The paper used in this report is made from FSCR-certified and other materials from controlled sources. In addition, this report was printed with VOC (volatile organic compound) free ink in a waterless printing process, which eliminates the use of alkaline developing solutions and elements such as isopropyl alcohol in the dampening water.
Purpose of Publishing This Report

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

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

Reference Guidelines

Value Reporting Foundation (VRF): International Integrated Reporting Framework
Global Reporting Initiative: Sustainability Reporting Standards

Structure of Information Disclosure

MHI Report contains information that is important to understanding MHI. More detailed information is available on our website.

https://www.mhi.com/finance

Forward-Looking Statements

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

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

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:

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.

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.

**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 engrained 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.
Shareholders’ equity*: ¥1,576.6 billion
Interest-bearing debt: ¥734.9 billion
Number of employees: 77,991 people
Training hours per employee: 13.6 hours
Number of patents held: 25,654
People undergoing human rights awareness training: 1,570 people
Water usage: 6,820 thousand m³

Financial capital

R&D expenses: ¥113.6 billion
Property, plant and equipment: ¥790.2 billion
Social contribution expenses: ¥1.1 billion
Renewable energy consumption: 119 GWh

Human capital

Intellectual capital

Manufactured capital

Social and relationship capital

Natural capital

* Equity attributable to owners of the parent
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 a 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 a 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, 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.

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

1880’s >> 1950’s >> 1970’s >> 2000’s >>

Overview

Decarbonization

Energy Transition

Hydrogen co-firing/100% hydrogen firing gas turbine

CCS/CCUS/CO₂ Capture, Utilization, and Storage

Present and Future

Decarbonization

Smart Infrastructure

Electrification and Intelligent Systems

SynX-powered AGF

For details, see page 30

For details, see page 30
A Message from the President & CEO

Shared Aspirations for a Carbon Neutral Future
A Message from the President & CEO

MHI Group’s Value Creation Proposal

Throughout our long history, Mitsubishi Heavy Industries (MHI) Group has continuously combined cutting-edge technology with extensive expertise in order to improve the lives of people around the world. At every step, we have contributed to resolving societal issues by providing products and services which respond to the demands of the day. At the time of our founding, we built ships and power plants. Later, we manufactured a variety of industrial machinery and contributed to the exploration of space. More recently, we have provided CO2 capture plants and other advanced environmental systems. Constant contribution to society’s development is, I believe, MHI’s true purpose.

Today, climate change poses a challenge of utmost urgency. When I joined MHI in the early 1980s, the issues we faced involved securing substitute fuels and efficiently using energy in order to cope with depleting oil reserves. Since that time, MHI Group has continuously manufactured products responsive to those needs as a leader in the energy and environmental machinery fields. This includes high-efficiency gas turbines, energy-conserving heat pumps, and power systems employing geothermal, wind, and other renewable energies. Creating new products and services required by society-state-of-the-art offerings unprecedented in Japan or globally—is our greatest source of pride. The pride which all of our employees hold in their work and the confidence and diligence with which they apply themselves allow us to overcome any difficulties we might face. Our strong determination to resolve societal issues is crystalized in MHI Group’s fundamental philosophy, known as Our Principles. In the years ahead, we intend to continue pursuing this most noble of purposes.

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

In October 2021, we announced MISSION NET ZERO, our commitment to achieve Carbon Neutrality across our value chain by 2040.*4 Like many other nations, Japan is aiming to achieve Carbon Neutrality by 2050. To reach this goal, considering the lead time required for our products and technologies to enter service, we at MHI have declared our intent to realize net zero CO2 emissions by 2040, ten years ahead of the Japanese government’s target.

By our estimate, CO2 emissions from products we have provided to our customers (Scope 3) totaled approximately 1.5 billion tons as of 2019. We are confident in our ability to make a significant contribution to global Carbon Neutrality by reducing those emissions with our technological capabilities.

In our MISSION NET ZERO announcement, we set two targets: first, to cut our Scope 3 + CCUS emissions by 50% compared to 2019 levels by 2030, and then to reach Net Zero by 2040. Secondly, we set two targets regarding Scopes 1 and 2 emissions—CO2 emissions resulting from our Group-wide production activities. We will reduce Scopes 1 and 2 emissions by 50% compared to 2014 levels by 2030 and then achieve Net Zero by 2040. We have already succeeded in reducing our Scopes 1 and 2 emissions by more than 40%. Today, we are proceeding with plans to demonstrate our Carbon Neutral Factory concept at Mihara Machinery Works in western Japan. We aim to achieve Carbon Neutrality at this manufacturing facility mainly by replacing conventional power sources with green energy derived from renewables, electrifying heat sources, and installing energy management systems. By applying the experience gained through these efforts and working closely with our peers in industry, we will develop innovative, carbon neutral solutions and propose them to our customers.

In accordance with our 2021 Medium-Term Business Plan (MTBP), we are pursuing two main initiatives to contribute to Carbon Neutrality: Energy Transition and Smart Infrastructure. In the Energy Transition, we are focusing on three goals: decarbonizing existing infrastructure, building a hydrogen solutions ecosystem, and realizing a CO2 solutions ecosystem. We are also seeking to reduce CO2 emissions through conversions to alternative fuels, such as hydrogen, and by utilizing nuclear power. In hard-to-abate industries such as steel and cement manufacturing, however, decarbonization poses an especially difficult challenge. Waste incineration, too, inevitably will produce carbon emissions. Therefore, to achieve Carbon Neutrality, such unavoidable emissions must be curtailed with CO2 capture. That said, we must also consider how to store the captured CO2 initially and then make use of it at a later time.

Carbon Neutrality Initiatives in the 2021 Medium-Term Business Plan

Achievement of Carbon Neutrality is essential to realizing a sustainable society that is safe, secure, and comfortable.

MHI Group will promote decarbonization of energy supplies through the Energy Transition together with energy conservation, automation, and decarbonization of energy use with Smart Infrastructure.
As digital technologies have come to occupy every facet of our lives in recent years, data centers today are seeing substantial increases in data transmission and processing volumes. The large amount of energy needed to dissipate the considerable heat generated at these data centers poses a great challenge. MHI Group today offers high-efficiency cooling and power generation systems for large-scale data centers, and going forward we aim to develop cooling systems offering even greater efficiency to help reduce CO₂ emissions further.

We have already launched highly maneuverable Automated Guided Forklifts (AGFs) into the market, as well as cooling systems with low Global Warming Potential (GWP), which use natural refrigerants CO₂ and NH₃ (ammonia). In the coming years, we will proceed with development of automated logistics solutions, such as automated refrigerated warehouses, and integration and coordination of power supply and air conditioning systems to achieve game-changing advances in energy conservation and decarbonization.

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

Data Center Decarbonization and Energy Conservation

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

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

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

First, concerning climate change, I have a strong sense that during the past year discussions about potential solutions took a more realistic direction than before. Under the EU Taxonomy system,*3 gas-fired thermal power and nuclear power under certain conditions were classified as sustainable economic activities promoted in conjunction with the European Union’s sustainable finance strategy. In February 2022, gas-fired thermal power and nuclear power under certain conditions were classified as sustainable economic activities during the transition to Carbon Neutrality.

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

Increasing geopolitical instability and anxieties around energy supplies following the breakout of conflict in Ukraine have recently led to active debate concerning national and energy security. Against the backdrop of this difficult situation, we must develop medium-term business plans (MTBP) over a period of five years or so. The effectiveness of these plans depends on our ability to anticipate changes in the global business environment, which are increasingly fast and unpredictable.

We must establish a new business framework on the foundation of the 2021 MTBP. The group has already worked on the medium-term growth strategies and financial plans adapted to these developments.

First, concerning climate change, I believe we must remain focused on achieving a safe, stable, low-cost energy supply that is also environmentally friendly. This concept is collectively referred to as S + E.**

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

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A Message from the President & CEO

Cooperative Development with Customers Supported by DX

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

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

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

A Message to Our Stakeholders

--- Striving to Balance Environmental and Economic Needs ---

Tomoki—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. Tomoki has a common thread with our mission to achieve Carbon Neutrality 20 to 30 years into the future.

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

Basic Approach to Financial Strategy

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

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

2021 Medium-Term Business Plan Progress

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

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

Financial Indicators Over Time

<table>
<thead>
<tr>
<th></th>
<th>FY2018 ($trillion)</th>
<th>FY2020 ($trillion)</th>
<th>FY2023 ($trillion)</th>
</tr>
</thead>
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<tr>
<td>Revenue</td>
<td>¥4.1</td>
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<tr>
<td>Business profit margin</td>
<td>5%</td>
<td>1.5%</td>
<td>7%</td>
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<tr>
<td>ROE</td>
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<td>3.1%</td>
<td>12%</td>
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<tr>
<td>Total assets</td>
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</tr>
<tr>
<td>Interest-bearing debt</td>
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<tr>
<td>Equity</td>
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<td>¥1.4</td>
<td>¥1.5</td>
</tr>
<tr>
<td>Debt/Equity ratio</td>
<td>0.4</td>
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<tr>
<td>Dividend per share</td>
<td>¥150</td>
<td>¥75</td>
<td>¥160</td>
</tr>
</tbody>
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* Adjusted from previously disclosed materials for the portion realized in advance in FY2020.

Risk Management

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

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

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

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

Approach to Growth Investments, Capital Policy and Shareholder Return

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

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

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

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

Our Approach to Business Portfolio Management

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

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

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

Enhancing Corporate Value through Dialogue with Shareholders and Investors

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

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

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

Looking ahead, I will continue to work hard to explain our yearly initiatives in detail to shareholders and investors as well as to share the results of the 2021 MTBP with you. I sincerely ask for your continued understanding and support.
We’re especially happy to have you, an expert in meteo-
hydrogen gas turbines and other hydrogen technologies.

