

A Message from the President & CEO



President & CEO
Seiji Izumisawa

Management Targeting a Sustainable, Safe, Secure, and Convenient World

Throughout our long history, Mitsubishi Heavy Industries (MHI) Group has contributed to realizing a safe, secure, convenient, and sustainable world. Today, the world is at an inflection point of historic proportions. In my position as President & CEO, I am firmly committed to exercising leadership in seeking a shift from the current era of deep social divisions to an age of harmony, to achieve our overarching goal of global Carbon Neutrality.



The World at a Major Inflection Point

When the people of the future look back in time, they will surely consider the 2020s a period when the world underwent changes of significant proportions.

Today, we see two underlying currents of change. One is the incipient breakdown of the democratic values that sustained the global order throughout the postwar era, coupled with the weakening of our capitalist economic system. Viewed in a geopolitical context, the global economy, long led by Western countries, is now undergoing a shift influenced by different sets of values embraced by the Global South and other non-Western nations and regions, which are increasingly assuming a prominent role in driving the global economy. Furthermore, the global economy continues to be impacted by the COVID-19 pandemic and by the ongoing crisis in Ukraine: situations giving rise to soaring

raw material prices, inflation on a global scale, and disruptions in the flow of materials and commodities. Meanwhile, difficulties arising from entrenched semiconductor shortages and supply chain disruptions have had serious negative consequences both for corporate management and society as a whole – causes for deep concern.

The other major current of change today is increasingly severe environmental degradation on a global scale caused largely by climate change. People everywhere have become keenly aware of the extent to which our social structures and economies depend on a stable climate and a healthy natural environment. Companies in the private sector, MHI Group included, are now actively pursuing diverse initiatives to protect, and in some cases restore, our critically endangered global environment.

MHI Group's Purpose

Throughout our history, MHI Group has steadfastly held on to this core value, which we also see as our purpose for existence: the determination to dedicate our management resources – technological, human, and otherwise – to solving the issues confronting global society. No matter how the times may change going forward, we will maintain this basic philosophy. Our consistent aim is

to contribute to achieving a safe, secure, convenient, and sustainable world, playing a meaningful role in industrial, economic, and social development. When MHI was founded by Yataro Iwasaki 139 years ago, our core business was shipbuilding. Using the most advanced technologies of the day, we contributed significantly to Japan's industrial and economic development. Subsequently, as we diversified into new product areas – internal combustion engines, power generation systems, transportation systems, industrial machinery, defense products, aerospace systems, and, more recently, CO₂ capture plants – we continuously made important contributions to society with our extensive business portfolio.

Through the years, we have especially focused on businesses related to energy and the environment. By responding to society's diversifying values, over time we have dependably provided added value to people's lives, all while building up our technologies and expertise. Because Japan suffers from a low energy self-sufficiency rate, securing stable supplies of energy presents an ongoing challenge. At every step along the way, MHI Group has consistently grasped the crux of the country's energy problems and responded



with viable solutions. During the oil crisis of the 1970s, we took steps to secure stable oil supplies by providing tankers. At the same time, we were among the first to develop systems employing nuclear energy – a new source of energy at the time – and we have built a strong track record in this field. More recently, we are tackling energy-related issues with new solutions on a variety of fronts, including the development of highly efficient gas turbines and energy-saving heat pumps, among other products. We are also making positive headway in developing new energy areas such as hydrogen utilization.

Similarly, for many years we have addressed challenges related to environmental issues. For example, as

early as 40 years ago we began developing CO₂ capture technology, an area that has attracted much attention in recent years. Sustained effort in this field – with its share of advances and setbacks – has finally begun to bear fruit commercially: CO₂ capture is drawing widespread interest from numerous companies seeking to make their operations Carbon Neutral.

I firmly believe that a corporation's true purpose lies in the contributions it makes to solving energy and environmental issues, to achieving a sustainable world, and to enhancing people's wellbeing. Through initiatives targeting the five Material Issues MHI Group needs to address, we will continue to walk this crucial path.

■ Creating Corporate Value from Comprehensive and Collective Group Strengths

Throughout our long history, MHI Group has searched repeatedly for the answer these questions: How can we provide added value to the customer? How can we procure and utilize management resources to accomplish that goal? This above all is the engine driving value creation, the process that underlies all of our business activities. It is a process that has been sustained by our manufactured, technological, and human capital, and by the social capital of our customers and stakeholders accumulated through our many years of business.

