







MITSUBISHI HEAVY INDUSTRIES, LTD.



MITSUBISHI HEAVY INDUSTRIES GROUP
INTEGRATED REPORT

For the Year Ended March 31, 2023

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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, and risk management that support our strategies and performance, and the Group's environmental and social activities since fiscal year ended March 2014 (FY2013). This report has been edited with reference to the International Integrated Reporting Framework by the IFRS Foundation and the Guidance for Collaborative Value Creation 2.0 by the Ministry of Economy, Trade and Industry of Japan.

Forward-Looking Statements

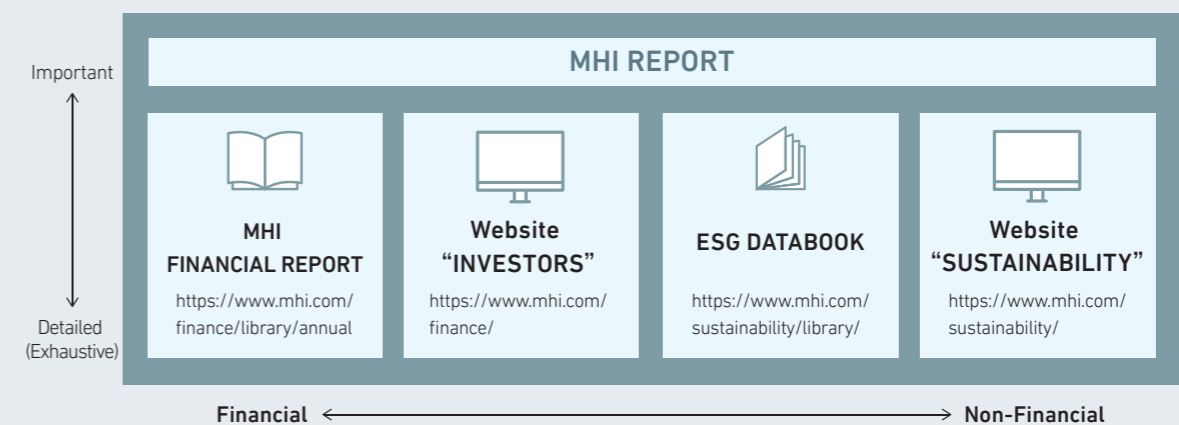
Forecasts regarding future performance in these materials are based on judgments made in accordance with information available at the time this report was prepared. As such, these projections involve risks and uncertainties. Also, the results projected here should not be construed in any way as being 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.

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>



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.



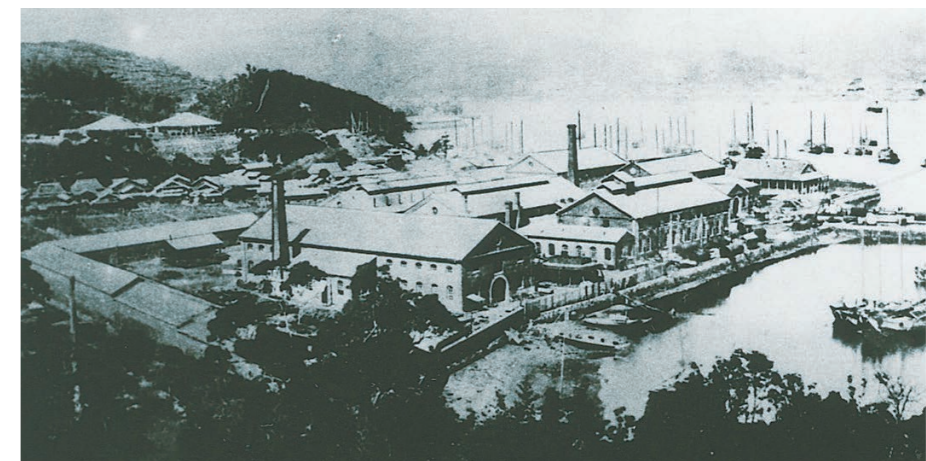
Yataro Iwasaki, MHI's first president

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* **¥1,740.9 billion**
- Interest-bearing debt **¥742.4 billion**

* Equity attributable to owners of the parent

Human capital

- Number of employees **76,859 people**
- Training hours per employee **16.0 hours**

Intellectual capital

- R&D expenses **¥127.4 billion**
- Number of patents held **25,771**

Manufactured capital

- Property, plant and equipment **¥839.8 billion**
- Capital expenditures **¥150.7 billion**

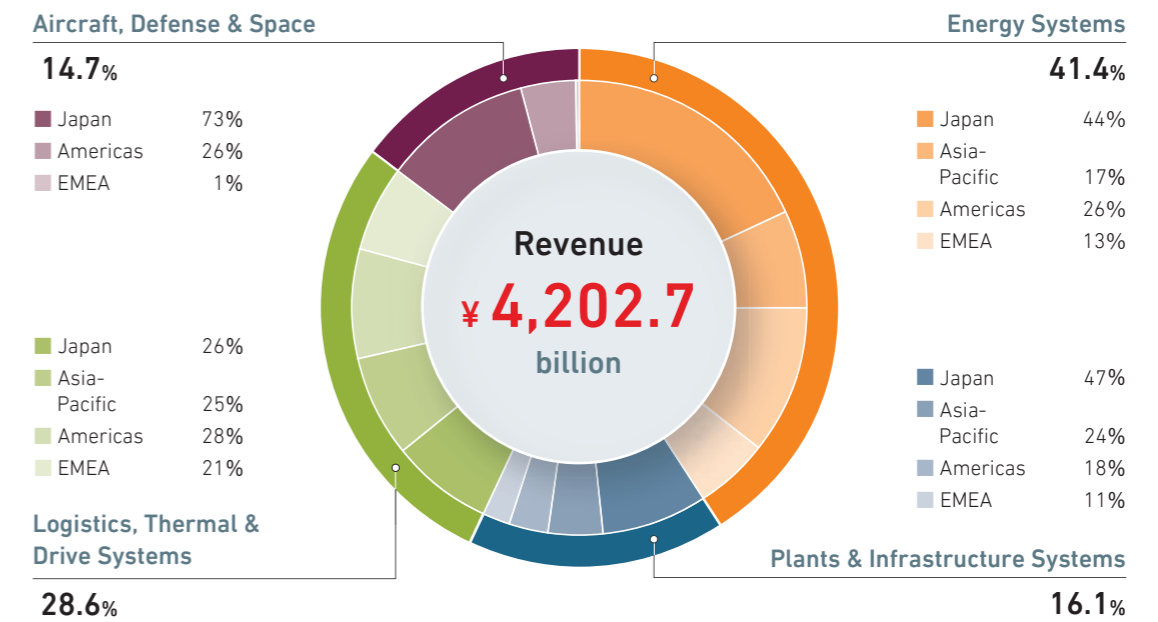
Social and relationship capital

- Social contribution expenses **¥1.2 billion**
- People undergoing human rights awareness training **1,740 people**

Natural capital

- Renewable energy consumption **109 GWh**
- Water usage **6,920 thousand m³**

Composition of Revenue by Segment (FY2022)



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 aviation
- 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.

■ 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.

■ 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.

■ 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, CO₂ capture plant and flue gas desulfurization unit.

1880's >>

1950's >>

1970's >>

2000's >>

Progressing along with Japan's modernization

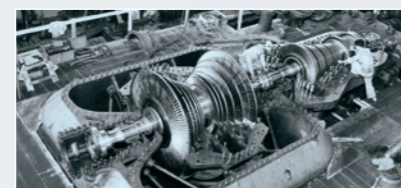
Supporting post-war reconstruction and rapid economic growth in Japan

Playing a part in a technology-based nation

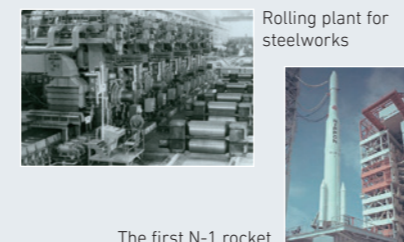
Contributing to a sustainable society



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



Mitsubishi Westinghouse turbine



The first N-1 rocket



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



The first MU-2A multi-purpose light aircraft



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

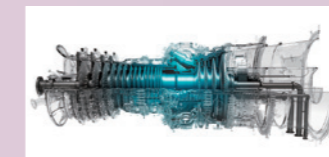


CO₂ capture plant

Present and Future

Energy Transition

Decarbonization



Hydrogen co-firing/100% hydrogen firing gas turbine



CCS/CCUS (CO₂ Capture, Utilization, and Storage)

▶ For details, please see page 32.

Smart Infrastructure

Electrification and Intelligent Systems



Σ SynX-powered AGF



▶ For details, please see "Smart Infrastructure Enabled by DX Utilization" on page 49.

A Message from the President & CEO



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.

President & CEO
Seiji Izumisawa

A Message from the President & CEO

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.



A Message from the President & CEO

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-

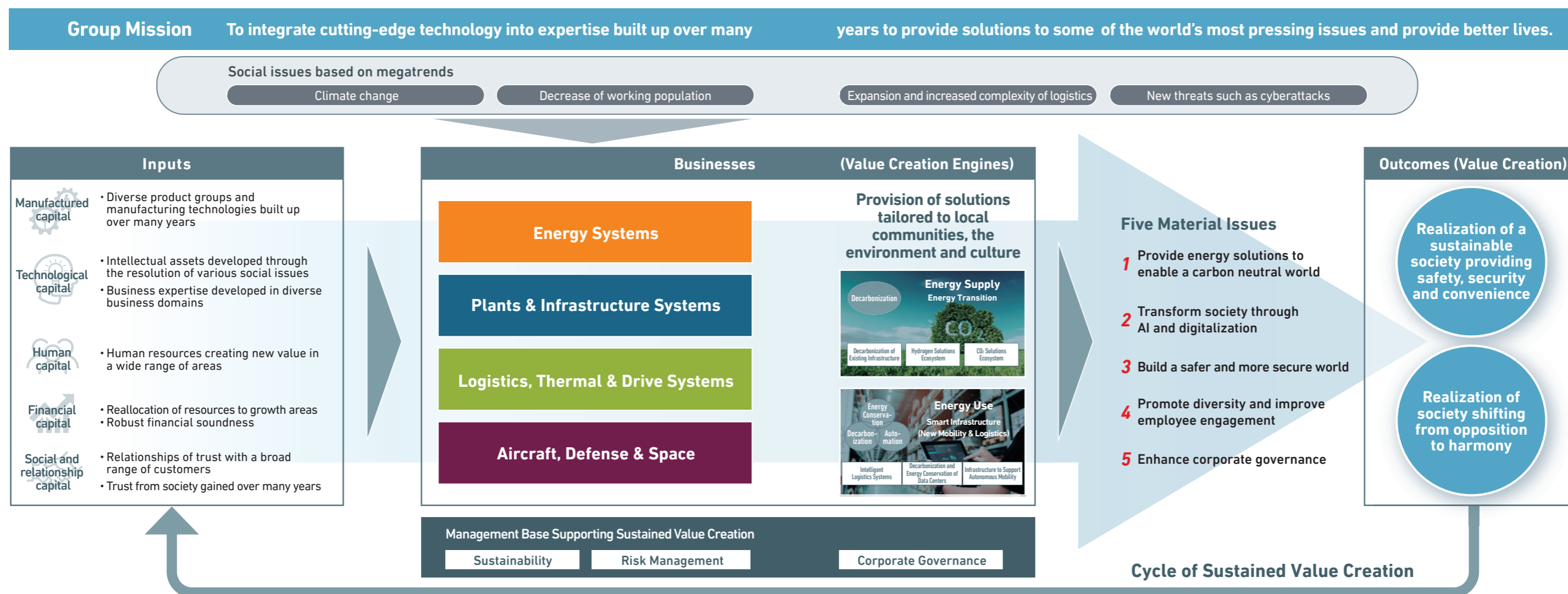
ical location or other conditions. As a result, each country and region poses its own specific energy challenges. In light of these diverse challenges, going forward MHI Group will provide solutions tailored to the economic and social conditions of each country and region, pursuing innovation that will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

Value Creation Process



A Message from the President & CEO

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 than 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.



A Message from the CFO

We will increase corporate value while supporting our growth strategies by strengthening our financial foundation



Executive Vice President, CFO
Hisato Kozawa

Changes in our Operating Environment and their Impact on our Businesses

MHI Group's operating environment is changing significantly. As Russia's invasion of Ukraine draws out, companies now need to consider geopolitical risks more than ever before when making decisions.

Moreover, 2022 saw a global pivot in financial and monetary policies. As countries move to correct their extreme monetary easing policies, the impact from this adjustment is one factor driving severe fluctuations in the foreign exchange markets. Looking at the U.S. dollar to Japanese yen rate, whereas the annual fluctuation range for the five-year period from 2017 to 2021 was around 10 yen, in 2022 this was almost 40 yen, reflecting highly volatile market conditions. Compared to 15 years ago, when the U.S. dollar fell sharply due to the Global Financial Crisis, today we are better able to control our exposure to foreign currencies. However, 2022 proved to be a year in which management was forced once again to be conscious of foreign exchange fluctuations.

Recently, we have also been paying particular attention to inflation. Starting with rising natural resource prices, supply chain disruptions due to the effects of the COVID-19 pandemic have affected the prices of a wide range of goods and services. Additionally, labor costs have risen against the back drop of worsening labor shortages. Japan is also finally starting to see signs of inflation after a long deflationary period. These changes to the operating environment have affected the management of MHI Group in a variety of ways. Regarding our macro-level approach to business management, the global trend toward decarbonization endures. We will continue to focus on the two pillars of our growth strategy, the Energy Transition and Smart Infrastructure, in response to this trend. Additionally, amid rising concerns for national security in Japan, we expect defense budget increases and revisions to nuclear energy policies, from which we will likely benefit due to our strong competitiveness in these areas. On a micro-level, we are working to pass through cost inflation to our sales prices in order to share the cost burden with our customers, particularly in Logistics, Thermal & Drive Systems. The positive results from these efforts became

apparent in the second half of FY2022, and we believe that in FY2023, our performance will benefit even more clearly from these price increases.

FY2022 results were on the whole in line with our expectations, despite pressure to respond to changes in the operating environment and the booking of certain one-time items, such as losses from power plant projects outside Japan. Order intake increased in Energy Systems and Logistics, Thermal & Drive Systems. Notably, in Energy Systems, our Gas Turbine Combined Cycle (GTCC) business gained the top share in the global gas turbine market in 2022 thanks to strong orders during that period. Revenue reached a record high, mainly due to services growth in GTCC and Logistics Systems, as well as recovery in demand for Aero Engines. Business profit increased year-on-year across all segments, reflecting success in our core strategy under the 2021 Medium-Term Business Plan (MTBP) to strengthen profitability, which we feel is gaining traction.



A Message from the CFO

▶ Financial Indicators Over Time

	FY2018	FY2020	FY2023
Revenue	¥4.1 trillion	¥3.7 trillion	¥4.3 trillion
Business profit margin	5%	1.5%	7%
ROE	7%	3.1%	11%
Total assets	¥5.1 trillion	¥4.8 trillion	¥5.5 trillion
Interest-bearing debt	¥0.67 trillion	¥0.9 trillion	¥0.8 trillion
Equity	¥1.7 trillion	¥1.4 trillion	¥1.9 trillion
Debt/Equity ratio	0.4	0.6	0.4
Equity ratio	34%	28%	34%
Dividend per share	¥150	¥75	¥160

2021 MTBP (Total 3 Years) (Billions of yen)	
Cash-in	Cash-out
Regular operating cash flow 750	Growth Areas 210
	Expand 200
	Profit-focused, others 290
Asset management, etc. 180	Debt repayment 60
	Dividend 140

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

2021 MTBP Progress and Our Approach to Growth Investments

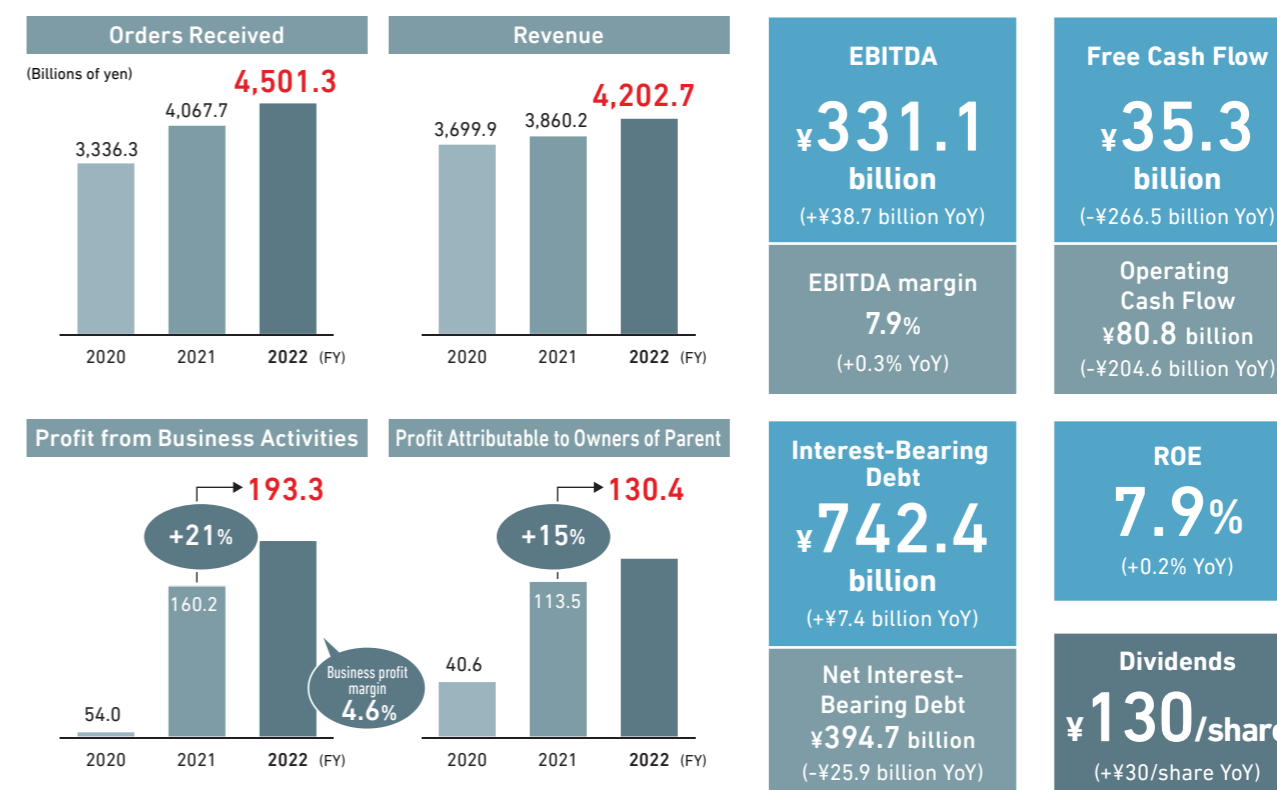
With our earnings forecast for FY2023 – the final year of the 2021 MTBP – we showed our confidence in achieving our targets despite the impact of inflation and the other factors I mentioned previously. As our initiatives to expand services businesses and optimize pricing bear fruit, we will also seize new domestic opportunities that have emerged in Nuclear Power and Defense.

We will actively invest in growth areas. On the topic of the Energy Transition, the Inflation Reduction Act (IRA) was passed in the United States in August 2022, providing tax incentives and subsidies for projects aiming to shore up energy security and address climate change. This law is expected to accelerate the launch of decarbonization-related businesses, primarily in North America. By accurately interpreting these trends, we seek not only to provide products, but also to contribute to creating mechanisms for practical implementation of these solutions. Recently, we have seen a marked increase in orders arising from growing demand for gas turbines that

can easily be converted to hydrogen fuel in the future. There has also been an increase in inquiries and feasibility studies regarding the combination of GTCC with CO₂ capture technologies. In the area of Smart Infrastructure, we are actively pursuing the launch of new businesses. In FY2022, these efforts included validation testing of logistics center automation products and energy-saving and decarbonization solutions for data centers.

We also need to actively pursue M&As and invest in start-ups in order to move our growth area initiatives forward and ensure future commercialization and profit creation. In FY2021 and FY2022, unfortunately, we did not make as much progress in our investment activities as originally intended, partly due to the impact of COVID-19. However, since the beginning of FY2023, we have continuously made investments to sow the seeds of future business expansion, including the acquisition of shares in an American company, Concentric LLC.

▶ FY2022 Financial Results



Basic Approach to Financial Strategy

Many of Japan's listed companies have an overall price-to-book ratio (P/B ratio) that is lower than 1. This means the market capitalization – the value to the capital markets – of many companies is lower than their equity's book value – their value in accounting terms. The Tokyo Stock Exchange and the Financial Services Agency have pointed this situation out as an issue that bears addressing. MHI's share price has been trending upward since 2022, and as of June 2023, our P/B ratio is higher than 1. However, in 2020, at the time when I was appointed CFO, our P/B ratio was at a low level around 0.7. Naturally, we do not have direct control over our share price, but in order to maintain and increase it, we will need to gain credibility in the market and raise its expectations of us. To achieve this, it will be vital to have convincing management strategies while steadily achieving our earnings

targets and consistently delivering a certain level of profitability and capital efficiency.

On the topic of consistently securing a certain level of profitability and capital efficiency, it is important to consider how good we are at efficiently using our assets to conduct business and deliver earnings. Our balance sheet assets need to be evaluated for efficiency and managed so that those with low performance are replaced with high-performing ones. To this end, I am focusing on improving return on assets (ROA). In FY2022, our ROA (vs. pre-tax profit) was only 3.6%, but we intend to raise this rapidly to over 6%.

Improving ROA naturally requires increasing returns, and as I mentioned before, this requires appropriate control of assets. We will improve the composition of our assets to achieve a lean balance sheet by controlling

A Message from the CFO

the size of inventory assets, trade receivables, and other components of working capital using such indicators as cash conversion cycle (CCC) and by selling off inefficient

assets including strategic shareholdings and low-yield real estate.

yield. We are considering this in formulating the next medium-term business plan. While MHI has the option of share buybacks to provide returns to shareholders over the short term, we would only go forward with such an

action after considering factors such as our financial position, the market environment, and our investment plan at the time.

Business Portfolio Management

MHI Group operates a wide range of businesses, and our approach to business portfolio management is based on an in-house evaluation method that we call the Strategic Business Assessment System. We assess the performance, profitability, and efficiency of each of our Strategic Business Units (SBU). With the results of these assessments, we can have better discussions on recalibrating and optimizing our business portfolio through the strategic allocation of management resources, aiming to achieve an optimal configuration. Our approach to management, which uses this system as a standard for decision-making, has taken root in our organization since it was implemented over 10 years ago. I am proud of the

progress we have made in clearing out problematic businesses, but to achieve further capital efficiency gains, we need to move on to the next stage.

By this, I refer to the “best owner” approach to management, which means considering whether MHI Group is better able to increase the value of a business than another company. I believe that an effective means of creating a stronger portfolio is to review each business considering whether MHI is really the owner that can maximize an SBU’s growth in areas such as product line-up, market presence, technological advantages, and business model, even if that SBU has already achieved a certain level of growth, profitability, and efficiency.

Enhancing Corporate Value

I have been CFO for three years now. Over this time, we have been faced with a host of issues, including the global COVID-19 pandemic, and we have brought our full capabilities to bear in order to address them. Earnings have begun to stabilize, and with interest-bearing debt kept at an appropriate level, there is an increasing sense that we have achieved good financial stability. Looking forward, building stable earnings capacity is the highest priority for gaining further trust from shareholders and investors. Organic improvements such as launching new technologies and products and increasing productivity are of course important, and we will continue to do so. Furthermore, in parallel, we also need to revise our assets, including entire businesses, to create a portfolio with the potential to generate more profits and cash – in other words, to strengthen our balance sheet. I believe that this is my primary mission as CFO. In FY2022, MHI made the extremely difficult decision to discontinue development on SpaceJet. While we recognize that there were arguments both for and against that decision, we are certain that it was the correct choice to avoid harming our corporate value in the future.

Throughout the years, we have continued to provide the world with products and technologies in response to society’s evolving needs. We have followed this path in line with the Three Principles of Mitsubishi Group and Our Principles, MHI’s core philosophy rooted in the Principles. We are working to help realize a carbon neutral world, the largest issue that the entire world shares in common today. To that end, we will provide a variety of solutions to achieve a sustainable Energy Transition under our MISSION NET ZERO initiative. I am proud of this effort, which

I believe is the best contribution to society that MHI Group can make. Moreover, as a leading Japanese company, we are also able to assist Japan in the realm of national security, another pressing issue. As indicated by our tag line, “MOVE THE WORLD FORWARD,” MHI Group will continue to grow sustainably and increase our corporate value by contributing to solutions for the world’s most pressing issues.



Approach to Capital Allocation and Shareholder Returns

In our 2021 MTBP, we cited return on equity (ROE) as an important financial indicator. In FY2022, our ROE was 7.9%, but we are planning to increase this to 11% in FY2023. First, we aim to reliably achieve double-digit ROE in order to earn a certain level of valuation from the capital markets.

One approach to raising ROE is to apply leverage by reducing net assets and increasing interest-bearing debt, but we have a relatively conservative capital structure, with a debt-to-equity (D/E) ratio of 0.4 as of the end of FY2022. We are managing this based on our current balance of interest-bearing debt and profitability, giving weight to the impact on our fund-raising activities, such as external

credit ratings. We see another option of gradually applying leverage as our profitability improves in the future.

Regarding shareholder return, we are aiming for a dividend payout ratio of around 30%, and we are forecasting a record high annual dividend of 160 yen per share in FY2023. That said, we believe that it is important for dividends to be stable in order to respond to the medium- and long-term expectations of our shareholders and investors. Therefore, rather than looking at the dividend payout ratio, which depends on the profit and loss of only a single fiscal year, we think it may be better for the dividend policy to incorporate dividends on equity (DOE), which is the return on the balance of equity and dividend

A Conversation with the Senior Executive Vice President: Toward Broad Application of Carbon Neutrality Technologies



Senior Researcher,
Nomura Research Institute

Chie Mitsui

Senior Executive Vice President,
Assistant to President and CEO

Hitoshi Kaguchi

■ The Significance of MHI Group's Carbon Neutrality Initiatives to Society at Large

Mitsui I've been researching mainly corporate disclosure at a think tank for many years, and I'm also involved in the advocacy activities of several investor and analyst organizations. Recently, I've been focusing on the disclosure of ESG data and actual corporate responses to ESG issues, especially as regards initiatives addressing climate change. MHI is known for having many technologies that will be key to achieving global decarbonization, so I have been looking forward to this conversation. It's a great pleasure to be here today.

Kaguchi It's my pleasure to have you with us today.

Mitsui Since around 2018, I have been closely following the efforts of EU regulators working within the EU Sustainable Finance framework. At that time, I worried that if things continued as they were, investments would only be made in companies that can take steps toward decarbonization according to the EU's definition of "green

finance". I also wanted Japanese companies to be cautious of those developments. When the Japanese government issued its Carbon Neutrality declaration in October 2020, there was still a feeling inside Japan that there was no way to achieve Carbon Neutrality by 2050. However, just a month later, I was astonished when MHI held a briefing on the Energy Transition, outlining how you aim to decarbonize power generation infrastructure with hydrogen. This gave the world the impression that Japanese companies are also making full-fledged moves toward decarbonization. What was behind your strong push for the Energy Transition at that particular point in time?

Kaguchi Honestly speaking, it had nothing to do with the timing of the government's declaration on Carbon Neutrality. During internal discussions concerning the environment in 2018 – which was around the time I was placed in charge of MHI Group corporate strategy – we spoke of both decarbonization, i.e. the elimination of carbon, and carbon

reduction. The prevailing view in Japan at the time was that decarbonization faced rather high hurdles and would be difficult to achieve, leaving carbon reduction as a more viable choice. But then, as we saw how discussions at international forums on the environment and other places were unfolding, and also from our conversations with stakeholders outside Japan, we became certain that in formulating our next Medium-Term Business Plan – the 2021 MTBP – targeting carbon reduction alone would be insufficient: we had to devise strong measures for achieving full decarbonization. Normally, we would have announced our new business plan in May 2021, timed to coincide with our FY2020 Financial Results Briefing. But we decided to move the announcement up by half a year, to October 2020, in order to respond quickly to the dramatic changes taking place in our operating environment amid the global COVID-19 pandemic. Then one month later, at our briefing in November 2020, we focused on the Energy Transition, describing how we had decided to position the Energy Transition as a growth engine in our 2021 MTBP, a development that met with your approval.

