beneficial views and frank assessments from outside directors to MHI's management from a standpoint neutral to operational divisions, MHI is enhancing its management oversight function and ensuring that the oversight function by outside directors is more effective. Accordingly, MHI ensures that the number of outside directors who meet MHI's independence criteria*1 constitutes one-third or more of all members of the Board of Directors. The Board of Directors comprises members with a variety of backgrounds, ensuring a balanced structure with which to supervise people handling business execution (we refer you to "5 Director Skills Matrix" on the following page).

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

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

2 Audit and Supervisory Committee

To secure the soundness and appropriateness of MHI's management decision-making and improve transparency, MHI's Audit and Supervisory Committee conducts a range of activities as listed in the "Status of Audit and Supervisory Committee Activities" section on page 69. The Audit and Supervisory Committee monitors the execution of duties of directors and prepares Audit Reports. It also has authority provided for by laws and ordinances and Articles of Incorporation, including determining the details of agenda items presented to the General Meeting of Shareholders related to the appointment, dismissal, or non-reappointment of accounting auditors, and the statement of opinions related to the appointment or dismissal of directors who are not Audit and Supervisory Committee members.

3 Chief Officers and Standing Executives in Charge of Operations

MHI has introduced a chief officer system. Specifically, portions of the CEO*2 (President)'s responsibilities and authority are delegated to a number of chief officers reporting to the CEO. These chief officers consist of domain CEOs (the heads of individual business domains) as well as the CSO*3, CFO*4, and CTO*5. The CEO takes charge of overall business operations, and the domain CEOs take control of executing businesses within their individual domains based on overall Group strategies. The CSO is in charge of the planning of company-wide management policies and the CFO takes charge of finance and accounting. The CTO is in charge of the supervision and execution of overall operations related to technology strategies, research and development of products and new technologies, ICT, value chain, marketing and innovation. In addition, the CSO, CFO, and CTO have company-wide authority to give instructions and commands and provide support to business domains. The GC*6 and standing executive in charge of HR*7 assist the CEO with his duties by supervising and executing activities in line with the CEO's mission. The GC takes overall control of management audits, general administration, legal affairs, and risk management. The standing executive in charge of HR takes overall responsibility for human resources and labor relations. Within the business execution framework consisting of the CEO (President) and primarily these chief officers, there is an Executive Committee chaired by President Seiji Izumisawa (and consisting of executive officers, including the President, chief officers, and standing executives in charge of operations). This deliberative body uses a council system to deliberate on vital items pertaining to execution of duties, thereby enabling appropriate management decision-making and execution of duties.

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

Corporate Governance

4 Nomination and Remuneration Advisory Council

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

Positioning	Advisory institution*8 to the Board of Directors
Objectives	Obtain the opinions and advice of independent outside directors to ensure transparency and soundness of procedures prior to deliberations by the Board of Directors on matters relating to the nomination of candidates for directors, the dismissal of directors, and the appointment and dismissal of other management executives, and matters relating to the determination of remuneration of directors (excluding directors who are serving as Audit and Supervisory Committee members).
Participants	Chairman, President and all outside directors
Number of meetings held	Held five times in FY2021

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

5 Director Skills Matrix

MHI Group has adopted Our Principles as a fundamental management philosophy and objectives and periodically formulates business plans to steadily progress toward their realization. Under its current plan, the 2021 Medium-Term Business Plan (MTBP), the Group has embraced a Mission of integrating cutting-edge technology into expertise built up over many years to provide solutions to some of the world's most pressing issues and provide better lives.

Under this Mission, for oversight of the management of MHI Group that is globally operating diverse businesses, it is necessary to appropriately track social issues and trends including relationships with all stakeholders based on the assumption of a deep understanding of the Group's basic philosophy and business, and discuss the Group's focus in the 2021 MTBP to strengthen profitability and develop growth areas from diverse perspectives such as strengthening the technological foundation, human resource foundation and financial foundation, and risk management.

We believe that this requires knowledge of and experience and expertise in Socio-Economic Issues, Risk Management/Compliance, Global Enterprise Management, Technology/Digitalization, Marketing, Finance/Accounting and Human Resource. Our Board of Directors must possess a well-balanced mix of such knowledge, experience and expertise.

Individual directors' knowledge, experience and expertise are tabulated below. We believe our Board as a whole is adequately endowed with knowledge, experience and expertise in the aforementioned areas.

	Inside/ outside	Audit and Supervisory Committee Members	Tenure in years (as of end of the General Meeting of Shareholders on June 29, 2022)	Knowledge, experience and expertise						
				Socio-Economic Issues	Risk Management/ Compliance	Global Enterprise Management	Technology/ Digitalization	Marketing	Finance/ Accounting	Human Resource
Shunichi Miyanaga	Inside		14	●	●	●		●		
Seiji Izumisawa	Inside		5	●	●	●	●	●		
Hisato Kozawa	Inside		2	●	●				●	
Hitoshi Kaguchi	Inside		1	●	●		●	●		
Naoyuki Shinohara	Outside		7	●	●				●	
Ken Kobayashi	Outside		6	●	●	●		●		
Nobuyuki Hirano	Outside		3	●	●	●			●	
Setsuo Tokunaga	Inside	●	1	●	●		●			
Ryutaro Takayanagi	Inside	●	New	●	●				●	
Hiroo Unoura	Outside	●	3	●	●	●		●		●
Noriko Morikawa	Outside	●	2	●	●	●			●	●
Masako Ii	Outside	●	1	●	●					●

* The black dots in the seven rightmost columns do not indicate the entire range of knowledge, experience and expertise that the given director possesses.

Board of Directors' Main Deliberation Items

The main items deliberated by the Board of Directors in FY2021 are presented in the table below.

Main Deliberation Items

General Meeting of Shareholders	· Resolution on matters for calling Annual General Meeting of Shareholders
Items related to financial results	· Financial results · Shareholder return policy
Items related to Executives and Board Members	· Board Evaluation, remuneration of directors, and executive appointments (including chief officers) · Director Skills Matrix
Management plan	· Status of progress on 2021 MTBP
Internal controls	· Status of internal control systems operation
Resolutions on and status of execution of important operations	· Status of business in individual domains and segments
	· Status of execution of operations by individual chief officers
	· Integration of Mitsubishi Power, Ltd.
	· Status of progress of growth strategy
Other	· Key-risk identification and management process
	· Initiatives aimed at realizing a carbon neutral society
	· Company-wide material issue (materiality) targets and KPIs for monitoring progress
	· Capital markets' perception of MHI's management
	· Study of the appropriateness of strategic shareholding
	· Sustainability initiatives
	· MHI's response to revision of the Corporate Governance Code

In addition to the above, the agenda items for the Board of Directors meetings are explained in advance to outside directors for the purpose of free and vigorous discussion and exchange of opinions at the meetings. Also, as described in the "Board Evaluation Results and Future Initiatives," in FY2021, we addressed issues identified by an evaluation of the Board's effectiveness, including discussion of themes such as progress of growth strategy, handling of work style reform and diversity, and initiatives to address materiality and sustainability.

Board Evaluation Results and Future Initiatives

MHI has introduced an annual evaluation of the Board of Directors (hereinafter referred to as the "Board Evaluation") aiming at ensuring further effectiveness of the Board of Directors by verifying its functional efficiency as an entity and being fully accountable to stakeholders, by conducting holistic analysis and evaluation of the Board. In the process of, and as a result of, our FY2021 Board Evaluation, the status of activity based on the results of the Board Evaluation conducted in the previous year (FY2020) and future responses based on this year's evaluation results are as presented in the table below.

Process and Results of FY2021 Board Evaluation

Process	Continuing on from FY2020, the Board of Directors conducted an evaluation process based on the following 4 points: "Composition of the Board of Directors," "Operation of the Board of Directors," "Supervisory function of the Board of Directors," and "Structure to support outside directors." MHI has hired an external organization with specialized knowledge on analysis of questionnaire survey results in the past, and this fiscal year, such external organization also conducted interviews with each director for the purpose of enhancing transparency and objectivity.
	1. Self-evaluation was conducted based on a questionnaire survey of all directors including outside directors and individual interviews with each director.
	2. Opinions were exchanged in meetings among outside directors.
	3. The Board of Directors held discussions based on the results of the questionnaire survey and interviews.
	4. The Board Evaluation results were approved by the Board of Directors in light of the above evaluation and discussions.
Results	The overall effectiveness of the Board of Directors in FY2021 has been ensured with no major concerns.

Corporate Governance

Initiatives Based on Results of the Board Evaluation Conducted in the Previous Year (FY2020)

1.	In accordance with the annual schedule specifying the agenda of meetings of the Board of Directors and activity plans, themes such as progress of growth strategy, handling of work style reform and diversity, and initiatives to address materiality and sustainability were discussed in meetings of the Board of Directors. Furthermore, to stimulate active discussion, we optimized the content of explanations and deliberation time.
2.	In the Nomination and Remuneration Advisory Council, we established opportunities to discuss the selection process for director candidates, etc.
3.	We worked to strengthen coordination between the Board of Directors and the Audit and Supervisory Committee, such as sharing the annual schedule for meetings of the Board of Directors with the Audit and Supervisory Committee, in addition to increasing the frequency of reports of activities such as audits by the Audit and Supervisory Committee to the Board of Directors. Furthermore, we implemented lectures by external experts and established a venue for discussion of the roles, etc. of the Board of Directors and the Audit and Supervisory Committee.

Future Action Based on the Results of This Year's Evaluation

1. Initiatives aimed at enhancement of discussion

We will steadily hold meetings of the Board of Directors in accordance with the schedule such as the annual agenda, establish opportunities for discussion of growth strategy and personnel strategy from a medium- to long-term perspective, and include reporting of the state of initiatives related to the development of growth areas in the agenda.

2. Further improvement of meeting materials and explanations

We will work to improve the content of reports on the status of each business, and also continue efforts aimed at the optimization of deliberation time on meeting days and utilization of advance explanations.

3. Sharing information with outside directors

We will provide more opportunities for dialogue between outside directors and employees and site inspections according to an annual schedule. Furthermore, we will establish venues for discussion aimed at further utilization of meetings by independent outside directors.

4. Discussion on the composition, etc. of the Board of Directors including outside directors

We formulated a skills matrix for the Board of Directors in FY2021, and will further discuss the composition of the Board of Directors and the desired requirements for directors.

Status of Audit and Supervisory Committee Activities

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

Audits by the Audit and Supervisory Committee are conducted in accordance with the Audit and Supervisory Committee Standards and the Audit and Supervisory Plans.

Moreover, in order to support the duties of the Audit and Supervisory Committee, the Audit and Supervisory Committee's Office has been set up with six dedicated staff members to facilitate the work carried out by the Audit and Supervisory Committee. The Audit and Supervisory Committee primarily monitors and verifies the execution of duties of directors, the appropriateness of business reports, etc., adequacy of audits by the accounting auditor, and the effectiveness of the internal control system. The result of this monitoring and verification is provided to the Company's shareholders via an audit report. In FY2021, the Audit and Supervisory Committee took action on designated priorities to accomplish the 2021 MTBP, including progress on matters deemed to require the Committee's oversight and responses to matters with significant impacts.

Full-time Audit and Supervisory Committee members attend important meetings such as Executive Committee meetings, MTBP meetings, and Compliance Committee meetings, and endeavor to identify and monitor how management is performing in a timely and appropriate manner, as well as conduct audits to ascertain whether the duties of the directors are being executed in compliance with laws and ordinances and the Articles of Incorporation, and whether the corporate operations are being performed properly through inspection regarding, and confirmation of, legal compliance status, and through the monitoring and verification of the preparedness and implementation of the internal control system, including internal controls over financial reporting and other relevant items.

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

Furthermore, the Audit and Supervisory Committee works closely with the Management Audit Department and accounting auditors through regular exchange of information and opinions. Full-time Audit and Supervisory Committee members have monthly meetings with the Management Audit Department and confirm the status of the formulation and progress of the Department's auditing programs, and receive reports on the results of those audits. The Audit and Supervisory Committee and the accounting auditor regularly exchange opinions on the accounting auditor's auditing plans and results, and full-time Audit and Supervisory Committee members hold monthly meetings to exchange information with the accounting auditor.

In addition, the Audit and Supervisory Committee expressed its opinion on the appointment and remuneration of directors who are not members of the Audit and Supervisory Committee at the June 29, 2022, Annual General Meeting of Shareholders. Also, the Audit and Supervisory Committee assessed the accounting auditor KPMG AZSA LLC on criteria including ensuring a system for the proper execution of duties, independence, appropriateness of audits, and auditing ability and expertise. Having determined that all requirements were satisfied, the Audit and Supervisory Committee resolved to reappoint KPMG AZSA LLC as the accounting auditor.

Corporate Governance

Officers' Remuneration Structure

1 Remuneration of Directors Who Are Not Audit and Supervisory Committee Members (Excluding Outside Directors)

The remuneration of directors who are not Audit and Supervisory Committee members (excluding outside directors) consists of base remuneration, performance-linked remuneration, and stock-based remuneration from the viewpoint of reflecting business performance and sharing value with shareholders.

After revising the stock-based remuneration system through a resolution passed at the 94th Annual General Meeting of Shareholders, which was held on June 27, 2019, the standard for the remuneration of the Company's president was set at roughly 30% base remuneration, 40% performance-linked remuneration, and 30% stock-based remuneration (in the event that consolidated profit before income taxes reached ¥200 billion; calculated based on the fair value of stock award points granted during FY2018), making for a remuneration structure in which the higher a director's position is, the greater his or her performance-linked remuneration will be. In order to promote MHI stock ownership better aligns their interests with shareholders, once pretax profit exceeds ¥200 billion, stock-based remuneration increases as a medium- to long-term incentive while performance-linked remuneration's rate of increase progressively tapers off before plateauing once pretax profit exceeds ¥400 billion.

The benchmark used to calculate performance-linked and stock-based remuneration is pretax profit. Pretax profit was chosen to reflect the results of business operations inclusive of finance income/costs in performance-linked and stock-based remuneration. (However, there may be partial adjustment in terms of compensation computation based on assessment of the impact of changes in accounting principles.)

In FY2021, the Company had a profit before income taxes of ¥173.6 billion, surpassing the target (initial forecast) of a profit of ¥130 billion.

The profit before income taxes for FY2020 (initial forecast) used in the calculation of stock-based remuneration for FY2021 was ¥0 million and the result was ¥49.3 billion.