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

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Mission Net Zero

A Conversation with the CTO

MHI Group is making important contributions
toward realizing Carbon Neutrality

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

MHI Group Efforts to Address Climate Change

Ito

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

Hashida

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

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

Today, efforts are being made all around the world to achieve Carbon Neutrality. In Japan, the
government has declared its commitment to attain Carbon Neutrality on a national level by 2050. It’s within that context

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

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

We also have solutions pertaining to decarbonization, which will be necessary to stop global warming. Power generation systems, for example, are one of our mainstay products. We can reduce CO2 emissions by power plants across the globe by improving the performance of these plants and also by converting them to carbon-free fuels, such as hydrogen. I firmly believe that by combining all of MHI Group’s decarbonization technologies, we will be able to make a positive impact on society.

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

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

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

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

Ito There are many core aspects of development that need to be resolved. One example is hydrogen combustion, which is a key component of hydrogen gas turbines. Still, if we attempted to resolve the major technological challenges that lie before us all at once, we would be sure to fail. MHI Group has many businesses producing a wide range of products, and supporting them are more than 600 different types of technologies. When approaching a major challenge, you need to break it down into small parts, each of which must be addressed in gradual steps through iterative hypothesis testing. If we work on these small challenges in parallel, then overall development speed can be accelerated.

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

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

Mission Net Zero

Roadmap to a Carbon Neutral Society

2021 MTBP

- Future MTBPs

- 50% reduction (compared to 2014)

- 50% reduction (compared to 2019)

- 2040: Achieve Net Zero

Japan and other countries plan to achieve Net Zero by 2050.

Table 1: Roadmap to a Carbon Neutral Society

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<td>Development/Validation at TRR</td>
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<td>Commercialization</td>
<td>Complex validation</td>
<td>Commercialization</td>
</tr>
</tbody>
</table>

- 50% reduction (compared to 2014)

- 50% reduction (compared to 2019)

- 2040: Achieve Net Zero

* Yokohama Hardtech Hub: A co-creation space, located at the Hitomizu Plant of MHI’s Yokohama District & Machinery Works, where startups, manufacturing companies, local governments, and educational institutions can collaborate
EU Taxonomy Compliant
Leveraging Takasago Hydrogen Park, develop hydrogen gas turbine technology that complies with the EU Taxonomy’s strict CO2 emissions standards. Development schedule meets Taxonomy timing requirements as well.

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

- **Large-frame gas turbines**
  - Validation with water electrolysis, turquoise hydrogen*1, SOEC*2 and other technologies in-house and improve product reliability.
  - *1 Turquoise hydrogen: Hi, obtained through pyrolysis of methane into Hi and solid carbon.
  - *2 SOEC (Solid Oxide Electrolyzer Cell): High temperature steam electrolysis.
  - **Add hydrogen production and storage equipment to existing demonstration plant**
  - **Validate hydrogen gas turbine technology**
  - **Combine and evolve energy infrastructure and hydrogen technologies**

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

As you say, business continuity is a matter of extreme importance, and for us to sustain our business, I believe the products and solutions we propose must be what the customer is looking for. What I mean to say is that, besides environmental value, our products and solutions must also make economic sense. I believe customers normally want to keep using their existing as-sets as long as possible. They want to be able to achieve decarbonization by making the minimum necessary modifications and/or additions to their current facilities. For example, in the case of fuel conversions, a customer can achieve hydrogen mixed firing simply by replacing their gas turbine combustors and installing a hydrogen tank and production equipment next to their existing power plant. In hard-to-abate industries such as steel and cement manufacturing, we can propose installation of our proprietary CO2 capture equipment, enabling companies to capture their carbon emissions. Making proposals like these, I believe, will be advantageous both to the customer and to society as a whole.

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

Ito
Thank you for your kind words of encouragement. At MHI Group, we see the decarbonization of both energy supply and use as growth opportunities. In addition to the hydrogen solutions which you saw here today, we offer numerous other solutions as well which will allow us to meet our commitment to help achieve Carbon Neutrality. We pledge to keep taking on new challenges to realize a future where everyone in the world can live in peace and security.
2040 Carbon Neutrality Declaration

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

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

For more details about our 2040 Carbon Neutrality Declaration, please visit our website at: https://www.mhi.com/expertise/carbon-neutral
CO2 Emissions Reduction Targets

Under MISSION NET ZERO, our 2040 Carbon Neutrality Declaration, MHI Group’s first goal is to reduce our CO2 emissions (Scopes 1 and 2) to 50% of 2014 levels by 2030 and reach Net Zero emissions by 2040.

Our second goal focuses on Scope 3 emissions, the majority of which arise from customers’ use of our products. We aim to reduce CO2 emissions throughout our entire value chain to 50% of 2019 levels by 2030 after deducting reductions from CCUS* and to reduce them to Net Zero by 2040.

*CO2 Capture, Utilization, and Storage

Roadmap and Initiatives for Realizing Carbon Neutrality

Under MISSION NET ZERO, our 2040 Carbon Neutrality Declaration, MHI Group aims to achieve net zero CO2 emissions by 2040, ten years earlier than the 2050 goal announced by many countries including Japan. We chose this timing by taking into account the lead time for our Group’s products and technologies to enter service.

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

Roadmap and Initiatives for Realizing Carbon Neutrality

<table>
<thead>
<tr>
<th>Target year</th>
<th>Reduce CO2 emissions across MHI Group Scopes 1 and 2</th>
<th>Reduce CO2 emissions across MHI’s value chain Scope 3 + CCUS reductions</th>
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</thead>
<tbody>
<tr>
<td>2030</td>
<td>-50% (Compared to 2014)</td>
<td>-50% (Compared to 2019)</td>
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<tr>
<td>2040</td>
<td>Net Zero</td>
<td>Net Zero</td>
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</table>

What Are Scopes 1, 2, and 3?

The definitions of Scopes 1, 2, and 3 CO2 emissions provided by the GHG Protocol are presented in the figure to the lower right. Scope 1 is MHI Group’s direct CO2 emissions, which are generated mainly from the combustion of fuels. For example, if the heat needed for production equipment in a production facility is generated by a boiler installed on-site, the CO2 emitted as exhaust gas from that boiler falls under Scope 1.

Scope 2 is indirect emissions associated with the use of electricity, heat, and steam provided by other companies. The main component of this is electricity use. For example, when using electricity purchased from a power utility in buildings and production facilities, the CO2 emitted during the generation of that electricity falls under Scope 2. Scope 3 is emissions from other companies up- and downstream from our Group in the value chain. Upstream, CO2 emitted during the production and transportation of raw materials, for example, falls under Scope 3. Downstream, CO2 emitted from the operation and disposal of our Group’s products, such as electric generation equipment, falls under Scope 3.

GHG Greenhouse Gas

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

Scopes 1 and 2

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

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

In June 2022, MHI concluded a basic agreement with The Chugoku Electric Power Co., Inc., under which Chugoku Electric will supply MHI with green power generated by solar panels installed at MHI’s Mihara Machinery Works under a combination of on-site and off-site power purchase agreements (PPAs). In this way, we plan to decarbonize all electricity consumed at the facility by the end of 2023. As a result, annual CO2 emissions from Mihara Machinery Works will be reduced by approximately 10,000 metric tons.

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

Scope 3 + CCUS Reductions

Reducing Scope 3 Emissions

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

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

MHI Group’s Energy Transition initiatives are aimed at the decarbonization of the energy supply. As a first step, we are increasing efficiency by replacing existing thermal power plants. MHI’s JAC-Series large-frame gas turbines offer the world’s highest level of efficiency, and MHI is steadily accumulating experience winning orders, delivering, and operating this product all over the world. By replacing standard thermal power plants with these highly efficient gas turbines, which emit less CO2, we can make progress in reducing our Scope 3 emissions.

Utilization of Hydrogen and Ammonia

Using hydrogen and ammonia is expected to achieve dramatic reductions in CO2 emissions. Hydrogen is a clean energy source that does not emit CO2 during combustion. Furthermore, earth has abundant supplies of hydrogen in the form of water. Ammonia is also drawing attention as a carbon-free fuel. Like hydrogen, it emits no CO2 during combustion and offers the additional benefit of being easier to transport and store than hydrogen. There is also much infrastructure already in place around the world to manufacture ammonia.

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

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

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

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

<table>
<thead>
<tr>
<th>Reduce CO2 emissions across MHI Group</th>
<th>Implement proprietary technologies at MHI facilities</th>
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<tbody>
<tr>
<td>2016: 1,000</td>
<td>500</td>
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<tr>
<td>2021: 500</td>
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<td>2030: 1,000</td>
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Reduce CO2 emissions across MHI’s value chain Scope 3 + CCUS reductions

Rapidly establish decarbonization technologies and drive commercialization

<table>
<thead>
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<tr>
<td>2019: 0</td>
<td>0</td>
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<tr>
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Expansion of CCUS business
MHI Group’s Carbon Neutrality Initiatives

CCUS’ Contributions to Net Zero

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

While it is possible to reduce CO2 emissions by decarbonizing existing infrastructure and the other methods already mentioned, it is not possible to eliminate emissions completely. Accordingly to our current estimates, even in 2050, approximately 4 to 13 billion metric tons of annual CO2 emissions are expected to remain. This is due to the existence of industries where CO2 emissions are hard to abate, such as steel and cement manufacturing. To realize Carbon Neutralit, it will be necessary to capture the CO2 coming from these industries.