A year later, in October 2021, we issued our Carbon Neutrality declaration, with the slogan "MISSION NET ZERO." As a

company grounded in technology, we knew that setting vague targets without a clear factual basis was out of the question. So in formulating MISSION NET ZERO, we made our projections as precise as possible, and based on them we concluded that, technologically speaking, it would be possible to achieve Carbon Neutrality by 2040. We set our goal for 2040, a full 10 years earlier than Japan's target, convinced that, if Japan was to achieve the government's Carbon Neutrality target in 2050, we had to act first, taking into account the lead time required for our customers to implement our products and technologies. We felt that announcing an earlier target would constitute an extremely significant message to the world.

Mitsui It was remarkable that you aimed for full decarbonization when many Japanese companies said it would be a challenge to reduce their carbon footprints. In MISSION NET ZERO, you announced a target to reduce Scope 3 emissions to zero across your value chain by 2040, which translates to cutting the equivalent of 1.5 times Japan's total carbon emissions. This gave strong support to the government's Carbon Neutrality declaration.

■ Contributing to Global Decarbonization through Scope 3 Emissions Reductions

Mitsui The initiatives being taken by MHI Group, in your position as a provider of power plant infrastructure, will surely have a big impact on the world. While it's important for all companies to strive to reduce their Scopes 1 and 2 emissions, Carbon Neutrality can't be achieved by any single country or by the whole world without successful emissions cuts from power plants – the largest source of CO₂ emissions. Since MHI Group supplies the equipment used in power plants, the emissions from those plants are directly linked to your Scope 3 figures.

Kaguchi As of 2022, we estimate our Scope 3 emissions – the volume of CO₂ emissions resulting from the use of MHI Group products by our customers – at around 1.2 billion tons. This corresponds to approximately 3% of all CO₂ emissions worldwide. This extremely high fig-

ure is due to the fact that the total volume of emissions anticipated throughout the lifecycle of a power generation system, one of our main products, is recorded at the time of delivery. Our ultimate aim is to bring the volume of CO₂ emitted during power generation down to zero: by replacing coal-fired power generation systems with high-efficiency gas turbines, by cutting CO₂ emissions by half in the future through use of ammonia-mixed fuels, and by converting existing gas turbines to hydrogen fuels with combustor replacements. Obviously, it isn't possible to abruptly shut down power plants as a way to achieve zero emissions; electricity supplies have to be maintained. We believe achieving Net Zero emissions is possible, however, by gradually reducing the CO₂ emissions of power plants at a sustainable pace, and by cutting CO₂ emissions through installation of our CO₂ capture systems.

A Conversation with the Senior Executive Vice President:

Another factor that needs to be considered is that our products are, in many cases, used over long periods of time, and it isn't realistic to expect that existing coal-fired power plants can be replaced all at once. Even today, a

fair amount of the power being used is generated from coal, so the Energy Transition has to be approached in a realistic fashion – one that is feasible not just on a technological basis, but on an economic one as well.

■ High Hopes for Achieving Hydrogen and CO₂ Solutions Ecosystems

Mitsui MHI is going to decarbonize power plants by switching fuels to hydrogen or ammonia. Recently I visited Takasago Hydrogen Park at MHI's Takasago Machinery Works. There I was given a progress update on hydrogen gas turbine development, and I also heard your plans for a hydrogen solutions ecosystem, including hydrogen production systems. What was particularly impressive was that if all the hydrogen stored in the many tanks found around the extensive premises were used to generate power, it would be consumed in roughly one hour. This means that your customers will have difficulty achieving zero emissions unless a complete supply chain

– including hydrogen production and supply systems – is implemented. CO₂ capture faces the same difficulties: although the technology may already be available, the question remains as to where to store the captured CO₂. What strategies does MHI have for creating hydrogen and CO₂ solutions ecosystems going forward?

Kaguchi To begin with, I would like to stress that power generation using hydrogen and ammonia is already technologically possible, as is CO₂ capture. These achievements are the end result of years of R&D and validation testing. But as you just pointed out, technological capability doesn't translate to immediate practical implementation. Carbon neutral power generation will be achieved only after the necessary infrastructure is fully in place – from facilities to make the hydrogen and ammonia to be used as fuels, to their distribution systems. That said, these ecosystems won't be achieved unless we can demonstrate economic viability to all potential participants in the target ecosystems. And achieving economic viability will require collaboration with partners with relevant expertise. If we are to aim for broad implementation of hydrogen and CO₂ solutions ecosystems, we will have to work long and hard, hand in hand with our partners. We will also need to work hard to gain the understanding of both society at large and financial backers.

Mitsui So there are a number of difficulties to overcome: producing and transporting the vast amounts of hydrogen needed, and demonstrating economic viability. How, specifically, does MHI intend to solve these challenges?

Kaguchi First of all, producing green hydrogen – hydrogen created by using renewable energy to electrolyze

water – in Japan in large enough volumes to meet the demands of industry as a whole isn't very realistic given the state of Japan's renewable energy resources. So Japan will inevitably have to rely on imports. Another problem is that hydrogen has an extremely low boiling point at -253°C. As a result, transporting hydrogen in liquid form presents both technological and economic challenges. To overcome these difficulties, we at MHI Group are considering a solution where hydrogen would first be converted to ammonia or other gases that are more easily transported, and we are currently working to commercialize this. Going forward, we will contribute to improving the economic viability of a hydrogen solutions ecosystem as a whole by developing technologies to be applied at various stages in the supply chain, including hydrogen production systems and pumps to be used in hydrogen fueling stations.

Mitsui I understood that the hydrogen ecosystem is well on its way to becoming a reality. Japan imports natural gas by tanker, so if green hydrogen is produced elsewhere in a form that can be easily transported, importing it into Japan would by no means be impossible. What do you think about carbon capture and storage (CCS)? It's been suggested that even if CCS were introduced in Japan, the country has no suitable storage locations.

Kaguchi Personally, I'm not so pessimistic regarding the storage portion of CCS. I think the reason people say Japan has no suitable locations for CO₂ storage is related to the fact that the country has only a limited number of oil or gas fields similar to those found in North America or the Middle East. But the feasibility of storing CO₂ in aquifers and volcanic rock strata is currently being considered, so the potential for storage in Japan is by no means lacking. In fact, good progress is being made toward establishing CCS in Japan, as illustrated by the Ministry of Economy, Trade and Industry's (METI) selection of seven "Advanced CCS Projects" in June 2023. At one of the selected project sites, Tomakomai in Hokkaido, validation testing of aquifer storage has already been completed by the New Energy and Industrial Technology Development Organization (NEDO). In my view, as such validation continues, the possibilities for CCS in Japan will increase.

Mitsui Based on what you just said, it seems some places can expect CCS in Japan. Even so, wouldn't storage in Japan alone be inadequate to meet actual needs?

Kaguchi Yes, that's true. However, any CO₂ that can't be stored domestically – due to the timing of the start of commercial operations for instance – could be transported outside of Japan and stored there, if agreements are reached with countries willing to do so. But here again, the issue of economic viability comes up. Currently, we're studying potential solutions to this problem. Earlier I spoke briefly about green hydrogen. If, for example, Japan's CO₂ were transported by carrier ship for storage abroad, the same vessel could then return to Japan carrying blue hydrogen made from CO₂ captured from natural gas. In June 2023, we acquired Approval in Principle from ClassNK for a carrier concept designed to simultaneously transport ammonia and liquefied CO₂. Ammonia and CO₂ liquify at similar temperatures and pressures. In this way, considering the economic viability of the ecosystem as a whole can be an effective approach to the issue.



Chie Mitsui

Ms. Mitsui is a Senior Researcher at Nomura Research Institute, where she specializes in corporate disclosures, corporate governance, and sustainable finance. She has also been involved in the advocacy activities of several investor organizations. From 2014 to 2020, she was a member of the IFRS Taxonomy Consultative Group of the International Financial Reporting Standards Foundation. Since 2021, she has been a member of the Corporate Disclosure Policy Council of the CFA Institute, a global association of investment professionals. Ms. Mitsui is also a member of the Study Group on Disclosure Policies for Non-financial Information under the Ministry of Economy, Trade and Industry.



A Conversation with the Senior Executive Vice President:

■ Striving Simultaneously for Carbon Neutrality and Economic Viability

Mitsui You have given me a clear picture of why, even if the technological challenges are overcome, implementation of hydrogen and CO₂ solutions ecosystems won't proceed unless economic viability is also achieved. You've also given me a good understanding of the various initiatives MHI Group is undertaking to realize that. Still, to achieve zero Scope 3 emissions as a business, sometimes governmental policies are important. In the U.S., for example, the government helped improve the economic viability of entire ecosystems through enactment of the Inflation Reduction Act (IRA) in 2022. Don't you think similar initiatives need to be taken in Japan? Some investors highly evaluate the future value of companies proactively engaging with the government on policy and regulation matters to ensure the sustained growth of both their organizations and the entire ecosystem including their suppliers and customers.

Kaguchi In terms of engagement with the Japanese government, MHI Group provides relevant ministries and agencies with input on technologies and the latest trends, and we also participate as members of a variety of councils and investigative bodies. Additionally, we offer policy proposals on green transformation through the Japan Business Federation. Going forward, perhaps we need to be even more proactive, because there are things MHI

Group can do precisely because we are a company grounded in technology. Going forward, first we will build up our track record in the U.S., Europe, and other markets that are leading the way in sustainability initiatives such as renewable energy and CCUS. This, together with further enhancements to our technological and product capabilities as well as the achievement of real results in cutting CO₂ emissions, will enable us to show the world that decarbonization technologies are ready for use. In this way, we will contribute to Carbon Neutrality throughout industry.

Today, as initiatives to achieve Carbon Neutrality in the power generation industry move forward worldwide, there is a risk that products manufactured using carbon-intensive electricity will become subject to carbon tariffs, gradually eroding their competitiveness. From the perspective of Japan as a whole, I believe we need to maintain the competitiveness of Japanese products. One way to do this would be to introduce subsidies in the power generation industry to curb electricity price increases arising from advances in Carbon Neutrality. But this method would require large subsidies to offset price differentials between fossil fuels and imported Carbon Neutral fuels, and for that reason economic benefits within Japan or impact as a growth driver would be limited. Rather than this approach, I would prefer to see funds directed into technological development.

Mitsui I understand your stance prioritizing technology, and I agree that MHI Group is uniquely positioned to be proactive in this way. As concerns Carbon Neutrality, every country has its own targets. And as countries compete against each other, clearly the U.S. and Europe are in the lead in terms of public policy. As you just indicated, indeed there is a great risk that Japanese products may lose their competitiveness through carbon tariffs and similar mechanisms. I sincerely hope that MHI Group will engage with the government on policy and with society at large. Of course, since MHI Group has customers across the globe, you may not be solely concerned with Japanese policies.

Kaguchi I hope we can gain understanding for MHI Group's decarbonization technologies in all countries – not only the U.S., Europe, and Japan. We also plan to show the world a path to applying these various technologies to contribute to Carbon Neutrality. Even outside the U.S. and Europe, we have already concluded multiple memoranda

of understanding for the installation of decarbonization technologies at some existing customers in the power generation sector, including public and private entities. We aim to cooperate proactively with these partners while making full use of MHI Group technologies.

■ Increasing Corporate Value through Achievement of Global Carbon Neutrality

Mitsui I've come away from our conversation today with an understanding of how advanced MHI Group is in designing paths to Carbon Neutrality with your cutting-edge technologies. At the same time, I've also come to understand the difficulties involved in achieving broad adoption of technologies that contribute to Carbon Neutrality, and essential issues of the challenges needing solutions. I've also gotten a sense of the Company's strong determination to play a leadership role in helping your customers achieve decarbonization as well.

The energy sector is significantly impacted by public policy and regional considerations. Regarding the evaluation of economic viability in the leadup to practical implementation of these technologies, I believe it would be useful to engage in dialogue with relevant governmental bodies around the world, as well as with financial institutions and institutional investors. I hope that going forward

MHI Group will actively engage in discussions with a wide range of investors to help achieve global Carbon Neutrality and, by so doing, increase your corporate value.

Kaguchi Through our conversation today, I've become all the more aware of how indispensable constructive dialogue with financial backers – including financial institutions and investors – will be in realizing a smooth Energy Transition and in implementing economically viable Carbon Neutrality initiatives worldwide. Going forward, we will continue to dedicate our resources to technological development and, through engagement with society at large and innovative collaboration with our partners, we will contribute to realizing global Carbon Neutrality as soon as possible. We sincerely look forward to everyone's support as we proceed toward achieving these goals.



MISSION NET ZERO

Carbon Neutrality Declaration and MHI Group Initiatives

In October 2021, MHI Group announced MISSION NET ZERO, our commitment to achieving Carbon Neutrality by 2040. Through our products, technologies, and services supporting CO₂ reductions, and in cooperation with partners worldwide, MHI is contributing to making a carbon neutral world a reality.

2040 Carbon Neutrality Declaration

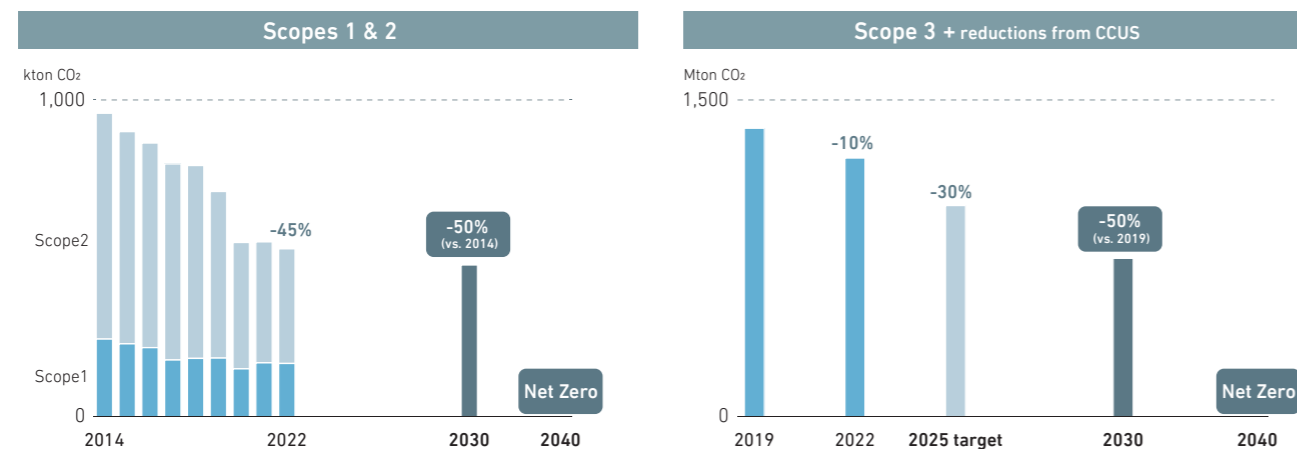
The first goal of MISSION NET ZERO, our 2040 Carbon Neutrality Declaration, is to reduce MHI Group CO₂ emissions (Scopes 1 and 2) to 50% of 2014 levels by 2030, and to reach Net Zero emissions by 2040. Our second goal involves carbon emissions from the value chain in which we operate (Scope 3), the majority of which arise from the customers' use of our products. Here, we aim to reduce CO₂ emissions throughout our entire value chain to 50% of 2019 levels by 2030, after deducting reductions from CCUS.* We will then reduce CO₂ to Net Zero by 2040. This means that we are aiming for Net Zero carbon emissions a full decade earlier than Japan and other major nations' 2050 Net Zero targets. This goal shows our determination to set an example by realizing Carbon Neutrality before the rest of the world. It was formulated as such in order to provide enough time for MHI Group products and tech-

nologies to be implemented around the globe.

Thanks to the success of earlier energy conservation efforts, we are already close to completing our interim target to reduce Scopes 1 and 2 carbon emissions by 50% in 2030, having cut CO₂ emissions by 45% (compared to 2014) in 2022. Nevertheless, recognizing that existing energy-saving efforts alone will not be enough to achieve Net Zero in 2040, we are working toward decarbonization by using our Mihara Machinery Works as a model plant for Carbon Neutrality.

For Scope 3 emissions, a variety of development efforts are underway in order to meet the interim target of 30% reduction in 2025, aiming for 50% reduction in 2030. We reduced emissions by 10% (compared to 2019) in 2022, showing steady progress toward achieving our goal.

*CO₂ Capture, Utilization, and Storage



MHI Group's Approach to Achieving Carbon Neutrality

MHI has defined two growth areas as focuses of our 2021 Medium-Term Business Plan (MTBP), which was originally announced in 2020: the Energy Transition, which aims to decarbonize energy supply, and Smart Infrastructure, which aims to realize the decarbonization, energy conservation, and automation of energy demand. By decarbonizing the generation and use of energy, MHI is contributing both to achieving Net Zero carbon emissions by 2040 and to realizing a carbon neutral world.

In the Energy Transition, we are pushing ahead with the decarbonization of existing infrastructure while building hydrogen and CO₂ solutions ecosystems. Achieving Carbon Neutrality requires both short-term and medium- to long-term initiatives. In the short term, steps to decarbonize and effectively utilize existing infrastructure are needed, from the expansion of renewable energy to the development of hydrogen solutions and other ecosystems. In the medium to long term, we are working to develop hydrogen and CO₂ solutions

ecosystems, with the aim of implementing our decarbonization technologies, such as hydrogen gas turbines and CCS, throughout the entire value chain.

Through our Smart Infrastructure initiatives, we are working to meet customer needs by providing one-stop automation, optimization, and high reliability solutions. Over the years, MHI Group has developed and commercialized a variety of digital products, including control systems for machinery and power plants, remote monitoring and maintenance solutions, and cyberattack prevention products. By intelligently linking all of these products with the ΣSynX (Sigma SynX) platform, we are providing automation, design and equipment optimization, and high reliability solutions as added value to our customers. Today, we are addressing the following areas as priorities for our initiatives: Intelligent Logistics Systems; Decarbonization and Energy Conservation of Data Centers; and Infrastructure to Support Autonomous Mobility.

TOPIC Mihara Machinery Works' Advanced Carbon Neutrality Project

MHI is aiming to achieve a Carbon Neutral Factory with Net Zero CO₂ emissions at our Mihara Machinery Works (Mihara, Hiroshima Prefecture, Japan) by the end of FY2023. In order to offset the 10,000 tons of CO₂ generated annually by Mihara Machinery Works, MHI is working with Chugoku Electric Power to install solar panels on site via a Power Purchase Agreement (PPA). This project is designed to cover all electricity demand within the facility with non-fossil fuel energy.

As of June 2023, installation of solar panels at Wadaoki Plant within Mihara Machinery Works was progressing, with steps to-

ward achieving Carbon Neutral Factories proceeding as planned. Furthermore, Mihara Machinery Works is being used as a proving ground for MHI's decarbonization technologies, including heat source electrification and fuel conversion solutions. The aim is to leverage these initiatives to the development and proposal of new solutions, such as the adoption of renewable energy and other decarbonized power sources, using Mihara Machinery Works as a model plant for the aggressive and rational implementation carbon neutral solutions.

Overview of Carbon Neutrality at Mihara Machinery Works



Outline of Mihara Machinery Works and Project Significance (Itozaki, Kohama, and Wadaoki Plants)

- Some main products: New transportation systems, railway car brakes, printing machinery, and paper converting machines
- CO₂ emissions: approx. 10,000 tons/year (equivalent to 2% of MHI Group Scopes 1 and 2 emissions)
 - Gain real insight into specific procedures and costs for achieving carbon neutral plants
 - Practical steps for formulating the Group's overall Carbon Neutrality strategy and applying to policy design
 - Currently focused on initiatives to achieve 100% reduction of CO₂ while avoiding reliance on carbon credits wherever possible

Decarbonizing existing infrastructure as a decisive step in the Energy Transition

The MHI Group Technological Capabilities Backed by a Long History and Extensive Achievements

Going all the way back to Japan's first domestically produced steam turbine in 1908, MHI Group's Gas & Steam Power Systems businesses have developed in step with the world's growing demand for electricity. Through our history of development and production spanning more than a century, MHI has grown into one of the world's top-class manufacturers of gas turbines used for power generation. The ability to fire fuel at high temperatures is essential to achieving high efficiency in a gas turbine, which is currently one of our mainstay products. Thanks to cutting-edge technology development efforts in such areas as aerodynamics, cooling, and materials science, MHI brought the world's first 1,600°C J Series gas turbine to market in 2011. MHI Group gas turbines are in operation around the

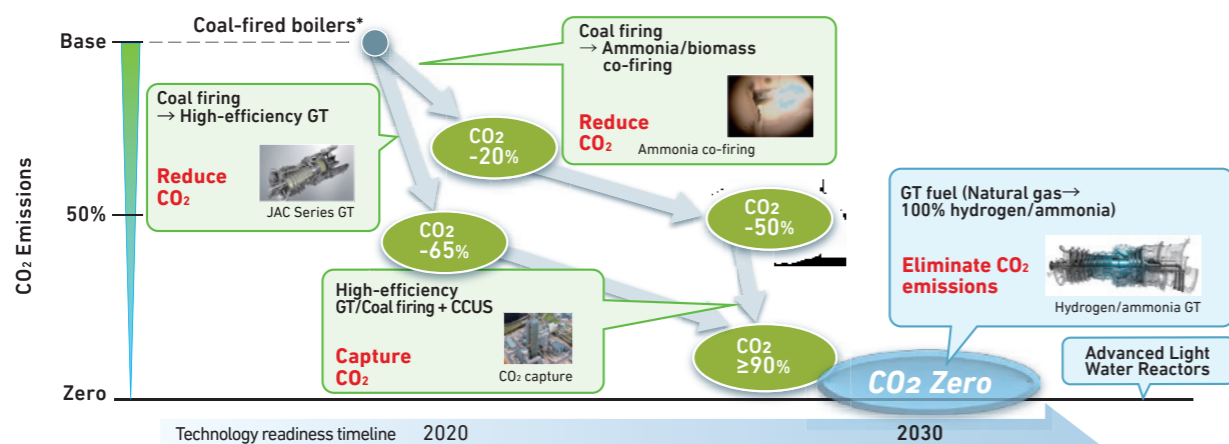
globe, with accumulated orders of over 1,600 units worldwide. During the Energy Transition, in order to achieve the widespread implementation of solutions including decarbonization through efficiency improvements in existing infrastructure together with conversions from fossil to clean fuels, as well as CO₂ capture, existing infrastructure will need to be replaced in a phased manner over a long period of time. Moreover, technology development will require sustained effort over a long time-frame. Here, MHI's strengths will be on full display: analysis of operations data gathered during often decades of after-sales servicing of our products, continuously developing technology and human resource bases, and a stable financial foundation to support these important resources.

Roadmap to Decarbonizing Existing Infrastructure

The Energy Transition faces different circumstances and issues in each country and region. The demand is high for sound economics in combination with positive environmental impact, making it important to keep costs within a range that society as a whole can bear. At MHI

Group, in order to achieve a sustainable Energy Transition while maintaining people's current standard of living, we believe that the phased decarbonization of power generation systems is necessary. To that end, we are proposing solutions that help to reduce CO₂ emissions.

Reducing, capturing, and eliminating CO₂ is one path to decarbonizing thermal power. Another path is to reduce CO₂ emissions through maximum utilization of nuclear power, a carbon-free energy source.



*Based on CO₂ emissions from subcritical pressure coal-fired boilers

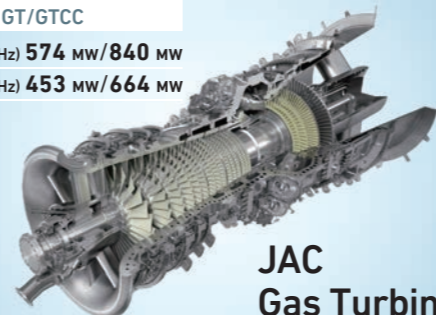
Replacement with GTCC

Existing coal-fired thermal power generation systems can reduce CO₂ through the co-firing of low- or carbon-free fuels. CO₂ can also be reduced by replacing coal-fired systems with high-efficiency gas turbines. GTCC power generation systems using cutting-edge JAC Series gas turbines have achieved a power generation efficiency of 64%, the highest level in the world. The result is an up to 65% reduction in CO₂ emissions

compared to conventional coal-fired thermal power generation systems. MHI's high-efficiency, highly reliable JAC Series gas turbines also satisfy customer needs as a lower-carbon alternative to coal-fired thermal power as a baseload power source.

In every stage of the process, from gas turbine R&D, design, validation, manufacture, installation, and trial operation to after-sales services, MHI Group provides quality that customers trust.

The Cutting-Edge JAC Series Gas Turbine
Replacing coal-fired thermal power with gas-fired GTCC alone can cut CO₂ emissions by up to 65%.

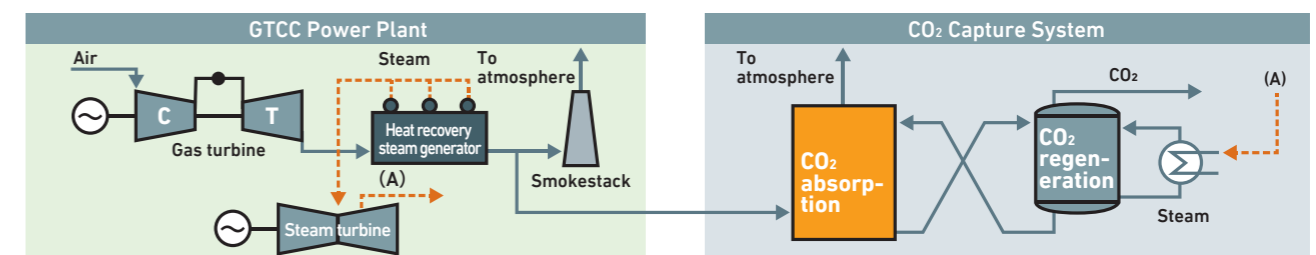
 <p>JAC Gas Turbine</p>	GT/GTCC M701JAC (50Hz) 574 MW/840 MW M501JAC (60Hz) 453 MW/664 MW	High efficiency: 64% CC efficiency	<ul style="list-style-type: none"> High pressure ratio compressor (25:1) Enhanced air-cooled combustors Advanced thermal barrier coating (TBC)
		Reliability: 99.5% reliability	<ul style="list-style-type: none"> Cumulative operation hours: > 2 million hours Booked units: 113 units (J Series as of July 31, 2023)
		Fuel flexibility: Compatible with a variety of fuels	<ul style="list-style-type: none"> Fossil fuels (natural gas, oil) Clean fuels (hydrogen)

High-Efficiency GTCC + CO₂ Capture System

MHI Group has developed the KM CDR Process™ and Advanced KM CDR Process™ in collaboration with Kansai Electric Power Co., Inc. since 1990. Both of these technologies employ a chemical absorption method using a proprietary amine absorbent. We have delivered CO₂ capture systems for use in chemical plants and power generation facilities worldwide. As of September 2023, we are the global leader in market share for commercial flue gas CO₂ capture plants on a capacity basis. The demand for com-

binations of high-efficiency GTCC power systems with CO₂ capture systems is increasing worldwide, driven by the establishment of legal frameworks supporting decarbonization, such as the Inflation Reduction Act (IRA) in the U.S. In 2022, we were awarded front-end engineering design (FEED) contracts for CO₂ capture systems to be applied to GTCC power plants in Alberta, Canada and Aberdeenshire, Scotland. These are just two examples of how we are responding to our customers' decarbonization needs.

By applying a CO₂ capture system to a high-efficiency GTCC power system, it is possible to capture over 90% of the CO₂ emitted.



Hydrogen- and Ammonia-Fired Gas Turbine Development

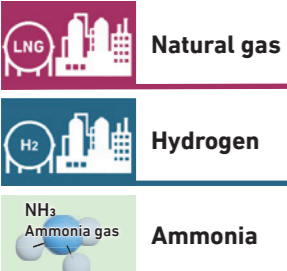
In response to customer requests for a method to effectively utilize refinery and steel plant off-gas, since the 1970s, MHI has manufactured gas turbines which fire off-gas containing hydrogen. Since the 1980s, MHI has developed technology to fire hydrogen in 15 MW-class gas turbines. Leveraging our experience developing and operating combustors for these industrial applications, MHI is working hard to develop next-generation combustion techniques which will make 100% hydrogen firing possible by resolving technical issues, such as hydrogen's especially high combustion rate.