Methods for Determining Each Type of Remuneration (Remuneration of directors who are not Audit and Supervisory Committee members (excluding outside directors))

Base remuneration: Standard amount based on position + Additional amount based on performance

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

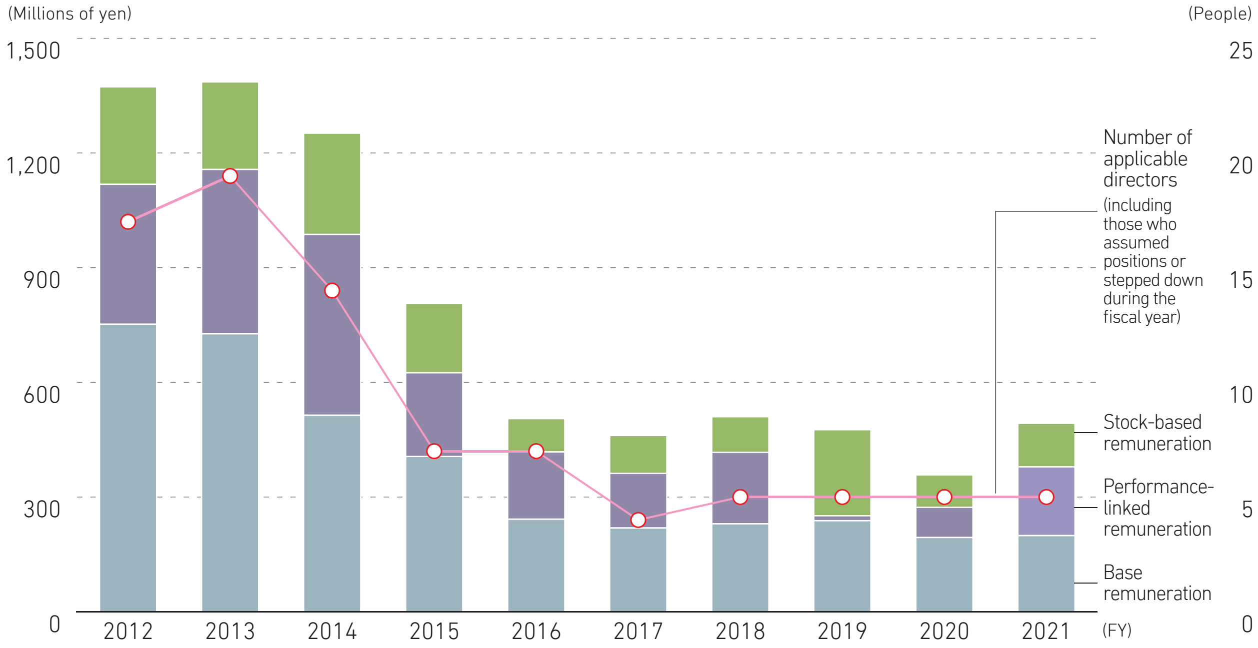
Performance-linked remuneration: Position-based payment coefficient × Profit before income taxes for the given fiscal year ÷ 10,000 × Coefficient of business results

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

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

- As a general rule, directors receive MHI shares and cash in an amount equivalent to MHI shares' liquidation value three years after being granted stock award points.
- Position-based standard points are determined in accordance with a director's position and the details of his or her duties, etc.
- The coefficient of business results is based on profit before income taxes in the previous fiscal year.
- In the event that a director engages in improper conduct, the Company suspends the granting of stock award points and the issuance of shares to said director. There are also cases where the Company asks such a director to submit a payment equivalent to the number of shares that has been issued to him or her.

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



2 Outside Directors

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

3 Directors Who Serve as Audit and Supervisory Committee Members

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

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

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

Corporate Governance

Remuneration of Directors (FY2021)

	Monetary remuneration				Stock-based remuneration		Total amount of remuneration (Millions of yen)
	Base remuneration		Performance-linked remuneration				
Classification	People	Total amount (Millions of yen)	People	Total amount (Millions of yen)	People	Total amount (Millions of yen)	
Directors who are not Audit and Supervisory Committee members	9	243	5	180	4	114	538
(Of which, outside directors)	(4)	(43)	(—)	(—)	(—)	(—)	(43)
Directors who are Audit and Supervisory Committee members	8	158	—	—	—	—	158
(Of which, outside directors)	(5)	(54)	(—)	(—)	(—)	(—)	(54)
Total	17	401	5	180	4	114	696
(Of which, outside directors)	(9)	(98)	(—)	(—)	(—)	(—)	(98)

1. The recipients include two directors who were not Audit and Supervisory Committee members who stepped down on June 29, 2021 (date of the 96th Annual General Meeting of Shareholders) (one of whom was appointed as a director who is an Audit and Supervisory Committee member on the same day) and three directors who were Audit and Supervisory Committee members who stepped down on the same day (one of whom was appointed as a director who is not an Audit and Supervisory Committee member on the same day).
2. The maximum permitted monetary remuneration amount for directors who are not serving as Audit and Supervisory Committee members is ¥1,200 million per fiscal year (resolution of the 90th Annual General Meeting of Shareholders on June 26, 2015).
3. The total amount of stock-based remuneration is the amount of expenses recognized for the 378,000 stock award points granted in total during FY2021 (equivalent to 37,800 shares of MHI) concerning the Board Incentive Plan Trust, which is a stock-based remuneration system that issues or provides shares of MHI and money in the amount equivalent to the liquidation value of MHI shares based on stock award points granted to directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members) in accordance with, among other factors, the rank of the position of each director and the financial results of MHI.
   In addition, the maximum permitted amount of stock award points is 1,000,000 points (based on resolution of the 94th Annual General Meeting of Shareholders on June 27, 2019) per fiscal year for directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members).
4. The maximum permitted monetary remuneration amount is ¥300 million per fiscal year for directors who are serving as Audit and Supervisory Committee members (resolution of the 90th Annual General Meeting of Shareholders on June 26, 2015).

Policy and Trends of Strategic Shareholding

Shareholding Policy

MHI acquires and holds shares necessary for the Group's sustainable growth and value improvement, as a means of developing business strategies, creating business opportunities and building, maintaining and strengthening business relationships leading to these. MHI also promotes reducing holdings of shares with decreased significance, for improving its capital efficiency and status of financial risk.

Verification Policy and Results for Holding Individual Stocks

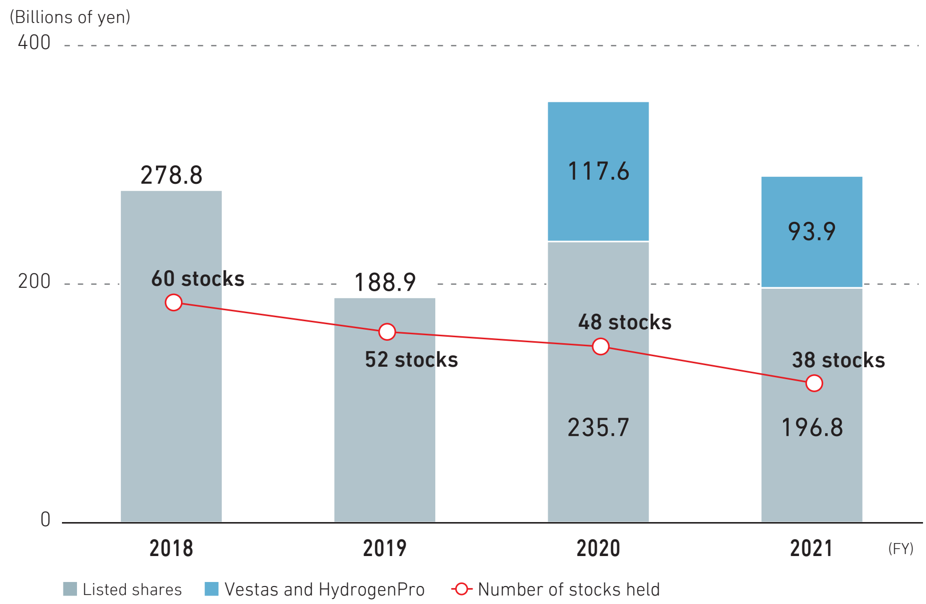
The Board of Directors annually reassesses all strategic shareholdings from multiple standpoints, including their compatibility with the Group's business strategies, their actual or prospective role in creating or expanding business opportunities, their returns, and strengthening of the Group's business relationship with their issuer. The economic rationale is confirmed by whether or not the total of the related earnings from each stock, such as dividends and related business profits on transactions, exceeds MHI's target capital cost (weighted average cost of capital). At a meeting of the Board of Directors held in September 2021, some stocks were confirmed to have decreased significance in light of the expected purpose and/or the lack of profitability.

Reduction in Strategic Shareholdings

Based on the latest verification, MHI sold 34 individual stocks in FY2021 for ¥97.8 billion (including 9 stocks sold partially), and the total value on the balance sheet at the end of the fiscal year was ¥337.6 billion (down ¥61.1 billion year-on-year).

In addition, the shares of Vestas Wind Systems A/S and HydrogenPro AS (with a total value of ¥93.9 billion on the balance sheet as of the end of the fiscal year) are included in the listed shares held by MHI. MHI has stated that Energy Transition is a growth area for MHI Group in the 2021 Medium-Term Business Plan, and acquired these shares for strengthening the relationship with them as strategic partners in renewable energy and green hydrogen business.

Balance Sheet Value of Strategic Shareholdings (Listed Shares) and Number of Stocks Held



Breakdown of Change in FY2021 (Number of Stocks, Value)

Number of stocks	FY2020	Decrease*1	Increase*3	FY2021
Non-listed shares	142	6	12	148
Listed shares	48	19	9	38
Total	190	25	21	186

Value held (Billions of yen)	FY2020	Decrease*2 (Sale value)	Increase (Acquisition value)	Changes in share prices, etc.	FY2021
Non-listed shares	45.2	-3.0	1.8	2.8	46.8
Listed shares	353.4	-94.7	5.9	26.2	290.8
Total	398.7	-97.8	7.8	28.9	337.6

*1 Number only shown for stocks completely sold. Nine other stocks were also partially sold.
*2 Total value of complete sales and partial sales
*3 Mainly acquisitions associated with the integration of Mitsubishi Power, Ltd.

Risk Management

Operational Risks and MHI's Response to Them

- Key risks that could, in the assessment of MHI Group's management, materially affect the Group's financial condition and/or operating performance, including cash flows, are tabulated below (forward-looking statements are based on judgments as of March 31, 2022).
- We have established management processes for identifying, assessing and cataloguing operational risks. To identify relevant risks, we prepare a comprehensive list of risks with input from external experts and winnow it down to specific risks with a concerning possibility of manifesting within roughly ten years. For every risk thus identified, we assess the probability of it manifesting and the magnitude of its impact if it were to manifest, taking into account the effectiveness of existing countermeasures. Through this process, we compile a list of quantifiable risks with the potential to materially affect our operations. Based on the comprehensive list of risks, we also identify qualitative risks not readily quantifiable.
- The countermeasures in the table below are examples of specific measures we have already implemented in response to key risks. They are factored into the key risks' potential impacts on our financial condition and/or operating performance. In addition to the countermeasures mentioned below, we otherwise strive to avoid and mitigate various risks, including those not listed below, in accordance with their nature. We also endeavor to minimize the impact of risks if they were to manifest.

Key risks	Potential impacts on financial condition and/or operating performance	Countermeasures
COVID-19 pandemic	(Businesses that supply made-to-order products to infrastructure-related companies and government entities and account for some two-thirds of consolidated revenue) •Revenue recognition delays due to project delays •Travel restrictions, supply chain backups •Delays in contract negotiations or order bookings processes (Businesses related to commercial aircraft) •Impacts on production or service businesses due to, e.g., airlines' capex cuts	•Took action to strengthen earnings power ▪Invested in markets with favorable growth prospects, strengthened sales networks, shifted toward service businesses ▪Reduced fixed expenses, including through staffing measures; furloughed employees ▪Adjusted plants' capacity utilization/production, reduced expenses paid to external suppliers, revised investment plans, effectively utilized surplus resources, utilized government subsidy programs •Established work-from-home environment, augmented tools, modified systems
Changes in business environment	•Constraints on negotiations and supplier selection, etc. due to disruption of the global economy associated with the protraction of the invasion of Ukraine and progression of economic decoupling due to conflict between the United States and China •Rapid fluctuation of exchange rate and rise in raw material prices •Loss of competitiveness due to, e.g., intensification of labor shortages or hollowing out of manufacturing sector in Japan •Contraction in businesses' scale and/or inability to recoup invested capital due to reduction in demand for products or services caused by growing environmental consciousness •Reduction in order bookings or slowdown in service businesses in response to, e.g., intensification of competition or sharp drop in demand for electric power derived from fossil fuels •Loss of market competitiveness or opportunities to win orders due to greater-than-expected difficulty complying with environmental regulatory tightening •Recognition of impairment losses due to mergers, acquisitions and/or alliances' underperformance of expectations	•Collection of information on global conditions and laws and regulations of each country, and implementation of action based on this •Placed priority on new functions/solutions that incorporate external expertise and are predicated on maintaining or strengthening product competitiveness in terms of, e.g., performance, reliability, price and/or eco-friendliness through R&D or capex •Developed products/services by cultivating businesses in new domains or collaborating across existing businesses, spearheaded by Growth Strategy Office established in April 2020 •Facilitated PMI*1 through, e.g., better upfront screening and monitoring of M&A deals/alliances *1 Post Merger Integration

Key risks	Potential impacts on financial condition and/or operating performance	Countermeasures
Disasters	•Destruction of or damage to production facilities, supply chain backups or disruptions, shortages of, e.g., parts or materials required for production, interruption of services, reduction in production capacity utilization, plant shutdowns, loss of backup production capacity or suppliers, and/or losses in excess of insurance coverage due to a disaster in Japan or Thailand, where production capacity is concentrated, or anywhere else operations are located globally	•Maintained adequate insurance coverage, collected information on conditions and safety in every country in which we operate, took precautions based on that information and communicated with relevant government authorities •Utilized disaster preparedness/response tools, established/maintained lines of communication, formulated/updated business continuity plans, inspected plants, upgraded facilities' earthquake-resistance, periodically conducted emergency drills
Product/service-related problems	•Cost overruns, payment of damages to customers, impairment of public reputation and/or loss of societal trust due to, e.g., the occurrence of product performance problems, late deliveries, safety problems, cost increases attributable to, e.g., changes in specifications or process delays, unforeseen problems related to construction or sourcing of, e.g., parts and materials, and/or impacts on MHI's production activities or products/services' availability to customers resulting from a supplier's inability to supply specific parts/materials or the occurrence of quality defects caused by suppliers or vendors	•Instituted and enforced various regulations, built and strengthened operational risk management regime •Individually screening incoming orders before acceptance, monitoring fulfillment process after acceptance •Conducting training for project/department managers, holding product safety seminars on ongoing basis •Implemented recurrence prevention measures, including by recapping causes of, and corrective action in response to, major losses incurred on previous projects and incorporating the information into internal training programs ▶ For details, please see page 76.
Intellectual property disputes	•Liability for damages and/or loss of right to use certain technology due to adverse outcome of, e.g., litigation related to intellectual property (IP) infringement •Obstruction of business operations due to inability to in-license technology from third party	•Avoiding IP disputes by thoroughly researching IP owned by others at the product planning, design and production stages •Upgraded IP staff's expertise through education and HR development
Cybersecurity problems	•Major loss of competitiveness, impairment of public reputation and/or loss of societal trust in connection with information leak due to, e.g., increasingly sophisticated/malicious cyberattacks •Disruption of operations due to, e.g., disablement of computers or servers •Investigations by authorities, claims for damages by, e.g., customers	•Implemented cybersecurity controls (standards, safeguards, self-assessments, internal audits), incident response measures, etc. by building a cybersecurity regime under direct supervision of the CTO*2 *2 CTO: Chief Technology Officer
Legal/regulatory violations	•Administrative sanctions imposed by government authorities, including, correction orders, penal fines, non-penal fines, suspension of operations and/or export bans; claims for damages from authorities or interested parties •Disruption of operations, impairment of public reputation and/or loss of societal trust	•Instituted and enforced MHI Group Global Code of Conduct and various regulations applicable to all Group personnel •Regularly holding Compliance Committee meetings, established internal compliance reporting program •Disseminating messages from senior management on strict legal/regulatory compliance, conducting various internal trainings on ongoing basis, augmenting training curricula, conducting internal audits ▶ For details on compliance, please see page 78. ▶ For details on information leaks, please see page 79.