MHI Group has worked with Kansai Electric Power Co., Inc. since 1990 to develop a chemical-based CO2 capture process using an amine absorbent. Today, MHI Group has a strong track record in delivering commercial CO2 capture plants to projects in countries around the world, and we are the global market share leader in CO2 capture from exhaust gas on a capacity basis.

For example, MHI delivered a plant with a capacity to capture 4,776 metric tons of CO2 per day to the Petra Nova Carbon Capture Project in the U.S., the world’s largest CO2 capture plant. MHI’s CO2 capture technology was also selected for use in a project to capture CO2 emissions from a biomass power plant belonging to Drax Group, a major U.K. power utility. If this project is realized, it will reduce CO2 emissions by over 8 million metric tons per year. *Capacity as of the publishing of this report.

We are also promoting various initiatives in response to diverse needs associated with building a CO2 solutions ecosystem, creating businesses that will not only capture CO2 but will also encompass all aspects of CCUS, including transportation, storage, and utilization.

We defined our CO2 reductions target as Scope 3 + CCUS reductions not only because MHI Group is the established global leader in CO2 capture technology and delivered capacity, but also to show our contributions to achieving Carbon Neutralit through the commercialization of CCUS and the establishment of a CO2 solutions ecosystem.

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A Digital Platform Connecting the CCUS Value Chain

Practical application of CCUS (CO2 Capture, Utilization, and Storage) will be essential for achieving Carbon Neutralit. Below, we introduce CO2NNEX, a digital CCUS platform that MHI is developing together with IBM Japan, Ltd. to accelerate its implementation.

Current Status of CCUS and Challenges to Be Addressed

CCUS involves the capture of CO2, its storage underground, and its recycle as, for example, a raw material in chemical products.

Today, global CO2 emissions are around 40 billion metric tons per year. Many countries are taking steps to reduce this volume by shifting away from fossil fuels to renewable energy, among other measures. However, even with these efforts, annual emissions of around 4 to 13 billion metric tons are projected to remain in 2050. To achieve Carbon Neutralit, it will be necessary to capture this CO2.

However, CO2 capture is struggling to grow, as the applications and storage capacities for captured CO2 are currently limited, and the high costs associated with CCUS make it uneconomical. For this reason, of the approximately 40 billion metric tons of CO2 emitted in 2022, the amount captured remained at less than 0.1 billion metric tons.

Connecting the CCUS Value Chain

All captured CO2 needs to be transported downstream in the CCUS value chain for reuse or storage. Furthermore, businesses utilizing CO2 as a raw material cannot operate with confidence without a stable and economical supply of CO2. Moreover, it is not possible to actively increase the amount of CO2 capture without assurance that all remaining unused CO2 will be safely sequestered underground.

Conversely, if we can effectively build a CCUS value chain connecting all of the parties active in CO2 capture, transportation, utilization, and storage, then both utilization and capture volumes can be expected to grow dramatically. In addition, if carbon pricing schemes details come later in this article can give CO2 economic value, then many parties will participate in economic transactions in the CCUS value chain, thus giving rise to a CO2 solutions ecosystem from which completely new business models can emerge.
Connecting the Real and Virtual Worlds of CCUS

CO2NNEX is a digital platform designed to maximize the environmental value of CO2 reductions. When CO2 is circulated among the users connected by the platform, CO2 transaction-related information will be converted into data, visualized, and tracked. Those records will be certified and provided by a secure, tamper-proof method.

Users in the CCUS value chain include businesses involved in the capture, utilization, storage, and transportation of CO2, as well as the carbon trading. These various businesses will be connected through infrastructure in the form of pipelines, shipping lines, railways, and trucking lines, forming distribution channels.

One important aspect of this project is the digitalization of distribution. CO2NNEX will use smart meters with a common interface at key points in distribution channels to enable users to see at a glance the volume, origin, and destination of CO2. This will enable CO2 reductions to be tracked with hard data. The system will be a digital twin, a mirror image of the real world in virtual space.

Accurate Visualization of CO2 Distribution

Currently, the CCS and CCU value chains are mainly formed based on agreements between individual parties including emitters and transportation, utilization, and storage providers. CO2NNEX will connect these individual value chains to create a network of CCUS value chains which has an even broader user base. The realization of this kind of CCUS value chain is expected to enable freer and more flexible transactions of environmental value derived from CO2 reductions. As a result, the volume of CO2 capture and distribution is expected to grow exponentially.

Along with tracking the distribution of CO2, CO2NNEX will also use blockchain technology to ensure a high level of security, enabling safe and fair CO2 transactions and ensuring that distribution information is recorded in a tamper-proof format.

The introduction of carbon pricing schemes around the world in the near future will enable environmental value trading in monetary form by emitters, with certifying organizations verifying companies’ CO2 reductions in the form of credits. In addition, these credits will likely be able to be traded like financial instruments in a credit market by various parties, including individual investors. Accurate record-keeping and tracking by CO2NNEX will provide evidence of environmental value, which will be essential for many parts of the carbon economy, such as the assessment of subsidies and the monetary value of credits.

*Carbon pricing curbs greenhouse gas emissions by placing a fee on emitting and/or offering an incentive for emitting less. The price signal created shifts consumption and investment patterns, making economic development compatible with climate protection.


https://unfccc.int/about-us/regional-collaboration-centres/the-ciaca/about-carbon-pricing#What-is-Carbon-Pricing?
MHI Group’s Carbon Neutrality Initiatives

Future Outlook
On the topic of CCUS, in addition to projects already operational in North America including Enhanced Oil Recovery (EOR), CO₂ commercial storage operations are expected to reach full scale in North America and Europe around 2025. Large-scale CO₂ storage projects are being announced one after another, mainly in Europe, the U.S., and Canada, where various systems have been put in place, such as tax incentives, subsidies, and carbon pricing, which are expected to promote investment.

Meanwhile, in Japan, serious discussions are taking place regarding the design of systems for the storage and use of CO₂. For example, the CCS Long-Term Roadmap Study Group of the Ministry of Economy, Trade and Industry released its interim summary in May 2022. In this document, the government committed to establishing a business environment to enable the start of commercial CO₂ storage before 2030. In the area of business environment to enable the start of commercial CO₂ storage projects being announced after another, mainly in Europe, the U.S., and Canada, where various systems have been put in place, such as tax incentives, subsidies, and carbon pricing, which are expected to promote investment.

In this way, MHI Group is moving beyond our conventional manufacturing businesses and our role as a follower to encompass new sale channels related to CO₂—such as the possibility of expansion into B2C. As a CCUS platform developer, we will contribute to the realization of a CO₂ solution ecosystem and the achievement of Carbon Neutrality.

That said, the CO₂NNEX concept cannot be realized by MHI alone. MHI Group and IBM Japan, as the coordinators of this open platform, will create new solutions within CO₂NNEX while collaborating with CCUS service providers in both the real and virtual worlds.

MHI Group intends to seize the business opportunities created by the rapid expansion of the CCUS market, which is expected to start in the mid-2020s. We aim to become a key player by 2030 or thereafter, when the CCUS market is expected to be in full-scale operation. We are planning for the CO₂NNEX digital platform to be fully implemented by around 2025.

[Contribution] Carbon Neutrality and Corporate Value
— MHI Group’s Initiatives and Contributions —

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

Professor, Graduate School of Management, Kyoto University
Nobuyuki Isagawa

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

The notes to General Principle 2 of the Corporate Governance Code revised in FY2021 state the following:

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

MHI Group’s carbon neutral initiatives are aligned with the approach of the Corporate Governance Code, and are beginning to produce actual results. For example, MHI...
of data by companies, it has become possible to statistically verify the connectivity of ESG factors and ESG ratings, which are regarded as non-financial information, with companies’ financial performance. As it is still a new area, there is no consensus on many of the results, but it has been confirmed that ESG initiatives such as decarbonization may have a positive impact on financial indicators such as return on capital and cost of capital[13]. Furthermore, investors have also indicated the possibility of positive evaluation of the issuance of green bonds.

Figure 1 shows the results of the empirical analysis performed by the Isagawa Laboratory at Kyoto University. Using data on Japanese companies from 2010, we conducted a detailed investigation of the relationship between changes in emissions of greenhouse gas (GHG) including CO₂ and the subsequent return on invested capital (ROIC). As can be seen in the figure, a reducing in GHG emissions increases subsequent ROIC (the sign of the coefficient is negative) and reduces the cost of shareholder’s equity (the sign of the coefficient is positive). It can be seen that in recent years, Japanese companies have realized the improvement of financial performance and reduction of cost of capital by engaging in curbing of greenhouse gas emissions. Financial value creation is realized when the return on capital exceeds the cost of capital. It could be said that companies aggressively and actively reducing CO₂ and GHG emissions can achieve both climate change initiatives and improvement of financial corporate value.

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

2. MHI Group also issues green bonds, and has developed the Mitsubishi Heavy Industries, Ltd. Green/Transition Finance Framework. The serious stance of engaging in the improvement of corporate value aimed at 2030, 2040 and 2050 by integrating the Green/Transition Finance Framework into the carbon neutral strategy aggregating technical capabilities is clearer. As stated in the CFO Message as set forth in the Corporate Governance Code.

3. More details on green bonds can be found in the MHI Report, investors’ interest in ESG and sustainabilit is rising. The Company’s share price is rising (as of July 2022), reflecting the recovery in financial indicators such as business profit margin and ROE, and expectations in the carbon neutral strategy.

To reiterate, MHI Group’s business is firmly linked to the realization of Carbon Neutrality of client companies and society. Utilizing the technology and know-how historically accumulated by MHI Group to contribute to the reduction of CO₂ and GHG emissions from client companies will lead to progress toward Carbon Neutrality of society. Improvements in the E factors of client companies are linked to improvements in financial performance and corporate value of client companies. MHI Group’s carbon neutral initiatives could truly be said to simultaneously benefit society, client companies and MHI Group itself. This is the best practice of “the appropriate actions of companies based on the recognition of their stakeholder responsibilities will benefit the entire economy and society, which will in turn contribute to producing further benefits to companies, thereby creating a virtuous cycle” as set forth in the Corporate Governance Code.