MHI has completed development of a large frame gas turbine combustor enabling 30% hydrogen co-firing. We also successfully conducted a combustion test

with a 50% hydrogen mix in 2022. At this milestone, we effectively cleared the EU taxonomy's 270 g/kWh CO₂ emission standard. Going forward, we will develop new types of combustors aiming to launch 100% hydrogen firing for small- to mid-size gas turbines in 2025, and for large frame gas turbines in 2030 or thereafter. Phased validation of these combustion technologies is set to begin in FY2023.

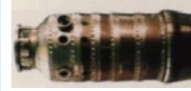
Another valid approach to decarbonization is utilizing ammonia, which acts as a hydrogen carrier and is easier to handle than hydrogen on its own. MHI has also begun work on the development of a 40 MW-class gas turbine that directly uses 100% ammonia fuel. We are pursuing combustor development in the lead up to commercial unit operation and market launch in FY2025 or thereafter.

Able to convert a natural gas-fired gas turbine to hydrogen or ammonia firing – and thereby achieve decarbonization – simply by replacing the combustors and adding a fuel supply system


	Type 1	100% H ₂ firing	Development complete for small- to mid-size GTs
	Type 2	30% H ₂ co-firing	Development complete for large frame GTs
		50% H ₂ co-firing	2022: Successful combustion tests for large frame GTs
	Type 3	100% H ₂ firing	2024: Combustion tests planned for small- to mid-size GTs Starting 2025: Combustion tests planned for large frame GTs
Type 1	100% ammonia firing	2024: Combustion tests planned for small- to mid-size GTs Validating in lead up to commercial unit operation and market launch in 2025 or thereafter	

Combustor replacement
Convert to H₂/ammonia firing by replacing combustors and adding fuel system

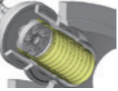
Type 1



Type 2



Type 3



Three types of combustor

Decarbonization Technology Development Bases

MHI is currently pursuing the development of thermal power decarbonization technologies primarily in the cities of Takasago (Hyogo Prefecture) and Nagasaki (Nagasaki Prefecture), both of which are home to MHI manufacturing facilities and Research & Innovation Centers. At Takasago Hydrogen Park, we are building a facility to perform long-term validation of the latest elemental technologies under actual operating conditions using a commercial-scale GTCC system. We are also building Nagasaki Carbon Neutral Park as the base for the development of these elemental technologies. The process of bringing to market products that have undergone a series of elemental technology development cycles as well as commercial operation-level validation testing raises the reliability of the products developed.

Takasago Hydrogen Park

Takasago Machinery Works – the base for development, design, manufacture, and validation of MHI's gas turbine products – is home to Takasago Hydrogen Park, which will be the world's first integrated validation facility for hydrogen technologies covering all of the steps from hydrogen production to power generation. At the Park, in addition to alkaline water electrolysis, we plan to perform phased testing and



validation of a variety of hydrogen production technologies including MHI proprietary solid oxide electrolyzer cell (SOEC), next-generation anion exchange membrane electrolysis (AEM), and next-generation turquoise hydrogen production technology, which will produce CO₂-free hydrogen through the pyrolysis of methane into hydrogen and solid carbon. With this validation facility, we believe MHI will be able to contribute greatly to the wide-scale application of hydrogen and the practical implementation of hydrogen power generation.

Nagasaki Carbon Neutral Park

Established in the city of Nagasaki, Nagasaki Carbon Neutral Park began operation as MHI Group's main site for developing energy decarbonization technologies. At the Research & Innovation Center in Nagasaki, in addition to the hydrogen production technologies being validated at Takasago Hydrogen Park, we are developing elemental technologies for ammonia firing, CO₂ capture, and the synthesis of fuels from biomass which are suitable for use as sustainable aviation fuel (SAF). In parallel, we are accelerating product development and commercialization by applying the thermal energy systems design and manufacturing capabilities developed at Nagasaki Shipyard & Machinery Works' Nagasaki and Koyagi Plants.



MHI Group Vision

While meeting the immediate energy demands of the day, we aim to achieve a Carbon Neutral world by combining cutting-edge power generation technologies and optimized energy solutions. This is MHI Group's vision for the Energy Transition. We view efforts to decarbonize existing power-generation systems as a significant opportunity for MHI Group which also allows us to fulfill our responsibility

as a world-class manufacturer in this industry. Through the development and practical implementation of hydrogen- and ammonia-fired gas turbines – which can contribute to decarbonization – together with CCUS systems and other decarbonization solutions, MHI Group is collaborating with partners worldwide in order to achieve global Carbon Neutrality.

Achieving data center decarbonization and energy conservation with next-generation cooling systems

As digitalization advances worldwide, data centers are becoming an essential part of infrastructure. With demand set to grow even further, the decarbonization and conservation of power consumed by data centers are emerging as key issues. To solve these issues, MHI Group is aiming to provide total energy solutions that combine power supply, cooling, control, and monitoring systems for data centers in an integrated package.

Issues Facing Data Centers

The term “data center” is a catchall for a specialized facility in which a variety of equipment, including servers and data transmission systems, are installed and operated. Along with ongoing efforts toward digital transformation (DX) in recent years, the role of data centers handling massive amounts of data is expanding in tandem with business continuity planning (BCP) to prepare for natural disasters, among other measures. By 2025, global data volume is predicted to swell by roughly 150 times compared to 2010. In line with this, the proportion of global electricity consumption by data centers is projected to increase from 1% in 2018, to around 8% in 2030.

Moreover, greater use of AI and digital twin technologies, upgrades to and expansion of 5G and 6G infrastructure, and the rollout of new IT-related technologies and services will spur calls for increased data bandwidth and transmission speeds, which are expected to lead to the generation of even more heat by servers. Breaking down total global power consumption by data centers in

2021, about 60% of power was supplied to servers, the most essential component, with roughly 30% of power used for cooling. Cooling in many cases also consumes a significant amount of water, which is an issue from the standpoint of water resource conservation. In coping with the increasing functionality and density of IT devices, the traditional approach to cooling servers with air cooling systems is likely to become challenging. Accordingly, new technologies for efficiently and effectively cooling high heat-generating servers will become indispensable for efficient data center operations.

As such, ensuring the sustainability of data centers, which are essential next-generation infrastructure, will require decarbonization of both energy supply and demand, from securing zero-carbon power sources to energy conservation solutions for IT equipment cooling. In the next section, we detail recent progress in R&D and validation testing, showcasing an immersion cooling system that is inching closer to commercial implementation.

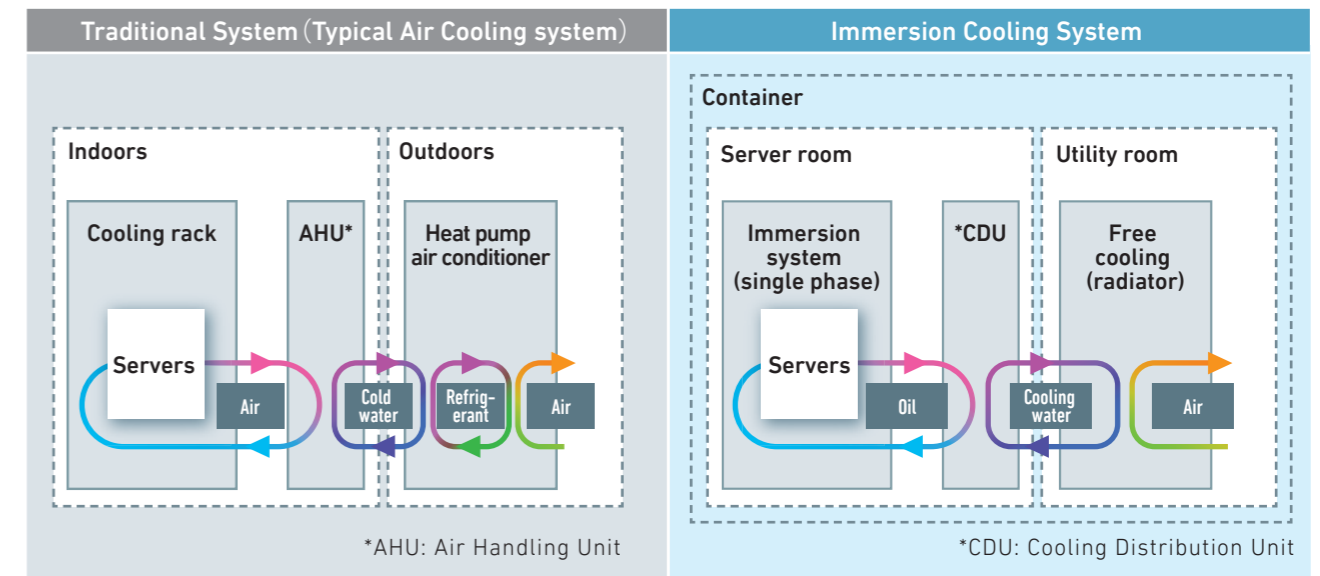
Next-Generation Cooling Systems

The main approaches are immersion cooling, direct to chip cooling, and rear door cooling. Of these, MHI has begun development and validation testing of immersion and direct to chip cooling systems.

Immersion cooling is an approach that involves the immersion of servers in an insulating cooling medium (oil, for example) with higher thermal conductivity than gas (air). Heat from the cooling medium is directed through a heat exchanger, where it exchanges heat with cooling water. The heat collected by the cooling water is then

cooled by outside air. Furthermore, the cooling water line is a closed loop, which prevents evaporation and reduces water usage. Compared to typical air cooling systems currently in use, these innovations enable adequate cooling of servers in high temperatures environments, with cooling possible even in rooms with air temperatures as high as 40°C. The most significant merit is that this approach allows for reduction in the energy consumed by the air conditioning systems used to produce cooling air in existing data centers.

Diagrams of Device Layout and Heat Transfer



In FY2021, MHI, KDDI Corporation (KDDI) and NEC Networks & System Integration Corporation (NEC Net SI) jointly conducted validation testing of a compact data center housed in a shipping container. The system was comprised of a 50 kVA server and immersion cooling system installed in a shipping container. The result of the tests showed adequate cooling performance, successfully reducing power consumed by server cooling by 90%, and reducing overall data center power consumption by 43% compared

to existing data center models. This test also achieved a power usage effectiveness (PUE)*—a measure of data center power usage efficiency—of 1.07, compared to the 1.7 of a typical data center in operation today. This marks an enormous leap toward the practical use of immersion cooling technology.

*PUE: The proportion of overall data center power consumption used by IT devices. 1.0 is the minimum value. The smaller this number is, the less power is consumed by non-IT devices, and the higher the efficiency of a system.

Similarly, in FY2022, KDDI, NEC Net SI and a number of server and chip suppliers joined MHI in the validation testing of an immersion cooling system concept in a hyperscale data center at KDDI's Oyama Network Center. The test results confirmed a 94% reduction in power used for server cooling compared to traditional data centers, achieving a PUE of 1.05. Additionally, elevating the capacity for stable system operations enabled the achievement of Tier 4 operation stability, the highest degree of data center quality.

MHI is also working with NTT Data Corporation on a development of a new rack-based immersion cooling system to meet a variety of data center customer needs. Data center devices are placed onto racks of a uniform size – the standard length is 19 inches – for more efficient installation, replacement and positioning. By designing an immersion cooling system that can fit into a 19-inch rack configuration, we are aiming not only to boost performance but also to deliver a high-efficiency cooling system incorporating high-performance dry coolers produced by MHI. Validation testing achieved a 92% reduction in power used to cool servers compared to previous performance

levels. Moreover, by designing a system with a widely used size, we aim to facilitate implementation at existing data centers.

MHI Group is working to solve a variety of technical issues, including those pertaining to system operations and controls, in the runup to the commercialization of immersion cooling technology for hyperscale data centers sometime in FY2023.



Using liquid to cool a device

Total Solutions

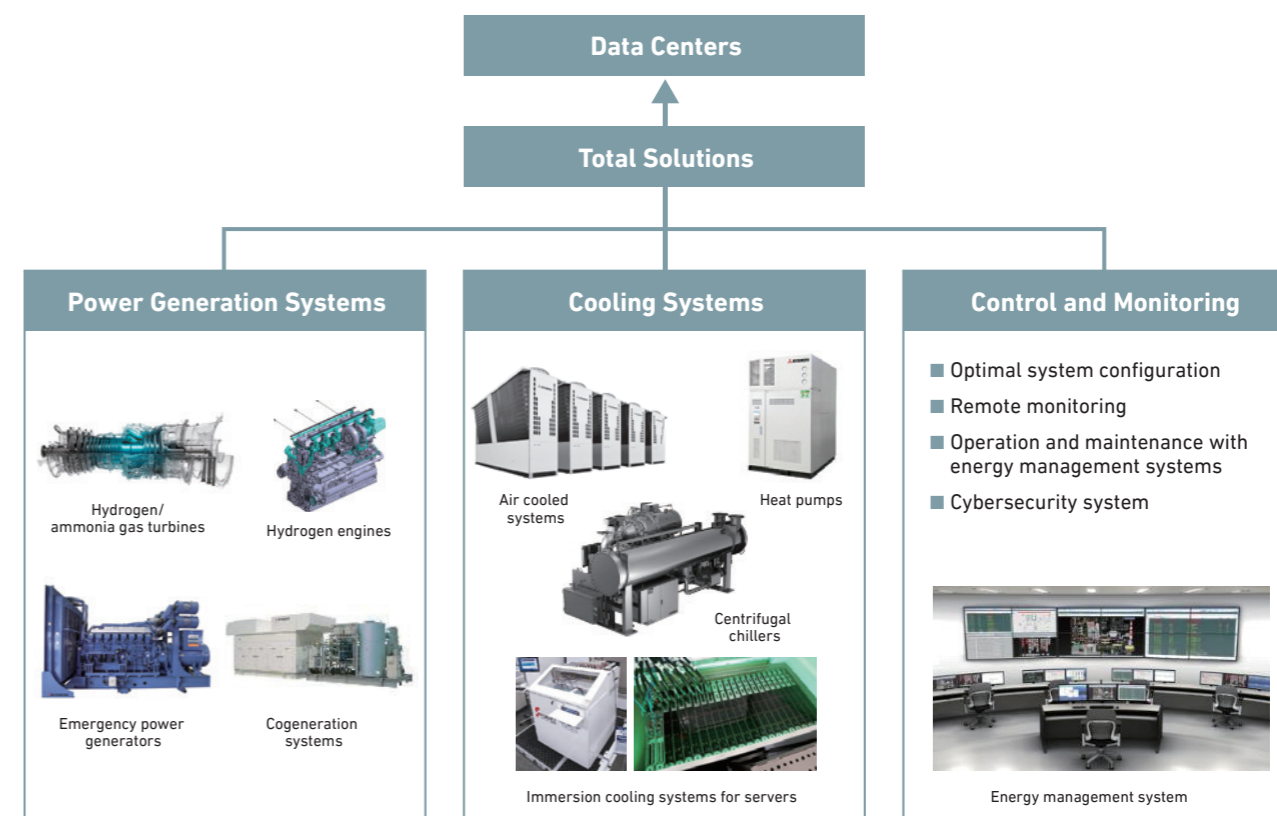
Beyond standalone cooling systems, MHI Group is seeking to provide solutions to the issues that data centers face through three approaches targeting power supply, cooling, and integrated control of these two areas. In the area of energy supply, alongside the use of renewable energy, MHI Group will provide high-efficiency, high-reliability power generation systems and hydrogen power generation technologies, while operating these power sources in an integrated fashion, thereby achieving Carbon Neutrality.

Furthermore, by applying our flagship monitoring and integrated control technologies, the Σ SynX (Sigma SynX) automation and intelligence platform and the TOMONI® intelligent power plant solution, to data centers, MHI provides integrated, one-stop solutions to optimize power generation and the power usage of cooling equipment and servers. This will ultimately contribute to achieving Carbon Neutrality not only at data centers but for infrastructure as a whole.

To that end, in July 2023, MHI signed an agreement to acquire shares of Concentric, LLC, a company specializing in power system solutions primarily for data centers and logistics centers in the United States. Concentric has a network of locations spanning the entire United States,

the world's largest data center market. Adding MHI Group's technological capabilities to their robust service network will allow us to develop a solutions business for data centers.

► One-Stop Solutions for Data Center Decarbonization



MHI Group Vision

By 2030, the data center equipment market, anchored by continued year-on-year expansion primarily in the United States, is expected to grow to a global scale of ¥8 trillion. By combining decades of technology in the areas of power

generation, HVAC, and control systems, MHI Group is developing solutions seeking utility-side decarbonization and high efficiency for data centers in a push to capture the largest share of this market.

Overview

MHI Group's reporting segments are constituent units of the Group for which separate financial information is available, and are periodically reviewed by MHI's Board of Directors to determine the allocation of management resources and assess performance. MHI Group has established business domains and segments to manage its businesses. Each business domain and segment drafts comprehensive strategies for the products and services handled in Japan and overseas, and conducts business activities accordingly. Therefore, MHI has grouped these business domains and segments based on the similarity of their respective customers and product characteristics into four reporting segments: Energy Systems; Plants & Infrastructure Systems; Logistics, Thermal & Drive Systems; and Aircraft, Defense & Space.

Organization and Number of Employees

- Energy Systems
- Plants & Infrastructure Systems
- Logistics, Thermal & Drive Systems
- Aircraft, Defense & Space
- Others



(As of March 31, 2023)

Internal organization and major subsidiaries of Energy Systems

GTCC Business Division
 Steam Power Maintenance Innovation Business Division
 AQCS Business Division
 Nuclear Energy Systems

* Thermal power-related business divisions

- Mitsubishi Heavy Industries Marine Machinery & Equipment Co., Ltd.
- Mitsubishi Heavy Industries Aero Engines, Ltd.
- Mitsubishi Heavy Industries Compressor Corporation

Internal organization and major subsidiaries of Plants & Infrastructure Systems

Engineering Solutions

- Mitsubishi Shipbuilding Co., Ltd.
- Mitsubishi Heavy Industries Machinery Systems, Ltd.
- Mitsubishi Heavy Industries Environmental & Chemical Engineering Co., Ltd.
- Primetals Technologies, Limited

Major subsidiaries of Logistics, Thermal & Drive Systems

- Mitsubishi Logisnext Co., Ltd.
- Mitsubishi Heavy Industries Engine & Turbocharger, Ltd.
- Mitsubishi Heavy Industries Thermal Systems, Ltd.

Internal organization and major subsidiaries of Aircraft, Defense & Space

Commercial Aviation Systems
 Integrated Defense & Space Systems

- MHI RJ Aviation ULC

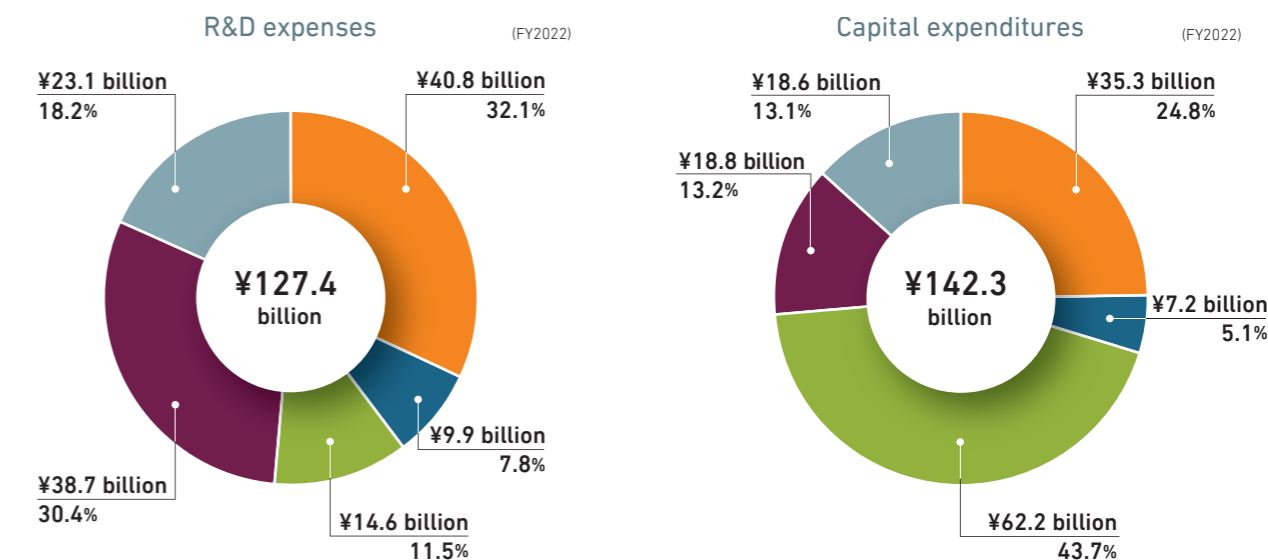
* Company names are of major subsidiaries

Orders Received, Revenue and Profit

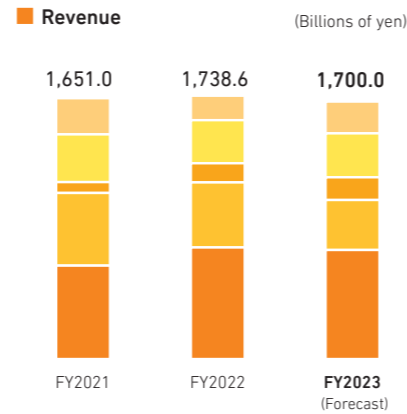
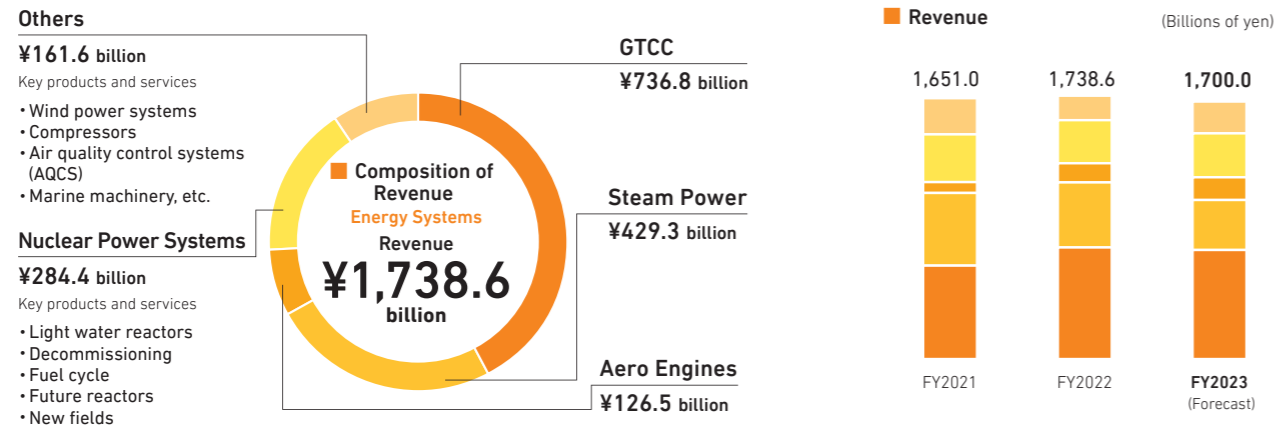
- Energy Systems
- Plants & Infrastructure Systems
- Logistics, Thermal & Drive Systems
- Aircraft, Defense & Space
- Others



R&D Expenses, Capital Expenditures



Energy Systems



Overview of FY2022 and Key Strategies in the Medium to Long Term

Business Environment

The movement towards decarbonization is accelerating, centered on Europe and the United States, amid rising interest in achieving Carbon Neutrality and energy security.

The European Union is seeing a wider reevaluation of nuclear power and natural gas, with a decision to include nuclear power and natural gas in the EU taxonomy, which defines sustainable economic activities.

In Japan, the cabinet approved the basic policy on green transformation in February 2023. The policy clearly lays out the country's direction on both responding to climate change and ensuring a stable supply of energy, mainly by promoting action on decarbonization, such as rigorous energy conservation and switching to decarbonized sources of electricity that help to increase the country's energy self-sufficiency, such as nuclear power and hydrogen. MHI Group is actively promoting an Energy Transition grounded in reality through a wide range of solutions including gas & steam power systems, such as high efficiency gas turbines, hydrogen-firing gas turbines, and biomass boilers, as well as nuclear power systems.

Status of Business

In fiscal 2022, consolidated orders received were up year on year to ¥1,791.7 billion, mainly reflecting brisk activity in the global GTCC market as well as growth in orders for aero engines as demand recovered from the COVID-19 pandemic, along with solid activity in nuclear power systems. Revenue totaled ¥1,738.6 billion, a year-on-year increase, mainly due to increases in GTCC, nuclear power systems, and aero engines. Profit from business activities was level with the previous fiscal year at ¥85.1 billion.

Gas & Steam Power Business

Gas turbines saw a steady buildup of orders received from Hong Kong, Uzbekistan, Singapore, and the United States, among others, atop firm demand for gas-fired thermal power, which has a lower environmental impact than coal-fired thermal power. The Company's gas turbines are highly regarded for offering the world's highest level of efficiency and output capacity. Gas turbines achieved the world's top market share in 2022. This is due to the high product reliability of the J-type gas turbine, which has a cumulative operating time of over 2 million hours, and the future extensibility such as installation of CO₂ capture equipment and conversion to hydrogen-firing. The Company succeeded in a demonstration trial using a 20% hydrogen mix fuel at an existing power station operating in the United States. We will contribute to the decarbonization of the world in the field of building a value chain for the production, storage, transportation, and utilization of hydrogen. For example, a project to build the world's largest green hydrogen production and storage facility, which our company is participating in, was selected as a loan by the U.S. Department of Energy, and the company is working to start operations in 2025.

Although the steam power market is shrinking, there are growing needs for modification of existing facilities, for example to enable mixed combustion of biomass, and the Company has signed multiple MOUs for investigating the use of decarbonization fuels at existing thermal power plants. We are also promoting CO₂ emissions reduction in our service operations, by making proposals for maintenance and innovation projects to increase efficiency, for example.

Nuclear Power Business

In the nuclear power business, we are working with electric utilities to restart existing light water reactor plants, installing severe accident management facilities (Specialized Security Facilities), and preparing for completion of a fuel cycle facility's construction. In FY2022, we completed work on five Specialized Security Facilities, including Kansai Electric Power Mihama Unit 3, and contributed to stable and low-cost supply of electric power through the stable operation of 10 PWR*¹ plants. Recently, based on our track record in restarting PWR plants and installing Specialized Security Facilities, we have received a number of requests from BWR*² electric utilities for support in regard to restarting and Specialized Security Facilities. In addition, with a view to contributing to the realization of Carbon Neutrality and stable energy supply, we have been working with four PWR electric utilities*³ on joint development and design of the Advanced Light Water Reactor SRZ-1200, which will achieve the world's highest standards of safety, aiming for practical implementation in the mid-2030s. We are currently working on a target of completing around 80% of the basic design. Furthermore, to enable us to respond to diversifying social needs in the future, we are proceeding with development of technologies including small light water reactors as distributed power sources, high temperature gas-cooled reactors that can contribute to large-scale stable hydrogen production, and fast reactors that contribute to a reduction in the volume and toxicity of radioactive waste. With government assistance, we are aiming for practical implementation of these technologies around 2040. In the area of high

*1 PWR: Pressurized Water Reactor
 *2 BWR: Boiling Water Reactor
 *3 Hokkaido Electric Power Company, Kansai Electric Power Company, Shikoku Electric Power Company, and Kyushu Electric Power Company
 *4 MRO: Maintenance, Repair & Overhaul

temperature gas-cooled reactors, in FY2022 we decided to participate in a hydrogen production demonstration project using a High Temperature Engineering Test Reactor (HTTR) with the Japan Atomic Energy Agency. In FY2023, MHI was selected as the core company for design and development of a demonstration fast reactor and a high-temperature gas-cooled demonstration reactor, both promoted by the Japanese government.