Risk Management

Business Risk Management

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

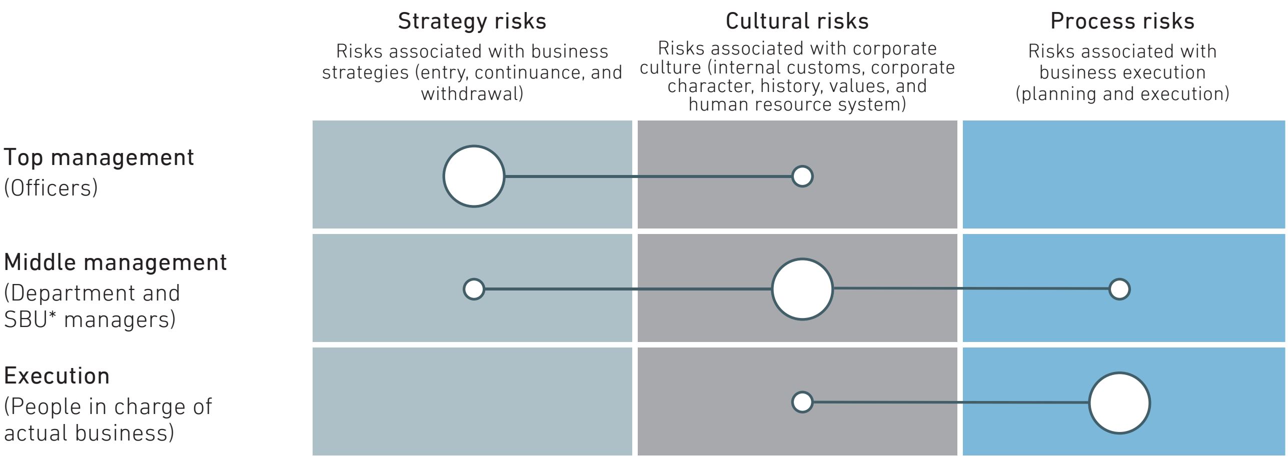
In order for MHI Group to mark sustained growth amid an ever-changing business environment, it is necessary to continue to take up challenges in new fields, new technologies, new regions, and new customers as well as to improve and strengthen operations in its existing business markets. Such challenges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

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

Outline of Business Risk Management

We believe that risk management is a part of governance and functions only when the elements of systems and processes, corporate culture, and human resources are in place. For our Group to succeed in the global market, we need to take bold and daring risks, but we also need to manage those risks. That is the perfect combination for continually increasing our corporate value. In this sense, it is very important that all business participants, from people engaged in the actual business to management, comprehend and control risks in business, from processes to strategies. For details, please see the chart below (Matrix of Business Risk Management).

Matrix of Business Risk Management



* SBU: Strategic Business Unit (business unit in the Strategic Business Assessment System)

Business Risk Management Structure

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

1

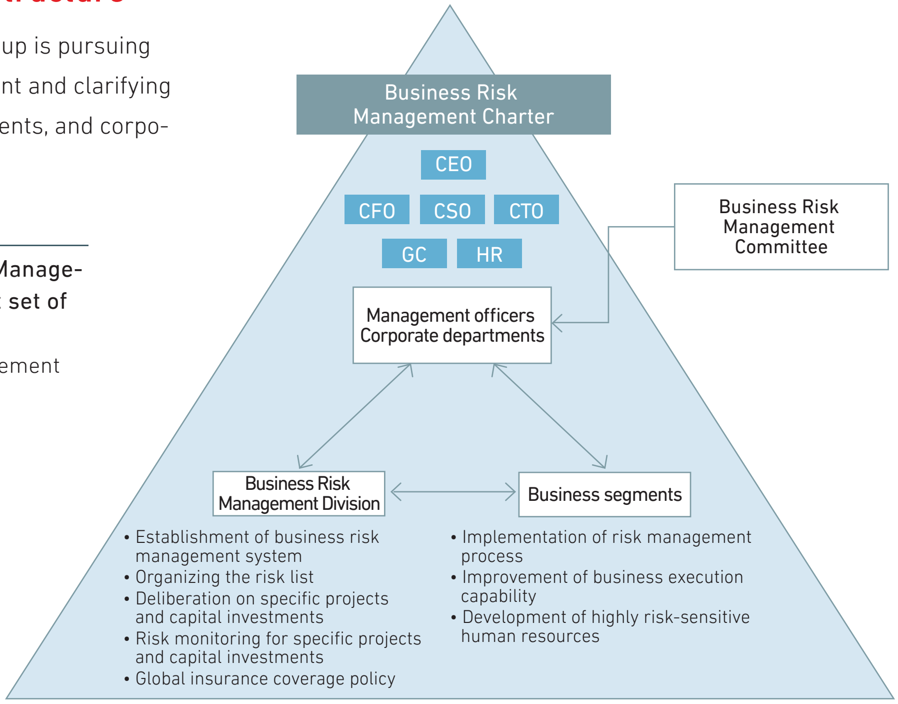
Observe and practice the Business Risk Management Charter as the Company's foremost set of rules

→ Clarify, observe, and practice risk management targets, etc.

2

Hold meetings of the Business Risk Management Committee

→ Share information on important risks and discuss response policy by top management

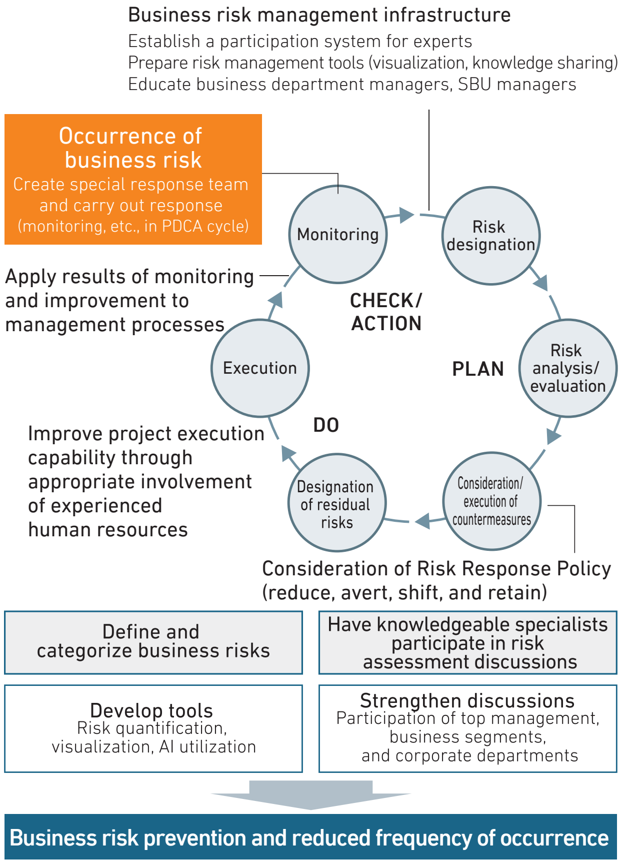


Content of Business Risk Management Activities

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

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

Business Risk Management Process



Compliance

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

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

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

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

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

Number of participants in compliance training (e-learning)

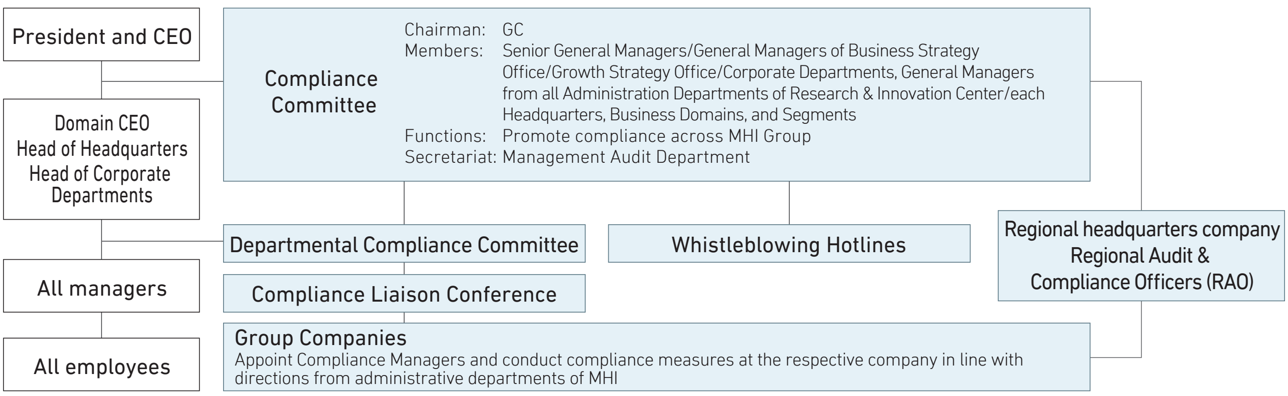
Approx. 82,000 (FY2021)

FY/cases

Number of whistleblowing cases, by type	2018	2019	2020	2021
Labor and the work environment	81	69	83	**68**
Overall discipline and breaches of manners	13	13	12	**6**
Transaction-related laws	15	12	5	**8**
Consultations and opinions	1	2	3	**1**
Other	32	44	36	**45**
Total	142	140	139	**128**
(number of corrections and improvements)	(59)	(66)	(96)	**(65)**

Compliance Promotion System

(as of April 1, 2022)



Cybersecurity

Providing a large number of critical infrastructures to society, MHI Group has established a cybersecurity policy and strategy to protect business information (including intellectual property, technical information, sales information, personal information, etc.) and maintain secure operation. Recognizing cybersecurity as a critical risk, MHI Group regularly monitors it as part of materiality initiatives. Our President and CEO supervises the cybersecurity strategy and our CTO reports in a timely manner to the Executive Committee and Board of Directors.

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

Cybersecurity Governance

MHI Group has defined its internal cybersecurity standard according to the NIST-CSF*1 providing a defense-in-depth mechanism as well as threat detection and prevention by tracking and remedying cybersecurity risks utilizing multiple external intelligence services and other resources. As a measure to prevent infection by malware called Emotet that has been increasing recently, MHI has discontinued all use of emails containing password-protected ZIP (compressed) files. To maintain and improve our cybersecurity, MHI keeps abreast of the latest cybersecurity intelligence through such measures as vulnerability testing and collection/analysis of threat information. Meanwhile, MHI seeks to raise security awareness by sharing information and educational content via an intranet portal. Additionally, MHI assesses compliance with MHI Group's cybersecurity standard through periodic self-assessments and internal audits. Furthermore, we are revising standards based on MHI Group's compliance and issues by referring to the state of formulation and revision of guidelines by governments and organizations such as the Cybersecurity Management Guidelines*2. For the industrial control system of our products, MHI has built a framework that controls cybersecurity risk. MHI will upgrade the cybersecurity capabilities and capacity of our products on a regular basis. By driving development of next-generation cybersecurity solutions, MHI will help to build a safe, secure society in which people maintain comfortable and convenient lives.

*1 National Institute of Standards and Technology Cybersecurity Framework

*2 Published by the Ministry of Economy, Trade and Industry of Japan in December 2016.

Response to Cybersecurity-Related Incidents

In the event of a cybersecurity incident, a Computer Security Incident Response Team (CSIRT) immediately reacts to the incidents, handles analysis and examination of the incidents, recovers systems, and carries out further preventive measures. The incidents are reported to the authorities and stakeholders as needed, including concerned government agencies. Serious incidents are internally reported to directors and other concerned personnel, and measures are taken in accordance with our crisis management system. Due to the increased frequency of ransomware attacks requiring swifter management decisions and communication, we confirm and revise the response capabilities and issues of organizations in an emergency through incident response drills.

Cybersecurity Education

MHI Group regularly provides cybersecurity education and training to all employees as warranted by their respective roles in the aim of maintaining and improving their cybersecurity literacy. MHI aims to also cultivate engineers capable of both safety- and security-minded product development.

Contributing to the Establishment of a Global Cybersecurity Framework

Through participation in the Study Group for Industrial Cybersecurity*3, the Charter of Trust*4, promotion of the Declaration of Cyber Security Management (announced in March 2020), and other cybersecurity initiatives, MHI Group is contributing to the establishment of a global cybersecurity framework.

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

*4 An initiative by private corporations to build trust in cybersecurity. MHI participated in this initiative in April 2019.

Sustainability

Sustainability and CSR Policy

In accordance with the Three Principles that are at the heart of Our Principles, MHI Group serves as a manufacturing corporation that contributes to societal progress through its business endeavors of delivering products and technologies in support of social and industrial infrastructure worldwide. We shall not only make contributions through its products and technologies to resolve social issues such as environmental problems, but shall also work on resolving a wide range of social challenges through various activities in the process of its overall business and conduct sustainability management in tandem with its business activities. Furthermore, we believe that this fundamentally entails realizing a sustainable society and ensuring a future for people and the planet by providing exceptional products and technologies, conducting business activities that take diverse stakeholders' interests into consideration and optimally returning profits to all stakeholders.