Among the many strengths cultivated through our history of value creation, technological and human capital are especially important. As I noted above in reference to our activities in the energy and environmental fields, MHI Group has assiduously pursued the development of numerous technologies. Backed by an earnest corporate culture that takes pride in contributing to society, as a collection of engineers we strive unsparingly to develop technologies and products that will bring about positive changes to the world. This stance – our intellectual capital – is etched into our corporate DNA.

To solve the increasingly complex and diverse issues facing the world and to provide the added value sought by society at large and by our customers in particular, it is not enough to rely on MHI Group's strengths alone. It is equally important to forge strong ties with external

partners, combining our strengths. We seek partnerships with organizations which share our values – our quest to achieve a safe, secure, convenient, and sustainable world – and which can join us in executing large projects to attain that goal. Going forward, we aim to strengthen these partnerships in order to drive us further toward achieving our objectives.



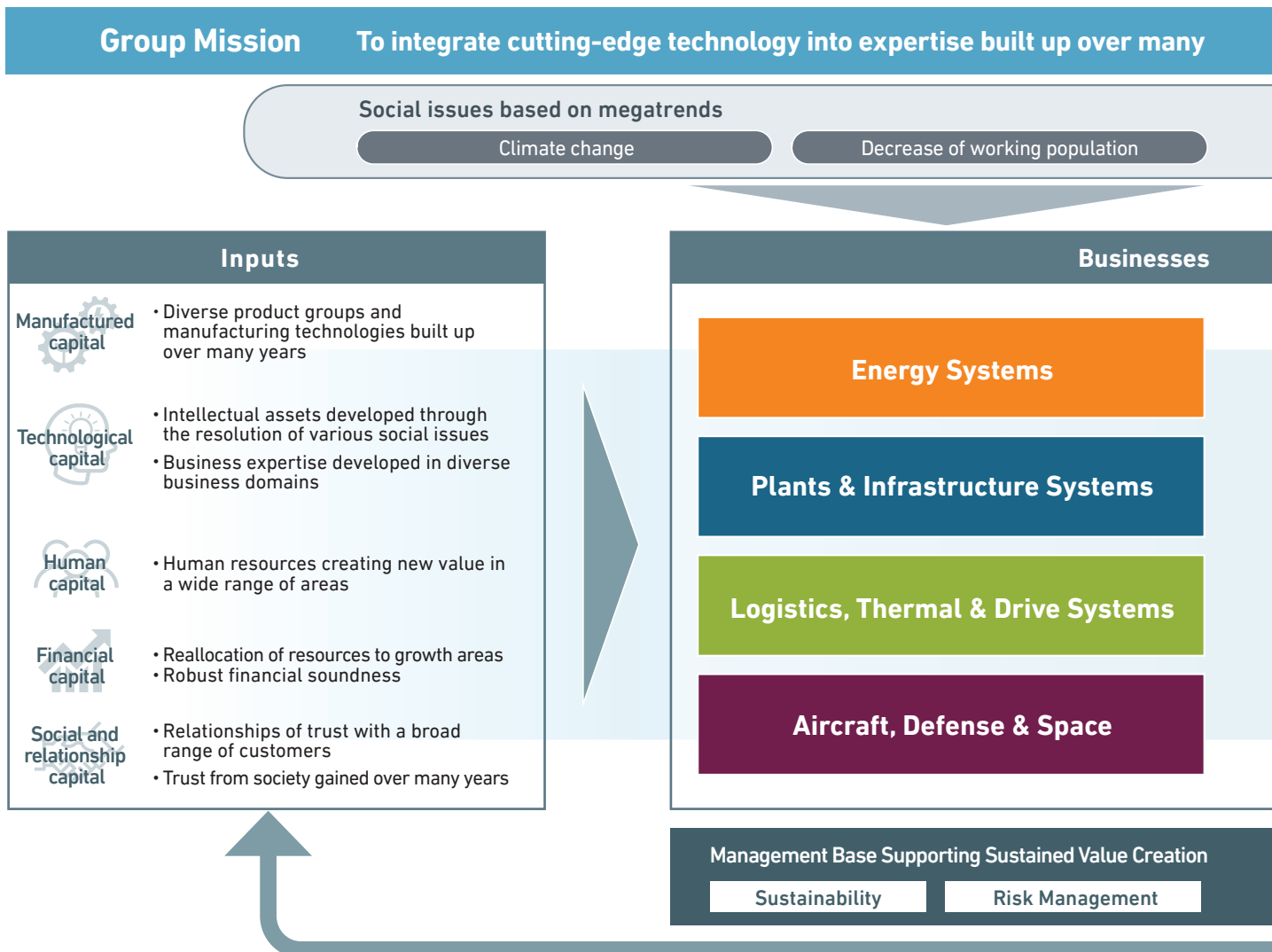
How to Create Value for Tomorrow's World