Aero Engines/Compressors/Marine Machinery

Aero engines saw growth in demand for new builds and maintenance as air travel demand continues to recover following the relaxation of travel restrictions. To keep pace with the expected growth in MRO*⁴ demand, we completed expansion work on our aero engine maintenance plant in Komaki, Aichi Prefecture. We are also proceeding with expansion of our Nagasaki plant, aiming to integrate production of combustors and achieve further productivity gains, with plans to start operation in stages from FY2023.

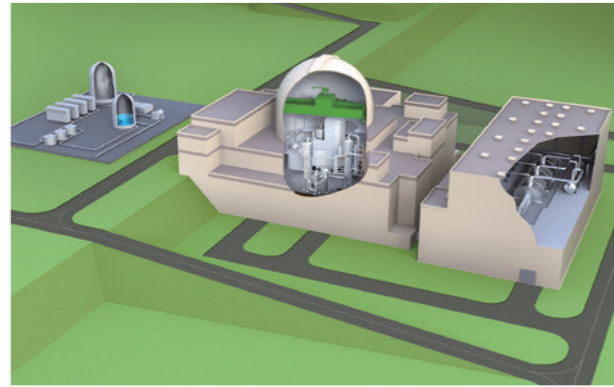
In compressors, we will actively respond to demand for use in decarbonization-oriented ethylene, ammonia, and LNG plants, mainly in North America and the Middle East, backed by our strong track record in supplying compressors for oil and gas and petrochemical plants. In addition, we will proceed with product development to address new needs related to CCS and hydrogen. In marine machinery, we achieved record high sales in services, and in new shipbuilding projects, we significantly expanded our market share in turbochargers for two-stroke engines. In light of movements such as the Marine Environment Protection Committee's recent decision to move forward its net zero greenhouse gas emissions target, we will enhance our partnership with international decarbonization technology R&D institutes as well as our own technology and product development efforts.

FOCUS Contributing to Carbon Neutrality and Stable Energy Supply with the Advanced Light Water Reactor SRZ-1200

Nuclear power is a carbon-free, large-scale, stable power source and an important base load power source from an energy-security perspective. We consider it a crucial tool for achieving Carbon Neutrality in Japan by 2050. The cabinet of the Japanese government has approved the basic policy on green transformation, which calls for the use of nuclear power to the fullest extent, and green transfor-

mation strategy, which calls for rebuilding nuclear power stations with next-generation innovative reactors. Against this backdrop, MHI is working with four PWR electricity utilities on the basic design of the advanced light water reactor SRZ-1200, which will offer even better safety than conventional PWRs. We now intend to work on the basic designs and detailed designs for individual plants,

Energy Systems



Advanced light water reactor SRZ-1200

aiming for practical implementation in the mid-2030s.

The SRZ-1200 has a dramatically improved safety profile. Proven technologies are used to enhance safety features, including strengthening resistance to natural hazards, such as tsunamis and earthquakes, increasing the redundancy and diversity of safety equipment, and bolstering anti-terrorism countermeasures with the use of reinforced containment vessels. On top of these, the SRZ-1200 also incorporates new safety mechanisms. One of these new safety mechanisms is the installation of the world's most advanced core catchers (equipment that securely holds and cools melted debris inside the containment vessel) as a countermeasure for a core melt. Furthermore, we are also designing systems

to reduce the release of radioactive material in the unlikely event of a major accident and limit the impact to within the site of the plant. The SRZ-1200 is being designed not only for safety, but also for high economic viability. Using the advantages of new plant construction, we aim to realize a highly economical design for the SRZ-1200 by conducting rational design and planning, factoring in new safety countermeasures and other features from the design stage to reduce construction costs, and increasing the capacity utilization rate through measures such as long-cycle operation and reducing the time for periodic inspections. Moreover, we are also examining the potential for improving flexible operation in response to fluctuation in other power sources, such as renewables, and suitability for production of hydrogen.

MHI has accumulated technologies and experience through the construction and maintenance of 24 PWRs in Japan. We will use these technologies and experience to restart existing plants and achieve safe and stable operations after restart. Throughout this process, we will strive continuously to improve safety, while also promoting the development and implementation of the advanced light water reactor SRZ-1200, which will realize the world's highest level of safety. Through these efforts, we will contribute to the realization of Carbon Neutrality and stable energy supply.

▶ Stakeholder Voices



Mr. Hitoshi Mizuta
Vice President, Representative Executive Officer
Kansai Electric Power Company

Contributing to zero-carbon society with the advanced light water reactor SRZ-1200

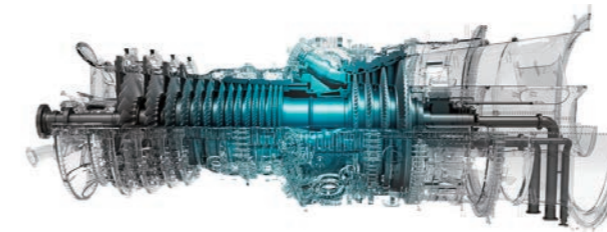
The Kansai Electric Power Group is promoting initiatives to make full use of nuclear power, with safety as the utmost priority, aiming to achieve a zero-carbon society by 2050. We are working to optimize the operation of our existing nuclear power plants, while examining options such as advanced light water reactors for new construction or replacement.

Together with Hokkaido Electric Power, Shikoku Electric Power, Kyushu Electric Power, and MHI, we have been jointly examining a basic design for the Advance Light Water Reactor SRZ-1200, which offers safety and economy improvements over conventional pressurized water reactors. MHI's press release of September 2022 had great significance for disseminating information about the nuclear industry's initiatives towards constructing new plants, and also for the maintenance of technological capabilities, supply chains, and the motivation of young technicians.

MHI has supported us in the restarting of our existing plants and also by providing maintenance work that contributes to their stable and safe operation. With its high level of technological ability and project execution know-how backed by a strong track record in nuclear power plants in Japan, I expect MHI to provide strong leaderships in our joint development of the SRZ-1200.

By working together to develop advanced light water reactor technology, I hope that Kansai Electric Power and MHI can contribute to the stable provision of energy and the realization of a zero-carbon society.

FOCUS A Project for Generating Electricity Only with Green Hydrogen

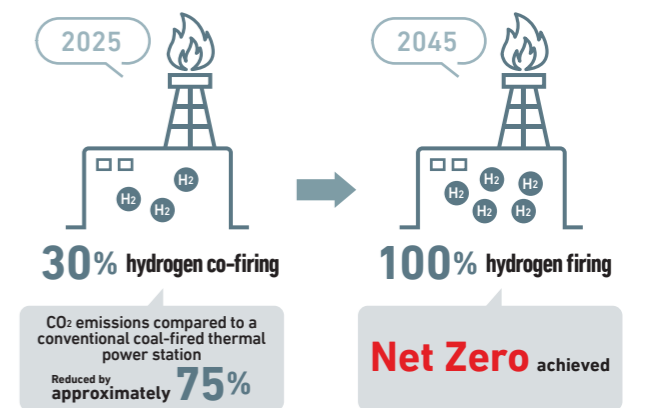


Hydrogen turbine (illustration)

In the State of Utah, United States, we have started work on a project to create a power station that has zero CO₂ emissions. MHI received an order in 2020 for a GTCC power generation project using hydrogen, with a total output capacity of 840 MW, planned by the Intermountain Power Agency (IPA) of Utah. IPA owns the Intermountain Power Plant, which supplies electricity to six states, including fast-growing south California. The major portion of the plant's output is transmitted to California.

In response to California State's approval of a proposed law stating that all electricity in the state must be from non-CO₂-emitting sources by 2045, IPA announced that it

CO₂ reduction due to hydrogen power generation



would cease coal-fired generation by 2025 and switch to natural gas-based generation that is able to use hydrogen fuel. We aim to begin operation of this project with a 30% mix of hydrogen (ratio by volume) by 2025, increasing to 100% hydrogen by 2045. The hydrogen used in this power generation facility is to be carbon-free green hydrogen, created through electrolysis of water using renewable energy such as solar or wind power. MHI Group will continue to contribute to the realization of a hydrogen-based society that is carbon free and enjoys a stable supply of electricity by utilizing the world's most advanced hydrogen combustion technologies.

▶ Stakeholder Voices



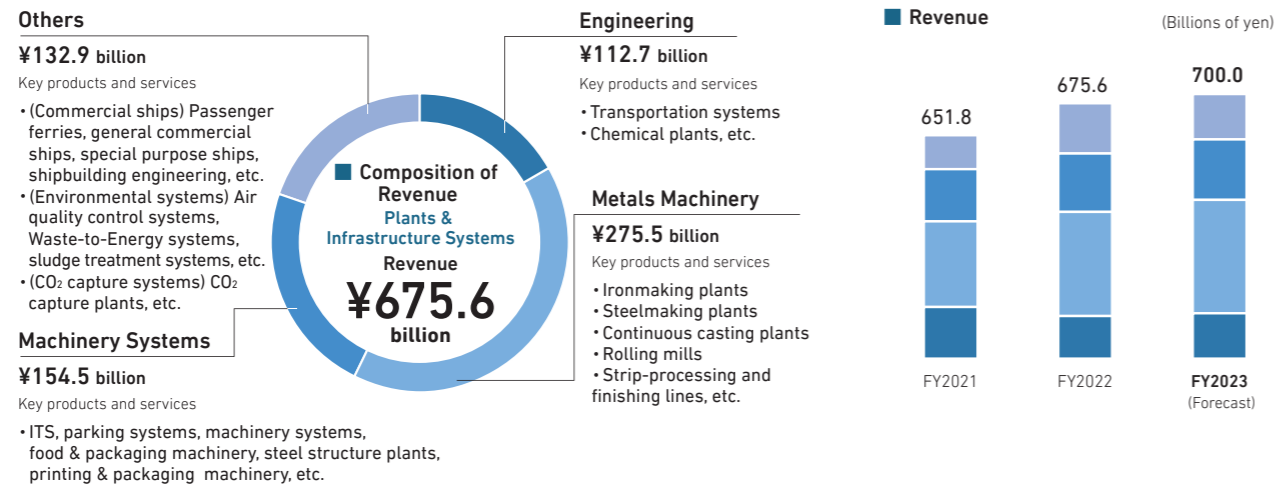
Mr. Cameron Cowan
General Manager
Intermountain Power Agency

Providing highly reliable, low-cost clean electricity using advanced technology

Our mission is to use carbon-free energy to provide a highly reliable supply of electricity at a low price. This project is an opportunity that can provide an ideal model for achieving our mission with our existing local energy infrastructure.

By using MHI Group's gas turbines, with their highly flexible operation, this project has pointed the way for innovation, opening up new pathways as a power source that can adjust the electricity demand and supply gaps arising from the spread of clean, renewable energy.

Plants & Infrastructure Systems



Overview of FY2022 and Key Strategies in the Medium to Long Term

Business Environment

Against a backdrop of efforts to confront problems related to climate change, the markets for decarbonization and the pursuit of energy efficiency across a variety of fields are expanding. Among others, these include demand expansion in the field of clean-fuel (fuel ammonia and hydrogen) for chemical plants in engineering; increased business opportunities from growing decarbonization needs across various industrial sectors in CO₂ capture systems; greater investment in “green steel” among steelmakers, particularly in Europe and the US, in metals machinery; initiatives in mechatronic technological capabilities in machinery systems for the mobility field; environment-friendly solutions such as LNG fuel gas supply systems in commercial ships; and proposals to increase added value leveraging the Group’s decarbonization expertise and technology in environmental systems. In these ways, we are proactively addressing Energy Transition and Smart Infrastructure (energy savings and demand-side decarbonization through smart social infrastructure) – both set as growth fields for MHI.

Business Status

Consolidated orders received decreased year on year to ¥845.4 billion, as declines primarily in engineering outweighed growth from machinery systems. Revenue was higher year on year at ¥675.6 billion, reflecting growth mainly in metals machinery and machinery systems. Profit from business activities was higher than the previous year, at ¥32.7 billion, largely from growth in metals machinery and commercial ships.

As initiatives for FY2022, in engineering, we are aiming

to receive orders for new transportation systems’ projects that expected to see a recovery in demands, in addition to steady O&M service and system enhancement business. In chemical plants, meanwhile, we are focusing on the field of clean-fuel, where demand is expanding.

In metals machinery, against a backdrop of expanded investment in “green steel,” we are winning orders at levels that surpass our initial business plans. In addition to the current product lineup enabling greater pursuit of material and energy efficiency, we are conducting pilot tests of hydrogen-based direct reduction steelmaking technology, as we work to establish a superior position in the market by accelerating development and verification of technologies that address environmental needs.

In machinery systems, we are strengthening existing businesses and after-sales services through DX utilization, and taking steps toward early commercialization in mobility and other new fields.

For commercial ships, in addition to high-density outfitted ships – the mainstay vessel type in the new shipbuilding business – along with a focus on infrastructure service ships, for which demand is now rising following the passage in Japan of the Economic Security Promotion Act, we are also spurring growth in engineering business related to environment-friendly solutions. In environmental systems, now that our newly developed waste-to-energy technology (V-type stoker) has achieved target performance benchmarks and is garnering strong praise from customers, we will push ahead to the next phase of business development. In CO₂ capture systems, we are accelerating initiatives ahead of business expansion, including accommodating a variety of emissions sources and strengthening partnership.

FOCUS Contributing to Decarbonization in the Steelmaking Industry through Practical Use of HYFOR: Hydrogen-based Fine-ore Reduction



Signing ceremony between the four companies involved



The HYFOR pilot plant in Leoben, Austria

With an increased focus on decarbonization worldwide, steel producers across the globe are searching for breakthrough technologies to reduce carbon emissions and transform their production processes. Currently, the conventional blast furnace route is the most prominent means of steel production. However, the blast furnace for iron ore reduction is the most carbon-intensive part of this process; finding ways to improve this process is thus key to decarbonizing the steel industry.

Hydrogen-based Fine-Ore Reduction (HYFOR), which MHI Group member Primetals Technologies has developed, is the world’s first direct reduction process for iron ore ultra-fines that do not require any material preprocessing like sintering or pelletizing and is capable of operations with 100% hydrogen as a process gas. HYFOR provides a nearly zero-carbon production process and can effectively replace the blast furnace. For producers, this alleviates concerns surrounding carbon taxes and controls production costs stemming from emissions trading systems (ETS).

HYFOR is currently at an advanced stage of development with a fully functional pilot plant in Leoben, Austria, and the next step in upscaling the technology to an industrial prototype is already around the corner. In December 2022, Primetals Technologies, together with Mitsubishi Corporation, voestalpine and Fortescue, signed MOU to begin the project planning phase of the industrial-scale prototype plant, combining HYFOR with Smelter technology* to increase the applicability of HYFOR-produced iron. Through the practical implementation of HYFOR, Primetals Technologies will contribute to achieving decarbonization in the long-considered “hard-to-abate” steel industry.

*An additional innovation technology from Primetals Technologies. By using electricity as the energy source in blast furnaces where direct reduced iron (DRI) produced by HYFOR is melted and ultimately returned, combining this with HYFOR will make green steel a reality.

Stakeholder Voices

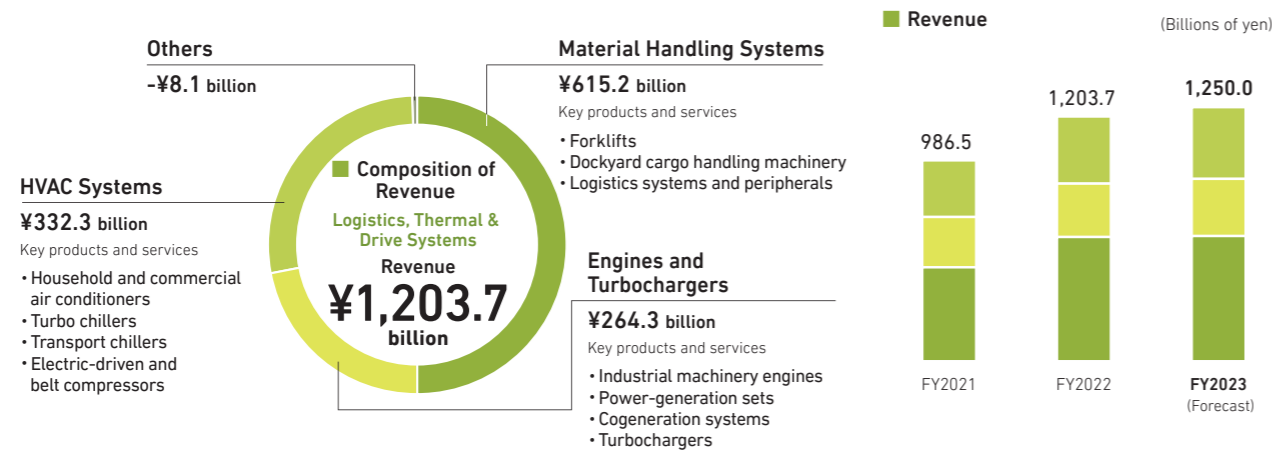


Dr. Alexander Fleischanderl
Senior Vice President and Head of Green Steel
Primetals Technologies

Our technologies are game-changing innovations for making green steel a reality!

It’s still early days for “green steel.” However it covers everything from the generation of renewable energy and energy storage solutions—including hydrogen and ammonia production—to the optimal use of these energy sources to produce green steel. Our HYFOR technology, based on decades of work in the direct reduction and hydrogen space, and the Smelter are game-changing innovations. The steel industry is already on the journey to green steel, and I believe Primetals Technologies will substantially contribute to this transformation.

Logistics, Thermal & Drive Systems



Overview of FY2022 and Key Strategies in the Medium to Long Term

Business Environment

Operations were impacted by soaring costs for raw materials and logistics, as well as supply chain turmoil, caused by the COVID-19 pandemic. Nevertheless, revenue is on a recovery track driven by a variety of measures, among them initiatives targeting robust demand growth in the post-pandemic world and appropriate pricing. Over the medium to long term, against a backdrop of progress toward a low-carbon or carbon-free society, the market for energy-saving and electric-driven products is expanding, as we push to develop new products.

In this domain, along with eyeing growth in existing businesses centered on the growth fields of logistics and HVAC systems, we are seizing the initiative to develop markets in the area of Smart Infrastructure, particularly for logistics intelligence and freezer and refrigerated warehouses.

Business Status

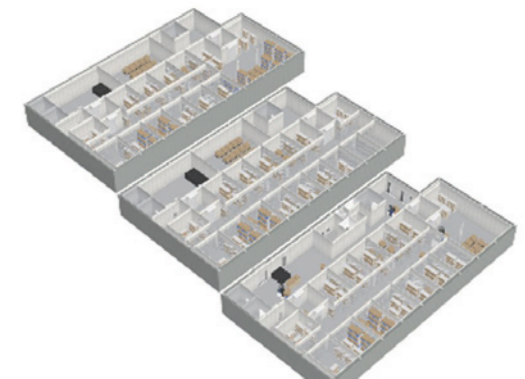
Due primarily to increases in material handling and HVAC systems, against a backdrop of expansion in global demand, consolidated orders received increased year on year to ¥1,215.0 billion. Revenue was up year on year to ¥1,203.7 billion due mainly to increases in material handling systems and HVAC systems. Profit from business activities was up year on year to ¥38.9 billion due to appropriate pricing and an increase in profit associated with the overall increase in revenue, despite the impacts of rising material and logistics expenses, and the continuing effects of production adjustments by auto manufacturers due to semiconductor shortages.

As a new domain, in logistics intelligence, we are linking together the Σ SynX (Sigma SynX), which merges our advanced control technologies, with warehouse control systems, marking progress on trial testing for automated picking, incoming and outgoing deliveries, and freight loading and unloading, with steps underway toward commercialization. Additionally, in freezer and refrigerated warehouses, where we already have a track record in the delivery of such systems, in addition to high cooling efficiency and low power consumption, we are amassing simulation technology in a push to achieve greater optimization and are eyeing business expansion, including into Southeast Asia, where greater needs are projected going forward.

FOCUS Smart Infrastructure Enabled by DX Utilization



Image of completed freezer/refrigerated warehouse



In-warehouse simulation through 3D modeling

In Logistics, Thermal and Drive Systems, we are contributing heavily to the development of Smart Infrastructure leveraging DX. The key to digital solutions in this domain is the Σ SynX (Sigma SynX), a digital platform that consolidates our advanced control technologies. By providing one-stop solutions for reductions in labor, as well as optimization and high reliability, we are already advancing initiatives that answer customers' diverse needs.

For initiatives related to logistics intelligence, we began offering automated picking solutions anchored by Automated Guided Forklifts (AGF), and in November 2022, joined forces with Kirin Beverage Company, Limited and Kirin Group Logistics Co., Ltd. to launch joint trial tests of automated picking in beverage warehouses. In this way, we are working to solve the

range of logistics-related issues facing the beverage industry.

In freezer and refrigerated warehouses, in addition to equipment and building optimization and shorter construction times enabled through comprehensive engineering, we are also realizing high efficiency cooling and lower power consumption. Going forward, our aim is for future business expansion, including into the Southeast Asia market, through the pursuit of greater optimization that simulation technology will make possible. In January 2023, we delivered a freezer/refrigerated warehouse to Kyoto Enkangyo Oroshi Kyodo Kumiai, an intermediate wholesale cooperative in the Kyoto Municipal Central Wholesale Market, contributing significantly to shortening construction time, improving cooling efficiency and reducing power consumption for the cooperative.

Stakeholder Voices

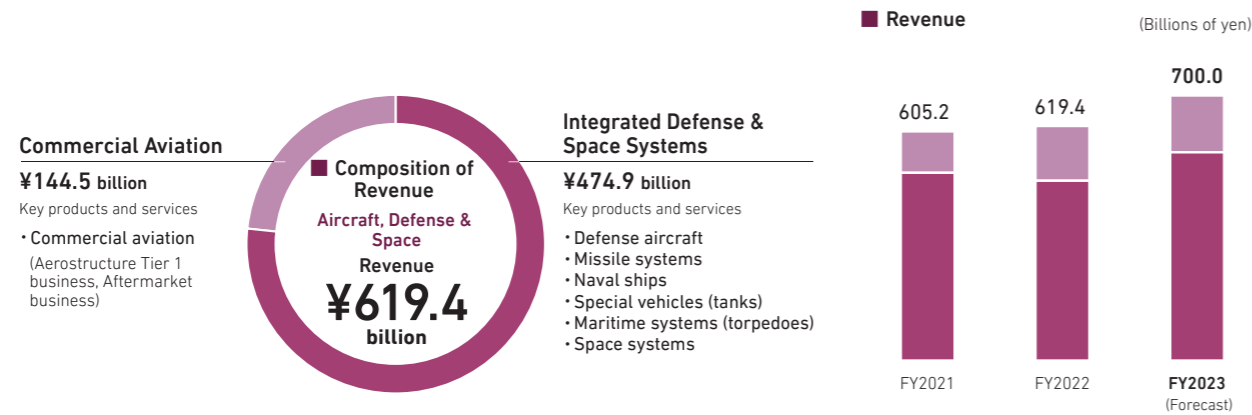


Mr. Taizo Tsuji
 Director
 Kyoto Enkangyo Oroshi Kyodo Kumiai

Proposed one-stop solution for achieving optimal design, reducing environmental impact & realizing energy and cost savings

Our cooperative serves as an intermediate wholesaler in the Kyoto Municipal Central Wholesale Market for products from northern seas and other areas. Since 1988, we have adopted the use of freezer equipment made by the former Toyo Seisakusho Kaisha, Ltd. (currently Mitsubishi Heavy Industries Air-Conditioning and Refrigeration, Ltd.). This time, based on a proposal from MHI Group, we opted for a one-stop solution that integrates the building and equipment. The ability to contract out everything in one stop, from the initial concept through to design and actual construction, not only allowed us to save costs, but also made equipment-side reductions in environmental impact and energy savings possible. Furthermore, the maintenance of quality through measures to prevent heat and moisture, essential for a freezer warehouse, coupled with the proposal of comprehensive solutions that include after-sales service following delivery of the equipment, have all been an incredible comfort to us as end users.

Aircraft, Defense & Space



Overview of FY2022 and Key Strategies in the Medium to Long Term

Business Environment

In commercial aviation, a full-fledged recovery from sharp declines in passenger demand caused by the COVID-19 pandemic is expected around 2024. While commercial aircraft production rate is also projected to grow in step with the recovery in passenger demand, the emergence of supply chain constraints triggered by industry-wide labor shortages is hampering the recovery in production.

In the field of defense, Japan's Defense Buildup Program has seen significant expansion, reflecting a growing momentum toward further enhancement of national security.

In the field of space, demand for launch vehicles is expanding against the backdrop of growing utilization of space worldwide. Expectations are high among domestic and overseas satellite operators particularly with respect to the H3, Japan's latest mainstay launch vehicle.

Business Status

Consolidated orders received declined year on year to ¥703.6 billion, mainly reflecting a decrease in missile systems despite an increase in commercial aviation. Revenue rose year on year to ¥619.4 billion, lifted by increases in commercial aviation and defense aircraft. Profit from business activities was higher year on year at ¥39.9 billion, largely due to increased profits accompanying higher revenue from commercial aviation.

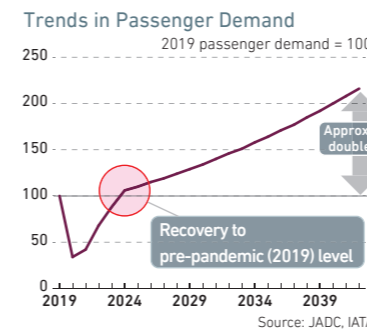
In commercial aviation, one of the main activities at aerostructure Tier 1 business is improving profitability, such as reducing fixed costs to a level appropriate for the business scale, and another is proceeding with initiatives aimed at participating in new programs by leveraging our composite technologies. 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 defense business, we will continue to support safety and security of social in Japan as a leading defense company by fundamentally enhancing stand-off and unmanned defense capabilities, improving the capabilities of existing combat equipment, and responding to expansion in peripheral fields.

Meanwhile, in the space business, we are working in cooperation with JAXA aimed at the early completion of H3 Launch Vehicle development.

*1 MRO: Maintenance, repair and overhaul
*2 Component Repair and Overhaul

FOCUS Commercial Aviation: Realize Sustainable Aviation Industry through "Decarbonization of the Sky"



Boeing 787



Main wings of Boeing 787

The passenger demand for commercial aviation, which had declined sharply due to the impact of the COVID-19 pandemic, is expected to recover to pre-pandemic levels around 2024. From there, both the movement of people and economic growth are projected to roughly double around 2040.

At the same time, however, CO₂ emissions from the operation of commercial aircraft had already surpassed 1.0 billion tons annually even in 2019, accounting for more than 2% of carbon emissions worldwide—a calculated scale that exceeds comparable emissions from maritime transport and rail use. With the number of fleets in operation expected to increase in line with the growth in passengers, initiatives of decarbonization from commercial aircraft will become even more important in the aviation market, where future growth is anticipated.

The Boeing 787 has achieved significantly lighter weight thanks to the use of composite materials in many of its structural components, including the main wings manufactured by MHI. Together with other advanced technologies, this iteration

of the Boeing 787 has realized a roughly 20% reduction in CO₂ emissions compared to previous versions of the aircraft. Since its entry into service in 2011 to today, the Boeing 787 has seen more than 1,000 units enter operation worldwide. MHI, by leveraging decades of amassed expertise in aircraft manufacturing, is contributing to "Decarbonization of the Sky" through the high-precision, high-quality production of the large and complexly designed composite wings for the Boeing 787.

Since FY2022, MHI has moved ahead with CFRP*3 recycling, involving the reuse of waste material from the composite wing production process in home appliances. Through effective resource utilization of this kind, we are promoting initiatives designed to reduce environmental impact and protect the global environment.

Moving forward, while taking full advantage of strengths in the commercial aviation sector, MHI will provide society at large with sustainable value by achieving both sustainable growth in the aviation industry and decarbonization.

*3 CFRP: Carbon Fiber Reinforced Plastic

Stakeholder Voices



Ms. Naoko Masuda
Director of Industry Relations & Special Projects
Boeing Japan

Working together with our partners in Japan for a sustainable future in aviation

For more than fifty years, MHI and Boeing's commercial aircraft division have built a rock-solid cooperative relationship grounded in mutual trust, and today collaborate closely in a unique business partnership. Our companies communicate at every level, and we have come to rely on products founded firmly on MHI's well-established system of quality management.