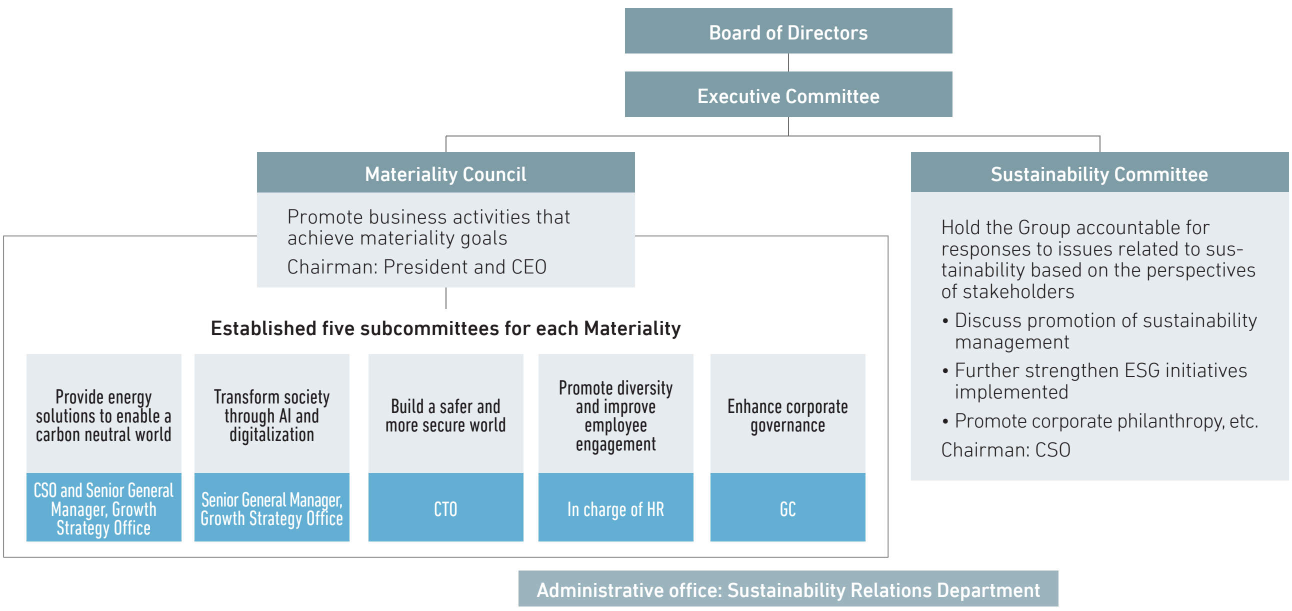
The MHI Group's CSR Action Guidelines serve as collective standards for all MHI Group employees. These guidelines provide a concrete and easy-to-understand way for employees to consistently keep sustainability in mind as the Group contributes to societal progress through its business endeavors and Our Principles centered on the principles of sustainability.

In 2015, we established the MHI Group Global Code of Conduct, a provision of common principles which stipulates how the Group's employees with various backgrounds, nationalities and cultures should act and behave. Regarding the environment, MHI Group has established the Basic Policy on Environmental Matters and Action Guidelines to encourage initiatives to reduce environmental burden based on them in 1996.

Sustainability Promotion System

In order to promote management that takes into account the sustainability of society, we developed and reorganized the former CSR Committee into the Sustainability Committee, and newly established the Materiality Council on October 1, 2021. In consideration of the environmental, social and economic sustainability of companies demanded by the international community, institutional investors and other stakeholders, we will further strengthen our sustainability management system centered on the issues and values faced by modern society.

The Sustainability Promotion System Chart



Relationships with Stakeholders

We value input from various stakeholders connected with our business activities, including customers, suppliers, business partners, Group employees and local communities. We place priority on incorporating their input into our management. In addition to sincerely listening to input gleaned from stakeholders in the course of day-to-day business operations, we engage in dialogue with experts and NGOs having specialized expertise related to sustainability and social issues, striving to incorporate societal viewpoints. We are also building mutually cooperative relationships with NPOs etc. and conducting activities to help resolve global social issues in addition to responding to the needs of and challenges facing communities in which our operations are located.

Conformity with International Norms and Information Disclosure

Being a global company, MHI Group always conducts its business activities in accordance with international codes of conduct. We have participated in the United Nations Global Compact (UNGC) since 2004 and are committed to making ongoing efforts throughout the Group to respect and carry out UNGC's Ten Principles spanning four basic areas: human rights, labor, environment, and anti-corruption. We promote sustainability activities in accordance with ISO 26000, which was formulated in 2010 as an international guideline on the social responsibilities of organizations. We strive to disclose information on our activities in accordance with international reporting standards such as the Sustainability Reporting Standards of the Global Reporting Initiative.

Human Rights Initiatives

MHI Group is committed to respecting human rights and workers' rights in accordance with international treaties and other guidelines relating to human rights. We value the individual contributions of all people irrespective of race, color, religion, political convictions, gender, age, nationality, sexual orientation, marital status, or disability. We established the MHI Group Human Rights Policy in 2013 and revised it in 2021.

Under this policy, which is based on the UN Guiding Principles on Business and Human Rights, we are building the mechanisms to enhance human rights due diligence, identifying potential adverse impacts on our Group stakeholders, and setting down measures to prevent and mitigate any such impacts, and these efforts began in FY2022.

▶Human Rights
https://www.mhi.com/sustainability/social/humanrights.html

▶MHI Group Human Rights Policy
https://www.mhi.com/sustainability/social/policy_on_humanrights.html

▶For the latest information on sustainability, please visit our website at:
https://www.mhi.com/sustainability

▶For more details on ESG, please refer to "MHI ESG DATABOOK."
https://www.mhi.com/sustainability/library

Sustainability

Materiality

To enhance corporate value and grow in the medium to long term through solutions to social issues, in FY2020 we identified materiality that MHI Group should be addressing. The materiality we identified is reflected in the 2021 Medium-Term Business Plan announced in October 2020. Progress of each materiality is managed with progress monitoring indicators (KPIs), and the PDCA cycle is steadily applied.

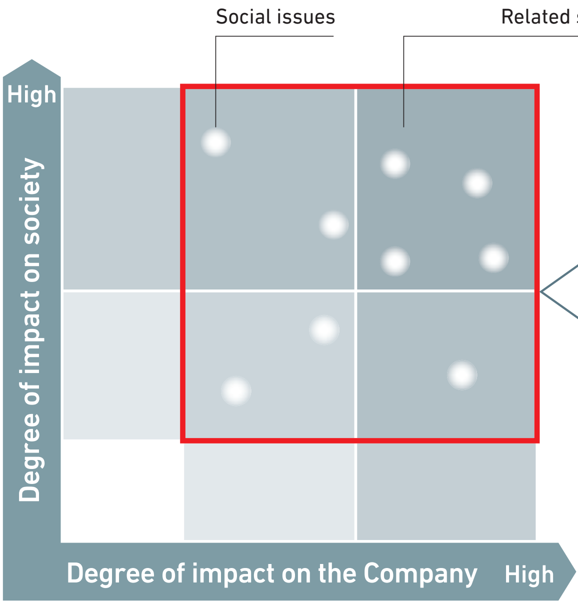
Activities that engage in materiality embody sustainability management in terms of business. In order to make materiality activities effective, we have established subcommittees with managers and departments for each materiality, and the person responsible and organizing department consider specific measures and roadmaps.

In October 2021, we established the Materiality Council, chaired by the President and CEO and attended by corporate officers and domain/segment heads, to follow up on business activities aimed at realizing materiality goals and to instruct business divisions addressing the goals to take necessary measures. The first meeting was held in December 2021 and the second in June 2022, with information on the progress of each materiality being shared and questions and opinions being freely exchanged. These activities are important themes in sustainability management and are regularly reported to the Board of Directors.

Processes of Identifying Materiality

Step 1 Prioritizing Social Issues	We inventoried the Company's businesses and initiatives, linked them to a list of social issues prioritized in line with international frameworks — including the SDGs, the Global Reporting Initiatives (GRI) Standards, ISO 26000, the SASB Standards, the EU taxonomy and others, and identified 37 social issue themes related to MHI Group.
Step 2 Mapping Materiality	(1) Importance of social issues assessed and mapped along two axes (Vertical axis: degree of impact on society; horizontal axis: degree of impact on the Company; see "Approach to Identifying Materiality" to the right) (2) Nine materiality postulated based on the materiality map
Step 3 Verifying Appropriateness	(1) Discussion held at materiality review meetings (consisting of CSR Committee members), and materiality narrowed down to six items (2) Dialogue held with three outside experts (See page 10 of "ESG DATABOOK 2020" for details) Names of outside experts: Mariko Kawaguchi, Specially Appointed Professor, Graduate School of Social Design Studies, Rikkyo University Toshihiko Goto, Chief Executive Officer, Sustainability Forum Japan Board Member Ichiro Sakata, Professor, Graduate School of Engineering; Special Advisor to the President, Institute of Engineering Innovation, School of Engineering, the University of Tokyo * Organizations and titles are as of September 2020
Step 4 Identifying Materiality	CSR Committee members narrowed materiality down to five issues, which were formally finalized after Executive Committee and Board of Directors meetings in September 2020.
Step 5 Setting Company-Wide Goals and Progress Monitoring Indicators (KPIs)	(1) A task force team comprising young and mid-level employees played a central role in establishing draft of company-wide goals and KPIs for monitoring progress of materiality. (2) These were further considered in materiality subcommittees, and decided upon by the Materiality Council and disclosed.

Approach to Identifying Materiality



Five materiality identified based on social issues important to MHI Group

Business Contribution

- Provide energy solutions to enable a carbon neutral world
- Transform society through AI and digitalization
- Build a safer and more secure world

Foundation to Support Business

- Promote diversity and improve employee engagement
- Enhance corporate governance

Company-Wide Goals and KPIs (Step 5 of identifying process)

Step 5 of the materiality determination process involves setting company-wide goals and KPIs. This step was performed mainly by a task force comprising young and mid-level employees who will shoulder MHI Group's future. In May 2021, five anchor members of the task force met with outside directors and discussed the goals and metrics.

Whereas many companies set such quantitative management goals and metrics on a top-down basis, the process at MHI was centered on anchor members of the task force. At the meeting, outside directors in attendance said that the discussion of goals and metrics in the context of the connection between social issues and MHI Group's value creation was an excellent experience for the Group and task force members.

The comment on the need for continued proactive discussion will be respected going forward, and we will continue to foster lively discussion.

►For more details on materiality, please visit our website at:
https://www.mhi.com/sustainability/management/materiality.html

Sustainability

Materiality at MHI Group - Company-Wide Goals and Progress Monitoring Indicators (KPI)

Materiality (Officer in Charge)	Company-wide goals	Progress Monitoring Indicator (KPI)
Provide energy solutions to enable a carbon neutral world ▶ CSO and Senior General Manager, Growth Strategy Office	Reduce the CO_2 emissions of MHI Group. Achieve Net Zero CO_2 emissions from its operation by 2040 (Scopes 1 and 2)	Reduce total CO_2 emissions from business activities (Scopes 1 and 2) by 50% by 2030 (compared to 2014 levels), and achieve Net Zero by 2040.
	Contribution to society throughout the value chain by 2040. Achieve Net Zero CO_2 emissions from its entire value chain by 2040 (Scope 3 + reduction through CCUS)	Reduce CO_2 emissions across the entire value chain (Scope 3 + CCUS contribution for CO_2 reduction) by 50% by 2030 (compared to 2019 levels) and achieve Net Zero by 2040.
		Develop products and services that contribute to decarbonization of the energy supply by 2040 (Energy Transition)
		Develop products and services that contribute to conservation, decarbonization, and automation of the energy use by 2040 (Smart Infrastructures)
		Develop and prove new products and services that contribute to the carbon cycle
Transform society through AI and digitalization ▶ Senior General Manager, Growth Strategy Office	Expand lineup of useful and sustainable AI/digital products meeting needs of customers and users	Steadily increase the number of newly developed advanced AI and digital solutions (services, products, R&D) that solve customer issues
	Contribute to a sustainable society through future-oriented energy management strategies that use AI and digitalization to appropriately and efficiently manage power supply and demand	Propose optimal energy infrastructures to customers according to the characteristics of the region
		Increase the number of products linked to future-oriented energy management systems
	Improve our working environment to produce creative products	Improve employees' awareness of creative time and environments
Build a safer and more secure world ▶ CTO	Boost the resilience of products, businesses, and infrastructure	Carry out various disaster impact assessments, and promote the development and practical application of resilient designs and technologies
	Implement fully-automated and labor-saving measures	Promote the development and practical application of technologies that enable the remote operation and automatic inspection of products, businesses and infrastructure
	Continuously strengthen cybersecurity measures for all MHI products	Promote the development and practical application of cybersecurity technologies
Promote diversity and improve employee engagement ▶ In charge of HR	Project new value through participation of diverse human resources	Increase the ratio of women on the Board of Directors to at least 30% by 2030
		Double the ratio of women in management positions by 2030 (compared to FY2021)
		In accordance with the MHI Group Human Rights Policy, raise awareness of diversity among Group employees through education and other efforts
	Ensure safe and comfortable workplaces	Reduce the number of serious accidents to zero
		Maintain a labor (work absence) accident frequency at a rate that is equal to or lower than the industry average
	Improve our environment that maximizes employee performance, and develop human resources who are healthy, energetic and able to contribute to society	Raise the employee awareness survey's "engagement" score above the global average by FY2030
Enhance corporate governance ▶ GC	Further enhance deliberations by the Board of Directors	Maintain the ratio of Independent Outside Directors on the Board of Directors at 50% or more
		Assess the effectiveness of the Board of Directors annually to ensure and improve it
	Promote legal compliance and honest and fair business practices	Maintain the number of serious laws/regulation violations at zero
		Continue activities that promote an open organizational culture
	Further promote responsible (CSR) procurement in the global supply chain	Promote sustainability and CSR procurement activities with partners to build a sustainable supply chain
		Offer continuous educative information to suppliers/business partners in order to establish and maintain sustainable supply chain
	Create opportunities to explain non-financial information	Conduct ESG briefings to investors at least once a year

*1 CO2NNEX: A digital platform aimed at transformation into a new society maximizing the environmental contribution value of CO_2.
*2 TOMONI®: An intelligent digital solution that makes energy systems smarter by using advanced control technology, artificial intelligence (AI), machine learning and multi-layered cybersecurity.
*3 QoEn®: A proprietary MHI indicator that quantitatively shows the ideal direction for high-quality energy infrastructure based on social, economic and environmental aspects.