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

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

**Gas & Steam Power Systems**
- Systems offering world’s highest levels of thermal efficiency and output. Integrated system for gas turbine development, design, manufacture, and after-sales service.
- Extensive product portfolio in gas turbine technology supporting diverse fuels such as hydrogen, ammonia, and oxygen.
- Integration capabilities combining cutting-edge decarbonization and other eco-friendly technologies.
- Technological capabilities and systems enabling integrated verification from hydrogen production to power generation.

**Nuclear Power Systems**
- World’s only comprehensive nuclear power plant manufacturer capable of providing a one-stop service from development through design, manufacture, and construction.
- Encompassing not only light-water reactors but also the entire nuclear fuel cycle, including fuel manufacturing, reprocessing facilities, and fuel reprocessing.
- World’s highest level safety technologies and product quality, and ample track record as the leading company in domestic nuclear power.

**Renewable Energy**
- Building wind power systems business in collaboration with partners.

**Compressors**
- Extensive track record in chemical, offshore, and water treatment.
- Robust coordination with manufacturers of electric and gas power systems.

**Aero Engines**
- High market share in MET turbocharger business for two-stroke marine engine segment.
- Providing solution technology for energy saving and compliance with strengthened environmental regulations.
- Wide-ranging customer network, both domestic and international.

**Weaknesses**
- Limited scale of business and product portfolio.
- Little experience in global business.
- Low share of oil and gas market.
- Less business opportunity due to unfavorable domestic shipbuilding market conditions.
- Imbalanced regional coverage at the global level.
- Increase in energy demand due to high oil prices.
- Further escalation of competition with international competitors.
- Industry changes including supply chains after COVID-19.
- Impact of industry restructuring and new chemical processes.
- Decrease in the number of gas turbine order bookings and improve profitability by reducing costs.
- Little experience in global business.
- Narrow range of customers.
- Dependence on a few large customers.
- Limited scale of business and product portfolio.

**Strengths**
- High market share in MET turbocharger business for two-stroke marine engine segment.
- Synergy with turbo-machinery technology of MHI Group.
- Integrated system for gas turbine.
- Extensive product portfolio in gas turbine technology supporting diverse fuels such as hydrogen, ammonia, and oxygen.
- Integration capabilities combining cutting-edge decarbonization and other eco-friendly technologies.
- Technological capabilities and systems enabling integrated verification from hydrogen production to power generation.

**Opportunities**
- Acceleration of global decarbonization movement and demand for highly efficient, clean electric power in response to environmental regulatory tightening.
- Need for high-quality power generation methods and power generation fuels.
- Rising need for effective use of existing nuclear power plants (more plants being restarted, achievement of 60 years in operation).
- Increased need to supply equipment associated with new energy solutions.
- New activities in the research and development of advanced fuel cycle technologies.
- Rising need for effective use of existing nuclear power plants (more plants being restarted, achievement of 60 years in operation).
- Increased need to supply equipment associated with new energy solutions.

**Threats**
- Further erosion of competition with international competitors.
- Uncertainty of future energy portfolio.
- Geopolitical risk caused by destabilization of the international situation.
- Escalating competition with other power sources.
- Escalating competition, rise of Chinese manufacturers.
- Impact of industry restructuring and new chemical processes.
- Industry changes including supply chains after COVID-19.
- Loss of business opportunity due to unfavorable domestic shipbuilding market conditions.
Current Status Assessment

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Ships</td>
<td>Environmental Systems</td>
<td>Metals Machinery</td>
<td>Machinery Systems</td>
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<tr>
<td>Engineering</td>
<td>Metals Machinery</td>
<td>Environmental Systems</td>
<td>Machinery Systems</td>
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<td>Machinery Systems</td>
<td>Metals Machinery</td>
<td>Environmental Systems</td>
<td>Machinery Systems</td>
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</table>

**Strenghts**
- Unparalleled environmental and energy-saving technologies
- Gas-handling technologies cultivated on LNG/LPG carriers
- Unique CD: capture technology with abundant commercial records around the world
- Engineering capabilities that respond to the decarbonization business (Ammonia, Methanol, CD: capture technology, etc.) applying abundant experience
- Advanced project management and system integration capabilities for chemical plants and transportation systems
- Integrated response capabilities for transportation systems spanning from planning to design, manufacturing, construction, testing, operation and maintenance
- Comprehensive engineering capabilities for waste-treatment plants spanning entire project phase, from EPC to O&M
- Plant provided with after-sales service based on extensive track record as a plant contractor
- Full line from upstream to downstream with global footprints
- Plant provided with after-sales service based on extensive track record as a plant contractor
- Broad scope of business fields and wide-ranging mechatronics technical capabilities

**Weaknesses**
- Relative cost competitiveness of large hull ratio ships (e.g., cargo ships)
- Volatility in orders and profit
- Cost competitiveness due to build-to-order manufacturing structure
- Resource flexibility
- Predominantly mature businesses, largely in Japan

**Opportunities**
- Environmental regulations aimed at low-carbon and carbon-free initiatives in marine transportation
- Growing demand for improved vessel safety/efficiency
- Global acceleration of decarbonization in all industrial sectors
- Growth in demand for O&M*1 / service business
- Growing commitment to decarbonization and environmental impact mitigation
- Digital automation of plant operations
- Growing demand from governments to steel producers to decarbonize and mitigate the environmental impact of steel production, growing demand for high-value-added products such as magnetic steel sheets and high tensile strength steel sheets
- Extension of new (mobility) businesses in response to electrification and smartronization
- "CASE" (Connected, Autonomous, Shared & Service, Electric)

**Threats**
- Intensified competition with competitors
- High prices of materials, equipment and supplies
- Increased in new entrants
- Accelerated development of new decarbonization technologies by competitors
- Intensified competition with competitors
- Long-term domestic market shrinkage
- Competitive market
- Shrinking domestic market for existing businesses and intensifying competition for development in the new fields of electrification and smartronization

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

Due to global increases in steel demand, orders in metals machinery are expanding, and the commercial ships and engineering markets are also trending toward recovery, resulting in consolidated orders received rising year on year to ¥90.9 billion. Revenue rose year on year to ¥651.8 billion, driven mainly by increases in metals machinery and environmental systems. Despite some additional expenses in overseas construction work, the effects of structural reforms and other factors led to increases in engineering and metals machinery, resulting in profit from business activities recording improvement over the previous year, to ¥23.6 billion.

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

Business Initiatives in the 2021 Medium-Term Business Plan

<table>
<thead>
<tr>
<th>General</th>
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</table>
- Pursue initiatives tailored to each business’s characteristics and market environment in the aim of stabilizing and increasing its earning capacity
- Expand business opportunities by internal flexible mobilization of human resources and by sharing technology across businesses as a solutions provider for environment-friendly products that contribute to the realization of a decarbonized society
- Strengthen service businesses leveraging digitalization
- Expand life-cycle businesses that support customers throughout entire life cycles of facilities and plants

<table>
<thead>
<tr>
<th>Commercial Ships</th>
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</table>
- Build high-density, outfitted ships like government vessels and ferries
- Extend engineering businesses in response to environmental regulations, etc.

<table>
<thead>
<tr>
<th>Engineering</th>
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</table>
- Strengthen initiatives in the clean-fuel business (Ammonia, Methanol, Hydrogen)
- Expand applications in industrial areas through expansion of the lineup of CD: capture systems (large to small)
- Expand O&M and service business through proprietary remote monitoring and operational support services using the developed digitized platforms

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<tr>
<th>Environmental Systems</th>
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</table>
- Strengthen ability to provide best solution and cost competitiveness to win orders for new construction projects
- Upgrade engineering capabilities to drive sustained profit growth

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<tr>
<th>Metals Machinery</th>
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</table>
- Focus R&D on strengthening decarbonization and other environmental initiatives centered on collaboration within MHI Group
- Expand life-cycle businesses (expand maintenance service businesses, roll out advanced services that leverage digitalization)
- Improve cost competitiveness and diversify our supply chains

<table>
<thead>
<tr>
<th>Machinery Systems</th>
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</table>
- Enhance management efficiency through internal resource sharing and flexible mobilization of human resources
- Strengthen sale of products and expand services focusing on adding value to customers’ needs through the utilization of DX
- Accelerate development of new products and new businesses combining technologies
Current Status Assessment

Strengths

S

Expertise cultivated in a wide range of product fields and effective utilization of resources within the domain

- Material Handling Systems: A product lineup that can be consistently offered from ports to warehouses, as well as a strong sales network

- HVAC Systems, Automotive Air Conditioners: Extensive product lineup and world-class environmental and energy-saving technologies

- Turbochargers: Ability to develop high-performance and high-quality products leveraging high-speed rotation and heat & fluid dynamics technologies

- Engines: Technological capability to use alternative fuels such as hydrogen

Weaknesses

W

Tendency to be affected by short-term economic fluctuations

- Turbochargers: Specialization in the single product makes the business more heavily vulnerable to customer business conditions

Opportunities

O

- Material Handling Systems: Growing market for logistics solutions with expansion of e-commerce business

- HVAC Systems, Automotive Air Conditioners: Expansion of market for products meeting environmental and energy-saving regulations

- Turbochargers: Increase in installation of turbochargers in hybrid vehicles during the shift to electric, and subsequent expansion of demand for new products applying turbocharger technologies

- Engines: Growing data center market and expanding gas distributed power systems market in Southeast Asia