In the summer of 2022, Boeing launched a Japan-based R&D center. In areas such as sustainable aviation fuels (SAF), electrification, and innovative digital design and manufacturing, this move is ushering in genuine R&D work rooted in Japan. With our sights set on a sustainable future for aviation for the entire globe, we are looking forward to cooperating with our Japan partners – even in fields different from those we have tackled before.

Introducing Members of the Board

As of July 1, 2023



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.



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.



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
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.



Director (Member of the Board), Senior Executive Vice President, Assistant to President and CEO
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
- Apr. 2023 Director (Member of the Board), Senior Executive Vice President, Assistant to President and CEO (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, handling overall planning of the Company's management policy. Since April 2023, he has been leading MHI's Energy Transition and the expansion of its business into growth areas, and has participated in MHI's management decision-making as a person drawing up and promoting growth strategy for MHI.



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.

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

Introducing Members of the Board



Director

Mitsuhiro Furusawa

President, Institute for Global Financial Affairs, Sumitomo Mitsui Banking Corporation

(DOB: February 20, 1956)

Career summary

- Apr. 1979 Joined Ministry of Finance
- Aug. 2012 Director-General of the Financial Bureau, Ministry of Finance
- Mar. 2013 Vice Minister of Finance for International Affairs, Ministry of Finance
- Jul. 2014 Special Advisor to the Prime Minister, Special Advisor to the Minister of Finance
- Mar. 2015 Deputy Managing Director, the International Monetary Fund (IMF)
- Dec. 2021 President, Institute for Global Financial Affairs, Sumitomo Mitsui Banking Corporation (present position)
- Jun. 2023 Director (Member of the Board), MHI (present position)

Rationale behind appointment

Mr. Furusawa 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
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

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
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

Full-time Audit and Supervisory Committee Member

Ryutaro Takayanagi

(DOB: August 26, 1958)

Career summary

- Apr. 1981 Joined MHI
- 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 has been Director serving as an Audit and Supervisory Committee member since June 2022. 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
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.

Outside Directors Roundtable

Corporate Governance: The Strength Sustaining MHI Group's Value Creation



Director **Nobuyuki Hirano**
 Director Audit and Supervisory Committee Member **Noriko Morikawa**
 Director Audit and Supervisory Committee Member **Hiroo Unoura**

MHI Group has a history stretching back well over 100 years, and during this long time the company has played a major role in Japan's social and economic development while building a large portfolio of technologies. In the years ahead, how MHI uses its many resources to address the environmental changes I just spoke of will be of critical importance. So too will be the company's ability to recalibrate its vast business portfolio and to prioritize specific areas on which to focus when making capital allocations for the future. Another matter of vital importance will be how well MHI Group can open itself to outside partners instead of insisting on self-reliance, recognizing that there are limits to what one company can do on its own.

Unoura I too became an outside director in June 2019. To be frank, I took my position thinking that MHI was a very old-fashioned company cast in a traditional mold, but I was surprised to learn that the company had already begun making many changes with great success.

That said, I think MHI today remains too focused on total self-reliance and gives too much priority to product development without considering how the new products should be marketed. Times are changing, and rather than embracing a perspective focused on choosing good business partners, it's more important for MHI to be a corporate

group that outstanding partners will want to work with.

Morikawa I was appointed as an outside director in June 2020, and the following year I became a member of the Audit and Supervisory Committee. MHI Group has many strengths and positive aspects, but I feel that many barriers still exist within the organization: between business domains, for example, or even between bases of operations. To counter this, the HR division has taken the lead by launching an internal recruitment system and other programs.

One other point of concern is that there are too many mild-mannered employees with excellent credentials, while there are very few disruptors who aren't afraid to think and act completely outside the box. This homogeneity may put too much pressure on employees to go with the flow. Even when interacting with external parties, employees tend to have a rigid sense of identity as MHI employees, and this pride often prevents them from contact with those outside the Group. It would be better, I believe, if employees were more flexible and compromising while being more open to association with a wide variety of people. If MHI could cultivate a more open corporate culture, I think the company would be more likely to proactively engage in external partnerships, as Mr. Hirano and Mr. Unoura mentioned.

MHI Group as Viewed from Outside Directors



Facilitator: Ryoko Ueda

Ms. Ueda is Adjunct Professor at the Graduate School of Management, Kyoto University. After joining Mizuho Securities in 2001 and later moving to Japan Investor Relations and Investor Support, Inc. (J-IRIS Research), she assumed her current position in 2020. Ms. Ueda currently serves on numerous government and official councils, including the Certified Public Accountants and Auditing Oversight Board and the Council of Experts Concerning the Follow-up of Japan's Stewardship Code and Japan's Corporate Governance Code.

Ueda Good afternoon. I'm Ryoko Ueda, and I will be facilitating today's discussion. My areas of research are the capital markets and corporate governance. Today I will focus on topics that I think will be of interest to institutional investors reading the MHI Report. To begin, I would like to ask you for your overall impression of MHI Group from the perspective of an outside director, including issues you believe the company needs to address.

Hirano I was appointed as an outside director in June 2019, and since then I feel MHI Group has achieved significant changes. In February 2023, for example, the company made the momentous decision to terminate SpaceJet development.

Today, the environment in which MHI Group operates is undergoing major changes as issues of global scope evolve with increasing speed and intensity: issues including climate change, widening economic disparity, and rapid developments in artificial intelligence. How quickly MHI Group will be able to respond to these and other changes will be key, I believe, to ensuring the company's success going forward.

Medium-Term Business Plan (MTBP)

Ueda FY2023 is the final year of the current 2021 Medium-Term Business Plan. How do you assess the progress being made under the current plan, and what would you like to see incorporated into the next MTBP?

Hirano The three years of the 2021 MTBP have been a transition period – a period for clearing up earlier issues and preparing for future changes. As I mentioned earlier, a major decision was taken to terminate SpaceJet development, and we succeeded in achieving our goal to improve the company's profitability, enabling a start to investments into strategic areas.

In addition, our 2040 Carbon Neutral Declaration was epoch-making and came as a welcome surprise, both within and outside the company. Two technologies in particular are of extreme importance for MHI to firmly establish our position as a leading company in the global pursuit of Carbon Neutrality: one

is combustion technologies for power generation using hydrogen and other zero-carbon fuels; the other is carbon capture, utilization, and storage (CCUS), an area in which we hold the top global market share. Another growth area is ΣSynX (read "Sigma Synics"), our initiative aimed at efficiency improvement and value creation by integrating a variety of products and services through digital technology. I expect this initiative will take a more definite shape going forward.

The Board of Directors has already been involved in a number of discussions considering the next MTBP. In the new plan, I expect two things will become clear: the company's swift and appropriate response to global changes, and a new willingness to join forces with other companies and entrust them with areas they are better equipped to handle. I have high expectations that this will help raise MHI Group's value.

Outside Directors Roundtable



Unoura As Mr. Hirano said, the 2021 MTBP has been a period of transition. I believe it has been a good plan, and its

Developing Human Resources to Support Continuous Growth

Ueda Today, we are seeing growing interest in human capital. People are what enable a company to continue to grow, a fact that makes HR development increasingly important. What are your views on this issue?



targets are fully achievable. The upcoming 2024 MTBP, on the other hand, is likely to be a bigger challenge, calling for the achievement of substantial results.

I naturally expect that the views expressed by the outside directors will be fully taken into consideration when preparing the new MTBP, and we will each offer suggestions based on our own bodies of experience.

Today, it is no longer possible for one company to respond to all of society's needs. The days are over when a company could win approval just by providing efficient products of high quality. Today, we have to consider how our products can be best put to use, and determine how to integrate them with products and solutions from outside the Group in order to accomplish this. To achieve sustained development, it will be extremely important both to choose good partners and to be a company that potential partners will want to work with. This is especially true in fields which we have designated as future growth areas, and this will be a major focus of the upcoming MTBP.

Morikawa There are many good examples of HR development outside Japan, and I think MHI should incorporate the best ideas available. I have many years of experience working for foreign companies. American and German companies, for example, have completely different approaches to HR development.

MHI Group has established a new HR development policy and is beginning to put in place systems to support the growth of employees' individual skills and careers. Two examples are the company's many educational programs and the internal recruiting system. Employees who want to expand their individual potential within MHI Group can avail themselves of a variety of programs. Or they can also leave and take on new challenges outside the Group, and then return later, bringing with them experience acquired elsewhere. If employees use this flexibility to consciously strive to enhance their individual market value, I believe that MHI Group will become all the stronger.

► For details, please see "HR Strategy" on pages 86-93.

Unoura Up until now, HR development in Japan has mainly been predicated on lifetime employment. The company had roles it wanted employees to fill, and it would assign employees to the appropriate training to fill them. From now on, though, the main focus will be on providing opportunities to employees to enhance their own individual value. In the future, diverse business areas are expected to support MHI Group's growth, and a variety of specialized capabilities will be needed for this. Offering employees a wide range of options for their own personal development and allowing them to choose for themselves should achieve the desired results.

Employees returning from a period of work outside MHI Group, as well as mid-career hires, will help stimulate the company. Also, because each business unit within the Group has its own specific regional characteristics and areas of specialization, I think it will be necessary for the company to hold internal HR exchanges and consciously increase networking opportunities.

Hirano MHI Group also has robust programs for developing next-generation leaders. There are three tiers of programs: one for employees in their fifties, one for those in their forties, and one for employees under 40. There is another leadership development program that includes participants from MHI Group's global companies. This marks a major advance for MHI Group. These training programs also provide opportunities for networking among participants from different workplaces, so I think these programs make for a truly excellent and well-organized system to develop human resources.

MHI Group's Corporate Governance System

Ueda MHI has an Audit and Supervisory Committee. As directors, how would you evaluate the committee's activities, and what would you describe as the characteristics of MHI's governance system?



I'd also like to touch briefly on the personnel-related discussions conducted at Board of Directors meetings. On a regular basis, when we receive reports from the business divisions, they include results of their employee engagement surveys and the extent to which actions have been made in response to the survey findings. It's rare for such details to be reported at corporate Board of Directors meetings, and I believe this is a practice that merits high praise.

As a final note, I'd like to add that diversity is of extreme importance. To provide an example, MHI Group is proposing solutions to connect forklifts and refrigeration facilities through digital technology – one illustration of how business today must transcend borders. Increasing the number of mid-career hires and proactively conducting personnel exchanges within the company will help the company integrate new perspectives and ideas.

Unoura Companies with an audit and supervisory committee adopt a mode of governance unique to Japan, and in my view each company should have its own approach to making the system function effectively.

In MHI's case, we have two full-time Audit and Supervisory Committee members, and the committee is expertly supported by dedicated staff. An outstanding team from an external audit firm monitors our governance activities, and

Outside Directors Roundtable



they provide detailed guidance from a third-party perspective. MHI also has a solid risk management framework in place on the executive side, so in my view risk management is of the highest standard.

Another positive aspect is that MHI Group personnel are often called on to attend meetings of the Audit and Supervisory Committee to explain specific topics. For example, we recently had in-depth discussions with HR concerning human capital, an area of keen interest to us.

Morikawa At Audit and Supervisory Committee meetings, we regularly engage in meaningful discussions on such topics as the progress of key company projects and bottom-line performance, taking into account issues identified by our outside audit firm. At the same time, holding talks on company projects with the executive side is extremely important to help us understand the status of each project from a risk management perspective. On such occasions, transparent explanations and quick reporting are important. MHI Group employees have a strong sense of responsibility, and although this is a point of strength in the company's corporate culture, it also can potentially cause employees to attempt to solve issues involving risk on their own while withholding information. We are always sure to remind the executive side of the importance of full disclosure of information regarding perceived risks, and we request that such information be reported as quickly as possible.

Hirano I too formerly served on the Audit and Supervisory Committee, at which time I proposed drawing up risk maps. MHI Group is involved in a wide range of businesses and undertakes projects with long construction periods requiring large financial investments. To avoid inflicting any unwelcome surprises on our investors and other stakeholders, I suggested creating a system that would clearly show where risks exist, their scale, and their probability of materializing. The result was the creation of a three-tier risk management structure. In the first tier, staff identify potential risks by reviewing risks recognized and reported in the business activities. In the second tier, management reviews staff reports and recognizes risks. And in the third tier, management reports the results of risk reviews to the Board of Directors, which deliberates how to deal with these risks.

Discussions among MHI's directors tend to focus on business strategy, but, needless to say, the Board of Directors is an organization that oversees all aspects of company management, which include internal control and risk management. Knowing that the Audit and Supervisory Committee looks closely at the details of each issue provides us with a great sense of security.

Unoura With the Board of Directors and the Audit and Supervisory Committee both fulfilling their roles in this way, I believe MHI Group has achieved a highly effective governance system. In the company's annual survey evaluating the effectiveness of the Board of Directors, I suggest including evaluations on how well the company's governance system – including the Audit and Supervisory Committee – is functioning, and then publicizing the results externally.

Composition of the Board of Directors and the Role of Outside Directors

Ueda Before we close, I would like to ask about the composition of the Board of Directors and your views concerning your individual roles as outside directors. The Board includes directors from other Mitsubishi brand companies. Do you have any comment concerning this point?

Morikawa The Board of Directors includes two female directors, and the atmosphere at Board meetings is very much conducive to free discussion. Also, at each meeting, the directors voice opinions from many different perspectives based on their varied backgrounds, so I feel there's a good amount of diversity.

That said, considering the skill set of the Board as a whole, given the specialized nature of MHI Group and the direction of future business development, I think the Board might benefit from including an outside director who is a specialist in IT or other technical areas. I would also like to see the company consider appointing a non-Japanese director to the Board.

Unoura Two members of the Board of Directors, Mr. Hirano and Mr. Kobayashi, are former executives of other Mitsubishi brand companies. While both of them are very kind and caring people, they can be quite strict with our executives. They have excellent insights concerning MHI Group and an amazing depth of knowledge concerning the company's management and business operations. Since they can be uncompromising in their assessments when necessary, I believe that, from the perspective of effective oversight, they are both properly fulfilling their roles as Board members.

In my case, I provide a slightly different perspective at Board meetings, and I always strive to keep the executive side on their toes. In addition, as an outside director I have some opportunities to speak with young employees at locations throughout the company's network, and my personal ambition is to inspire young employees to succeed.

Hirano The formalism of corporate governance isn't important. History has shown that even companies considered to have excellent corporate governance systems – companies with three committees, for example – have in many instances caused scandals or gone bankrupt, as we've

seen with Enron and the collapse of Lehman Brothers.

With respect to the independent position of outside directors also, formalism isn't important. What's most important is whether or not outside directors will protect the interests of diverse stakeholders, including minority shareholders, and offer suggestions on how the company can increase corporate value. Outside directors thus need to be people with diverse bodies of experience, perspectives, skill sets, and global mindsets. A good understanding of the company is also extremely important, and this demands a fair amount of study, even after appointment to the outside director position. Finally, good outside directors love the company they work for. It is my personal belief that those who love the company they serve for have the deepest insights and the most constructive criticisms, which are the most valuable contributions people in these positions can provide.

Ueda Listening to what you have said today, I can see how much respect you each have for MHI. I've also gotten a clear picture of how lively Board of Directors meetings – and how deep the deliberations that take place at them – must be. From my perspective as an outsider, I've also come to look forward to watching MHI grow over the long term.

Thank you all for making today's roundtable such a valuable experience.



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

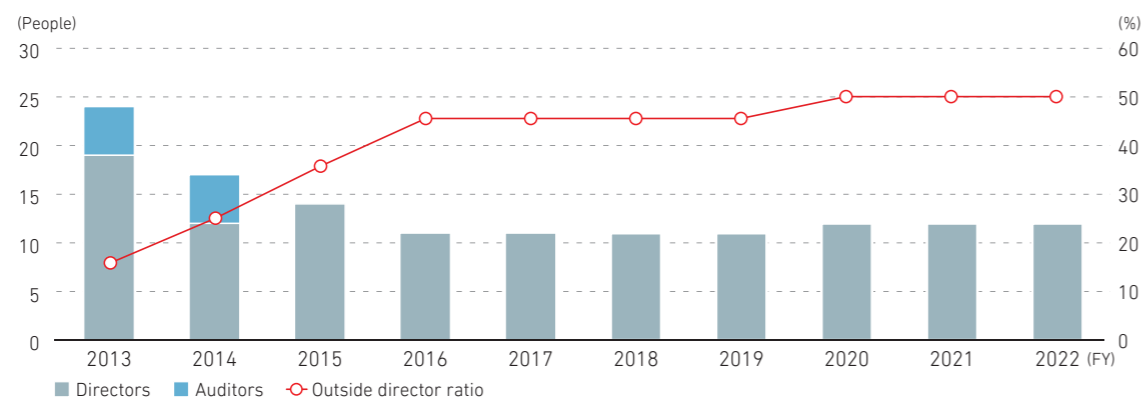
the inclusion of outside directors. MHI is building a Japanese-style global management model that places priority on sounder, more transparent management, diversity and harmony. MHI has also established our basic framework for and approach to corporate governance in our Corporate Governance Guidelines 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

▶ Main 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*



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 67. 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 an accounting auditor, 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, digital innovation, 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. Since April 2023, a Senior Executive Vice President has been appointed to assist the duties of the CEO. The Senior Executive Vice President promotes MHI's Energy Transition and expansion of business in growth areas as an Assistant to President and CEO.

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 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 the CEO and 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 FY2022

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.

In overseeing the management of MHI Group working on this mission, 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.

Name	Inside/outside	Audit and Supervisory Committee members	Tenure in years (as of end of the General Meeting of Shareholders on June 29, 2023)	Knowledge, experience and expertise						
				Socio-Economic Issues	Risk Management/Compliance	Global Enterprise Management	Technology/Digitalization	Marketing	Finance/Accounting	Human Resource
Shunichi Miyanaga	Inside		15	●	●	●		●		
Seiji Izumisawa	Inside		6	●	●	●	●	●		
Hitoshi Kaguchi	Inside		2	●	●		●	●		
Hisato Kozawa	Inside		3	●	●				●	
Ken Kobayashi	Outside		7	●	●	●		●		
Nobuyuki Hirano	Outside		4	●	●	●			●	
Mitsuhiro Furusawa	Outside		New	●	●				●	
Setsuo Tokunaga	Inside	●	2	●	●		●			
Ryutaro Takayanagi	Inside	●	1	●	●				●	
Hiroo Unoura	Outside	●	4	●	●	●		●		●
Noriko Morikawa	Outside	●	3	●	●	●			●	●
Masako Ii	Outside	●	2	●	●					●

(Notes) 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.
2. The reasons knowledge, experience and expertise are thought to be important are as stated in the following table.
3. The presence or absence of each form of knowledge, experience and expertise is determined through self-evaluations and deliberations in the Nomination and Remuneration Advisory Council by performing evaluations based on the experience and public qualifications, etc. of each director.

Knowledge, experience and expertise	Reasons knowledge, experience and expertise are thought to be important
Socio-Economic Issues	Because knowledge, experience and expertise on constantly changing social and economic trends and the issues MHI Group should prioritize for medium- to long-term growth are essential for supervising the management of MHI Group, which has a mission to provide solutions to some of the world's most pressing issues and provide better lives.
Risk Management/Compliance	Because knowledge, experience and expertise on risk management and compliance in general corporate management including business risks are essential for supervising the management of MHI Group through the preparedness and implementation of internal control systems and the management of serious risks in management.
Global Enterprise Management	Because knowledge, experience and expertise on global enterprise management are necessary for supervising the management of MHI Group operating diverse businesses globally amid accelerating global competition.
Technology/Digitalization	Because understanding of the latest technology including digitalization, in addition to knowledge, experience and expertise on technology and digitalization such as the applications and trends thereof are necessary for supervising the management of MHI Group strengthening its technology base to provide solutions to socio-economic issues.
Marketing	Because knowledge, experience and expertise on marketing for ascertaining the needs of diverse customers and stakeholders including growth areas are necessary for supervising the management of MHI Group operating diverse businesses globally.
Finance/Accounting	Because knowledge, experience and expertise on finance and accounting are necessary for supervising the management of MHI Group including checking the appropriateness of various measures such as allocation of management resources and strengthening of financial base.
Human Resource	Because knowledge, experience and expertise on human resource development and cultivation are necessary for supervising the management of MHI Group including confirmation of the appropriateness of measures to strengthen the human resource base such as cultivation of management personnel contributing to sustained growth and development of MHI Group, promotion of diversity and improvement of engagement.

Board of Directors' Main Deliberation Items

The main items deliberated by the Board of Directors in FY2022 are presented in the table below.

General Meeting of Shareholders	•Resolution on matters for calling Annual General Meeting of Shareholders	•Partial amendment of Articles of Incorporation
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 and officer liability (D&O) insurance policies
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	•Business integration in power generator area with Mitsubishi Electric Corporation
	•Status of execution of operations by individual chief officers	•Termination of SpaceJet development activity
Others	•Integration of Mitsubishi Heavy Industries Engineering, Ltd.	•Status of progress of growth strategy
	•Key-risk identification and management process	•Sustainability initiatives
	•Study of the appropriateness of strategic shareholding	•Cybersecurity strategy

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 FY2022, we addressed issues identified by an evaluation of the Board's effectiveness, including

discussion and reporting of themes such as MHI's aims concerning the medium- to long-term strategy and vision, progress of Energy Transition and the implementation of smart social infrastructure concerning the progress of growth strategy, and personnel strategy from a medium- to long-term perspective.

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 FY2022 Board Evaluation, the status of activity based on the results of the Board Evaluation conducted in the previous fiscal year (FY2021) and future responses based on this year's evaluation results are as presented in the table below.

Process and Results of FY2022 Board Evaluation

Process	Continuing on from FY2021, the Board of Directors conducted an evaluation process based on the following four 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." ① Evaluation was conducted based on a questionnaire survey of all directors including outside directors. ② Opinions were exchanged in meetings among outside directors. ③ The Board of Directors held discussions based on the results of the questionnaire survey. 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 FY2022 has been ensured with no major concerns, etc.

Initiatives Based on Results of the Board Evaluation Conducted in the Previous Fiscal Year (FY2021)

- We held discussion on MHI's aims on a longer timeline concerning medium- to long-term strategy and vision. Furthermore, we made progress reports on Energy Transition and the implementation of smart social infrastructure concerning the promotion of growth strategy. In addition, we implemented personnel strategy from a medium- to long-term perspective.
- To improve the content of explanations in reports on the status of business and also to stimulate active discussion, we optimized the content of explanations and deliberation time.
- We performed tours of domestic production sites, and held dialogue between outside directors and employees as opportunities for outside directors to gain a deeper understanding of MHI's business.
- In the Nomination and Remuneration Advisory Council, we established opportunities to discuss the composition of the Board of Directors, etc.

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

- Initiatives aimed at enhancement of discussion**
 We will continue discussion of various strategies from a medium- to long-term perspective following on from FY2022, and also provide a place for discussion aimed at consideration of the next business plan. In addition, we will continue initiatives for optimization of deliberation time by setting topics beneficial for improving discussion by the Board of Directors and devising materials and explanations. Furthermore, we will continue to conduct tours of production sites and provide opportunities for dialogue with employees as opportunities for outside directors to gain a deeper understanding of MHI's business.
- Discussion on the composition, etc. of the Board of Directors including outside directors**
 We 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 is comprised of 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 issues.

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 FY2022, the Audit and Supervisory Committee operated on designated priorities to accomplish the 2021 MTBP, including progress on matters deemed to require the Committee's oversight, responses to matters with significant impacts and the status of creation and implementation of the internal control system.

Full-time Audit and Supervisory Committee members attend important meetings such as Executive Committee meetings, MTBP meetings, Sustainability Committee meetings and Compliance Committee meetings, and endeavor to identify and monitor how the 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 creation 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 the accounting auditor through regular exchange of information and opinions. Full-time Audit and Supervisory Committee members have regular (in principle, monthly) meetings with the Management Audit Department and confirm the status of the formulation and progress of the Department's auditing plan 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.

Furthermore, full-time Audit and Supervisory Committee members regularly hold information exchange meetings attended by the full-time auditors of MHI Group companies to confirm the status of creation and implementation of internal control systems in major subsidiaries.

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 Thursday, June 29, 2023, 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.

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 from business activities 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 profit from business activities 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 profit

from business activities exceeds ¥400 billion.

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

From FY2022, the key indicator in business plans was changed from profit before income taxes to profit from business activities to increase the linkage with business plans such as the Medium-Term Business Plan.

The benchmark used to calculate stock-based remuneration is profit before income taxes. Profit before income taxes was chosen to reflect the results of business operations inclusive of finance income/costs in stock-based remuneration.

The profit from business activities for FY2022 (initial forecast) used in the calculation of performance-linked remuneration for FY2022 was ¥200 billion and the result was ¥193.3 billion.

The profit before income taxes for FY2021 (initial forecast) used in the calculation of stock-based remuneration for FY2022 was ¥130 billion and the result was ¥173.6 billion.

In order to objectively evaluate and reflect MHI's wide range of ESG initiatives, evaluation results by major ESG evaluation organizations will be reflected in the stock-based remuneration portion from the officer remuneration for FY2023.

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 x Profit from business activities for the given fiscal year ÷ 10,000 x Coefficient of business results

- Performance-linked remuneration is paid when the Company records a profit from business activities (or after adjustment in the event that partial adjustments are made) and carries out dividend payments.

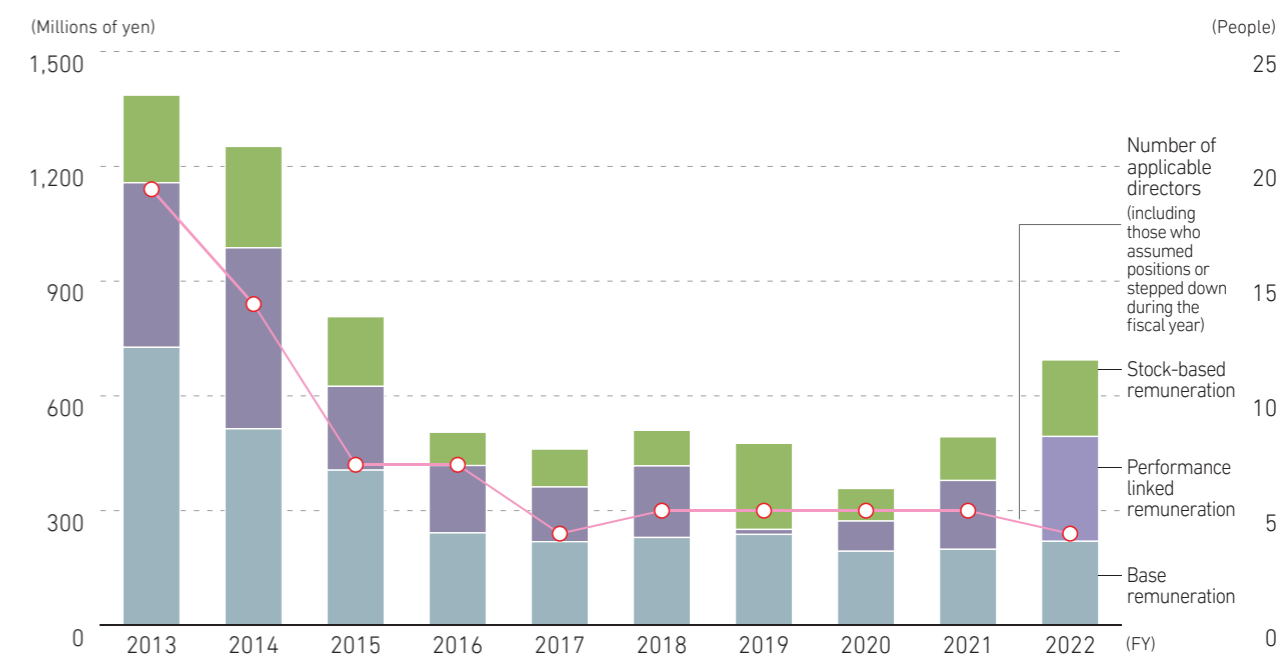
*From the current fiscal year, the key indicator in business plans was changed from profit before income taxes to profit from business activities to increase the linkage with business plans such as the Medium-Term Business Plan

- 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 x 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 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 (FY2022)

Classification	Monetary remuneration				Stock-based remuneration		Total amount of remuneration (Millions of yen)
	Base remuneration		Performance-linked remuneration		People (People)	Total amount (Millions of yen)	
Directors who are not Audit and Supervisory Committee members	7	265	4	274	4	200	740
(Of which, outside directors)	(3)	(45)	(—)	(—)	(—)	(—)	(45)
Directors who are Audit and Supervisory Committee members	6	159	—	—	—	—	159
(Of which, outside directors)	(3)	(55)	(—)	(—)	(—)	(—)	(55)
Total	13	424	4	274	4	200	899
(Of which, outside directors)	(6)	(100)	(—)	(—)	(—)	(—)	(100)

- The recipients include one director who was an Audit and Supervisory Committee member who stepped down on June 29, 2022 (date of the 97th Annual General Meeting of Shareholders).
- 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).
- The total amount of stock-based remuneration is the amount of expenses recognized for the 446,000 stock award points granted in total during FY2022 (equivalent to 44,600 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).
- 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

Acquisition, Holding and Reduction 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 holds strategic shareholdings accounting for over 16% of total equity (consolidated) as of March 31, 2023, and promotes initiatives to reduce strategic holding of shares to less than 15% by the end of FY2025 and less than 10% by the end of FY2030, with the aim of 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). As a result of verification performed in 2022, numerous stocks were identified as candidates for reduction due to the decreased significance of holding and MHI's reduction target.