The value sought by our customers varies widely depending on the customs held in their specific countries or regions, their region's level of development, and the state of infrastructure there. Owing to the need to respond to customers of great diversity, coupled with today's rapid advances in digital technology, clearly we must change our perception of how to create value. In more and more areas, we can no longer provide the value today's customers demand with yesterday's methods. Moreover, even in the case of our Carbon Neutrality initiatives, the solutions required vary from customer to customer. We must compare the value sought by society and our customers in each region with the value we are capable of providing

today, and then bring these into alignment. MHI Group is strongly positioned to undertake this task based on our abundant experience and knowhow.

The two areas on which we are currently focusing – energy and the environment – face their most challenging times ahead. In economically mature regions – Japan, the United States, and Europe, for example – energy demand is not expected to grow significantly over the medium to long term. However, in the newly emerging economies of the Global South, energy demand will increase. Similarly, while some countries and regions are in a favorable position with abundant renewable energy resources, others face difficulty in this respect due to constraints imposed by their geograph-

Value Creation Process



ical location or other conditions. As a result, each country and region poses its own specific energy challenges. In light of these diverse challenges, going forward MHI Group will provide solutions tailored to the economic and social conditions of each country and region, pursuing innovation that will integrate oil and gas solutions in upstream areas with power generation solutions in downstream areas.

To address environmental challenges, MHI Group is undertaking an array of initiatives based on MISSION NET ZERO, which was announced in 2021. These initiatives fall into two categories: the Energy Transition, which targets decarbonization of energy supplies, and Smart Infrastructure, which enables decarbonization, energy conservation, and automation of energy demand. Through these initiatives, we aim to achieve Net Zero CO₂ emissions by 2040

– a full 10 years earlier than the 2050 Carbon Neutrality targets set by major developed nations.

We are pursuing value creation initiatives within the framework of our 2021 Medium-Term Business Plan (MTBP), which has two overarching objectives: to strengthen profitability and to develop growth areas. Efforts to strengthen profitability are progressing in line with our plan through business portfolio optimization and reinforcement of our services operations. Informed by MISSION NET ZERO, we are proceeding with the development of growth areas in the energy supply and demand areas. We are also benefiting from new business opportunities generated by expanding support for decarbonization and heightened interest in energy security among governments in many countries.

years to provide solutions to some of the world's most pressing issues and provide better lives.

Expansion and increased complexity of logistics

New threats such as cyberattacks

(Value Creation Engines)

Provision of solutions tailored to local communities, the environment and culture

Energy Supply
Energy Transition

Decarbonization

Decarbonization of Existing Infrastructure | Hydrogen Solutions Ecosystem | CO₂ Solutions Ecosystem

Energy Use
Smart Infrastructure (New Mobility & Logistics)

Energy Conservation | Decarbonization | Automation

Intelligent Logistics Systems | Decarbonization and Energy Conservation of Data Centers | Infrastructure to Support Autonomous Mobility

Corporate Governance

Five Material Issues

- 1 Provide energy solutions to enable a carbon neutral world
- 2 Transform society through AI and digitalization
- 3 Build a safer and more secure world
- 4 Promote diversity and improve employee engagement
- 5 Enhance corporate governance

Outcomes (Value Creation)

Realization of a sustainable society providing safety, security and convenience

Realization of society shifting from opposition to harmony

Cycle of Sustained Value Creation

My Approach to Management

Four years have passed since I became President & CEO of MHI Group, and in managing the organization there is something I always keep in mind. I come from an engineering background and have experience working in a variety of departments and business divisions, including at companies other than MHI. I learned from these experiences that the issues faced by an organization and the actions required of management differ little from one company or industry to another. I have also come to realize that each of us is responsible for setting limitations on our own capabilities. One day, I realized that I myself had been defining the limitations on our management and organization. Since then, I have abandoned such self-imposed notions and have always tried to make management decisions free of constraints of my own making. Also, because organizations tend to become set in their ways without external stimuli, I always make a conscious effort to shake things up. And if the organization loses its cohesiveness, I make adjustments to put it back on track.