Threats

T

- Adverse effects of U.S.-China trade friction and COVID-19

- Turbochargers: Shrinking market over the longer term due to accelerated growth of electric vehicles

- Engines: Medium to long-term decline in demand for diesel and gas engines due to Energy Transition

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

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

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

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

Business Initiatives in the 2021 Medium-Term Business Plan

| General | | Material Handling Systems |
|---------|-----------------|
| | Promote growth strategies in the expanding of our engineering and solutions business | Strengthen sales strategy (reorganization of sales network, introduction of new products) |

<table>
<thead>
<tr>
<th>HVAC Systems, Automotive Air Conditioners</th>
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<tbody>
<tr>
<td>Grow BtoB area through expansion of product lineup matching the needs of each region</td>
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<table>
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<tr>
<th>Turbochargers</th>
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<tbody>
<tr>
<td>Flexibly respond to changes in demand and generate stable profit by optimizing fixed costs</td>
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<table>
<thead>
<tr>
<th>Engines</th>
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<tbody>
<tr>
<td>Focus resources on medium and large core products</td>
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</table>
Overview of FY2021 and Priority Strategies in the 2021 Medium-Term Business Plan

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

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

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

Business Initiatives in the 2021 Medium-Term Business Plan

- **Consolidation of existing cores: H2, H3, Mitsubishi SpaceJet, Defense System Engines**

- **Participation in new development programs utilizing composite technology and automated assembly technology**

- **Continuing the action for improvement of profitability such as reducing fixed costs to a level appropriate for the business scale**

- **Participate in new development program utilizing composite technology and automated assembly technology**

- **Review business environment**

- **Utilize acquired knowledge and expertise**

- **Steadily conduct our next core projects F-X: Japanese next generation fighter, H3 Launch Vehicle**

- **Expand business for Command and Control systems and M&G, etc.**

- **Expand MRO&U, and education and training**

- **Expand into new related business fields (space including utilization of satellite information), cybersecurity, unmanned vehicles, etc.)**

- **Utilize channels with overseas manufacturers cultivated through existing businesses**

- **Cooperate with the Japanese government in parallel with international activities**

- **Launch international development projects with allies (supporting the Japanese government)**

- **Enter international development projects**

- **Utilize core technologies of defense and space**

- **Expand civil business particularly in the safety and security field (cybersecurity, warning surveillance, wide-area surveillance)**

* MRO&U: Maintenance, Repair and Overhaul
* F-X: Future Fighter Program
* M&G: Maintenance, Repair & Overhaul, and Upgrade
Introducing Members of the Board

As of July 1, 2022

Career summary
Apr. 1972 Joined MHI
Apr. 2008 Senior 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 Chair 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 aggravating activity at the Board of Directors.

Career summary
Apr. 1981 Joined MHI
Apr. 2012 Senior General Manager, Technology Management Department, Technical Headquarters
Apr. 2013 Senior General Manager, Technology Management Department, Technology Innovation Headquarters
Jun. 2013 Director, Mitsubishi Motors Corporation
Jun. 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, CFO
Apr. 2019 President and CEO (Member of the Board), CFO
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 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.

Career summary
Apr. 1975 Joined Ministry of Finance
Jul. 2009 Special Advisor to the Minister of Finance
Jul. 2010 Deputy Managing Director, IMF (until February 2012)
Jun. 2011 Advisor (Member of the Board), MHI (present position)
Jul. 2015 Professor, Policy Alternatives Research Institute, The University of Tokyo (until March 2018)

Rationale behind appointment
Mr. Kaguchi joined MHI in 1994 and served as CoPresident from April 2019 and has served as CFO since April 2020. In these roles, he formulates and implements Company-wide strategies under the CEO and is involved in management decision-making as the executive in charge of all planning functions related to MHI’s management policies.

Career summary
Apr. 1984 Joined MHI
Jun. 2007 Member of the Board, Executive Vice President, Corporate Advisor, 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. 2017 Member of the Board, Corporate Advisor, Mitsubishi Corporation
Jun. 2017 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.

Career summary
Mar. 2010 Deputy Managing Director, IMF (until February 2012)
Jul. 2010 Deputy Managing Director, IMF (until February 2012)
Jan. 2012 IEO Director, Energy Systems

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

Career summary
Apr. 1972 Joined MHI
Oct. 2019 Senior Vice President, CoCFO
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.

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. 2017 Member of the Board, Corporate Advisor, Mitsubishi Corporation
Jun. 2017 Corporate Advisor, Mitsubishi Corporation (present position)

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

Career summary
Apr. 2014 President and CEO (Member of the Board)
Apr. 2015 President and CEO (Member of the Board)
Apr. 2019 President and CEO (Member of the Board)
Apr. 2020 Executive Vice President, President
Apr. 2021 Executive Vice President, President and CEO
Jun. 2021 Director (Member of the Board), Executive Vice President, President and CEO, MHI (present position)

Rationale behind appointment
He participates in MHI’s global structure. He has been actively involved in MHI’s strategy for MHI as a 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.
Introducing Members of the Board

Career summary
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 MUFG's management decision-making through providing insightful views and frank assessments to MUFG's management as an outside director.

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 MUFG's management decision-making through providing insightful views and frank assessments to MUFG's management as an outside director.

Career summary
Mr. Tokunaga has long experience in finance and accounting divisions at MHI, and has served in various important positions in administrative divisions, and has also served as the full-time statutory auditor of major subsidiaries. He participates in MHI's management decision-making from the perspective of full-time statutory audit and Supervisory Committee member and contributes to ensuring effective audits and ensuring soundness and appropriateness and improving transparency of its management decision-making.

Rationale behind appointment
MHI has appointed Masako II as Director of Audit and Supervisory Committee Member.

Career summary
Ms. Morikawa 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.

Rationale behind appointment
Ms. Morikawa 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.

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

Rationale behind appointment
Mr. Takayanagi has long experience in finance and accounting divisions at MHI, and has served in various important positions in administrative divisions, and has also served as the full-time statutory auditor of major subsidiaries. He participates in MHI's management decision-making from the perspective of full-time statutory audit and Supervisory Committee member and contributes to ensuring effective audits and ensuring soundness and appropriateness and improving transparency of its management decision-making.

Career summary
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 growth and managed 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.

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 growth and managed 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.

Career summary
Mr. Hiroo Unoura joined the Board of Directors of MUFG Bank in June 2005 and was appointed as an executive officer of MUFG Bank in April 2007. He has been contributing to strengthening the company's management decision-making from the perspective of an outside director and Audit and Supervisory Committee member.

Rationale behind appointment
Mr. Hiroo Unoura joined the Board of Directors of MUFG Bank in June 2005 and was appointed as an executive officer of MUFG Bank in April 2007. He has been contributing to strengthening the company's management decision-making from the perspective of an outside director and Audit and Supervisory Committee member.

Career summary
Mr. Noriko Morikawa joined Bosch Corporation in August 2010 as Executive Vice President and Director and has been contributing to strengthening the company's management decision-making from the perspective of an outside director and Audit and Supervisory Committee member.

Rationale behind appointment
Mr. Noriko Morikawa joined Bosch Corporation in August 2010 as Executive Vice President and Director and has been contributing to strengthening the company's management decision-making from the perspective of an outside director and Audit and Supervisory Committee member.

Career summary
Mr. Ryutaro Takayanagi joined Mitsubishi Bank Limited (now MUFG Bank, Ltd.) in April 1981 as a junior manager. He has served in various important positions in administrative divisions and has also served as the full-time statutory auditor of major subsidiaries. He participates in MHI's management decision-making from the perspective of an outside director and Audit and Supervisory Committee member.

Rationale behind appointment
Mr. Ryutaro Takayanagi joined Mitsubishi Bank Limited (now MUFG Bank, Ltd.) in April 1981 as a junior manager. He has served in various important positions in administrative divisions and has also served as the full-time statutory auditor of major subsidiaries. He participates in MHI's management decision-making from the perspective of an outside director and Audit and Supervisory Committee member.

Career summary
Mr. Masako II joined Hitotsubashi University as a professor in 1993 and has been working 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.

Rationale behind appointment
Ms. Masako II joined Hitotsubashi University as a professor in 1993 and has been working as a researcher and graduate school professor in the field of healthcare economics. She also has a wealth of global experience, having served as a researcher at The World Bank and member of the Japan Broadcasting Corporation's Board of Governors. She contributes to ensuring effective audits and ensuring the soundness and appropriateness and improving the transparency of MHI's management decision-making through providing insightful views and frank assessments to MHI's management as an outside director and Audit and Supervisory Committee member.
A Conversation with the Chairman and Two Outside Directors

How Board of Directors Meetings Support MHI’s Sustainability Management

MHI Group’s Business Environment and Materiality

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

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

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

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

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

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

Miyanaga I hope to push for changes to the Company’s traditional corporate culture in order to ensure that employees can fully realize their potential, with the proper systems and work environment in place to enable this.

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

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

How would you assess MHI Group’s Carbon Neutrality initiatives?

Unoura: Frankly speaking, when MISSION NET ZERO was first explained to me, I was surprised at how bold it was. It sets down a convincing roadmap not only for Scope 1 and 2 emissions, but even for Scope 3 emissions—which in turn will encourage greater understanding and acceptance of the costs to society at large necessary for achieving Carbon Neutrality. In this way, I believe MHI Group’s MISSION NET ZERO will cause a stir, in a positive sense.

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

— Mr. Unoura

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

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

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

Unoura: MISSION NET ZERO, which was announced in October 2021, in which we committed to achieving Carbon Neutrality Groupwide by 2040.