Reduction in Strategic Shareholdings

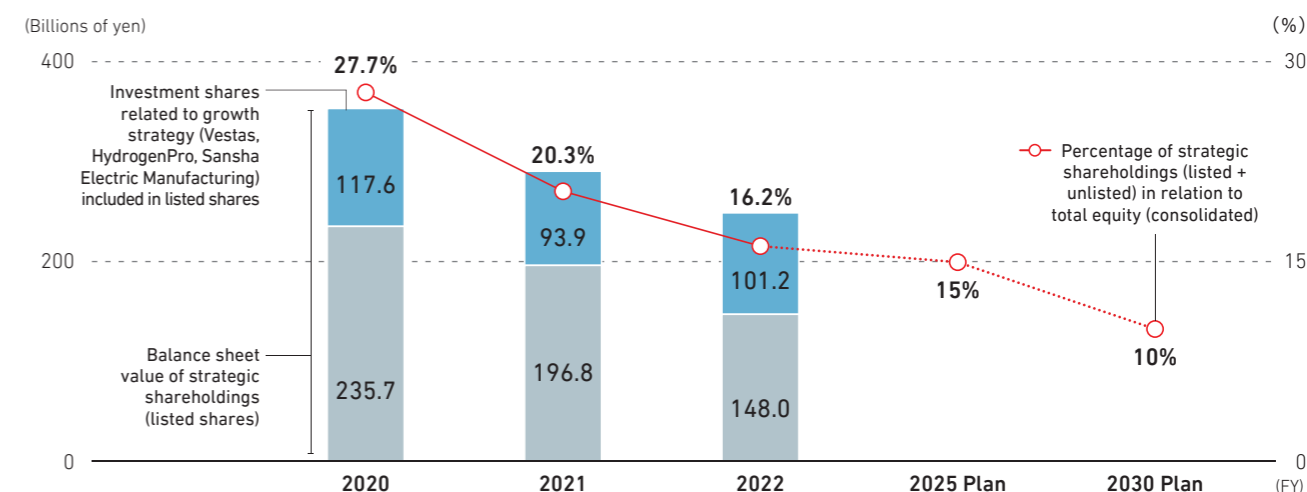
Based on the latest verification, MHI sold 15 individual stocks in FY2022 for ¥58.1 billion (including seven stocks sold partially), and the total value on the balance sheet at the end of the fiscal year was ¥297.2 billion (down ¥40.3 billion year-on-year).

In addition, the shares of Vestas Wind Systems A/S HydrogenPro ASA and Sansha Electric Manufacturing Co., Ltd. (with a total value of ¥101.2 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 maintaining and strengthening the relationship with them as strategic partners in decarbonization-related businesses such as renewable energy and green hydrogen business.

Furthermore, at the end of FY2022, MHI does not have any deemed shareholdings (shares which MHI does not hold but still has voting rights for), since the trustee bank exercises voting rights for all the shares (four stocks in total) of its Retirement Benefit Trust, due to a contract change made in March 2023.

► Balance Sheet Value of Strategic Shareholdings and Percentage in Relation to Total Equity (Consolidated)



► Breakdown of Change in FY2022 (Number of Stocks, Value)

Number of stocks	As of March 31, 2022	Decrease*1	Increase	As of March 31, 2023
Non-listed shares	148	6	0	142
Listed shares	38	2	1	37
Total	186	8	1	179

Balance Sheet Value (Billions of yen)	As of March 31, 2022	Decrease*2 (Sale value)	Increase (Acquisition value)	Changes in share prices, etc.	As of March 31, 2023
Non-listed shares	46.8	-9.5	0	10.6	47.9
Listed shares	290.8	-48.6	1.1	6.0	249.3
Total	337.6	-58.1	1.1	16.6	297.2

*1 Number only shown for stocks completely sold. Seven other stocks were also partially sold.

*2 Total value of complete sales and partial sales

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, 2023).
- 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 risk map of quantifiable risks with the potential to materially affect our operations. We also identify qualitative risks not readily quantifiable referring to the comprehensive list.

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
Changes in business environment	<ul style="list-style-type: none"> 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' under-performance of expectations 	<ul style="list-style-type: none"> 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 <p>*1 Post Merger Integration</p>
Disasters	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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, formulated/updated working environments and systems, inspected plants, upgraded facilities' earthquake-resistance, periodically conducted emergency drills

Key risks	Potential impacts on financial condition and/or operating performance	Countermeasures
Product/ service-related problems	<ul style="list-style-type: none"> Cost overruns, payment of damages to customers, impairment of public reputation and/or loss of societal trust due to, e.g., the occurrence of various problems with or arising from products, 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 	<ul style="list-style-type: none"> 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 <p>▶ For details, please see "Business Risk Management" on page 74.</p>
Intellectual property disputes	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Implemented cybersecurity controls (standards, safeguards, self-assessments, internal audits), incident response measures, etc. by building a cybersecurity regime under direct supervision of the CTO <p>▶ For details, please see "Cybersecurity" on page 77.</p>
Legal/regulatory violations	<ul style="list-style-type: none"> Administrative sanctions imposed by government authorities, including, correction orders, penal fines, non-penal fines, suspension of operations and/or export bans in the event of a legal/regulatory violations; claims for damages from authorities or interested parties Disruption of operations, impairment of public reputation and/or loss of societal trust 	<ul style="list-style-type: none"> 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 <p>▶ For details on strengthening compliance, please see "Compliance" on page 76.</p>

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 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 yields significant influence on its business results and growth potentials.

To link challenges of this kind to the next leap into the future, MHI Group, applying its past experience and lessons learned, has established the "Business Risk Management Charter" and will promote the creation of mechanisms that will ensure the effective execution of business risk management, and cultivation of a culture of responding to risks. MHI Group will also 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.

Matrix of Business Risk Management

	Strategy risks Risks associated with business strategies (entry, continuance, and withdrawal)	Cultural risks Risks associated with corporate culture (internal customs, corporate character, history, values, and human resource system)	Process risks Risks associated with business execution (planning and execution)
Top management (Officers)	○	○	○
Middle management (SBU* managers)	○	○	○
Execution (People in charge of actual business)	○	○	○

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

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).

Business Risk Management Structure

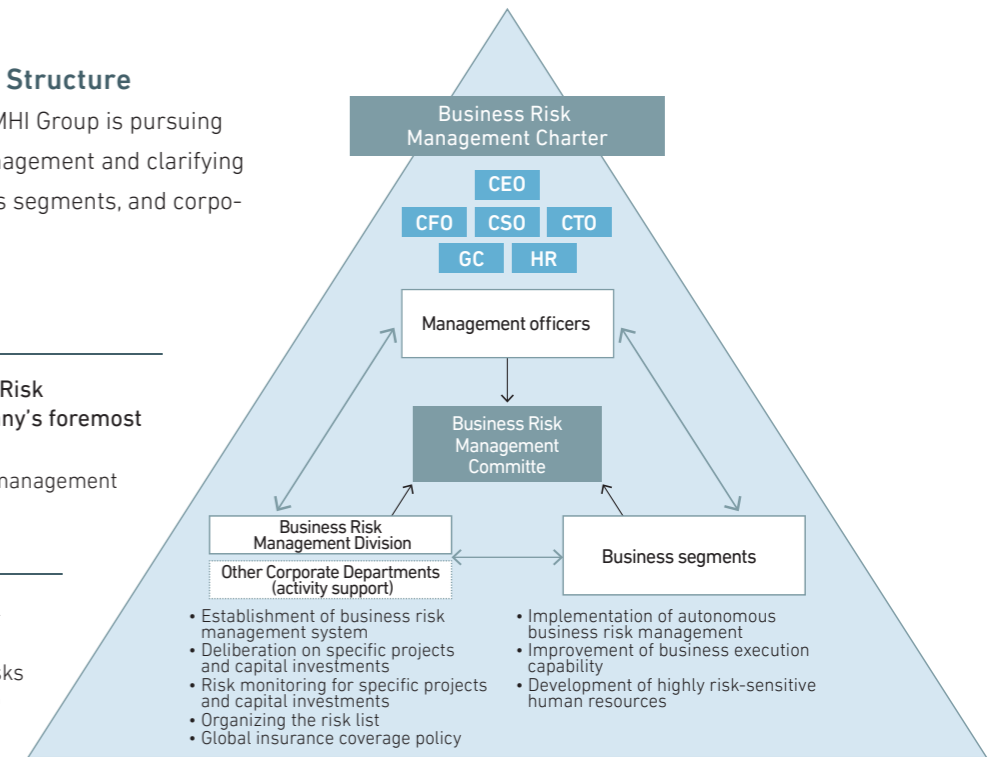
Through the following measures, MHI Group is pursuing more organized business risk management and clarifying the roles of management, business segments, and corporate departments.

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

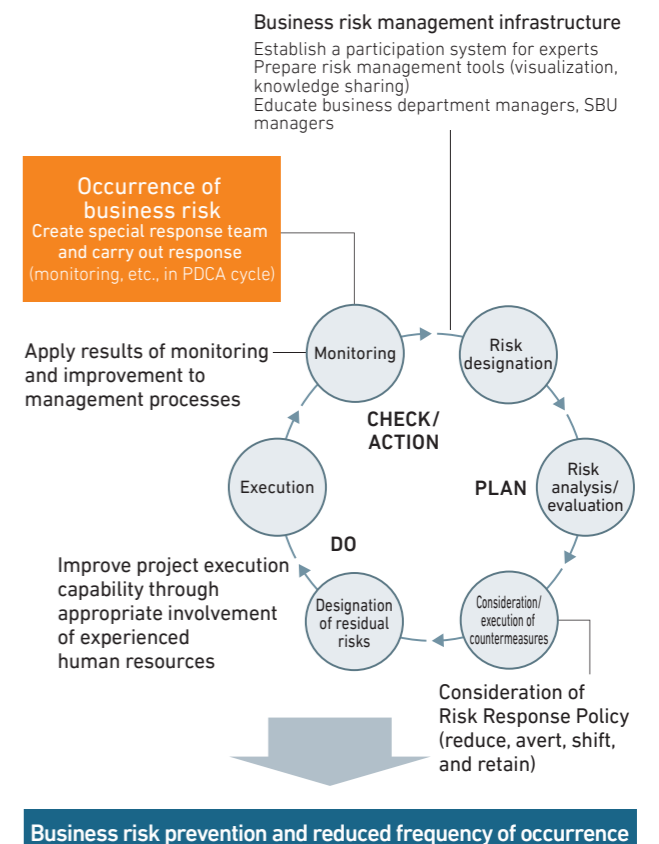


Content of Business Risk Management Activities

With the Business Risk Management Division 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 for SBU manager candidates.

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.

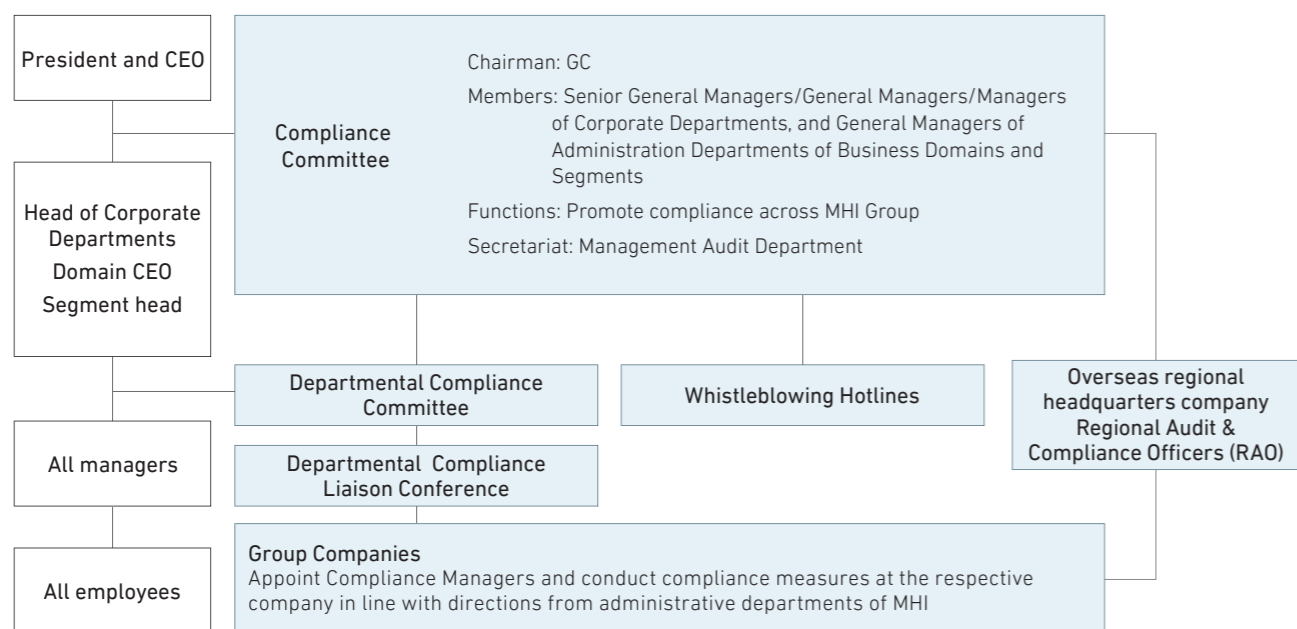
To that end, MHI Group has formulated the MHI Group Global Code of Conduct. Through such efforts as education through e-learning and the distribution of booklets, we strive to disseminate this code of conduct among MHI Group employees around the world. At the same time, we have formulated the Compliance Promotion Global Policy, clarifying basic matters and rules for promoting compliance, such as the organizational framework, roles, and administration standards.

Number of participants in compliance training (e-learning)
Approx. 80,000 people (FY2022)

	FY/cases			
Number of whistleblowing cases, by type	2019	2020	2021	2022
Labor and the work environment	69	83	68	75
Overall discipline and breaches of manners	13	12	6	20
Transaction-related laws	12	5	8	26
Consultations and opinions	2	3	1	4
Others	44	36	45	19
Total (number of corrections and improvements)	140 (66)	139 (96)	128 (65)	144 (66)

Compliance Promotion System

(as of April 1, 2023)



Cybersecurity

Providing a large number of critical infrastructures to society, MHI Group has established a cybersecurity basic 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 the results of discussion in the Cybersecurity Committee 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, incident response, and 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. Emergency responses are taken without hesitation when signs of a security risk are found. 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 of employees by providing education and training, and also performs 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 and services, MHI Group has built a framework that controls cybersecurity risk, and will work with business partners to upgrade the cybersecurity capabilities and capacity of our products and services on a regular basis. By driving development of next-genera-

tion cybersecurity solutions, MHI will help to build a safe, secure society.

^{*1} NIST CSF: National Institute of Standards and Technology Cyber Security 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 CSIRT (Computer Security Incident Response Team) 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 measures are taken in accordance with our crisis management system to swiftly recover according to business continuity planning. 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 and Training

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 and service 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 2.0 (announced in October 2022), 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. MHI Group 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 consid-

eration 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.

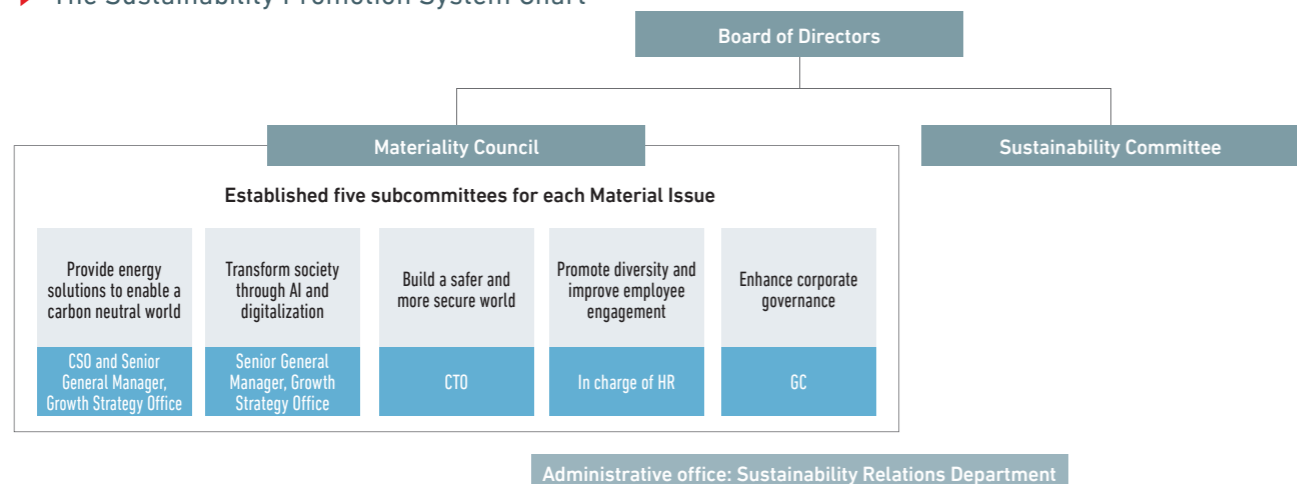
In 2015, we established the MHI Group Global Code of Conduct, a provision of common principles which stipulates how the Group's employees with various backgrounds, nationalities and cultures should act and behave. Regarding the environment, MHI Group has established the Basic Policy on Environmental 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 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. Matters of importance concerning the challenges involved in approaching sustainability are discussed at the Sustainability Committee, with reports then provided to the Board of Directors in relation to the relevant matters. The contents of activities undertaken in relation to Material Issues are also the subject of reports to be provided to the Board of Directors on a periodic basis and serve as important themes for us to consider when it comes sustainability management.

► The Sustainability Promotion System Chart



Materiality Council

In principle, meetings of the Materiality Council are held twice each year and the President and CEO serves as the Chair. At these meetings, the Council promotes business activities aimed at the achievement of the goals put in place when it comes to Material Issues.

We have established five subcommittees in order to go about improving upon our corporate value through the solving of social issues and achieve mid-to-long-term growth, with each subcommittee having their own individual responsible and department in charge of the respective Material Issue specified by MHI Group in 2020 to which each subcommittee pertains. In doing this, we are working to increase the concrete connections that exist between business activities and each respective Material Issue.

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

Sustainability Committee

The Sustainability Committee is an organization resulting from the reorganization of the CSR Committee, which was originally organized in 2006. In principle, meetings of the Sustainability Committee are held twice each year and the CSO serves as the Chair. The Committee undertakes deliberations and makes decisions with respect to responses undertaken in relation to challenges having to do with sustainability (such as the fusion of sustainability and business activities and basic policies concerning ESG initiatives) and promotes activities related to such matters with the aim of facilitating the establishment of sustainability management.

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 (GRI).

- 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

Human Rights Initiatives

Basic Policy

MHI Group is committed to respecting human rights and workers' rights of employees in accordance with international treaties and other guidelines relating to human rights. In May 2015 we established the MHI Group Global Code of Conduct as the common standard for MHI Group. Through establishment of this standard, which was compiled making reference to the UN Guiding Principles on Business and Human Rights, we aim to cultivate a shared corporate culture, one that is rooted in mutual trust and affords dignity and respect to all employees. MHI Group values the individual contributions of all people irrespective of race, color, religion, political convictions, gender, age, nationality, sexual orientation, marital status, or disability.

Ascertaining of Human Rights Risks

We are moving forward with human rights due diligence in adherence with the UN Guiding Principles on Business and Human Rights. In terms of what we are specifically doing in that area, we conduct risk assessments that have us investigating human rights risks within our supply chain (including within in-house operations) in 39 countries where MHI Group has operations, extracting information on the

potential human rights issues being faced, and periodically rethinking things in accordance with the necessity to do so.

In FY2022, we conducted a survey-based investigation for 25 of our suppliers in South-East Asia that were believed to present high levels of potential risk, and subsequently conducted additional on-the-ground investigations for a portion of those suppliers. We discovered no notable human rights risks as a result of those investigations. In FY2023, we are increasing in the scope of investigation and will be conducting investigations on human rights risks existing with our supply chain.

Remediation (Corrections)

When it comes to initiatives that we are undertaking with respect to human rights due diligence based on the UN Guiding Principles on Business and Human Rights, we are discussing and considering the whole concept of measures serving to correct and remedy human rights violations when they have arisen. In FY2023, we joined JaCER (Japan Center for Engagement and Remedy on Business and Human Rights) in order to go about establishing a remedy system for all of our stakeholders based on the UN Guiding Principles.

Material Issues

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

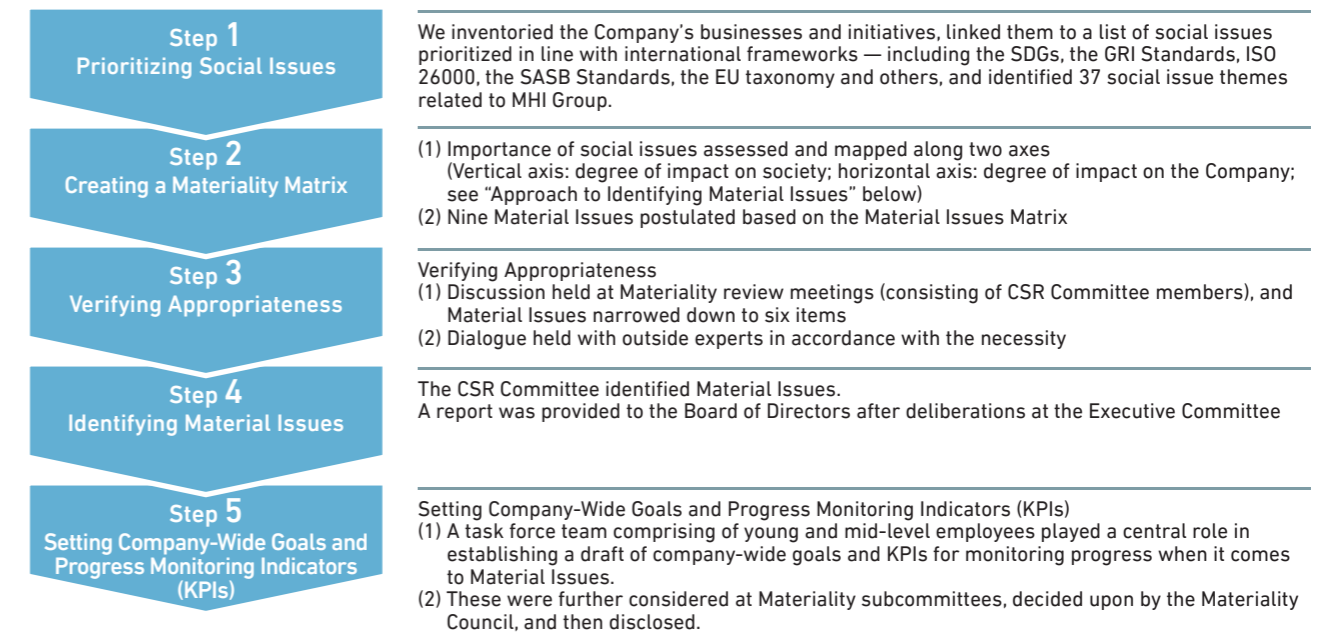
Activities involving engagement with Material Issues embody sustainability management in terms of business. In order to make the activities effective, we have established subcommittees with managers and departments for each Material Issue, and the person responsible and organizing department consider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

In October 2021, we established the Materiality Council to follow up on business activities aimed at realizing company-wide goals for Material Issues and to instruct business divisions addressing the goals to take necessary measures. Council meetings taking place during FY2022 were held on two occasions, with one held in June and one held in December, during which information on the progress being made with respect to each Material Issue was shared and questions and opinions were freely exchanged. These activities are important themes in sustainability management and are regularly reported to the Board of Directors.

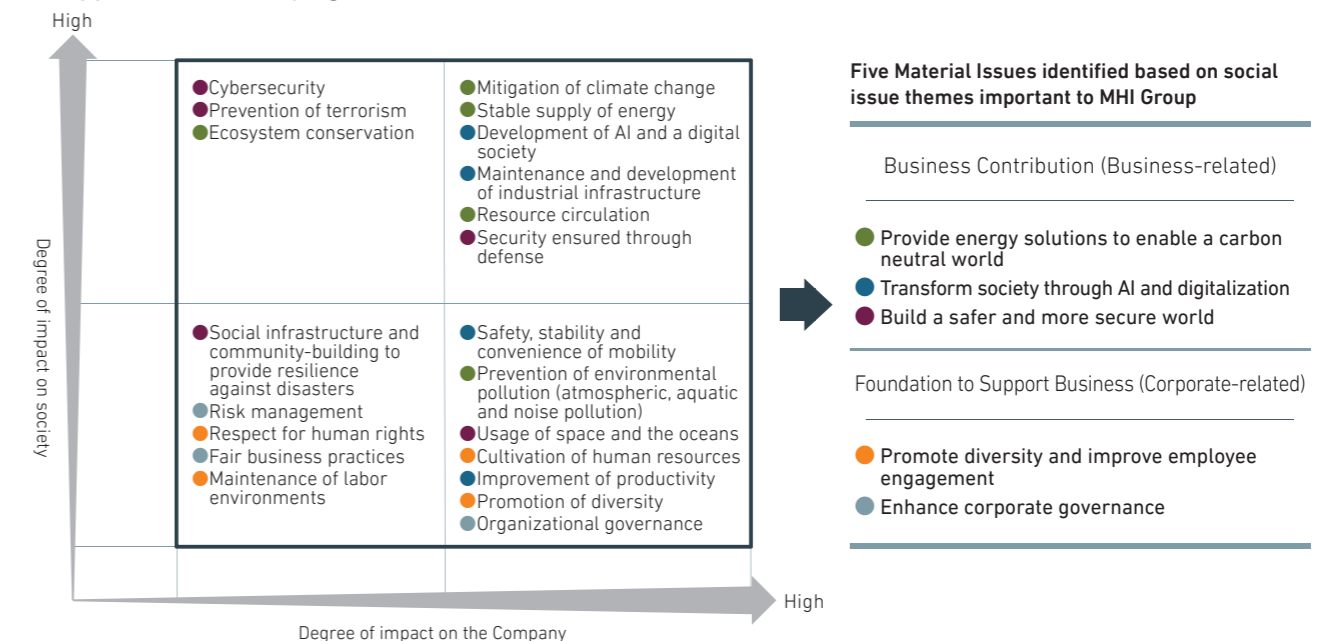
Processes of Identifying Material Issues

When going about identifying Material Issues, we first took an inventory of MHI Group businesses and linked them to a list of social issues prioritized in line with international frameworks — including the SDGs, the GRI Standards, ISO 26000, the Sustainability Accounting Standards Board (SASB) Standards, the EU taxonomy and others.

Activities involving efforts aimed at Material Issues are promoted in coordination with business units and related departments, which primarily means the individuals responsible and coordinating departments relevant to the Material Issue in question, with progress monitored by the Materiality Council and PDCA cycles being implemented accordingly.