	Scope	Progress and Topics in FY2021
	MHI Group (Global)	・In October 2021, we announced MISSION NET ZERO, our goal to make MHI Group carbon neutral by 2040, declaring that we will contribute to the reduction of society's CO_2 emissions with our products, technologies, and services. ・Started preparations to realize a Carbon Neutral Factory, which will achieve zero CO_2 emissions by the end of FY2023 by supplying all of the electricity required by our Mihara Machinery Works (Mihara City, Hiroshima Prefecture) with non-fossil fuel energy.
	MHI Group (Global)	・Started monitoring CO_2 emissions from products delivered to customers and CO_2 avoided emissions (by SBU each year).
	MHI Group (Global)	・Started verification test on the separation, capture, and utilization of CO_2 from a waste incineration facility in Yokohama in collaboration with Yokohama City and Tokyo Gas Co., Ltd. ・Concluded a construction agreement for the world's first demonstration test ship for the marine transport of liquefied CO_2 supporting CCUS. ・Implemented measures to improve safety in compliance with new regulatory standards at The Kansai Electric Power Co., Inc.'s Mihama Nuclear Power Plant Unit 3, helping the power company to obtain a grant of extension allowing it to operate more than 40 years (the previous legal limit) for the first time in Japan. ・Executed a memorandum of understanding for cooperation on fast reactor development with U.S.-based TerraPower.
	MHI Group (Global)	・In a test of a hydrogen-based fine-ore reduction (HYFOR) pilot plant, 100% hydrogen was used as a reducing agent, resulting in the achievement of nearly zero CO_2 emissions. ・Jointly worked with Toho Gas Co.,Ltd. on a trial of mixed-fuel combustion with city gas (LNG) and hydrogen using a commercial gas engine for a cogeneration system, and achieved rated operation with a hydrogen mixture ratio of 35% by volume for the first time in Japan. ・Started a verification test of CO_2 capture at a cement plant operated by Tokuyama Corporation in Shunan City, Yamaguchi Prefecture. ・Started work on digital platform CO_2NNEX™*1 in cooperation with IBM Japan.
	MHI Group (Global)	・Started development of biowaste utilization (hydrolysis) and recycle decommissioning of large structures.
	MHI Group (Global)	・We are pursuing the digital transformation (DX) of products and services through the application of AI and digital solutions such as TOMONI®*2. We will also perform energy optimization using TOMONI® at Takasago Hydrogen Park in our Takasago machinery works, the world's first facility for integrated verification of technologies ranging from hydrogen production to power generation, with the aim of commercializing hydrogen gas turbines in 2025.
	MHI Group (Global)	・Started joint research with a financial institution to verify the applicability of QoEn®*3, an indicator quantitatively showing the ideal direction for real-world projects based on social, economic, and environmental factors.
		・Started development of a core energy management system (EMS)*4 with expanded control functions for heating equipment for use in carbon neutral EMS products.
	MHI Group (Global)	・The following were implemented in order to make MHI a more creative workplace: •Workplace : Launched an internal community site and advertised it within the Company. •Education : Improved employee education by implementing DX literacy courses and online seminars on the themes of service business expansion and DX implementation. •Productivity: Started providing data visualization tools within the Company with the aim of increasing productivity with digital technologies.
	MHI Group (Global)	・Developed natural disaster prevention simulation technology able to predict infrastructure damage and suggest measures to mitigate damage in natural disasters and large-scale accidents. ・Commercialized air purifying equipment for large spaces using electrostatic precipitation and electrical discharge-based ozone generation technologies used in power plants.
	MHI Group (Global)	・Confirmed the basic functionality of a prototype next-generation unmanned forklift. (ΣSynX: Sigma SynX*5) ・Developed the MaiDAS®, AI-based remote monitoring and operational support system for supporting sustainability of waste incinerator plants.
	MHI Group (Global)	・Developed a cybersecurity monitoring and maintenance service. ・Expanded research and development investment in cybersecurity technology in FY2021 by 2.5 times versus FY2020 levels and pursued the development of an industrial control system security solution.
	MHI	・Implemented planned guidance and training program for potential future executive candidates, both male and female. ・Expanded various employee support systems with consideration to such factors as childcare and caregiving in order to allow employees to continue their careers. Working to build a workplace environment and organizational culture allowing for a balance of professional and private life.
	MHI Group (Global)	
	MHI Group (Global)	・Started development of educational materials on the topic of respecting human rights in MHI Group.
	MHI Group (Japan)	・Implemented measures tailored to risk profiles in each workplace, and achieved zero accidents resulting in fatality or serious injury.
		・The rate of lost-worktime injuries was slightly higher than the industry average. ・Conducted early detection and root cause analysis based on data from past accidents, and studied and developed countermeasures across divisions.
	MHI Group (Global)	・Created guidelines based on the results of an employee survey, updated dedicated websites, implemented pulse survey tools*6 to improve Group employee engagement and organizational strength.
	MHI	・Maintained the percentage of independent outside directors at 50% (6/12), and worked to speed up decision-making processes and strengthen oversight functions.
		・Engaged in the following initiatives to evaluate the effectiveness of the Board of Directors. •Conducted questionnaires and third party interviews of all members of the board. •Discussed the results of these evaluations in meetings of independent outside directors and Board of Directors meetings. •Established policies based on the results of FY2021 effectiveness evaluation in accordance with discussions and resolutions of the Board of Directors.
	MHI Group (Global)	・There were no serious legal violations or misconduct. ・Case studies related to compliance were published monthly to raise awareness within the Company. ・Compliance information tailored to each region was shared with Group companies outside Japan in an effort to prevent compliance issues. ・10 group companies newly set up hotlines for reporting on compliance issues.
		・Implemented the following compliance training for employees both within and outside Japan. •Japan : e-learning, discussion-based training, graded training •Outside Japan : e-learning
	MHI Group (Global)	・Implemented a CSR questionnaire for partner companies in Japan with a certain amount of regular orders to MHI, and obtained their agreement to the MHI Group Supply Chain CSR Promotion Guidelines.
		・Delivered educational materials on CSR procurement when sending the periodical CSR questionnaire for partner companies, and confirmed widespread understanding within each company. ・Performed CSR procurement education at business briefings and meetings with partners.
	MHI Group (Global)	・Held briefing on Carbon Neutrality, and explained our aim to contribute to the reduction of CO_2 emissions through our products, technologies and services. •CCUS Briefing (held in October 2021) •Carbon Neutrality Briefing (held in March 2022)

*4 EMS (energy management system): A system using telecommunications technology for real-time tracking, management and optimization of usage of energy (electricity, gas, etc.) in homes, office buildings and factories in order to reduce CO_2 emissions.
*5 ΣSynX (Sigma SynX): A collection of digital technology for realizing optimal operation through intelligent mechanical systems on MHI's standard platform harmonizing and synchronizing a variety of mechanical systems.
*6 Pulse survey tools: A means of resolving issues in a way suited to the workplace earlier by conducting surveys using simple questions at a higher frequency than employee surveys.

Responses to Risks and Opportunities Caused by Climate Change (Disclosure in Accordance with TCFD Recommendations)

MHI Group has endorsed the Task Force on Climate-Related Financial Disclosures' (TCFD) recommendations and discloses climate-related information in accordance with the TCFD recommendations.

Governance

One of the important issues ("materiality") identified by MHI Group is to "provide energy solutions to enable a carbon neutral world."

To address materiality, the Materiality Council chaired by the President and CEO meets twice a year to monitor business activities aimed at achieving materiality targets and to direct business divisions to take appropriate actions. Furthermore, our Sustainability Committee, which is chaired by the Chief Strategy Officer (CSO), generally meets twice a year to address sustainability issues and to further strengthen ESG initiatives. In FY2021, the Sustainability Committee established a task force for disclosure in accordance with TCFD recommendations, and the Committee monitored the progress of efforts.

The committee also reports to the Board of Directors on a regular basis on the status of the Sustainability Committee's activities, including disclosure in accordance with TCFD recommendations.

Strategies (Scenario Analysis)

Climate Scenarios

We have developed the following two climate change scenarios and assessed their future impact on each business in 2030.

■ Decarbonization Scenario

A "scenario to promote decarbonization through stricter climate change policies," which aims to achieve economic growth while limiting the global average temperature rise to a maximum of 1.5°C above pre-industrial levels in the year 2100.

■ Fossil Fuel Dependency Scenario

A "scenario in which climate change policies are not made stricter and the dependence on fossil fuels proceeds," which assumes a global average temperature increase of 4.0°C above pre-industrial levels in the year 2100.

Risks and Opportunities under the Hypothetical Climate Scenarios

As a transition risk shared by the Group, the Decarbonization Scenario assumes that regulations such as carbon taxes will be escalated, and the cost of carbon emissions will rise significantly. However, we believe that there are numerous business opportunities to be had by leveraging the strengths of our emission reduction-supporting products and technologies.

The Fossil Fuel Dependency Scenario, on the other hand, focuses on the physical risks associated with climate change. In terms of opportunities, as it is difficult to imagine that future regulations will be eased in developed countries that are already promoting various environmental regulations, we can assume that business opportunities will arise by offering the benefits of our emission reduction technologies.

Strategies for the Risks and Opportunities (Scenario Analysis)

We have conducted an examination of the risks and opportunities associated with the two climate scenarios described above in terms of what should be addressed as a whole Group and what should be incorporated into the strategies of each individual business. We ran scenario analyses on the Energy Systems domain including Nuclear Energy Systems segment and the Logistics, Thermal & Drive Systems domain which are the divisions typically responsible for the growth strategies of Energy Transition and Smart Infrastructure and have relatively large operating scales.

We will continue to broaden and refine the scope of our risk and opportunity analysis as appropriate to changes in the business environment.

Decarbonization Scenario

Common Risks Across the Group (Transition Risks) Decarbonization Scenario – Carbon pricing	
Risks	•Increased cost burden due to escalated carbon pricing, including carbon tax. Particularly concerning is the tightening of regulations in Japan, which accounts for over 70% of our bases' emissions.
Measures	•Shift to carbon neutral manufacturing ►See page 34 for details. •Consider incorporating technologies such as high-temperature heat pumps, hydrogen power generation equipment, and CCUS in our manufacturing facilities.

Decarbonization Scenario
Fossil Fuel Dependency Scenario

Common Risks Across the Group (Physical Risks) Both Scenarios – Natural disasters	
Risks	•Damage to the factories or supplied plants of our group or partners. Especially damage to properties in Japan, given that around 90% of disasters in the last 5 years have been in Japan (typhoons and torrential rain).
Measures	•Regularly review the BCP (Business Continuity Plan) and conduct training for employees and relevant persons. •Hedge risks with damage insurance. •Implementation of measures to counter risks identified in risk assessments at all Japan plants.

Decarbonization Scenario

Business Risks (Transition Risks) Decarbonization Scenario (Scope: Energy Systems Domain and Nuclear Energy Systems Segment)	
Risks	•Delays in the establishment of supply chains for hydrogen and ammonia as cleaner energy sources to replace or supplement fossil fuels, and consequently, delays in the launch of new markets. •As a result of delays in launching CCUS markets, a decrease in after-sales service due to the decommissioning of existing thermal power plants that would have been used. •Rapid decline of demand for large-scale centralized power supplies due to more than expected promotion of renewable energy innovation.
Measures • Opportunities	•Accelerate the commercialization of hydrogen gas turbines through verification of all stages of the process from hydrogen production to power generation, an example being the construction of Takasago Hydrogen Park. ►See page 35 for details. •Apply CCUS to existing coal-fired power plants •Develop clean fuels such as ammonia/biomass-fired boilers, etc. •Support the restarting of nuclear power plants which are large-scale carbon-free power sources, the installation of severe accident management facilities, and the establishment of nuclear fuel cycles. •Develop and commercialize next-generation light water reactors with enhanced safety (mid-2030s). •Develop and commercialize small light water reactors as distributed power sources, fast reactors that contribute to resource efficiency and the reduction of radioactive waste toxicity, and high-temperature gas reactors that meet the emission reduction/hydrogen needs of industry (after 2040).

Decarbonization Scenario

Business Risks (Transition Risks) Decarbonization Scenario (Scope: Logistics, Thermal & Drive Systems Domain)	
Risks	•The commoditization of products due to electrification could result in a decline in the superiority of our engineering and manufacturing technologies. •Impact from supply shortages of semiconductors, batteries, and other components due to rapid electrification.
Measures • Opportunities	•Propose solutions that take advantage of our collective knowledge. •Accelerate the development of not only conventional battery-powered vehicles, but also fuel-cell-powered forklifts and port logistics equipment.

Metrics and Targets

In October 2021, MHI Group planned and announced two new targets aimed at achieving a carbon neutral society.

The first target is to reduce the Group's CO_2 emissions (Scopes 1 and 2*[1]) to Net Zero by 2040. As an interim target, we also plan to reduce emissions by 50% by 2030 (versus 2014 levels). This represents a reduction of CO_2 emissions from production activities at the Group's plants and other facilities. Through such efforts, we are committed to achieving carbon neutral plants by applying our developed technologies and promoting further energy saving.

The second target is to achieve Net Zero CO_2 emissions across the entire value chain by 2040. As an interim target, we also plan to reduce emissions by 50% by 2030 (versus 2019 levels). This is primarily based on our customers reducing CO_2 emissions (Scope 3*[2]), through the use of our Group's products, as well as reduction contributions from the widespread use of CCUS.

The Group possesses a broad selection of technologies and solutions in all business areas, including the decarbonization of customers' existing equipment, and will continue contributing to the reduction of global CO_2 emissions by offering a variety of solutions.

*1 Scopes 1 and 2 of the GHG Protocol, an international standard for the accounting and reporting of greenhouse gas (GHG) emissions.
*2 Scope 3 of the GHG Protocol, an international standard for the accounting and reporting of greenhouse gas (GHG) emissions.

►For details, see the special feature "MHI Group's Carbon Neutrality Initiatives" on page 30.

Risk Management System

Transition risks and physical risks are factors we consider when developing a management plan in all business divisions. The Sustainability Committee verifies the findings of analyses on the most prominent items among the aforementioned climate change risks and opportunities.

The activities of the Sustainability Committee, including the aforementioned, are also regularly reported to the Board of Directors.

►For more details about disclosure in accordance with TCFD recommendations, please visit our website at:
https://www.mhi.com/sustainability/environment/climate_tcfd.html

Building HR Platform

We aim to build an environment enabling every employee to work autonomously for the sustained development of MHI Group

The environment surrounding MHI Group's business is changing at a more accelerated pace due to factors such as diversification of values and increasing complexity of social issues. For MHI Group to achieve sustained development in any environment, each of its employees must think and act in the first person in response to customers' needs. The HR division is developing human resources able to do this, fostering a corporate culture that fully empowers human resources, and earnestly engaged in transformation to work styles that further draw out the independence and vitality of each person.

Development of Talent Pool for Succession

We are systematically endeavoring to foster next-generation executives from a medium- to long-term perspective to fulfill MHI Group's Mission of integrating cutting-edge technology into expertise built up over many years to provide solutions to some of the world's most pressing issues and provide better lives.

We select candidates with talent to play leadership roles in MHI Group's management throughout the Group at an early stage in their careers and intensively develop their capabilities. We have partnered with business schools in locations worldwide for the training program, which not only enables the acquisition of management knowledge and skills, but also instills a leadership mentality in them. Furthermore, by assigning selected talent to multiple key management positions in Japan and overseas, we are earnestly proceeding to provide them with a wide range of business experience. In future, we will endeavor to steadily develop the next generation of human resources on a global level to enhance corporate value by working to further discover talent by lowering the target age and introducing an open application system, while proceeding to further diversify and expand the pool of managerial talent.