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

Since my tenure as president—April 2013 to March 2019—I have always felt it important to be as frank and open as possible when a problem occurs. Management decisions aren’t always successful, and I think it’s very important for the committee to function smoothly. As a committee member, I focus on monitoring for business-related risks, that is, risks affecting both current operations and new businesses. To that end, I believe my basic role is to ask questions, to exchange opinions, and, whenever possible, to offer advice.

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

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

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

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

Board of Directors Meetings Befitting a Global Company

Market competition will not only lead to further advances but will also spur broad discussions, including those with our customers and governments worldwide, which in turn will encourage greater understanding and acceptance of the costs to society at large necessary for achieving Carbon Neutrality.
A Conversation with the Chairman and Two Outside Directors

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

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

Ms. Ii is an expert in public policy. Throughout our history, MHI Group has undertaken public and socially beneficial projects of great variety. Today, in response to our changing times, as new solutions are being called for, we eagerly welcome Ms. Ii’s close monitoring of our operations.

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

From discussions I’ve had with today’s university students, I sense they aren’t very interested in spending their entire lives at one company, organization, or group. Today, a career path should be available that permits an employee to go out into the world beyond the Company—and then welcomes back those who may choose to return to their original place of employment.

I think MHI Group needs to consciously promote dialogue among employees to see MHI Group become an organization that allows its members to share their experiences and to continually increase our value as a corporation that contributes to resolving diverse societal issues.

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

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

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

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

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

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

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

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

Actions Taken to Strengthen Corporate Governance

<table>
<thead>
<tr>
<th>Action</th>
<th>Composition of Board of Directors</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total directors/outside directors (outside director ratio)</td>
<td>Commenced shareholder relations (SR) visits for overseas institutional investors</td>
</tr>
<tr>
<td>2012</td>
<td>12/5 (25%)</td>
<td></td>
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<tr>
<td>2014</td>
<td>Introduced Chief Officer System</td>
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<tr>
<td>2015</td>
<td>Transferred to company with Audit and Supervisory Committee</td>
<td>14/5 (35.7%)</td>
</tr>
<tr>
<td>2016</td>
<td>Established Nomination and Remuneration Advisory Council</td>
<td>Introduced new stock remuneration system for officers</td>
</tr>
<tr>
<td></td>
<td>Commenced Board Evaluation</td>
<td>11/5 (45.5%)</td>
</tr>
<tr>
<td>2019</td>
<td>Turned Nomination and Remuneration Advisory Council (outside director ratio)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Abolished Advisor System</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>12/6 (50%)</td>
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</table>

Board Seats and Outside Director Ratio*

<table>
<thead>
<tr>
<th>(Person)</th>
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<tbody>
<tr>
<td>2012</td>
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<td>2013</td>
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<td>2014</td>
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<td>2018</td>
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<td>2019</td>
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<tr>
<td>2020</td>
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<tr>
<td>2021</td>
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</table>

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* 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.

* Listed in “Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.”

2 Audit and Supervisory Committee

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

3 Chief Officers and Standing Executives in Charge of Operations

MHI has introduced a chief officer system. Specifically, portions of the CEO’s* 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*, CFO*, and CTO*. The CEO takes charge of overall business operations, and the domain CEOs take control of executing businesses within their individual domains based on overall Group strategies. The CSO is in charge of the planning of company-wide management policies and the CFO takes charge of finance and accounting. The CTO is in charge of the supervision and execution of overall operations related to technology strategies, research and development of products and new technologies, ICT, value chain, marketing and innovation. In addition, the CSO, CFO, and CTO have company-wide authority to give instructions and commands and provide support to business domains. The GC* and standing executive in charge of HR* assist the CEO with its duties by supervising and executing activities in line with the CEO’s mission. The GC takes overall control of management audits, general administration, legal affairs, and risk management. The standing executive in charge of HR takes overall responsibility for human resources and labor relations.

Within the business execution framework consisting of the CEO (President) and primarily these chief officers, there is an Executive Committee chaired by President Seij 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.

*1 Chief Executive Officer
*2 Chief Strategy Officer
*3 Chief Financial Officer
*4 Chief Technology Officer
*5 General Counsel
*6 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.

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

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

5 Director Skills Matrix

MHI Group has adopted Our Principles as a fundamental management philosophy and objectives and periodically formulates business plans to steadily progress toward their realization. Under its current plan, the 2021 Medium-Term Business Plan (MTBP), the Group has embraced a Mission of integrating cutting-edge technology into expertise built up over many years to provide solutions to some of the world’s most pressing issues and provide better lives. Under this Mission, for oversight of the management of MHI Group that is globally operating diverse businesses, it is necessary to appropriately track social issues and trends including relationships with all stakeholders based on the assumption of a deep understanding of the Group’s basic philosophy and business, and discuss the Group’s focus in the 2021 MTBP to strengthen profitability and develop growth areas from diverse perspectives such as strengthening the technological foundation, human resource foundation and financial foundation, and risk management. We believe that this requires knowledge and expertise and demand for social issues and trends 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.

<table>
<thead>
<tr>
<th>Participants</th>
<th>Chairman of the Board to its participants.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of meetings held</td>
<td></td>
</tr>
<tr>
<td>Sessions held</td>
<td></td>
</tr>
<tr>
<td>Board evaluation</td>
<td></td>
</tr>
<tr>
<td>Status of activity based on the results of the Board Evaluation conducted in the previous year (FY2020) and future responses based on this year’s evaluation results are as presented in the table below.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Positioning</th>
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</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>Obtain the opinions and advice of independent directors to ensure transparency and soundness of procedures prior to deliberations by the Board of Directors on matters relating to the nomination of candidates for directors, the dismissal of directors, and the appointment and dismissal of other management executives, and matters relating to the determination of remuneration of directors (excluding directors who are serving as Audit and Supervisory Committee members).</td>
</tr>
<tr>
<td>Participants</td>
<td>Chairman, President and all outside directors</td>
</tr>
<tr>
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<td>Held five times in FY2021</td>
</tr>
</tbody>
</table>

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

5 Director Skills Matrix

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

<table>
<thead>
<tr>
<th>Board of Directors’ Main Deliberation Items</th>
<th>The main items deliberated by the Board of Directors in FY2021 are presented in the table below.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Deliberation Items</td>
<td>General Meeting of Shareholders</td>
</tr>
<tr>
<td>Items related to financial results</td>
<td>Financial results</td>
</tr>
<tr>
<td>Items related to Executives and Board Members</td>
<td>Board Evaluation, remuneration of directors, and executive appointments (including chief officers)</td>
</tr>
<tr>
<td>Management plan</td>
<td>Status of progress on 2021 MTBP</td>
</tr>
<tr>
<td>Internal controls</td>
<td>Status of internal control systems operation</td>
</tr>
</tbody>
</table>

- Resolution on matters for calling Annual General Meeting of Shareholders
- Financial results
- Shareholder return policy
- Board Evaluation, remuneration of directors, and executive appointments (including chief officers)
- Status of progress on 2021 MTBP
- Status of internal control systems operation

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

**Board Evaluation Results and Future Initiatives**

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

<table>
<thead>
<tr>
<th>Process and Results of FY2021 Board Evaluation</th>
<th>Continuing on from FY2020, the Board of Directors conducted an evaluation process based on the following 4 points: “Composition of the Board of Directors,” “Operation of the Board of Directors,” “Supervisory function of the Board of Directors,” and “Structure to support outside directors.” MHI has hired an external organization with specialized knowledge on analysis of questionnaire survey results in the past and this fiscal year; such external organization also conducted interviews with each director for the purpose of enhancing transparency and objectivity.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process</td>
<td>1. Self-evaluation was conducted based on a questionnaire survey of all directors including outside directors and individual interviews with each director.</td>
</tr>
<tr>
<td>Results</td>
<td>The overall effectiveness of the Board of Directors in FY2021 has been ensured with no major concerns.</td>
</tr>
</tbody>
</table>
Corporate Governance

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

1. In accordance with the annual schedule specifying the agenda of meetings of the Board of Directors and activity plans, themes such as progress of growth strategy, handling of work style reform and diversity, and initiatives to address materiality and sustainability were discussed in meetings of the Board of Directors. Furthermore, to stimulate active discussion, we optimized the content of explanations and deliberation time.

2. In the Nomination and Remuneration Advisory Council, we established opportunities to discuss the selection process for director candidates, etc.

3. We worked to strengthen coordination between the Board of Directors and the Audit and Supervisory Committee, such as sharing the annual schedule for meetings of the Board of Directors with the Audit and Supervisory Committee, in addition to increasing the frequency of reports of activities such as audits by the Audit and Supervisory Committee to the Board of Directors. Furthermore, we implemented lectures by external experts and established a venue for discussion of the roles, etc. of the Board of Directors and the Audit and Supervisory Committee.

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

1. Initiatives aimed at enhancement of discussion

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

2. Further improvement of meeting materials and explanations

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

3. Sharing information with outside directors

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

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

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

Status of Audit and Supervisory Committee Activities

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

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

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

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

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

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

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

Officers’ Remuneration Structure

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

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

After revising the stock-based remuneration system through a resolution passed at the 94th Annual General Meeting of Shareholders, which was held on June 27, 2019, the standard for the remuneration of the Company’s president was set at roughly 30% base remuneration, 40% performance-linked remuneration, and 30% stock-based remuneration (in the event that consolidated profit before income taxes reached ¥20 billion; calculated based on the fair value of stock award points granted during FY2018), making for a remuneration structure in which the higher a director’s position is, the greater his or her performance-linked remuneration will be. In order to promote MHI stock ownership better aligns their interests with shareholders, once pretax profit exceeds ¥200 billion, stock-based remuneration increases as a medium- to long-term incentive while performance-linked remuneration’s rate of increase progressively tapers off before plateauing once pretax profit exceeds ¥400 billion.