Approach to Identifying Material Issues



Sustainability

Material Issues for MHI Group - Company-Wide Goals and Progress Monitoring Indicators (KPI)

Material Issues (Officer in Charge)	Company-wide Goals	Progress Monitoring Indicator (KPI)	Initiatives and Progress in FY2022	
<p>Provide energy solutions to enable a carbon neutral world</p>  <p>▶ CSO and Senior General Manager, Growth Strategy Office</p>	Reduce the CO ₂ emissions of MHI Group. Achieve Net Zero CO ₂ emissions from its operations 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.	<ul style="list-style-type: none"> Reduced CO₂ emissions in 2021 by 42% (compared to 2014 levels). • Forecasting a reduction in 2022 CO₂ emissions of 47% (compared to 2014 levels). Drafted basic concepts and management systems for Carbon Neutral Management. • Began installation of the renewable-energy power generation equipment at Mihara Machinery Works to achieve a Carbon Neutral Factory. (to be completed by the end of FY2023) 	
	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)	<ul style="list-style-type: none"> Disclosed CO₂ emissions for 2021 in ESG DATABOOK 2022. Calculating CO₂ emissions for 2022.
		Develop products and services that contribute to conservation, decarbonization, and automation of energy use by 2040 (Smart Infrastructure)	Develop and prove new products and services that contribute to the carbon cycle	<ul style="list-style-type: none"> Successfully completed the world's largest hydrogen mixed firing validation test with 20% hydrogen at Plant McDonough-Atkinson's high-efficiency large-frame GTCC facility. Formed alliance with ExxonMobil which will advance next-generation carbon capture technologies and enable integrated CCS offering by deploying MHI's CO₂ capture technology as part of ExxonMobil's end-to-end CCS solution. Contributed to restarting and safe & stable operation of existing nuclear plants in Japan. Jointly have been developing advanced light water reactor SRZ-1200, which will meet the world's highest standards of safety, with Hokkaido Electric Power Co., Inc., The Kansai Electric Power Co., Inc., Shikoku Electric Power Co., Inc. and Kyushu Electric Power Co., Inc. Also, developing new type reactors (small light-water reactors, high temperature gas-cooled reactors and fast reactors) in order to meet the diversified needs in the future. Awarded Pre-FEED contract for carbon capture plant at a cement production facility in UK. To expand use of carbon capture in hard-to-abate sectors, signed collaboration agreement with ArcelorMittal, BHP and Mitsubishi Development Pty Ltd*1 for development of carbon capture in the steel industry. Signed a MoU with Fortescue, voestalpine and Mitsubishi Corporation to jointly evaluate green ironmaking plant using HYFOR*2 process. Working toward demonstration of biowaste utilization (hydrolysis) and recycling of decommissioned large structures.
		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	<ul style="list-style-type: none"> Confirmed the basic performance of the prototype for the next generation unmanned forklift (based on ΣSynX), and conducting demonstration activities for an automated picking solution at YHH*3. Further development of intelligent logistics systems is also continuing. An automated material handling system for maritime transportation is under development. An intelligent system for operation of industrial machines is under development. Within our central R&D organization, MHI Group conducts advanced research and development, and the results are applied widely across our business areas. This allows us to promote the development of solutions such as AI and digital products and services for diverse business units.
<p>Transform society through AI and digitalization</p>  <p>▶ Senior General Manager, Growth Strategy Office</p>	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	<ul style="list-style-type: none"> Conducted feasibility study of optimal energy infrastructure solutions for Southeast Asia, considering regional characteristics based on an assessment balancing social, economic, and environmental factors. 	
	Improve our working environment to produce creative products	Improve employees' awareness of creative time and environments	<ul style="list-style-type: none"> Started external verification with expanded control functions for heating equipment for use in carbon neutral EMS products. The following were implemented in order to make MHI a more creative workplace: <ul style="list-style-type: none"> Internal community site (EKKYO BASE): Organized collaboration projects (8 times with 3,000 total participants). Expanding opportunities for dialogue and co-creation between MHI Group employees and other companies to foster new business development and organizational culture improvement. Future Design Task Force: R&D on co-creation is ongoing in order to establish future design processes. Formulated a human resource development plan in the field of Digital Innovation, under the strategic goal of developing approximately 20 thousand Digital Innovation experts groupwide. Advanced efforts in promoting groupwide use of CRM (Customer Relations Management), utilization of data foundation, and development of future IT architecture. Launched human resource development program at YHH for entrepreneurship from October 2022. 	
	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	<ul style="list-style-type: none"> Developed resilience indicators for products and services based on recovery and resistance. Goal setting is underway for each business unit and has been completed for 8 of the total 31 business units. A company internal meeting was held on "Risk Assessment and Measures for Resilience and Business Development." Investigating new business potential in the area of disaster prevention. (Collaboration with Kyoto University Disaster Prevention Research Institute) Typhoon damage simulation was presented in the MHI Technical Review and International Conference (AJK2023). Disaster prevention simulations including tsunamis, typhoons and heavy rains were carried out for seven Japanese factories in the company. A study of the disaster countermeasure system was carried out (Nuclear Energy Systems). 	
<p>Build a safer and more secure world</p>  <p>▶ CTO</p>	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	<ul style="list-style-type: none"> Confirmed functional performance of the unmanned forklift prototype of the intelligent logistics system (ΣSynX). Started system design on the highway Vehicle-to-Infrastructure system, which uses wireless communication to connect ICT-enabled "connected" vehicles and related infrastructure components, in preparation toward realizing a future of autonomous mobility. Continued to promote the research & development of unmanned defense equipment. Continued to promote research & development of intelligent operation systems for paper converting machinery. Delivered a monitoring platform (Synx-Supervision) for steelmaking plants. A remote monitoring and operation support system (MaidAS) for a waste incinerator plant has been verified and presented at a major academic conference. Demonstrated a security check patrol with a single-rotor unmanned drone. • Developing a labor-saving system for ferry cargo handling. Developing a solution for automating the nut tightening work of aircraft panels by human and robot cooperation. Demonstrated the automatic generation function for an inspection map in a catalytic inspection system of a flue gas treatment unit. 	
	Continuously strengthen cybersecurity measures for all MHI products	Promote the development and practical application of cybersecurity technologies	<ul style="list-style-type: none"> In FY2022, cybersecurity R&D investments increased 3.0 times the level of FY2020. In order to strengthen the security resistance of our factories, evaluation and verification of network security detection devices were conducted in Sagamihara Machinery Works, YHH, Nagoya Guidance & Propulsion Systems Works - Komaki North Plant and other locations. The basic security requirements set by Charter of Trust*4 were reflected in the company standards. Industrial control system manager meetings were held twice to share the security measures of factory infrastructure. 	
	Project new value through participation of diverse human resources	In accordance with the MHI Group Human Rights Policy, raise awareness of diversity among Group employees through education and other efforts	<ul style="list-style-type: none"> Increased the ratio of women on the Board of Directors to at least 30% by 2030 Doubled the ratio of women in management positions by 2030 (compared to FY2021) 	<ul style="list-style-type: none"> Continued our training program for potential future executive candidates in collaboration with each business unit. Expanded various employee support systems with consideration to childcare and caregiving in order to enable employees to continue their careers. Promoting a workplace environment and organizational culture allowing for a balance of professional and private life. Started development of educational materials (e-learning) on the topic of respecting human rights in MHI Group. About 75,000 employees world-wide took the course.
<p>Promote diversity and improve employee engagement</p>  <p>▶ In charge of HR</p>	Ensure safe and comfortable workplaces	Reduce the number of serious accidents to zero	<ul style="list-style-type: none"> A subcontractor's fatal accident occurred. The root cause analysis was undertaken immediately to prevent recurrence and measures were announced to all departments in MHI. The rate of lost-worktime injuries was less than the industry average. Conducted early detection and root cause analysis based on data from past accidents, and studied and developed countermeasures across divisions. 	
	<p>Enhance corporate governance</p>  <p>▶ GC</p>	Further enhance deliberations by the Board of Directors	Maintain the ratio of Independent Outside Directors on the Board of Directors at 50% or more (MHI)	<ul style="list-style-type: none"> 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 in FY2022. <ul style="list-style-type: none"> Conducted questionnaires to all members of the board. • Discussed the results of these evaluations in meetings of independent outside directors and reported the same to Board of Directors meetings. • Established policies based on the results of the effectiveness evaluation and finalized the draft of disclosure, both by the resolutions of the Board of Directors. Also started planning the agenda schedule for FY2023.
		Promote legal compliance and honest and fair business practices	Maintain the number of serious laws/regulation violations at zero	<ul style="list-style-type: none"> There were no serious laws/regulation violations. • 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. Ensuring that overseas group companies set up hotlines for reporting on compliance issues.
		Further promote responsible (CSR) procurement in the global supply chain	Promote sustainability and CSR procurement activities with partners to build a sustainable supply chain	<ul style="list-style-type: none"> Implemented the following compliance training for employees both within and outside Japan. <ul style="list-style-type: none"> Japan: e-learning, discussion-based training, job grade-based training Outside Japan: e-learning Implemented a CSR questionnaire for overseas partner companies with a certain amount of regular purchase orders from 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
Create opportunities to explain non-financial information	Conduct ESG briefings to investors at least once a year	<ul style="list-style-type: none"> Held an ESG briefing in March 2023 to explain MHI Group's framework for addressing sustainability and the progress toward achieving KPIs for each material issue. 		

*1 Mitsubishi Development Pty Ltd: A wholly owned subsidiary of Mitsubishi Corporation that has contributed to global industries for more than 50 years through its developments in the mineral resources sector.
 *2 HYFOR (Hydrogen-based Fine-Ore Reduction): A novel direct reduction process for iron ore fines concentrates from ore beneficiation, developed by MHI Group company Primetals Technologies.

*3 YHH (Yokohama Hardtech Hub): A co-creation space operated by MHI in Yokohama.
 *4 Charter of Trust: An initiative by private corporations to build trust in cybersecurity. MHI has participated in this initiative since April 2019.

Overview

Messages from Management

MISSION NET ZERO

Business Strategies

Governance & Sustainability

Performance Data

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

MHI Group has established the "provision of energy solutions to enable a carbon neutral world" as a Material Issue under our materiality framework ("materiality"), which responds to the important global issue of climate change.

To address Material Issues, the Materiality Council chaired by the President and CEO meets twice a year to monitor business activities aimed at achieving company-wide goals for Material Issues and to direct business divisions to take appropriate actions.

Furthermore, our Sustainability Committee, which is chaired by the CSO, generally meets twice a year to address sustainability issues and to further strengthen ESG initiatives. The CSO was in charge of an analysis which was undertaken in accordance with TCFD recommendations and the Sustainability Committee monitored the progress of efforts.

The committee also reports to the Board of Directors regularly on the status of the Sustainability Committee's

activities, including disclosures in accordance with TCFD recommendations.

Strategies (Scenario Analysis [Excerpt])

MHI Group has developed a Decarbonization Scenario*¹ and a Fossil Fuel Dependency Scenario*², and has assessed their future impact on each business in 2030.

As a common transition risk shared by the Group, the Decarbonization Scenario assumes a significant rise in the cost of carbon emissions due to an increase in regulations such as carbon taxes. However, we believe that there are also numerous business opportunities to be had by leveraging the strengths of products and technologies in our portfolio that enable decarbonization. The results of an analysis conducted with respect to the risks and opportunities for major products (by business domain) in the context of the Decarbonization Scenario, are as shown in the table below.

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.

*1 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.
*2 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.

Metrics and Targets

In October 2021, MHI Group announced MISSION NET ZERO, our commitment to achieving Carbon Neutrality by 2040, to make a carbon neutral world a reality. Our first goal is to reduce MHI Group CO₂ emissions (Scopes 1 and 2) to Net Zero by 2040. Our second goal is to achieve Net Zero CO₂ emissions across the entire value chain by 2040.

We are making steady progress toward our interim CO₂ reduction target for 2030, with Scopes 1 and 2 totaling roughly

530,000 tons and Scope 3 totaling roughly 1.2 billion tons as of the end of FY2022. It should be noted that Scope 3 has a total of 15 categories, and in terms of Scope 3 emissions, around 99% of CO₂ emissions are from product use (Category 11), for which our primary countermeasure is reduction of such emissions. Going forward, we will consider more precise measuring methods and emission reduction in other categories as well.

Risk Management System

Transition risks and physical risks are factors that each business unit considers when developing their respective business plans. The Sustainability Committee verifies the findings of analyses on the most prominent items among climate change risks and opportunities.

The activities of the Sustainability Committee, including details on the contents contained herein, are also regularly reported to the Board of Directors.

► For more details about disclosure undertaken in accordance with TCFD recommendations, please visit the MHI Group website at:

https://www.mhi.com/sustainability/environment/climate_tcfid.html

Analysis of Risks and Opportunities: Results of Major Product Analysis by Business Domain

	Risks					Opportunities				
	Type	Content	Impact	Response		Type	Content	Impact	Measures	
Energy Systems	GTCC	Technology	• Delayed development of hydrogen gas turbines	Small	• Adhere to the development schedule		Market/Customer Trends	• Increased demand for products and services that promote carbon neutrality	Small	• Promote the development of hydrogen gas turbines • Promote solutions that combine GTCC and CCUS
	Steam Power	—	No significant risk exists under this precondition*	—	—		Market/Customer Trends	• Increased demand for products and services that promote carbon neutrality	Small	• Promote ammonia co-firing/mono-firing conversion
	Nuclear Power	—	No significant risk exists under this precondition	—	—		Changes in policy and legislation. Market/Customer Trends	• Promote policies aimed at maximizing nuclear power use in Japan • Increased importance of energy security • Increased demand for products and services that promote carbon neutrality	Large	• Promote the new construction of advanced light water reactors, provide support for restarting existing plants (PWR/BWR), and provide maintenance for restarted plants
Plants & Infrastructure Systems	CO ₂ Capture System	Technology	• Decline in the competitiveness of our current CO ₂ capture technology • Emergence of innovative alternative technologies	Small	• Improve the current CO ₂ capture technology • Expand our CO ₂ capture technology lineup		Changes in policy and legislation. Market/Customer Trends	• Development of legal/tax systems in various countries and regions • Increased demand for products and services that promote carbon neutrality	Large	• Promote CO ₂ capture business in North America, Europe, etc., where progress has been made in establishing the legislation, tax systems • Expand our CO ₂ capture-related product lineup and develop new business model • Promote strategic partnerships
	Metals Machinery	—	No significant risk exists under this precondition*	—	—		Market/Customer Trends	• Increased demand for products and services that promote carbon neutrality	Small	• Promote the development of hydrogen reduction steelmaking equipment, and encourage the replacement of existing plants
Logistics, Thermal & Drive Systems	Engines and Turbochargers	Market/Customer Trends	• Reduced demand for conventional models due to the shift to carbon neutral fuels and electrification of vehicles	Medium	• Introduce products compatible with carbon neutrality to the market ▶ Hydrogen-powered engines ▶ Electric compressors for fuel cells		Market/Customer Trends	• Increased demand for products and services that promote carbon neutrality • Tightening of environmental regulations in emerging countries	Small	• Introduce products compatible with carbon neutrality to the market ▶ Hydrogen-powered engines ▶ Electric compressors for fuel cells • Expand sales to new customers, especially those in emerging countries
	Logistics Systems	Market/Customer Trends	• Possible reduction of service revenue due to the shift from engine to battery forklift trucks	Small	• Consider ways to expand service revenue from battery-powered forklifts		Market/Customer Trends	• Increased demand for products and services that promote carbon neutrality	Small	• Provide competitive battery-powered forklift trucks as well as eco-friendly port handling equipment (RTG)

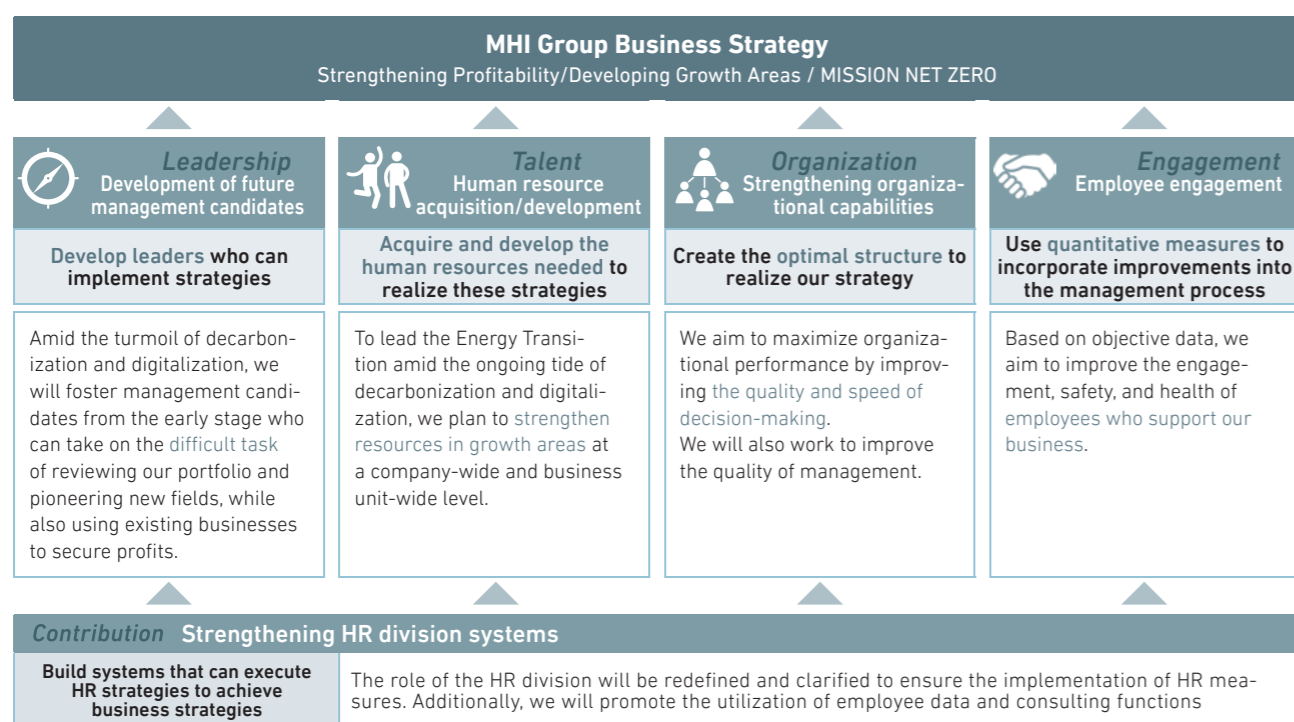
*In determining the impact of risks and opportunities, we compared the impact on business profit between the end of FY2023 and 2030. Based on this, the risks associated with declining demand for coal-fired power plants and carbon-intensive steelmaking plants have been factored into the FY2023 figures (base plan figures).
[Selection Criteria for Businesses Subject to Analysis]
(1) Businesses at or above a certain scale (roughly 200 billion yen) that are significantly impacted by carbon neutrality
(2) Businesses that are currently small in scale but are expected to grow significantly in the future due to the impact of carbon neutrality

[Judgements of Impact Levels for Risks and Opportunities] We forecasted the difference in business profit between the end of FY2023 and 2030 and classified businesses as follows:
Large: Business profit impact of 10 billion yen or more / Medium: Business profit impact of at least 5 billion yen but less than 10 billion yen / Small: Business profit impact of less than 5 billion yen

HR Strategy

In order to realize the future envisioned by MHI Group, we will manage human resources and organizations more strategically and promote the creation of an environment where each employee can work autonomously.

In its medium-term management plan, "The 2021 Medium-Term Business Plan," MHI Group has set as its priority "strengthening profitability" along with "developing growth areas" centered on decarbonization efforts. Further, in October 2021, MHI Group announced MISSION NET ZERO, with the aim of reducing CO₂ emissions from throughout our entire value chain to Net Zero and achieving Carbon Neutrality by 2040. To carry out these important management initiatives and achieve our vision as a company, we have formulated an HR strategy focused on strengthening human resources in areas of growth. To this end, we have prioritized "development of talent pool for succession," "talent acquisition and development," "strengthening organizational capabilities" and "employee engagement," and are actively implementing these measures.



Leadership: Development of Future Management Candidates

As the environment around businesses undergoes significant changes such as the emergence of climate change issues and increasing geopolitical risks, HR strategy is essential to develop management candidates who can plan solid management strategies to steer the entire Group. MHI Group has taken a medium- to long-term perspective as we work to develop next-generation management candidates. This initiative involves building talent pools of early-selected management candidates Groupwide who have the potential to take on management roles and providing the candidates with the opportunities to participate in

management development programs. Further, in the future, while strengthening the globalization and diversification of our executives, we will proceed with multifaceted evaluation in the selection process and the establishment of self-recommendation as ways to create growth opportunities that are available to more employees. We will continue to advance a training system that develops candidates who demonstrate high potential early on, and secure outstanding management candidates leading to stable and continuous operations on a global level.

Building Talent Pools for Management Positions

Potential candidates for management talent pools are selected on recommendations from departments in principle, but from FY2022, self-nomination is allowed for some talent pools. We aim to provide growth opportunities for as many employees as possible in order to promote the diversity of future management candidates and encourage employees to actively face challenges. For candidates in this pool, we seek to strengthen their management literacy and foster a leadership mindset by

creating individual development plans, implementing assessments, and having them participate in management leadership development programs. In addition, for some in our top management talent pool, we will encourage them to improve their management skills and add to their experience by giving them tough assignments such as multiple appointments to important management positions globally.

Development Programs for Management Candidates

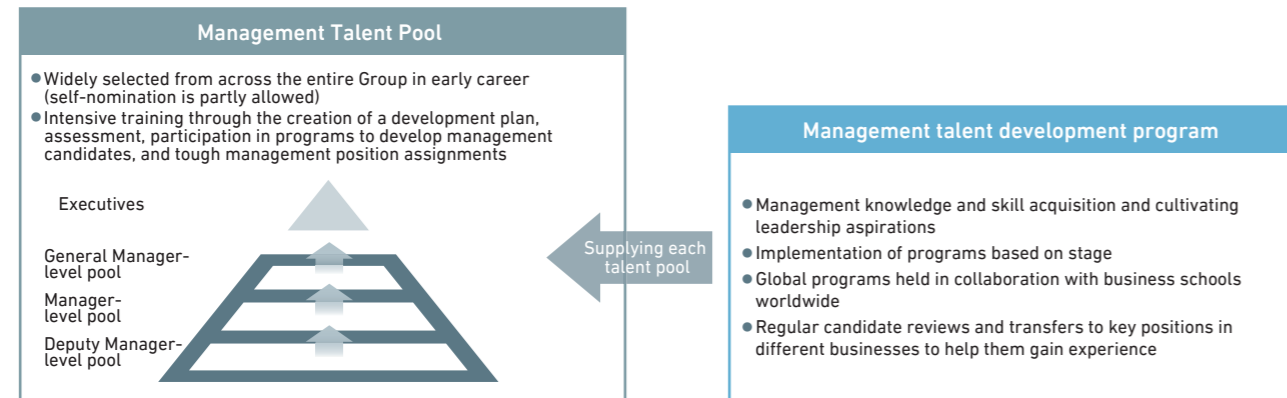
We are implementing focused training programs for the candidates in the management talent pools. As part of this training, we are collaborating with business schools worldwide to provide off-the-job training programs aimed at cultivating management knowledge and skills and inspiring leadership ambition. In FY2022, over 200 people participated in this program nationally and internationally. Further, via regular reviews of candidates, we are working to transfer employees to important positions in other businesses so that they can gain broad work experience. With programs like this, we will develop future manage-

ment candidates who can continue to create value in any environment and improve our growth potential.



Global program for management candidates

HR Strategy



Talent: Talent Acquisition and Development

The key to implementing business strategies is to acquire and develop human resources responsible for new areas of growth. MHI Group focuses on talent acquisition for areas of growth and talent development that expands individual employees' capabilities and maximizes the value of human capital. Particularly with regard to personnel development, we have established "Talent Development Guidelines" that consolidate the shared values of our employees and our approach to personnel development. In line with this policy, we have augmented an in-house recruitment system and improved some trainings for selected candidates to allow self-nomination. Through these initiatives, we support the growth of individual employees' capabilities and their career development.

In addition to fostering a culture of learning and creating mechanisms to ensure that employees continuously engage

in "skill-adding," we are also working to establish a cycle that allows us to assess the human capital within the Group and to continuously acquire and develop the talent necessary to drive our business. Furthermore, to enable employees to chart their own career paths, in addition to interviews about work goals and achievement levels, we are expanding our dialogue system for interviews related to career design. In order to realize our management strategy, we are implementing measures to acquire and develop human resources.

Key word: Skill-adding

When developing personnel, we give preference to the Group's unique concept known as "skill-adding." Skill-adding is defined as, "acquiring new skills (for example, digital skills) in order to respond to changes in the business environment, in addition to the skills an employee has acquired and cultivated for many years." Moving forward, we are establishing a process to identify the skills that each employee needs and fill any gaps by adding skills. To support this "skill-adding," we will provide a wide range of learning opportunities while also fostering a corporate culture that encourages employees to seize new learning opportunities.

► 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

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 the Company **Role of Managers**

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

Strengthening Recruitment

In order to ensure the steady implementation of our management strategy, MHI Group is working to strengthen recruitment. In Japan, we are working to improve the Group's image in the job market by developing strategic corporate branding through public activities and the diversification of our online presence in order to reach a broader audience of recruits.

When recruiting new graduates, we use internships to promote understanding of MHI and the Group's business and technical capabilities. For example, in our engineering internships, university and graduate students can choose the one that best suits their needs from more than 300

themes covering MHI Group's wide-range of business areas. In FY2022, approximately 99.5% of participants rated this project as "satisfactory" or "very satisfactory." In addition, online workshops for non-technical students that offer opportunities to experience our sales operations and conduct self-analysis have been favorably received by participants.

We are working to deepen contact with students by creating a system that allows those who wish to join MHI Group to interview with relevant employees based on their interests.

Group Recruitment System

We have introduced an in-house recruitment system as a way to diversify growth opportunities and support autonomous career development. This is a system that enables employees to transfer of their own will while selections by the recruiting division are needed. More than 600 employees (as of August 2023) have utilized this system

to be transferred and are now embracing the challenges of their new positions. In this way, we are making strides in preparing a system that allows competent employees with diverse knowledge, experiences, and backgrounds to innovate and actively interact with others across region, job type and products.

Promoting DX Education

MHI Group has set "transform society through AI and digitalization" as one of its Material Issues, and we are working with customers to co-create new value chains that utilize solutions that "smart connect" to complex mechanical systems and digital technology. As MHI Group promotes digital innovation (DI), we are also actively developing digital talent.

In promoting digital human resource development, we are putting in place a unified standard for digital human resource models, tasks and skills that comply with every standard and guideline. We are developing training programs according to these standards and an accurate understanding of our human resource needs. In terms of the execution of training, at our training center, which is dedicated to technical education, we hold more than 500

courses a year and plan 240 types of training in-house, including courses on using AI/IoT in business.

In addition, we have introduced external educational programs. We have prepared about 2000 courses at various levels (such as introductory, basics, and praxis), and after releasing these courses, we have ensured that all employees, whether technical or administrative, can take them.

Moreover, in order to strongly promote DI, we must improve digital literacy (increasing people's basic digital knowledge and using the power of digital to transform their work or organizations) throughout the Group. Because we believe this is important, we are proceeding with digital literacy education for all 75,000 people in MHI Group.

HR Strategy

In addition to promoting the aforementioned DX education, we are adding human resource development education programs suited to the latest business needs.

Human Resource development and learning portal (MHI University)

We are developing MHI University as an information platform that supports employees. From this platform employees can obtain information at any time about a variety of topics such as skills related to the Group's products and businesses—including design, production quality, and

In this way, by working to develop digital human resources across the Group, we will accelerate the promotion of DI Groupwide, leading to business growth and value creation.

digital—as well as management, leadership, and communication skills. The information has high searchability and integrates with external online learning platforms, making it effective in promoting skill-adding.

Promotion of Diversity and Inclusion

MHI Group consists of tens of thousands of employees with diverse work experiences, nationalities, and cultures, making a corporate culture where everyone is respected an essential condition for the measures mentioned so far. We believe that the diversity of our employees is an important foundation for allowing the Group to contribute to solving social issues through its business activities and find growth while continuing to innovate.

Against this backdrop, we have set as a companywide goal to "project new value through participation of diverse human resources" as part of Material Issues. We continue to provide guidance and training to achieve one of our KPIs to "increase the ratio of female executives to 30% and double the ratio of women in management positions by 2030 (in comparison to FY2021)." HR and business departments will work together in an organized manner to obtain this goal. Furthermore, to enable all employees to continue their careers, we are expanding various employee support systems with consideration of such factors as childcare and caregiving. We are working to build a workplace environment and organization culture that allows employees to balance work and family life.