MHI Leadership Program

MHI Group Talent Development Guidelines

The MHI Group Mission states:
To integrate cutting-edge technology into expertise built up over many years to provide solutions to some of the world's most pressing issues and provide better lives.
To achieve this, MHI Group will support the skill growth and career development of each Group employee, and provide an environment enabling everyone to learn and grow.

Values Cherished by MHI Group

We share three values for the achievement of the MHI Group Mission, and each person in the Group acts upon these.

Autonomy
- Each person is aware of their role, engages in their work in the first person, thinks for themselves and finishes the job with the responsibility of a professional.
- We proactively establish issues, and think through and act to resolve them.

Collaboration
- We collaborate with each other with a forward-looking view, and contribute to society through further development of the technology we have cultivated over our long history.
- We respect and assist each other to produce results as a team.

Challenge
- We seek the essence of issues without being constrained by precedent, and continue to embrace challenges to the end without giving up.
- We approach our surroundings to create chances and continue to grow.

Approach to Human Resource Development

The growth of each member of the Group is positioned as the source of sustained development of MHI Group, and we are engaged in systematic and sustained human resource development from a medium- to long-term perspective.
We identify growth issues through dialogue, set goals, and provide support for growth and career development through experience and feedback in day-to-day operations (on-the-job training) and training and self-improvement (off-the-job training) to supplement this.

Utilize growth opportunities, learn by themselves and actively embrace challenges to realize their own growth.

Role of Employees

Clarify the desired human resources, and actively provide opportunities for growth to employees who aspire for their own growth.

Role of the Company

Position human resource development as one of the most important operations, have discussions with each employee, set goals, and develop subordinates by providing opportunities for on-the-job training and off-the-job training and feedback.
Also unceasingly make own efforts, humbly aspiring to grow.

Role of Managers

Development of a Corporate Culture Fully Leveraging Each Employee

MHI Group has positioned employee engagement as a key indicator based on the view that "increasing employee engagement leads to invigoration of the organization," and periodically conducts engagement surveys for the entire MHI Group.

Based on the results of this survey, each division makes a variety of improvements and enhancements, and the HR division provides benchmarks, cross-organization implementation and a variety of tools to address for Groupwide issues. One example is the introduction of a pulse survey to improve and enhance the workplace environment through the promotion of dialogue between managers and employees. The pulse survey asks simple questions at a high frequency to gain a timely understanding and clarify the sense of issues held by employees, and it is being introduced globally.

We will continue to aim to achieve higher productivity by enhancing psychological safety and further stimulating communication.

Company event for cultural reform

Building HR Platform

Promotion of Diversity and Inclusion

MHI Group aims to contribute to the resolution of social issues and achieve sustained growth through business activities. MHI Group employs tens of thousands of individuals from different backgrounds, nationalities and cultures. This diversity of talent and perspectives is one of our greatest assets. Having diverse backgrounds, we work together and promote our business under a single common corporate culture.

To further promote active participation by women, we have previously engaged in four measures: (1) expansion of number of female employees; (2) prevention of career interruptions; (3) systematic development of female managers; and (4) cultivation of corporate culture. We have set new goals to "increase the ratio of women on the Board of Directors to at least 30% by 2030 and double the ratio of women in management positions by 2030 (compared to FY2021)" in Materiality of MHI Group, and are proceeding to create systems to achieve these goals.

Furthermore, we are earnestly working to employ individuals with accessibility needs throughout Japan by actively creating workplace environments and expanding occupations where even people with challenges can comfortably play active roles. We will continue to establish and expand workplace environments where individuals with accessibility needs can work to their hearts' content and give full play to their respective capabilities.

HR Tech Promotion and Digital Transformation Support

We are accelerating better visualization of data by introducing a global HR platform, and are ardently engaged in strategic support for business divisions based on more useful data such as analyzing a combination of HR data and various business data such as finance.

Furthermore, in the promotion of digital transformation of MHI Group, we are conducting practical training in areas such as AI, IoT and data analytics to develop digital talent.

Based on the perspective that further improvement of the skills of management handling decisions is vital for linking digital technology to value provided to customers, DX Literacy Training is provided to all managers.

Health and Safety Initiatives

MHI Group's basic policy on occupational health and safety is "At MHI Group, safety is the number one priority. We will do everything in our power to protect lives." We have established the MHI Group Health and Safety Policies reflecting the code of conduct for employees to realize this policy, and aim to realize environments in which work can be conducted in safety and with peace of mind in business sites spanning the entire world.

To enable employees to directly look at past occupational accidents and prevent their recurrence, we have established a number of facilities to raise awareness such as the Safety Transmission Center at the Nagasaki Shipyard & Machinery Works. In addition, by creating an environment in which everyone possesses and can execute Stop Work Authority (SWA: the authority to stop work and take remedial action regardless of position or department in the event unsafe behavior or equipment is found), we are continuing to endeavor to develop a safety culture in which safety is the number one priority. As a result, MHI Group achieved zero accidents resulting in death or serious injury in FY2021.

Furthermore, with regard to health, based on the President's Health and Productivity Management Declaration stating "Health and productivity management must provide all employees to realize motivation to their work and must care about physical and mental health," we are working with the MHI Health Insurance Society, and have set specific KPI targets in the FY2020-22 MHI Group Action 5 Health and Happiness health-management plan and are conducting Groupwide activities to achieve them. By promoting health and productivity management and optimal approaches to managing health in the context of new normal lifestyles, we are striving to develop human resources capable of contributing to a healthy society teeming with vitality.

Nagasaki Shipyard & Machinery Works: Safety Transmission Center Accident Case Studies Zone

Health and Productivity Management Declaration poster

Financial and Non-Financial Highlights

INPUT | OUTPUT

As of March 31, 2021

Total assets
¥4,810.7 billion

Total equity
¥1,439.3 billion

Interest-bearing debt
¥905.6 billion

Number of employees
79,974 people

Number of patents held
25,968

(YoY)

Research and development expenses
¥113.6 billion 9.6% DOWN

Capital expenditures
¥122.8 billion 2.2% DOWN

Total energy consumption*1
1,709 GWh 4.7% DOWN

Number of overseas employees
29,032 people 1.3% DOWN

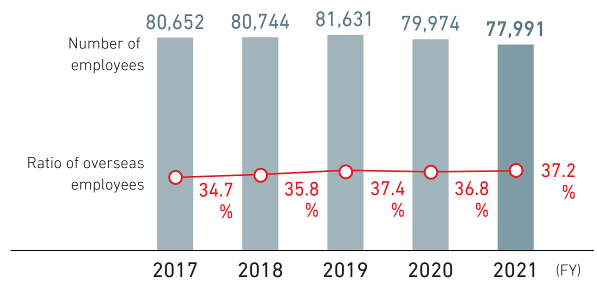
Orders received
¥4,067.7 billion 21.9% UP

Revenue
¥3,860.2 billion 4.3% UP

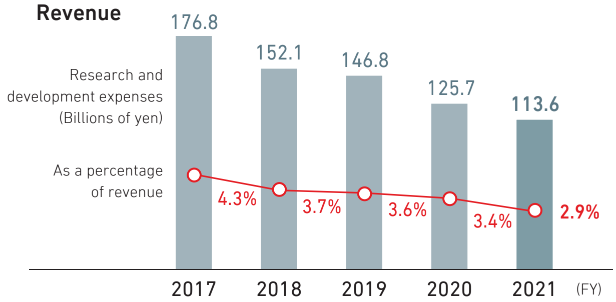
Profit from business activities
¥160.2 billion 196.3% UP

MHI Group has adopted the International Financial Reporting Standards (IFRS) from FY2018. Actual financial numbers for FY2017 are also shown here in accordance with IFRS.

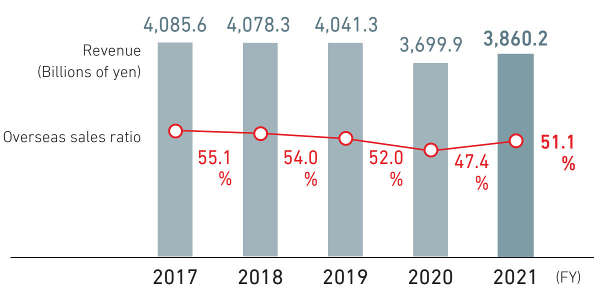
Number of Employees/Ratio of Overseas Employees



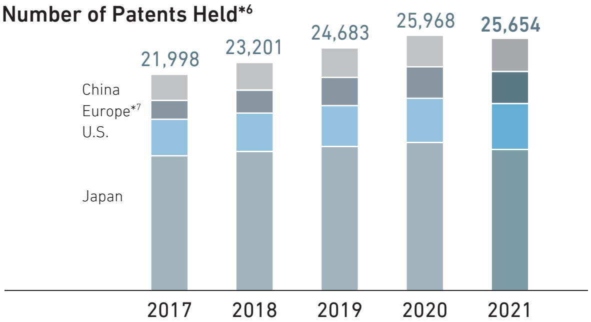
Research and Development Expenses/As a Percentage of Revenue



Revenue/Overseas Sales Ratio



Number of Patents Held*6



*1 Data are for MHI on a non-consolidated basis and 158 Group companies.
*2 Data are for MHI on a non-consolidated basis and 156 Group companies.
*3 Data are for MHI on a non-consolidated basis and 157 Group companies.
*4 Data are for MHI on a non-consolidated basis and 163 Group companies.
*5 Data are for MHI on a non-consolidated basis and 152 Group companies.
*6 Data are for MHI and major consolidated subsidiaries.
*7 Data are for European regional patents.
*8 Data are for MHI on a non-consolidated basis and 23 Group companies.
*9 Data are for MHI on a non-consolidated basis and 44 Group companies.
*10 Data are for MHI on a non-consolidated basis and 56 Group companies.

OUTCOME

EBITDA
¥292.4 billion — 51.3% UP

EBITDA margin
7.6% — 2.4 pt UP

Greenhouse gas (CO_2) emissions*1
516 kilotons — 6.2% DOWN

Profit attributable to owners of the parent
¥113.5 billion — 179.4% UP

Free cash flows
¥301.8 billion — ¥579.0 billion UP

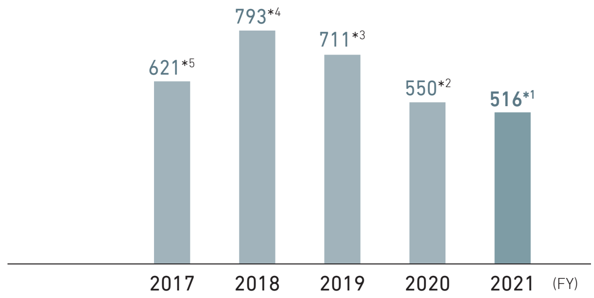
ROE
7.7% — 4.6 pt UP

Dividend payments (for FY2021)
¥40.3 billion — 59.3% UP

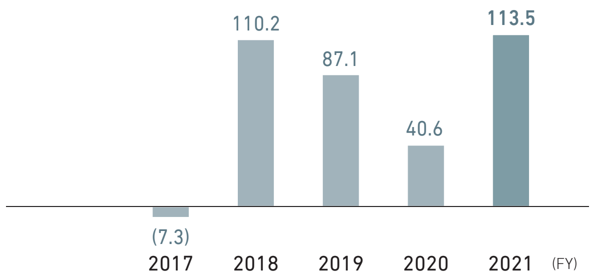
As of March 31, 2022

		(YoY)
Total assets	¥5,116.3 billion	6.3% UP
Total equity	¥1,662.5 billion	15.5% UP
Interest-bearing debt	¥734.9 billion	18.8% DOWN
Number of employees	77,991 people	2.5% DOWN
Number of patents held	25,654	1.2% UP

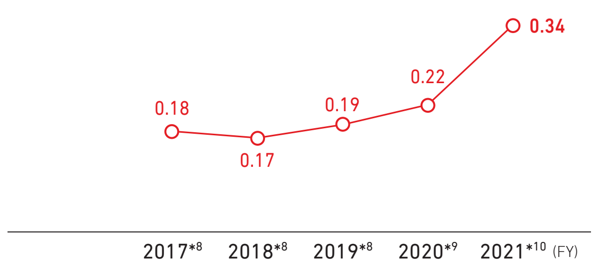
Greenhouse Gas (CO_2) Emissions (Kilotons)



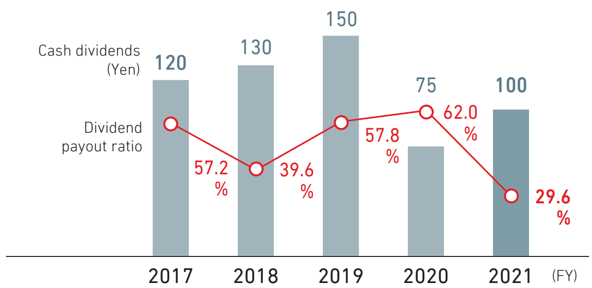
Profit Attributable to Owners of the Parent (Billions of yen)



Industrial Accident Frequency Rate

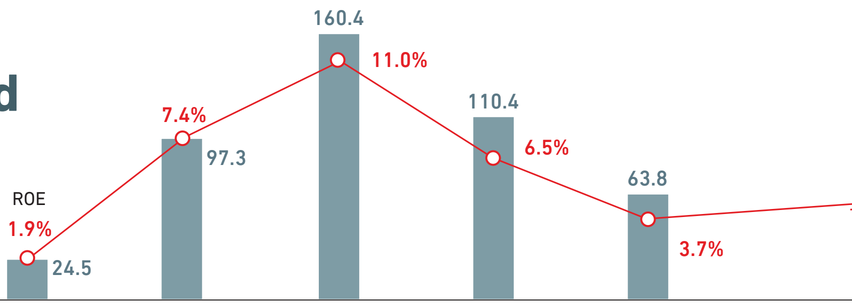


Cash Dividends per Share/Dividend Payout Ratio



Eleven-Year Financial and Non-Financial Data

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



(Years ended March 31 or as of March 31) Billions of yen	2012/3	2013/3	2014/3	2015/3	2016/3
	2010 Medium-Term Business Plan	2012 Medium-Term Business Plan			2015 Medium-Term Business Plan
Orders received	¥ 3,188.8	¥ 3,032.2	¥ 3,420.0	¥ 4,699.1	¥ 4,485.5
Revenue	2,820.9	2,817.8	3,349.5	3,992.1	4,046.8
Profit from business activities	111.9	163.5	206.1	296.1	309.5
Profit before income taxes	69.8	155.4	214.4	232.6	132.6
Profit attributable to owners of the parent	24.5	97.3	160.4	110.4	63.8
Research and development expenses	¥ 121.4	¥ 120.0	¥ 138.5	¥ 145.5	¥ 150.6
Capital expenditures	120.7	118.8	148.6	156.1	175.5
Depreciation & Amortization	126.2	119.4	134.9	157.0	158.7
Total assets	¥ 3,963.9	¥ 3,935.1	¥ 4,886.0	¥ 5,520.3	¥ 5,500.7
Total equity	1,306.3	1,430.2	1,774.2	2,120.0	1,999.7
Interest-bearing debt	1,157.1	1,031.2	957.4	975.5	1,052.1
Cash flows from operating activities	¥ 200.3	¥ 288.3	¥ 296.2	¥ 212.8	¥ 270.0
Cash flows from investing activities	(47.0)	(76.7)	(151.5)	(174.1)	(262.4)
Free cash flows	153.3	211.6	144.6	38.6	7.5
Cash flows from financing activities	(183.6)	(154.2)	(136.6)	(45.8)	(23.1)
Per share information of common stock*2 Yen					
Basic earnings (losses) per share	¥ 73.15	¥ 290.09	¥ 478.13	¥ 329.04	¥ 190.17
Total equity	3,740.84	4,109.00	4,599.86	5,306.47	5,003.00
Cash dividends	60.00	80.00	80.00	110.00	120.00
Ratios					
Overseas sales ratio	41.9%	44.8%	49.3%	53.4%	55.4%
Ratio of profit from business activities	4.0%	5.8%	6.2%	7.4%	7.6%
Return on equity*3	1.9%	7.4%	11.0%	6.5%	3.7%
Return on assets*4	0.6%	2.5%	3.6%	2.1%	1.2%
Current ratio	153.9%	155.0%	139.2%	146.2%	135.7%
D/E ratio*5	89%	72%	54%	46%	53%
Equity ratio*6	31.7%	35.0%	31.6%	32.3%	30.5%
Dividend payout ratio*7	82.0%	27.6%	16.7%	33.4%	63.1%