The benchmark used to calculate performance-linked and stock-based remuneration is pretax profit. Pretax profit was chosen to reflect the results of business operations inclusive of finance income/costs in performance-linked and stock-based remuneration. (However, there may be partial adjustment in terms of compensation computation based on assessment of the impact of changes in accounting principles.) In FY2021, the Company had a pretax profit before income taxes of ¥173.6 billion, surpassing the target (initial forecast) of a profit of ¥130 billion.

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

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

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

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

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

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

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

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

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

2 Outside Directors

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

3 Directors Who Serve as Audit and Supervisory Committee Members

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

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

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

Remuneration of Directors (FY2021)

<table>
<thead>
<tr>
<th>Classification</th>
<th>Monetary remuneration</th>
<th>Stock-based remuneration</th>
<th>Total amount of remuneration (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Base remuneration</td>
<td>Performance-linked</td>
<td></td>
</tr>
<tr>
<td></td>
<td>People</td>
<td>remuneration</td>
<td></td>
</tr>
<tr>
<td>Directors who are not Audit and Supervisory Committee members</td>
<td>9</td>
<td>243</td>
<td>4</td>
</tr>
<tr>
<td>(Of which, outside directors)</td>
<td>(4)</td>
<td>(43)</td>
<td>(4)</td>
</tr>
<tr>
<td>Directors who are Audit and Supervisory Committee members</td>
<td>8</td>
<td>158</td>
<td>—</td>
</tr>
<tr>
<td>(Of which, outside directors)</td>
<td>(5)</td>
<td>(54)</td>
<td>(54)</td>
</tr>
<tr>
<td>Total</td>
<td>17</td>
<td>401</td>
<td>4</td>
</tr>
<tr>
<td>(Of which, outside directors)</td>
<td>(9)</td>
<td>(98)</td>
<td>(98)</td>
</tr>
</tbody>
</table>

1. The recipients include two directors who were not Audit and Supervisory Committee members who stepped down on June 29, 2021 (date of the 92nd Annual General Meeting of Shareholders) (one of whom was appointed as a director who is an Audit and Supervisory Committee member on the same day) and three directors who were Audit and Supervisory Committee members who stepped down on the same day (one of whom was appointed as a director who is an Audit and Supervisory Committee member on the same day).

2. The maximum permitted monetary remuneration amount for directors who are not serving as Audit and Supervisory Committee members is ¥1,200 million per fiscal year (resolution of the 93rd Annual General Meeting of Shareholders on June 24, 2015).

3. The total amount of stock-based remuneration is the amount of expenses recognized for the 378,000 stock award points granted in total during FY2021 (equivalent to 37,800 shares of MHI) concerning the Board incentive Plan Trust, which is a stock-based remuneration system that issues or provides shares of MHI and money in the amount equivalent to the liquidation value of MHI shares based on stock award points granted to directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members) in accordance with, among other factors, the rank of the position of each director and the financial results of MHI.

4. 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, 2016) per fiscal year for directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members).

5. The maximum permitted monetary remuneration amount is ¥200 million per fiscal year for directors who are serving as Audit and Supervisory Committee members (resolution of the 95th Annual General Meeting of Shareholders on June 26, 2015).

Policy and Trends of Strategic Shareholding

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

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

Reduction in Strategic Shareholdings
Based on the latest verification, MHI sold 34 individual stocks in FY2021 for ¥97.8 billion (including 9 stocks sold partially), and the total value on the balance sheet at the end of the fiscal year was ¥337.6 billion (down ¥61.1 billion year-on-year). In addition, the shares of Vestas Wind Systems A/S and Hydrogen Pro AS (with a total value of ¥9.3 billion on the balance sheet as of the end of the fiscal year) are included in the listed shares held by MHI. MHI has stated that Energy Transition is a growth area for MHI Group in the 2021 Medium-Term Business Plan, and acquired these shares for strengthening the relationship with them as strategic partners in renewable energy and green hydrogen business.
Risk Management

Operational Risks and MHI’s Response to Them

Key risks that could, in the assessment of MHI Group’s management, materially affect the Group’s financial condition and/or operating performance, including cash flows, are tabulated below (forward-looking statements are based on judgments as of March 31, 2022).

We have established management processes for identifying, assessing and cataloguing operational risks. To identify relevant risks, we prepare a comprehensive list of risks with input from external experts and winnow it down to specific risks with a concerning possibility of manifesting within roughly ten years. For every risk thus identified, we assess the probability of its manifestation and the magnitude of its impact if it were to manifest, taking into account the effectiveness of existing countermeasures. Through this process, we compile a list of quantifiable risks with the potential to materially affect our operations. Based on the comprehensive list of risks, we also identify qualitative risks not readily quantifiable.

The countermeasures in the table below are examples of specific measures we have already implemented in response to key risks. They are factored into the key risks’ potential impacts on our financial condition and/or operating performance. In addition to the countermeasures mentioned below, we otherwise strive to avoid and mitigate various risks, including those not listed below, in accordance with their nature. We also endeavor to minimize the impact of risks if they were to manifest.

<table>
<thead>
<tr>
<th>Key risks</th>
<th>Potential impacts on financial condition and/or operating performance</th>
<th>Countermeasures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key risks</td>
<td>Potential impacts on financial condition and/or operating performance</td>
<td>Countermeasures</td>
</tr>
<tr>
<td>COVID-19 pandemic</td>
<td>Businesses that supply made-to-order products to infrastructure-related companies and government entities and account for some two-thirds of consolidated revenue</td>
<td>•Took action to strengthen earnings power</td>
</tr>
<tr>
<td></td>
<td>Revenue recognition delays due to project delays</td>
<td>•Reduced fixed expenses, including through staffing measures; furloughed employees</td>
</tr>
<tr>
<td></td>
<td>Travel restrictions, supply chain backups</td>
<td>•Established work-from-home environment, augmented tools, modified systems</td>
</tr>
<tr>
<td></td>
<td>Impact on production or service businesses due to, e.g., airlines’ capex cuts</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>•Collection of information on global conditions and laws and regulations of each country, and implementation of action based on this</td>
</tr>
<tr>
<td></td>
<td>Constraints on negotiations and supplier selection, etc., due to disruption of the global economy associated with the production of the invasion of Ukraine and progression of economic decoupling due to conflict between the United States and China</td>
<td>•Developed products/services by cultivating product competitiveness in terms of, e.g., performance, reliability, price and/or eco-friendliness through R&amp;D or capex</td>
</tr>
<tr>
<td></td>
<td>Rapid fluctuation of exchange rates and rise in raw material prices</td>
<td>•Implemented recurrence prevention measures, ongoing basis</td>
</tr>
<tr>
<td>Changes in business environment</td>
<td>Loss of competitiveness due to, e.g., intensification of labor shortages or hoarding out of manufacturing sector in Japan</td>
<td>•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</td>
</tr>
<tr>
<td></td>
<td>Contraction in businesses’ scale and/or inability to recoup invested capital due to reduction in demand for products or services caused by growth in environmental consciousness</td>
<td>•Disruption of operations due to, e.g., disablement of computers or servers</td>
</tr>
<tr>
<td></td>
<td>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</td>
<td>•Investigations by authorities, claims for damages by, e.g., customers</td>
</tr>
<tr>
<td></td>
<td>Loss of market competitiveness or opportunities to win orders due to greater-than-expected difficulty complying with environmental regulatory tightening</td>
<td>•Recognition of impairment losses due to mergers, acquisitions and/or alliances’ underperformance of expectations</td>
</tr>
<tr>
<td></td>
<td>Recognition of impairment losses due to mergers, acquisitions and/or alliances’ underperformance of expectations</td>
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</table>

<table>
<thead>
<tr>
<th>Key risks</th>
<th>Potential impacts on financial condition and/or operating performance</th>
<th>Countermeasures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disasters</td>
<td>Destruction of or damage to production facilities, supply chain breakdowns 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</td>
<td>•Maintained adequate insurance coverage, collected information on conditions and safety in every country in which we operate, took precautionary measures based on that information and communicated with relevant government authorities</td>
</tr>
<tr>
<td></td>
<td>Utilized disaster preparedness/response tools, established/maintained lines of communication, formulated/updated business continuity plans, inspected plants, upgraded facilities’ earthquake-resistance, periodically conducted emergency drills</td>
<td>•Instituted and enforced various regulations, built and strengthened operational risk management regime</td>
</tr>
<tr>
<td></td>
<td>Cost overruns, payment of damages to customers, impairment of public reputation and/or loss of societal trust due to, e.g., the occurrence of product performance problems, late deliveries, safety problems, cost increases attributable to, e.g., changes in specifications or process delays, unforeseen problems related to construction or sourcing of, e.g., parts and materials, and/or impacts on MHI’s production activities or products/services’ availability to customers resulting from a supplier’s inability to supply specific parts/materials or the occurrence of quality defects caused by suppliers or vendors</td>
<td>•Individually screening incoming orders before acceptance, monitoring fulfillment process after acceptance</td>
</tr>
<tr>
<td></td>
<td>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</td>
<td>•Conducting training for project/department managers, holding product safety seminars on ongoing basis</td>
</tr>
<tr>
<td>Intellectual property disputes</td>
<td>Disturbance of business operations due to inability to license technology from third-party operators</td>
<td>•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</td>
</tr>
<tr>
<td>Cybersecurity problems</td>
<td>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</td>
<td>•Avoiding IP disputes by thoroughly researching IP owned by others at the product planning, design and production stages</td>
</tr>
<tr>
<td></td>
<td>Disruption of operations due to, e.g., disablement of computers or servers</td>
<td>•Upgraded IP staff’s expertise through education and training</td>
</tr>
<tr>
<td></td>
<td>Investigations by authorities, claims for damages by, e.g., customers</td>
<td>•Implemented cybersecurity controls (standards, safeguards, self-assessments, internal audits), incident response measures, etc. by building a cybersecurity regime under direct supervision of the CTO*2</td>
</tr>
<tr>
<td>Legal/regulatory violations</td>
<td>Administrative sanctions imposed by government authorities, including, correction orders, penal fines, non- penal fines, suspension of operations and/or export bans; claims for damages from authorities or interested parties</td>
<td>•Instituted and enforced MHI Group Global Code of Conduct and various regulations applicable to all Group personnel</td>
</tr>
<tr>
<td></td>
<td>Disruption of operations, impairment of public reputation and/or loss of societal trust</td>
<td>•Regularly holding Compliance Committee meetings, established internal compliance reporting program</td>
</tr>
<tr>
<td></td>
<td></td>
<td>•Disseminating messages from senior management on strict legal/regulatory compliance, conducting various internal trainings on ongoing basis, augmenting training curricula, conducting internal audits</td>
</tr>
</tbody>
</table>
Risk Management