Additionally, we are continuously providing education regarding respect for diversity to Group employees in or-

der to maintain a high level of awareness about the topic. In FY2022, approximately 75,000 MHI Group employees, including global employees, participated in e-learning on "Respect for Human Rights in MHI Group."

Furthermore, we are working hard to employ individuals throughout Japan who have accessibility needs by actively expanding occupations and creating workplace environments where people with disabilities can comfortably play an active role. We will continue to work to establish and expand environments where individuals with disabilities can be more actively involved and demonstrate their respective capabilities.



Some of the original merchandise representing the Company's rugby team, the MHI Sagamihara Dynaboars, is made by employees with disabilities.



Organization: Enhancing Organizational Strength

It goes without saying that each individual employee is important in making the Group implement its business strategies. However, in order to actualize this strategy, it is equally important to achieve an optimal organizational structure, improve the quality and speed of decision-mak-

ing, and maximize organizational performance. With the goals of elevating the sophistication of our organization and processes and improving management quality, the Group is also focused on training line managers.

Clarifying the expected capabilities and behaviors of line managers

We have clarified expected capabilities and behaviors in line with our "Talent Development Guidelines," which outline "autonomy," "collaboration," and "challenge" as themes. We have broken down these expectations into concrete actions and disseminated them throughout MHI Group. Examples are: showing vision, being responsible for committing to fostering an organizational culture, and taking appropriate risks when making decisions. Not only does this make it possible for each manager to re-examine their own actions in detail, but also by creating

a system that allows for 360-degree feedback, it helps them focus on their own deficiencies more objectively, providing opportunities for autonomous growth for managers or employees who aspire to be managers. In the future, through rank-specific education and OJT, we will try to raise the strength of organizational management by strengthening our training programs to ensure they acquire these capabilities and behavior traits, while also linking them to requirements necessary for promotion to manager.

Engagement: Employee Engagement

For MHI Group to respond quickly to changes in the business environment, it is not enough for each individual employee to be good at doing something that they are told or expected to do. They must also be good at thinking about what should be done in a given situation and, being

convinced that their work is significant, work with a high degree of engagement. Along with promoting diversity, improving engagement is one of the Group's Material Issues and the most important initiatives in the HR domain.

Improving Engagement

In order to implement necessary measures for improving engagement in a timely fashion, we established a database regarding Japanese and international employee engagement and defined the six initiatives in each role of HR, executives, and managers, so that the three parties

are able to work together to improve engagement. Further, domain CEOs, segment heads, and chief officers are obligated to report on initiatives to improve engagement in each organization to the Board of Directors.

HR Strategy

Main Participants and Roles in Initiatives to Improve Engagement

■ Improve engagement from the side of policies and systems, provide support to departments



Policies and HR systems have a major impact on employee engagement. HR will examine policies and systems with a focus on increasing employee engagement. In addition, as experts in the field of organizational development and management, HR supports initiatives by executives and managers from a wide range of perspectives.

■ Demonstrate leadership and take responsibility for engagement across the organization



Strong commitment from executives is vital to improve engagement. As the head of each organization and the managers of MHI Group, management is responsible for engagement and must demonstrate leadership to improve it.

■ Be responsible for the engagement of each individual subordinate



Managers have the most direct influence on the way individual employees work. As managers, we will regularly reassess how we should manage and how we should work as a team, so that each individual employee can approach their work with a high level of engagement.

6 Initiatives to Improve Engagement in 3 Areas

■ Improve systems, mechanisms, and infrastructure



HR will take the lead in improving infrastructure in areas such as HR policies and systems related to work styles.

■ Support employees' autonomous career design



We will re-examine our processes and operations to ensure that individual employees can design their own careers and have their performance appropriately evaluated.

■ Imbue the business vision and strategy



In order to connect individual work with our business strategies, we will break them down for executives, managers and employees.

■ Promoting diversity



Our goal is to create a company that where diverse personnel and people with a wide range of ideas can work freely.

■ Continue to re-examine business processes in order to make them more effective



We are working to improve material factors that impede productivity such as lack of resources and lack of delegation.

■ Build a corporate structure where it is easy to work



We are working to improve intangible factors that impede productivity such as lack of psychological safety and poor communication.

Conducting Engagement Surveys

MHI Group has introduced a survey platform that works with its in-house global human resources database, making it possible to conduct engagement surveys quickly. As a way of measuring employee engagement or the factors involved in it, we not only regularly conduct MHI Group Employee Survey for all Group companies, we also conduct the Workplace Pulse Survey within Japan. These surveys enable MHI to address workplace-level issues that cannot be addressed in fine detail through uniform

companywide surveys and initiatives, thereby improving employee engagement. The unique feature of the Group's pulse survey is that they focus on workplace-level issues and aim to improve the workplace environment through active dialogue between managers and employees. We have also created guidelines for action plans to follow up on the pulse survey, which have helped strengthen workplace communication.

Occupational Safety and Employee Health

A workplace environment where employees do not have anxiety about their safety or health is a prerequisite for improving employee engagement. 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.

Work Authority (SWA: the authority, regardless of position or affiliation, to stop work and correct a situation when machinery or behavior is unsafe). By creating an environment where all employees can exercise this authority, we continue to make efforts to foster a "safety culture," a work culture that prioritizes safety.

In order to confront past work-related injuries and workplace accidents and pledge to prevent them from happening again, we have established multiple facilities, including the Safety Transmission Center at Nagasaki Shipyard and Machinery Works. At the same time, we will create an environment in which all employees have Stop

In relation to employee health, with the President's health declaration—that "we will engage in health management that highlights the importance of ensure that employees feel mentally and physically healthy and that their work is rewarding"—as our basis, we have collaborated with the MHI Health Insurance Association to develop the "FY2020-2022 MHI Action 5 Good Health!!" plan. We have established concrete KPIs and are developing Group-wide activities to achieve them. In recognition of this work, MHI was also recognized as a "2023 Outstanding Health and Productivity Management Corporation." By promoting health management, we continue to work toward developing personnel capable of contributing to a society that is healthy and full of vitality.

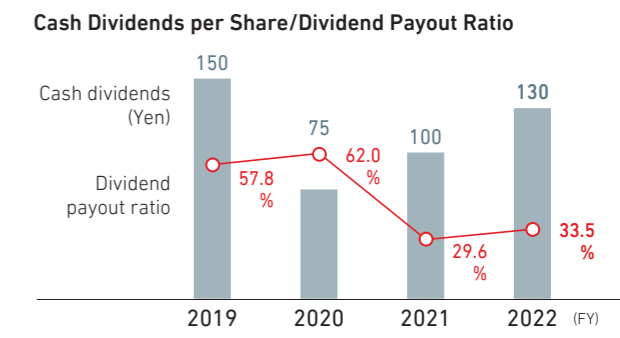
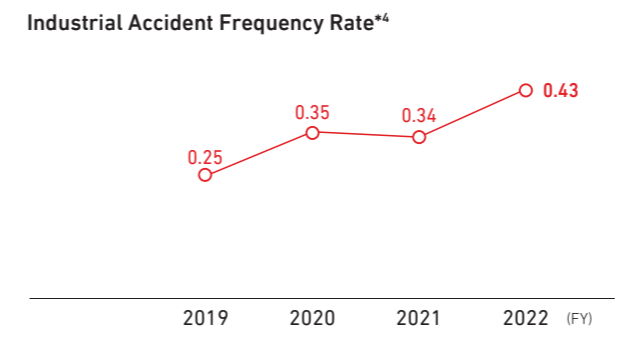
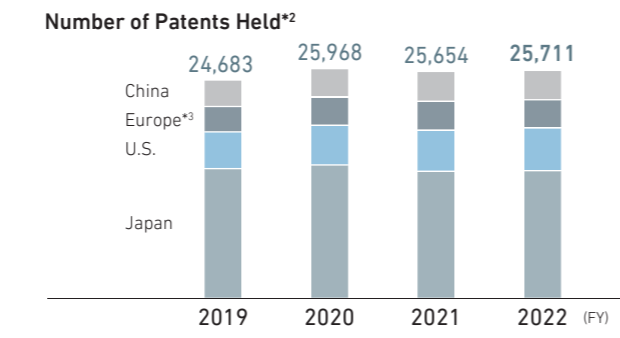
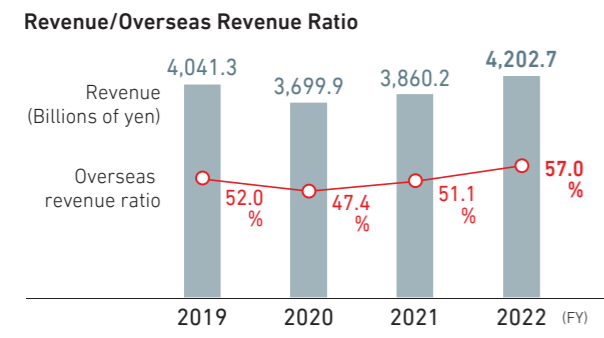
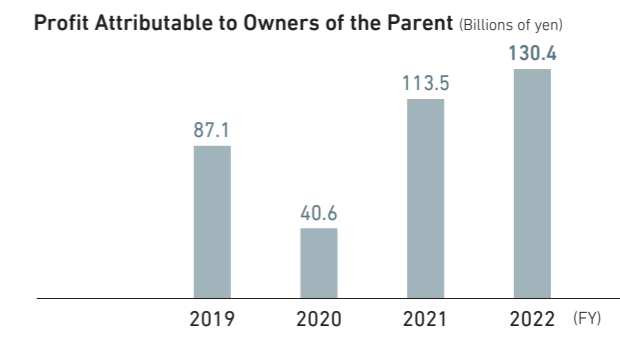
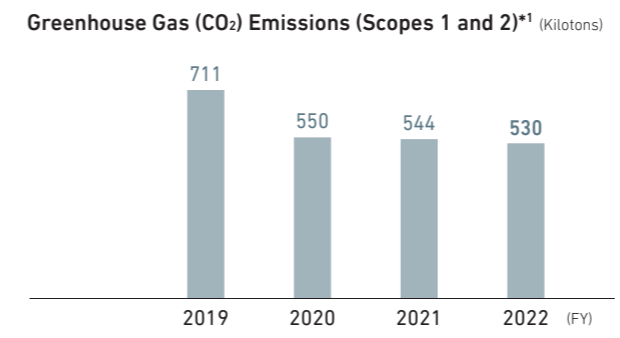
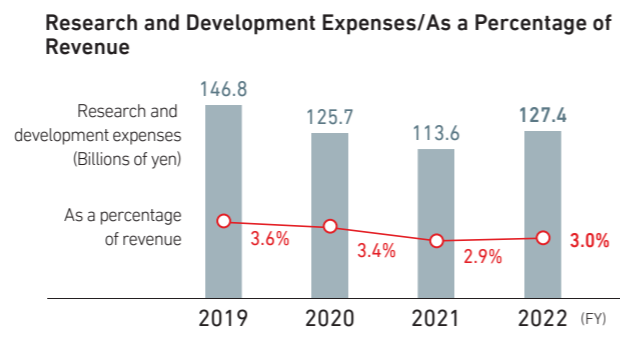
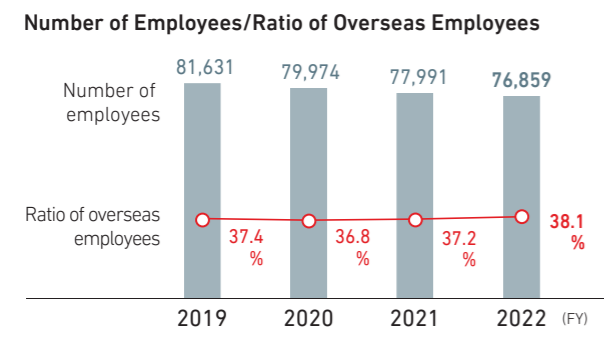


Nagasaki Shipyard & Machinery Works: Safety Transmission Center Accident Case Studies Zone



Financial and Non-Financial Highlights

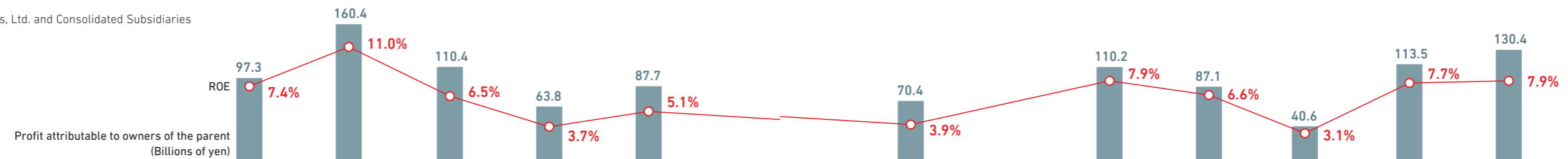
INPUT		OUTPUT		OUTCOME	
As of March 31, 2022		(YoY)		As of March 31, 2023	
Total assets ¥ 5,116.3 billion	Research and development expenses ¥ 127.4 billion ▲ 12.1% UP	Orders received ¥ 4,501.3 billion ▲ 10.7% UP	EBITDA ¥ 331.1 billion ▲ 13.2% UP	Profit attributable to owners of the parent ¥ 130.4 billion ▲ 14.9% UP	Total assets ¥ 5,474.8 billion ▲ 7.0% UP
Total equity ¥ 1,662.5 billion	Capital expenditures ¥ 150.7 billion ▲ 22.7% UP	Revenue ¥ 4,202.7 billion ▲ 8.9% UP	EBITDA margin 7.9% ▲ 0.3pt UP	Free cash flows ¥ 35.3 billion ▼ 266.5 billion DOWN	Total equity ¥ 1,833.9 billion ▲ 10.3% UP
Interest-bearing debt ¥ 734.9 billion	Total energy consumption*1 1,862 GWh ▼ 1.1% DOWN	Profit from business activities ¥ 193.3 billion ▲ 20.6% UP	Greenhouse gas (CO₂) emissions*1 530 kilotons ▼ 2.6% DOWN	ROE 7.9% ▲ 0.2pt UP	Interest-bearing debt ¥ 742.4 billion ▲ 1.0% UP
Number of employees 77,991 people	Number of overseas employees 29,317 people ▲ 1.0% UP			Dividend payments (for FY2022) ¥ 38.6 billion ▼ 4.2% DOWN	Number of employees 76,859 people ▼ 1.5% DOWN
Number of patents held 25,654					Number of patents held 25,771 ▲ 0.5% UP



*1 Scope of data: MHI on a non-consolidated basis and Group companies (FY2019: 157, FY2020: 156, FY2021: 158, FY2022: 163)
 *2 Scope of data: MHI and major consolidated subsidiaries
 *3 Data are for European regional patents
 *4 Scope of data: MHI on a non-consolidated basis and Group companies (FY2019: 23, FY2020: 44, FY2021: 56, FY2022: 56)

Eleven-Year Financial and Non-Financial Data

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



	2013/3	2014/3	2015/3	2016/3	2017/3	← JGAAP 2018/3	IFRS→ 2018/3	2019/3	2020/3	2021/3	2022/3	2023/3	2023/3
(Years ended March 31 or as of March 31) Billions of yen	2012 Medium-Term Business Plan					2015 Medium-Term Business Plan		2018 Medium-Term Business Plan		2021 Medium-Term Business Plan		Millions of U.S. dollars*1	
Orders received	¥ 3,032.2	¥ 3,420.0	¥ 4,699.1	¥ 4,485.5	¥ 4,275.6	¥ 3,875.7	¥ 3,868.7	¥ 3,853.4	¥ 4,168.6	¥ 3,336.3	¥ 4,067.7	¥ 4,501.3	\$33,710
Revenue	2,817.8	3,349.5	3,992.1	4,046.8	3,914.0	4,110.8	4,085.6	4,078.3	4,041.3	3,699.9	3,860.2	4,202.7	31,474
Profit from business activities	163.5	206.1	296.1	309.5	150.5	126.5	58.1	200.5	(29.5)	54.0	160.2	193.3	1,447
Profit before income taxes	155.4	214.4	232.6	132.6	169.7	128.0	39.2	195.0	(32.6)	49.3	173.6	191.1	1,431
Profit attributable to owners of the parent	97.3	160.4	110.4	63.8	87.7	70.4	(7.3)	110.2	87.1	40.6	113.5	130.4	976
Research and development expenses	¥ 120.0	¥ 138.5	¥ 145.5	¥ 150.6	¥ 160.7	¥ 176.8	¥ 176.8	¥ 152.1	¥ 146.8	¥ 125.7	¥ 113.6	¥ 127.4	\$ 954
Capital expenditures	118.8	148.6	156.1	175.5	204.4	158.4	158.4	147.3	161.5	125.5	122.8	150.7	1,128
Depreciation & Amortization	119.4	134.9	157.0	158.7	172.7	176.1	176.1	135.6	144.6	139.2	132.1	137.8	1,031
Total assets	¥ 3,935.1	¥ 4,886.0	¥ 5,520.3	¥ 5,500.7	¥ 5,481.9	¥ 5,487.6	¥ 5,248.7	¥ 5,240.3	¥ 4,985.6	¥ 4,810.7	¥ 5,116.3	¥ 5,474.8	\$41,000
Total equity	1,430.2	1,774.2	2,120.0	1,999.7	2,104.1	2,164.4	1,693.8	1,728.6	1,290.0	1,439.3	1,662.5	1,833.9	13,734
Interest-bearing debt	1,031.2	957.4	975.5	1,052.1	925.5	813.1	813.1	665.1	598.2	905.6	734.9	742.4	5,559
Cash flows from operating activities	¥ 288.3	¥ 296.2	¥ 212.8	¥ 270.0	¥ 95.9	¥ 345.1	¥ 405.7	¥ 420.3	¥ 452.5	¥ (94.9)	¥ 285.5	¥ 80.8	\$ 605
Cash flows from investing activities	(76.7)	(151.5)	(174.1)	(262.4)	8.7	(137.1)	(238.1)	(161.8)	(239.5)	(182.2)	16.3	(45.5)	(341)
Free cash flows	211.6	144.6	38.6	7.5	104.6	207.9	167.5	258.4	212.9	(277.1)	301.8	35.3	264
Cash flows from financing activities	(154.2)	(136.6)	(45.8)	(23.1)	(162.0)	(152.1)	(112.3)	(271.0)	(204.4)	221.7	(255.7)	(18.9)	(141)
Per share information of common stock*2 Yen													U.S. dollars
Basic earnings (losses) per share	¥ 290.09	¥ 478.13	¥ 329.04	¥ 190.17	¥ 261.24	¥ 209.82	¥ (21.79)	¥ 328.39	¥ 259.39	¥ 120.92	¥ 338.24	¥ 388.43	\$ 2.909
Total equity	4,109.00	4,599.86	5,306.47	5,003.00	5,299.14	5,431.02	4,153.46	4,204.71	3,627.73	4,064.73	4,696.42	5,183.10	38,815
Cash dividends	80.00	80.00	110.00	120.00	120.00	120.00	120.00	130.00	150.00	75.00	100.00	130.00	0.973
Ratios													
Overseas sales ratio	44.8%	49.3%	53.4%	55.4%	53.5%	54.2%	55.1%	54.0%	52.0%	47.4%	51.1%	57.0%	
Ratio of profit from business activities	5.8%	6.2%	7.4%	7.6%	3.8%	3.1%	1.4%	4.6%	(0.7)%	1.5%	4.2%	4.6%	
Return on equity*3	7.4%	11.0%	6.5%	3.7%	5.1%	3.9%	(0.5)%	7.9%	6.6%	3.1%	7.7%	7.9%	
Return on assets*4	2.5%	3.0%	2.1%	1.2%	1.6%	1.3%	(0.1)%	2.1%	1.7%	0.8%	2.3%	2.4%	
D/E ratio*5	72%	54%	46%	53%	44%	38%	48%	38%	46%	63%	44%	40%	
Equity ratio*6	35.0%	31.6%	32.3%	30.5%	32.5%	33.3%	26.6%	26.9%	24.4%	28.4%	30.8%	31.8%	
Dividend payout ratio*7	27.6%	16.7%	33.4%	63.1%	45.9%	57.2%	—	39.6%	57.8%	62.0%	29.6%	33.5%	

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. 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 ¥133.53 = U.S.\$1, the exchange rate prevailing at March 31, 2023.

*2 The Company conducted a 1-for-10 reverse stock split on common shares on October 1, 2017. The interim dividend for FY2017 and data for FY2016 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

*9 MHI on a non-consolidated basis and Group companies (FY2019: 23, FY2020: 44, FY2021: 56, FY2022: 56)

*10 MHI on a non-consolidated basis and Group companies (FY2019: 157, FY2020: 156, FY2021: 158, FY2022: 163)

Non-financial indexes

	Scope of data				
Number of employees	Consolidated	81,631	79,974	77,991	76,859
Number of overseas employees	Consolidated	30,501	29,425	29,032	29,317
Number of female managers*8	Non-consolidated	106	123	162	157
Industrial accident frequency rate	*9	0.25	0.35	0.34	0.43
Total energy consumption (GWh)	*10	2,115	1,835	1,882	1,862
Greenhouse gas (CO ₂) emissions (Kilotons)	*10	711	550	544	530
Scope 1 (Kilotons)	*10	185	151	173	168
Scope 2 (Kilotons)	*10	526	399	371	362
Social contribution expenses (Billions of yen)	Consolidated	1.3	1.2	1.1	1.2

Corporate Data

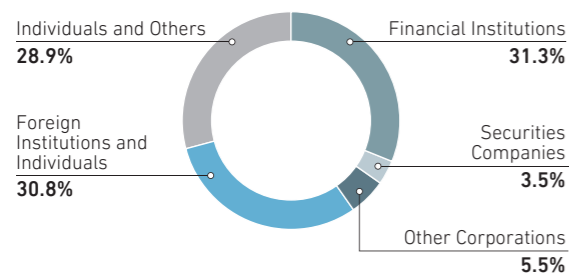
As of March 31, 2023

Head Office: 2-3, Marunouchi 3-chome, Chiyoda-ku, Tokyo, 100-8332, Japan Phone: +81-3-6275-6200	Number of Employees: 76,859 (Consolidated) 21,634 (Non-consolidated)
Established: January 11, 1950	Stock Listings: Tokyo, Nagoya, Fukuoka, and Sapporo Stock Exchanges
Paid-in Capital: ¥265.6 billion	Ticker Code: 7011
Total Number of Issuable Shares: 600,000,000	Manager of the Register of Shareholders: Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan
Total Number of Shares Issued: 337,364,781	Independent Auditors: KPMG AZSA LLC 1-2 Tsukudo-cho, Shinjuku-ku, Tokyo 162-8551, Japan
Number of Shareholders: 261,074	

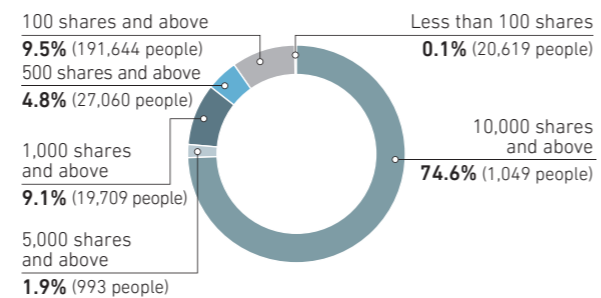
Major Shareholders

	Number of shares owned by major shareholders	Composition rate (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	53,706,300	15.9
Custody Bank of Japan, Ltd. (Trust Account)	18,548,400	5.5
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
STATE STREET BANK WEST CLIENT – TREATY 505234	5,801,805	1.7
Mitsubishi Heavy Industries Employee Shareholding Association	5,561,983	1.6
THE BANK OF NEW YORK MELLON 140044	4,843,685	1.4
STATE STREET BANK AND TRUST COMPANY 505225	3,975,366	1.1
STATE STREET BANK AND TRUST COMPANY 505001	3,824,367	1.1
JP MORGAN CHASE BANK 385781	3,760,719	1.1

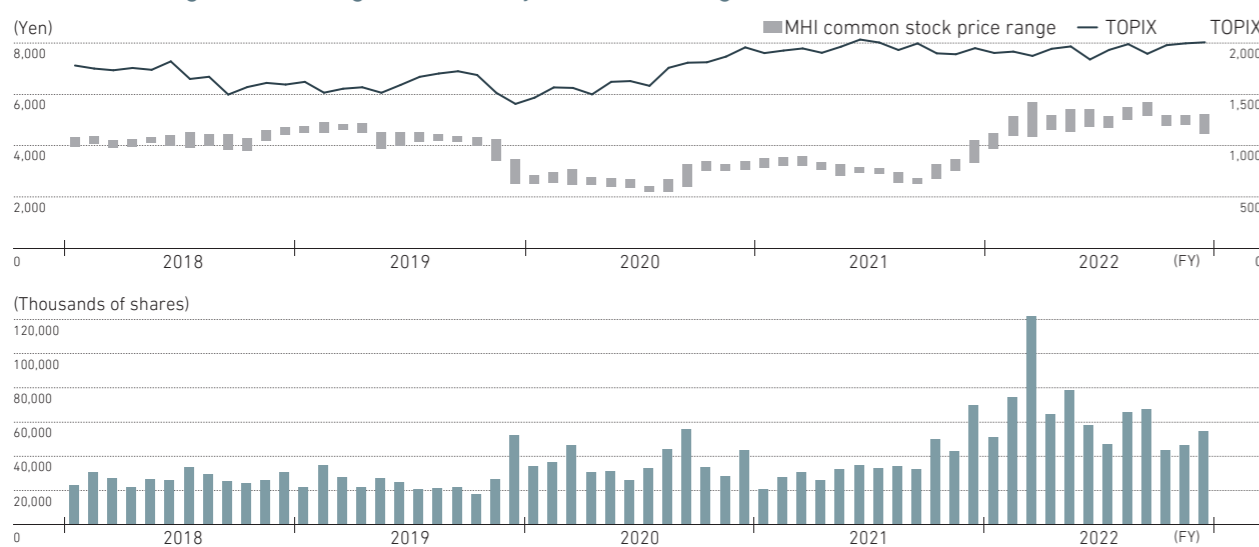
Classified by Type of Shareholder



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. 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: Defense Business Briefing, Nuclear Power Business Briefing, Metals Machinery Business Briefing, Kobe Shipyard & Machinery Works Factory Tour, 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 institutional investors throughout the year.

Status of Inclusion in ESG Indexes (As of the end of August 2023)

MHI Group promotes sustainability-oriented management and focuses on various activities and information disclosure. Through these efforts, we have been included for the sixth year in a row in the Asia Pacific Index of the Dow Jones Sustainability Index, a global ESG investment index (as of September 2023).

Furthermore, we have been selected for all six 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
- Morningstar Japan ex-REIT Gender Diversity Tilt Index

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

Member of Dow Jones Sustainability Indices
Powered by the S&P Global CSA

2022 CONSTITUENT MSCI JAPAN ESG SELECT LEADERS INDEX
2022 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

THE INCLUSION OF MITSUBISHI HEAVY INDUSTRIES, LTD. IN ANY MSCI INDEX, AND THE USE OF MSCI LOGOS, TRADEMARKS, SERVICE MARKS OR INDEX NAMES HEREIN, DO NOT CONSTITUTE A SPONSORSHIP, ENDORSEMENT OR PROMOTION OF MITSUBISHI HEAVY INDUSTRIES, LTD. BY MSCI OR ANY OF ITS AFFILIATES. THE MSCI INDEXES ARE THE EXCLUSIVE PROPERTY OF MSCI. MSCI AND THE MSCI INDEX NAMES AND LOGOS ARE TRADEMARKS OR SERVICE MARKS OF MSCI OR ITS AFFILIATES.

FTSE Blossom Japan Index
FTSE Blossom Japan Sector Relative Index
S&P/JPX カーボン エフィシエント 指数

Publication of our MHI Report 2023

MHI Group aims to provide value to society by contributing to the resolution of social issues such as climate change, and also seek to achieve sustained growth and enhancement of corporate value. MHI Report 2023 presents this approach to value creation, and also introduces the corporate governance and HR strategy supporting this. We hope that this report will become a tool for 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 2023
Investor Relations & Shareholder Relations Department