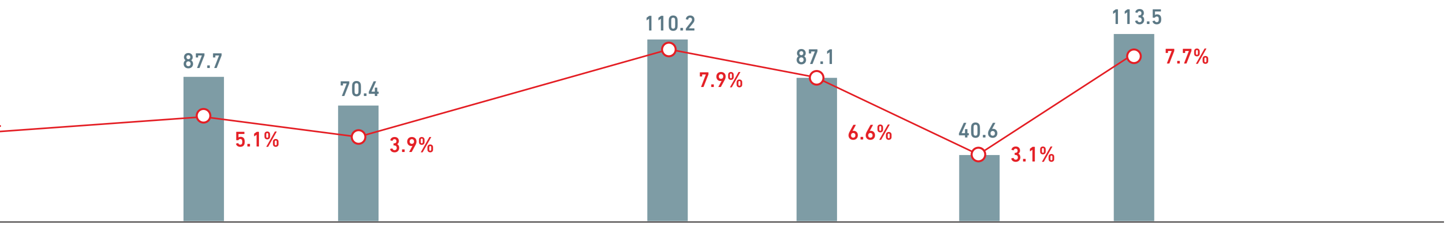
MHI Group has adopted the International Financial Reporting Standards (IFRS) from fiscal 2018. Actual financial numbers for fiscal 2017 are also shown here in accordance with IFRS. The IFRS categories under Japanese GAAP are as follows: revenue corresponds to net sales; profit from business activities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

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

*1 U.S. dollar amounts in this report are translated from yen, for convenience only, at the rate of ¥122.39 = U.S.$1, the exchange rate prevailing at March 31, 2022.
*2 The Company conducted a 1-for-10 reverse stock split on common shares on October 1, 2017. The interim dividend for fiscal 2017 and data for fiscal 2016 and earlier are calculated as if the reverse stock split had been conducted at the beginning of the respective fiscal years. Calculations of per-share data are based on these assumptions.
*3 Return on equity = profit attributable to owners of the parent / (total equity–share subscription rights–non-controlling interests)
*4 Return on assets = profit attributable to owners of the parent / total assets
*5 D/E ratio = interest-bearing debt / total equity
*6 Equity ratio = (total equity–share subscription rights–non-controlling interests) / total assets
*7 Dividend payout ratio = dividends / profit attributable to owners of the parent
*8 People in positions of section manager or higher as of April 1 of each year. In principle, data are for MHI on a non-consolidated basis and Mitsubishi Hitachi Power Systems, Inc. (Company name was changed to Mitsubishi Power Ltd. in September 2020).
*9 Data for FY2017 to FY2019 are for MHI on a non-consolidated basis and 23 Group companies.
*10 Data are for MHI on a non-consolidated basis and 44 Group companies.
*11 Data are for MHI on a non-consolidated basis and 56 Group companies.
*12 Data are for MHI on a non-consolidated basis and 137 Group companies.
*13 Data are for MHI on a non-consolidated basis and 152 Group companies.
*14 Data are for MHI on a non-consolidated basis and 163 Group companies.
*15 Data are for MHI on a non-consolidated basis and 157 Group companies.
*16 Data are for MHI on a non-consolidated basis and 156 Group companies.
*17 Data are for MHI on a non-consolidated basis and 158 Group companies.

Non-financial indexes

Number of employees
Number of overseas employees
Number of female managers*8
Industrial accident frequency rate*9
Total energy consumption (GWh)
Greenhouse gas (CO_2) emissions (Kilotons)
Scope 1 (Kilotons)
Scope 2 (Kilotons)
Social contribution expenses (Billions of yen)



	2017/3	← JGAAP 2018/3	IFRS → 2018/3	2019/3	2020/3	2021/3	2022/3	2022/3
				2018 Medium-Term Business Plan		2021 Medium-Term Business Plan		Millions of U.S. dollars*1
	¥ 4,275.6	¥ 3,875.7	¥ 3,868.7	¥ 3,853.4	¥ 4,168.6	¥ 3,336.3	¥ 4,067.7	$33,235
	3,914.0	4,110.8	4,085.6	4,078.3	4,041.3	3,699.9	3,860.2	31,540
	150.5	126.5	58.1	200.5	(29.5)	54.0	160.2	1,309
	169.7	128.0	39.2	195.0	(32.6)	49.3	173.6	1,419
	87.7	70.4	(7.3)	110.2	87.1	40.6	113.5	927
	¥ 160.7	¥ 176.8	¥ 176.8	¥ 152.1	¥ 146.8	¥ 125.7	¥ 113.6	$ 928
	204.4	158.4	158.4	147.3	161.5	125.5	122.8	1,003
	172.7	176.1	176.1	135.6	144.6	139.2	132.1	1,079
	¥ 5,481.9	¥ 5,487.6	¥ 5,248.7	¥ 5,240.3	¥ 4,985.6	¥ 4,810.7	¥ 5,116.3	$41,803
	2,104.1	2,164.4	1,693.8	1,728.6	1,290.0	1,439.3	1,662.5	13,583
	925.5	813.1	813.1	665.1	598.2	905.6	734.9	6,004
	¥ 95.9	¥ 345.1	¥ 405.7	¥ 420.3	¥ 452.5	¥ (94.9)	¥ 285.5	$ 2,333
	8.7	(137.1)	(238.1)	(161.8)	(239.5)	(182.2)	16.3	133
	104.6	207.9	167.5	258.4	212.9	(277.1)	301.8	2,466
	(162.0)	(152.1)	(112.3)	(271.0)	(204.4)	221.7	(255.7)	(2,089)
								U.S. dollars
	¥ 261.24	¥ 209.82	¥ (21.79)	¥ 328.39	¥ 259.39	¥ 120.92	¥ 338.24	$ 2.764
	5,299.14	5,431.02	4,153.46	4,204.71	3,627.73	4,064.73	4,696.42	38.372
	120.00	120.00	120.00	130.00	150.00	75.00	100.00	0.817
	53.5%	54.2%	55.1%	54.0%	52.0%	47.4%	51.1%	
	3.8%	3.1%	1.4%	4.6%	(0.7)%	1.5%	4.2%	
	5.1%	3.9%	(0.5)%	7.9%	6.6%	3.1%	7.7%	
	1.6%	1.3%	(0.1)%	2.1%	1.7%	0.8%	2.3%	
	139.4%	141.0%	122.2%	121.6%	101.1%	104.7%	113.0%	
	44%	38%	48%	38%	46%	63%	44%	
	32.5%	33.3%	26.6%	26.9%	24.4%	28.4%	30.8%	
	45.9%	57.2%	—	39.6%	57.8%	62.0%	29.6%	
	82,728	80,652	80,652	80,744	81,631	79,974	77,991	
	28,751	27,954	27,954	28,875	30,501	29,425	29,032	
	126	149	149	171	204	258	258	
	0.28	0.18	0.18	0.17	0.19	0.22*10	0.34*11	
	2,425*12	2,231*13	2,231*13	2,147*14	2,097*15	1,794*16	1,709*17	
	690*12	621*13	621*13	793*14	711*15	550*16	516*17	
	221*12	188*13	188*13	184*14	185*15	151*16	140*17	
	469*12	433*13	433*13	609*14	526*15	399*16	376*17	
	2.5	1.7	1.7	1.6	1.3	1.2	1.1	

Consolidated Financial Statements [IFRS]

Consolidated Statement of Financial Position

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
As of April 1, 2020 / March 31, 2021 / March 31, 2022

	Millions of yen			Thousands of U.S. dollars
ASSETS	As of April 1, 2020	As of March 31, 2021	As of March 31, 2022	As of March 31, 2022
Current assets:				
Cash and cash equivalents	¥ 281,626	¥ 245,421	¥ 314,257	$ 2,567,668
Trade and other receivables	611,976	655,181	744,466	6,082,735
Other financial assets	28,539	30,677	70,952	579,720
Contract assets	576,061	578,936	654,972	5,351,515
Inventories	726,228	713,498	798,601	6,525,051
Other current assets	206,261	230,955	219,875	1,796,511
Total current assets	2,838,493	2,454,670	2,803,126	22,903,227
Non-current assets:				
Property, plant and equipment ("PPE")	792,920	779,696	790,204	6,456,442
Goodwill	124,500	124,500	128,690	1,051,474
Intangible assets	78,908	74,722	70,400	575,210
Right-of-use assets	96,201	93,321	98,255	802,802
Investments accounted for using the equity method	177,569	182,897	212,828	1,738,932
Other financial assets	391,538	560,213	487,430	3,982,596
Deferred tax assets	382,729	378,338	352,261	2,878,184
Other non-current assets	102,827	162,365	173,144	1,414,690
Total non-current assets	2,147,196	2,356,056	2,313,214	18,900,351
Total assets	¥4,985,690	¥4,810,727	¥5,116,340	$41,803,578

LIABILITIES AND EQUITY	Millions of yen			Thousands of U.S. dollars
	As of April 1, 2020	As of March 31, 2021	As of March 31, 2022	As of March 31, 2022
Liabilities				
Current liabilities:				
Bonds, borrowings and other financial liabilities	¥769,099	¥445,147	¥ 304,651	$ 2,489,182
Trade and other payables	824,030	763,731	863,281	7,053,525
Income taxes payable	28,994	12,237	28,784	235,182
Contract liabilities	835,465	731,814	886,551	7,243,655
Provisions	199,496	207,876	203,585	1,663,412
Other current liabilities	151,657	184,453	193,865	1,583,993
Total current liabilities	2,808,742	2,345,260	2,480,720	20,268,976
Non-current liabilities:				
Bonds, borrowings and other financial liabilities	601,770	790,862	773,622	6,320,957
Deferred tax liabilities	7,318	6,597	6,217	50,796
Retirement benefit liabilities	145,890	124,432	76,824	627,698
Provisions	58,173	50,485	62,218	508,358
Other non-current liabilities	73,718	53,699	54,207	442,903
Total non-current liabilities	886,871	1,026,076	973,090	7,950,731
Total liabilities	3,695,614	3,371,337	3,453,810	28,219,707
Equity				
Share capital	265,608	265,608	265,608	2,170,177
Capital surplus	49,667	47,265	45,061	368,175
Treasury shares	(5,374)	(4,452)	(5,946)	(48,582)
Retained earnings	886,307	952,528	1,099,158	8,980,782
Other components of equity	22,133	105,393	172,728	1,411,291
Equity attributable to owners of the parent	1,218,343	1,366,342	1,576,611	12,881,861
Non-controlling interests	71,732	73,047	85,918	702,001
Total equity	1,290,076	1,439,390	1,662,529	13,583,863
Total liabilities and equity	¥4,985,690	¥4,810,727	¥5,116,340	$41,803,578

Consolidated Statement of Profit or Loss

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Revenue	¥3,699,946	¥3,860,283	$31,540,836
Cost of sales	3,116,464	3,204,371	26,181,640
Gross profit	583,482	655,911	5,359,187
Selling, general and administrative expenses	531,383	556,727	4,548,794
Share of profit of investments accounted for using the equity method	15,158	16,861	137,764
Other income*	167,698	68,972	563,542
Other expenses	180,873	24,777	202,443
Profit from business activities	54,081	160,240	1,309,257
Finance income	11,677	31,907	260,699
Finance costs	16,404	18,463	150,853
Profit before income taxes	49,355	173,684	1,419,102
Income taxes	6,153	48,029	392,425
Profit	43,202	125,654	1,026,668
Profit attributable to:			
Owners of the parent	40,639	113,541	927,698
Non-controlling interests	¥ 2,562	¥ 12,113	$ 98,970

	Yen		U.S. dollars
Earnings per share attributable to owners of the parent	2021	2022	2022
Basic earnings per share	¥120.92	¥338.24	$2.764
Diluted earnings per share	120.83	338.05	2.762

* Other income includes dividend income.
The amount of dividend income in the fiscal years ended March 31, 2021 and 2022 were 10,664 million yen and 17,286 million yen ($141,237 thousand) respectively.