In exercising leadership within the organization, my messages must reach those intended to receive them, and it is important to be creative in ensuring this happens. As a leader, I believe it is important to make every effort to repeat messages in an easy to understand way until everyone is on the same page.

The underlying source of value creation is human capital. It is important to continuously elevate the skills of all

employees to enhance human capital. Recently, there is a lot of talk about “reskilling.” Reskilling starts by first properly evaluating the skills developed by the employee over time and acknowledging their value. Then, those existing skills need to be developed and diversified through the acquisition of new skills. In this sense, the phrase I prefer to use is one of my own creation: “skill-adding.” Also, when evaluating human resource development, though of course it is important to assess results versus predefined targets, I think it is also important to analyze and evaluate processes: the approaches taken to achieve those results. Paying attention to these aspects will provide opportunities to think about how best to visualize a kind of value that is normally not readily visible.

To improve technical capabilities, I believe it is most important to nurture a corporate culture in which discussions can be held openly and freely, extending beyond the conventional frameworks of business unit, organization, job description, and rank. Technological capabilities cannot be faked. A company that lacks such capabilities or the will to properly address technological challenges is doomed to failure. MHI Group is involved in many projects which take many years and a high degree of craftsmanship to complete, and improving our technological capabilities requires strong dedication. When I meet with our engineers, I often talk about *shu-ha-ri*, a fundamental concept in Japanese martial arts. To begin with, a student focuses on *shu*: mastering the basics of her chosen art. From there, she proceeds to *ha*: breaking away from total adherence to what she has been taught, and making her own innovations. Finally, she proceeds to *ri*: leaving behind all preceding teachings and creating something altogether new and unique. In recent years, another consideration of great importance for technological development is how to integrate the latest digital technologies into existing technologies. To achieve this, we are improving and expanding our human resource development methods. To deepen understanding of the Digital Transformation (DX) among not only our engineers but management as well, today we are conducting DX literacy education for all personnel in management positions.



Ideas I Embrace as President & CEO

As I noted earlier, today the world is at an historical inflection point, and as manager of a corporate group that operates on a global scale, I am extremely concerned with how divided the world is becoming. Society today is marked by deeply opposing views in many areas. My feeling is that these rigid dichotomies are set on the backdrop of intense efforts to impose particular sets of values on others. When rigid, opposing value systems become engrained, finding common ground – reaching compromises – becomes extremely difficult. This is also the case with approaches to sustainability and wellbeing. Europe, the United States, Japan, and other regions and nations around the world each have their own sets of values based on their unique cultures. No one set of values is correct: it is important to look for, and share, what is good about each perspective. Personally, I have long shunned the idea that opposing positions are irreconcilable. Instead, I embrace the view that, by sharing different approaches, resolutions in which multiple views exist in harmony are necessary. In the context of conducting business, for example, one approach to mitigating environmental impact is to reduce power consumption, while another is to transition to energy sources that are environmentally friendly. Both approaches should be adopted in tandem. Similarly, rather than holding rigidly to the idea that there is only one

viable type of environmentally friendly power plant, it is important to pursue a variety of possibilities.

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. This concept has much in common with what I said earlier about finding common ground. I also embrace the philosophy described by the term *shindoku*, a Confucian virtue defined as exercising circumspection, striving never to stray from the proper path, and steadfastly acting in accordance with one's beliefs. Keeping our shareholders, investors, and all other stakeholders informed of our initiatives in order to gain their understanding is of course an important duty of corporate management. But, before that, it is important always to follow what we believe to be the correct path – and never just for appearances' sake. This is especially true for MHI Group as a company operating in infrastructure – an area that can be unglamorous.

A Message to Our Stakeholders

MHI Group's ability to operate continuously for so long is attributable first and foremost to our constant focus, in all eras, on contributing to the achievement of a sustainable world in response to the expectations of the global community. Today, as our times reach a major inflection point, vast changes are taking place in our social systems and in people's values. Going forward, by further improving our cutting-edge technologies and aligning the value MHI Group can provide with the value the world seeks, we will continue striving to achieve a sustainable, safe, secure, and convenient world for everyone, everywhere. I sincerely ask you – our shareholders and investors – for your continued understanding and support in the years ahead.