Consolidated Statement of Comprehensive Income

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Profit	¥ 43,202	**¥125,654**	**$1,026,668**
Items that will not be reclassified to profit or loss:			
Net gains from financial assets measured at FVTOCI	37,943	**18,700**	**152,790**
Remeasurement of defined benefit plans	56,097	**50,140**	**409,673**
Share of other comprehensive income(loss) of entities accounted for using the equity method	(163)	**232**	**1,895**
Total	93,878	**69,074**	**564,376**
Items that may be reclassified to profit or loss:			
Cash flow hedges	(271)	**12**	**98**
Hedge cost	874	**(178)**	**(1,454)**
Exchange differences on translating foreign operations	37,962	**67,088**	**548,149**
Share of other comprehensive income of entities accounted for using the equity method	5,970	**6,889**	**56,287**
Total	44,535	**73,812**	**603,088**
Total other comprehensive income	138,413	**142,886**	**1,167,464**
Comprehensive income	¥181,616	**¥268,540**	**$2,194,133**
Comprehensive income attributable to:			
Owners of the parent	¥173,635	**¥248,891**	**$2,033,589**
Non-controlling interests	7,980	**19,649**	**160,544**

Consolidated Statement of Changes in Equity

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2021 and 2022

	Millions of yen							
	Equity attributable to owners of the parent							
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance as of April 1, 2020	¥265,608	¥49,667	¥(5,374)	¥ 886,307	¥ 22,133	¥1,218,343	¥71,732	¥1,290,076
Profit				40,639		40,639	2,562	43,202
Other comprehensive income					132,995	132,995	5,418	138,413
Comprehensive income	—	—	—	40,639	132,995	173,635	7,980	181,616
Transfer to retained earnings				49,668	(49,668)	—		—
Purchase of treasury shares			(5)			(5)		(5)
Disposal of treasury shares		83	364			447		447
Dividends				(25,188)		(25,188)	(5,073)	(30,261)
Transactions with non-controlling interests		(1,611)			(67)	(1,678)	(1,380)	(3,058)
Other		(874)	563	1,100		789	(212)	576
Total transactions with owners	—	(2,402)	921	(24,087)	(67)	(25,636)	(6,665)	(32,302)
Balance as of March 31, 2021	¥265,608	¥47,265	¥(4,452)	¥ 952,528	¥105,393	¥1,366,342	¥73,047	¥1,439,390
Profit				113,541		113,541	12,113	125,654
Other comprehensive income					135,349	135,349	7,536	142,886
Comprehensive income	—	—	—	113,541	135,349	248,891	19,649	268,540
Transfer to retained earnings				67,792	(67,792)	—		—
Purchase of treasury shares			(2,550)			(2,550)		(2,550)
Disposal of treasury shares		25	142			167		167
Dividends				(40,313)		(40,313)	(7,880)	(48,194)
Transactions with non-controlling interests		(1,682)			(221)	(1,904)	69	(1,834)
Other		(545)	914	5,610		5,978	1,032	7,011
Total transactions with owners	—	(2,203)	(1,494)	(34,703)	(221)	(38,622)	(6,778)	(45,401)
Balance as of March 31, 2022	¥265,608	¥45,061	¥(5,946)	¥1,099,158	¥172,728	¥1,576,611	¥85,918	¥1,662,529

	Thousands of U.S. dollars							
	Equity attributable to owners of the parent							
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Total	Non-controlling interests	Total equity
Balance as of March 31, 2021	$2,170,177	$386,183	$(36,375)	$7,782,727	$ 861,124	$11,163,836	$596,837	$11,760,683
Profit				927,698		927,698	98,970	1,026,668
Other comprehensive income					1,105,882	1,105,882	61,573	1,167,464
Comprehensive income	—	—	—	927,698	1,105,882	2,033,589	160,544	2,194,133
Transfer to retained earnings				553,901	(553,901)	—		—
Purchase of treasury shares			(20,835)			(20,835)		(20,835)
Disposal of treasury shares		204	1,160			1,364		1,364
Dividends				(329,381)		(329,381)	(64,384)	(393,774)
Transactions with non-controlling interests		(13,742)			(1,805)	(15,556)	563	(14,984)
Other		(4,452)	7,467	45,837		48,843	8,432	57,284
Total transactions with owners	—	(17,999)	(12,206)	(283,544)	(1,805)	(315,564)	(55,380)	(370,953)
Balance as of March 31, 2022	$2,170,177	$368,175	$(48,582)	$8,980,782	$1,411,291	$12,881,861	$702,001	$13,583,863

Consolidated Statement of Cash Flows

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries
For the fiscal years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Cash flows from operating activities:			
Profit before income taxes	¥ 49,355	¥ 173,684	$ 1,419,102
Depreciation, amortization and impairment loss	238,258	135,787	1,109,461
Finance income and costs	(5,369)	1,645	13,440
Share of profit of investments accounted for using the equity method	(15,158)	(16,861)	(137,764)
Loss (gain) on sale of shares of subsidiaries and affiliates	(83,041)	—	—
Loss (gain) on sale of PPE, and intangible assets	(45,570)	(37,532)	(306,659)
Loss on disposal of PPE, and intangible assets	6,912	5,328	43,532
Decrease (increase) in trade receivables	(27,739)	(51,031)	(416,953)
Decrease (increase) in contract assets	4,308	(58,722)	(479,794)
Decrease (increase) in inventories and advanced payments	57,222	(89,963)	(735,051)
Increase (decrease) in trade payables	(68,731)	73,101	597,279
Increase (decrease) in contract liabilities	(124,703)	132,985	1,086,567
Increase (decrease) in provisions	(11,011)	(1,120)	(9,151)
Increase (decrease) in retirement benefit liabilities	3,496	21,969	179,499
Others	5,094	(20,527)	(167,717)
Subtotal	(16,677)	268,744	2,195,800
Interest received	5,407	5,537	45,240
Dividends received	14,968	23,627	193,046
Interest paid	(9,543)	(10,559)	(86,273)
Income taxes paid	(89,102)	(1,786)	(14,592)
Net cash provided by (used in) operating activities	(94,948)	285,563	2,333,221
Cash flows from investing activities:			
Payments into time deposits	(9,244)	(14,033)	(114,658)
Proceeds from withdrawal of time deposits	13,161	9,677	79,066
Purchases of PPE and intangible assets	(146,212)	(129,256)	(1,056,099)
Proceeds from sales of PPE and intangible assets	43,956	51,744	422,779
Purchases of investments (including investments accounted for using the equity method)	(15,796)	(11,193)	(91,453)
Proceeds from sales and redemption of investments (including investments accounted for using the equity method)	12,521	99,214	810,638
Payments for sale of businesses (including subsidiaries)	(1,696)	(1,258)	(10,278)
Proceeds from sale of businesses (including subsidiaries)	987	11,756	96,053
Payments for acquisition of businesses (including subsidiaries)	(71,082)	—	—
Proceeds from acquisition of businesses (including subsidiaries)	—	4,799	39,210
Net decrease (increase) in short-term loans	708	1,660	13,563
Disbursement of long-term loans	(8,482)	(60)	(490)
Collection of long-term loans	222	204	1,666
Payments for derivative transactions	(3,658)	(20,754)	(169,572)
Proceeds from derivative transactions	4,625	15,490	126,562
Others	(2,260)	(1,683)	(13,751)
Net cash provided by (used in) investing activities	(182,249)	16,306	133,229
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	96,778	(182,326)	(1,489,713)
Proceeds from long-term borrowings	212,500	22,330	182,449
Repayment of long-term borrowings	(58,146)	(31,338)	(256,050)
Proceeds from issuance of bonds	65,000	55,000	449,383
Payment for redemption of bonds	(10,000)	(45,000)	(367,677)
Payments for acquisition of interests in subsidiaries from non-controlling interests	(22,549)	(2,000)	(16,341)
Payments for acquisition of treasury shares	(5)	(2,550)	(20,835)
Dividends paid to owners of the parent	(25,667)	(40,224)	(328,654)
Dividends paid to non-controlling interests	(5,144)	(5,501)	(44,946)
Proceeds from factoring agreements	139,315	140,608	1,148,852
Repayment of liabilities under factoring agreements	(145,045)	(133,226)	(1,088,536)
Repayment of lease liabilities	(22,667)	(28,154)	(230,035)
Others	(2,627)	(3,389)	(27,690)
Net cash provided by (used in) financing activities	221,737	(255,774)	(2,089,827)
Effect of exchange rate changes on cash and cash equivalents	19,255	22,740	185,799
Net increase (decrease) in cash and cash equivalents	(36,205)	68,836	562,431
Cash and cash equivalents at the beginning of the year	281,626	245,421	2,005,237
Cash and cash equivalents at the end of the year	¥ 245,421	¥ 314,257	$ 2,567,668

Corporate Data

As of March 31, 2022

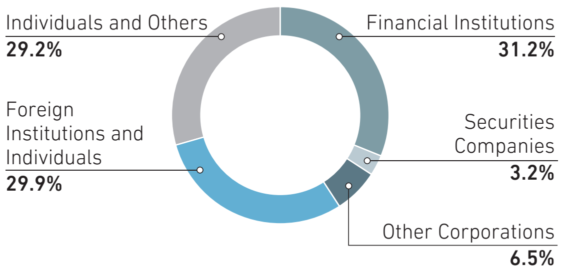
Head Office:	2-3, Marunouchi 3-chome, Chiyoda-ku, Tokyo, 100-8332, Japan Phone: +81-3-6275-6200
Established:	January 11, 1950
Paid-in Capital:	¥265.6 billion
Total Number of Issuable Shares:	600,000,000
Total Number of Shares Issued:	337,364,781
Number of Shareholders:	247,846

Number of Employees:	77,991 (Consolidated) 22,755 (Non-consolidated)
Stock Listings:	Tokyo, Nagoya, Fukuoka, and Sapporo Stock Exchanges
Ticker Code:	7011
Manager of the Register of Shareholders:	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan
Independent Auditors:	KPMG AZSA LLC 1-2 Tsukudo-cho, Shinjuku-ku, Tokyo 162-8551, Japan

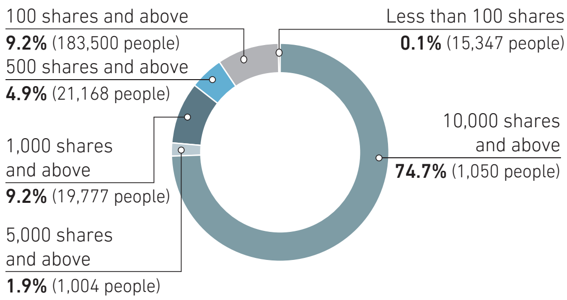
Major Shareholders

	Number of shares owned by major shareholders	Composition rate (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	52,606,900	15.6
Custody Bank of Japan, Ltd. (Trust Account)	17,067,500	5.0
Meiji Yasuda Life Insurance Company	8,002,274	2.3
The Nomura Trust and Banking Co., Ltd. (Retirement Benefit Trust Account for The Bank of Mitsubishi UFJ, Ltd.)	6,526,300	1.9
Mitsubishi Heavy Industries Employee Shareholding Association	6,168,403	1.8
STATE STREET BANK WEST CLIENT – TREATY 505234	5,528,205	1.6
JP MORGAN CHASE BANK 385781	3,664,538	1.0
Mitsubishi Heavy Industries Trading-Partner Shareholding Association	3,277,500	0.9
STATE STREET BANK AND TRUST COMPANY 505001	3,142,966	0.9
STATE STREET BANK AND TRUST COMPANY 505225	3,084,454	0.9

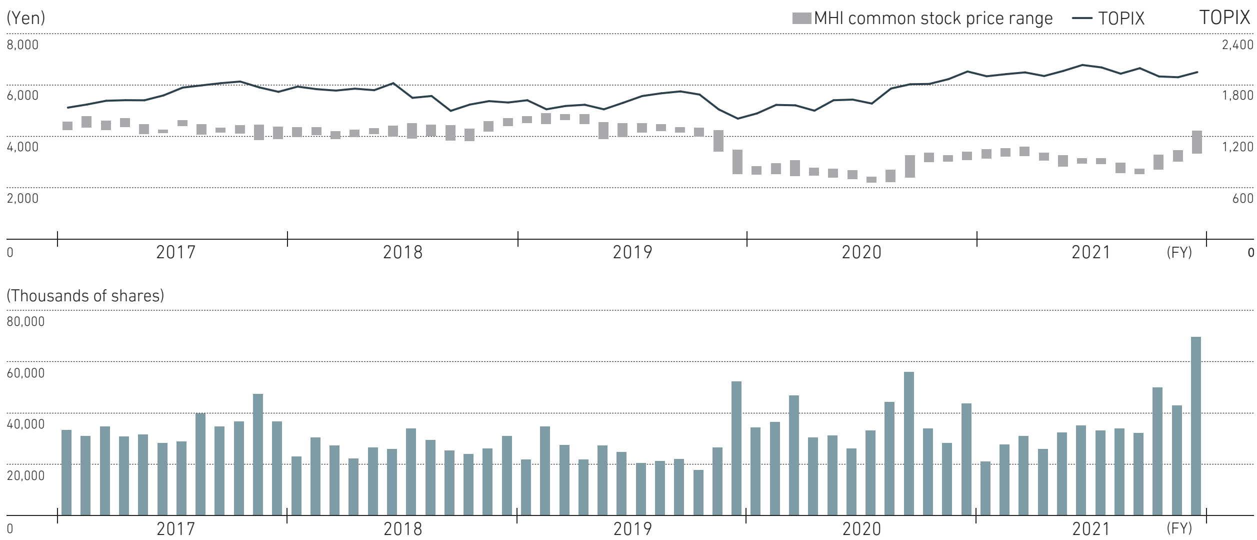
Classified by Type of Shareholder



Classified by Number of Holdings



Stock Price Range and Trading Volume (Tokyo Stock Exchange)



Status of IR Activities

Briefings for Individual Investors

We held small meetings for individual investors throughout the year. In these meetings, we provided an overview of the Company and explained our business strategy, shareholder returns, and other topics.

Briefings for Analysts and Institutional Investors

The CFO briefed analysts and institutional investors on our financial results on a quarterly basis.

At the year-end and 1H earnings briefings, the President provided progress updates on our 3-year business plan, the 2021 Medium-Term Business Plan (MTBP).

In addition, as business strategy briefings on individual topics, we held the following events: CCUS Briefing, Carbon Neutrality Briefing, Hydrogen Technologies Virtual Factory Tour, CEO small meetings, and CFO small meetings.

Dialogue with Japanese and Foreign Institutional Investors

We held meetings with institutional investors in Japan, North America, Europe, and Asia to explain our financial results and management strategies, and solicited their opinions on our management.

We also actively participated in conferences held in Japan and abroad for domestic and foreign institutional investors throughout the year.

Status of Inclusion in ESG Indexes (As of the end of August 2022)

MHI Group promotes sustainability-oriented management and focuses on various activities and information disclosure. Through these efforts, we have been included for the fifth year in a row in the Asia Pacific Index of the Dow Jones Sustainability Index, a global ESG investment index.

Furthermore, we have been selected for all five ESG-related indexes for Japanese equities employed by the Government Pension Investment Fund (GPIF), a Japanese pension fund and one of the largest institutional investors in the world.

- MSCI Japan ESG Select Leaders Index
- MSCI Japan Empowering Women Index (WIN)
- FTSE Blossom Japan Index
- FTSE Blossom Japan Sector Relative Index
- S&P/JPX Carbon Efficient Index

We have also been included in SOMPO Asset Management's SOMPO Sustainability Index every year since 2012.

Publication of our MHI Report 2022

MHI Report 2022 focuses on our Group's sustainability efforts, particularly our contributions to global Carbon Neutrality. MHI Group announced our MISSION NET ZERO in October 2021, and we are working to provide energy solutions to realize Carbon Neutrality as part of our materiality initiatives. We hope that this report will become a tool for dialogue and engagement while helping our stakeholders, including shareholders and investors, gain a better understanding of MHI Group. We look forward to hearing your honest feedback.

September 2022

Investor Relations & Shareholder Relations Department

MITSUBISHI HEAVY INDUSTRIES, LTD.

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