Business Risk Management

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

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

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

Matrix of Business Risk Management

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

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

Business Risk Management Process

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

- Consideration of Risk Response Policy
  Reduce, avert, shift, and retain

- Improvement of business execution capability
  Development of highly risk-sensitive human resources
  Improvement of business execution capability
  Development of highly risk-sensitive human resources

- Risk analysis/valuation
  Consumption of financial resources

- Definition and categorization of business risks
  Have knowledgeable specialists participate in risk assessment discussions

- Prevention of occurrence
  Process outlines specific activities. In addition to improving systems and processes to prevent business risks, reduce the frequency with which such risks manifest themselves, and consider and implement measures, we also develop human resources in charge of business risk management and cultivate a culture of responding to risks through such efforts as providing training with the involvement of the Group’s management team.
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 formalized 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 organization framework, roles, and administration standards.

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

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

Cybersecurity

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

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

Cybersecurity Governance

MHI Group has defined its internal cybersecurity standard according to the NIST-CPSS providing a defense-in-depth mechanism as well as threat detection and prevention by tracking and remedying cybersecurity risks utilizing multiple external intelligence services and other resources.

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

*1 National Institute of Standards and Technology Cybersecurity Framework

*2 Published by the Ministry of Economy, Trade and Industry in Japan in December 2014.

Response to Cybersecurity-Related Incidents

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

Cybersecurity Education

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

Contributing to the Establishment of a Global Cybersecurity Framework

Through participation in the Study Group for Industrial Cybersecurity, the Charter of Trust,5 promotion of the Declaration of Cyber Security Management (announced in March 2020), and other cybersecurity initiatives, MHI Group is contributing to the establishment of a global cybersecurity framework.

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

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

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

The MHI Group’s CSR Action Guidelines serve as collective standards for all MHI Group employees. These guidelines provide a concrete and easy-to-understand way for employees to consistently keep sustainability in mind as the Group contributes to societal progress through its business endeavors and Our Principles centered on the principles of sustainability. In 2015, we established the MHI Group Global Code of Conduct, a provision of common principles which stipulates how the Group’s employees with various backgrounds, nationalities and cultures should act and behave. Regarding the environment, MHI Group has established the Basic Policy on Environmental Matters and Action Guidelines to encourage initiatives to reduce environmental burden based on them in 1996.

Sustainability Promotion System

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

The Sustainability Promotion System Chart

- Board of Directors
- Executive Committee
- Sustainability Committee
  - Promote business activities that achieve sustainability goals
    - Chairman: President and CEO
- Materiality Council
  - Promote business activities that achieve sustainability goals
  - Chairman: President and CEO
- Established five subcommittees for each Materiality
  - CSD
  - Build a safer and more secure world
  - Enhance corporate governance
  - In charge of IR
  - Chairman: CSD
- Administrative office: Sustainability Relations Department

Relationships with Stakeholders

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

Conformity with International Norms and Information Disclosure

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

Human Rights Initiatives

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

- Human Rights
- MHI Group Human Rights Policy

- 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

Overview
Messages from Management
Mission
Net Zero
Business Strategy
Governance & Sustainability
Performance
2022
Sustainability

Materiality

To enhance corporate value and grow in the medium to long term through solutions to social issues, in FY2020 we identified materiality that MHI Group should be addressing. The materiality we identified is reflected in the 2021 Medium-Term Business Plan announced in October 2020. Progress of each materiality is managed with progress monitoring indicators (KPIs), and the PDCA cycle is steadily applied. Activities that engage in materiality embody sustainability management in terms of business. In order to make materiality activities effective, we have established subcommittees with managers and departments for each materiality, and the person responsible and organizing department consider specific measures and roadmaps.

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

Processes of Identifying Materiality

We inventoried the company's businesses and initiatives, linked them to a list of social issues prioritized in line with international frameworks — including the SDGs, the Global Reporting Initiative (GRI) Standards, ISO 26000, the SASB Standards, and the EU taxonomy and others, and identified 37 social issue themes related to MHI Group.

- Step 1: Prioritizing Social Issues
- Step 2: Mapping Materiality
- Step 3: Verifying Appropriateness
- Step 4: Identifying Materiality
- Step 5: Setting Company-Wide Goals and Progress Monitoring Indicators (KPIs)

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

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

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

Five materiality identified based on social issues important to MHI Group

Business Contribution

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

Foundation to Support Business

- Promote diversity and improve employee engagement
- Enhance corporate governance

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

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

<table>
<thead>
<tr>
<th>Materiality Officer in Charge</th>
<th>Scope</th>
<th>Progress and Topics in FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce the CO2 emissions of MHI Group. Achieve Net Zero CO2 emissions from its operation by 2030 (Scopes 1 and 2)</td>
<td>MHI Group (Global)</td>
<td>- Started verification test on the separation, capture, and utilization of CO2 from a waste incineration facility in Takatsuki in cooperation with Yokohama City and Tokyo Gas Co., Ltd.</td>
</tr>
<tr>
<td>Reduce total CO2 emissions from business activities (Scopes 1 and 2) by 50% by 2030 (compared to 2016 levels)</td>
<td>MHI Group (Global)</td>
<td>- Implemented construction agreement for the world’s first demonstration test ship for the marine transport of liquefied CO2 supporting CCS.</td>
</tr>
<tr>
<td>Reduce CO2 emissions across the entire value chain (Scope 3 = CO2NEX™ contribution for CO2 reduction by 50% by 2030 (compared to 2017 levels) and achieve Net Zero by 2040.</td>
<td>MHI Group (Global)</td>
<td>- Started verification test on the separation, capture, and utilization of CO2 from a waste incineration facility in Takatsuki in cooperation with Yokohama City and Tokyo Gas Co., Ltd.</td>
</tr>
</tbody>
</table>

**CO2NEX™**

MHI Group (Global)

- Started verification test on the separation, capture, and utilization of CO2 from a waste incineration facility in Takatsuki in cooperation with Yokohama City and Tokyo Gas Co., Ltd.
- Implemented construction agreement for the world’s first demonstration test ship for the marine transport of liquefied CO2 supporting CCS.
- Implemented measures to improve safety in compliance with new regulatory standards at the Kansai Electric Power Co., Inc. (Mihama Nuclear Power Station Unit 3) helping the company to obtain a grant of extension allowing it to operate more than 40 years (the previous legal limit) for the first time in Japan.
- Started work on digital platform (CO2NEX™) in cooperation with IBM Japan.

**CSO and Senior General Manager, Growth Strategy Office**

- Contributed to society throughout the value chain by 2030: Achieve Net Zero CO2 emissions from its entire value chain by 2030 (Scope 3 - reduction through CCS)

- Developed and proves new products and services that contribute to the carbon cycle.
- Improved our environment that maximizes the carbon cycle.
- Developed new and improved measures for businesses and products to contribute to the carbon cycle.
- Developed an AI-based remote monitoring and operational support system for sustainable operation of waste incineration plants.

**Transparency through AI and digitalization**

- Published our ESG summary, and prepared an AI-based digital strategy.
- Developed an AI-based remote monitoring and operational support system.
- Commercialized air purifying equipment for large spaces using electrostatic precipitation and electrical discharge-based ozone generation technologies.

**Senior General Manager, Growth Strategy Office**

- Improve our working environment to produce creative products.
- Improve employee performance, and develop human resources.

- Contributed to the transformation of society through AI and digitalization.
- Developed new and improved measures for businesses and products to contribute to the carbon cycle.
- Developed an AI-based remote monitoring and operational support system.

- Expand line-up of useful and sustainable AI digital products meeting needs of customers and users.
- Improve employees’ awareness of creative time and environments.
- Contributed to a sustainable society through future-oriented energy management strategies that use AI and digitalization to appropriately and efficiently manage power supply and demand.
- Contributed to the transformation of society through AI and digitalization.

**Governance & Sustainability**

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

- **Mission Net Zero**

  - Improved energy optimisation using TOWN™ at Takasago Hydrogen Park in our Takasago machinery works, the world’s first facility for integrated validation of technologies ranging from hydrogen production to power generation, with the aim of commercialising hydrogen fuel cells by 2020.

- **Business Strategy**

  - Developed a new AI-based remote monitoring and operational support system for sustainable operation of waste incineration plants.

- **Performance Data**

  - Developed an AI-based remote monitoring and operational support system.

- **Improving our work environment to produce creative products**

  - Improve employees’ awareness of creative time and environments.

- **Promote employee engagement**

  - Contributed to the transformation of society through AI and digitalization.

- **Safety and more secure world CTD**

  - Developed an AI-based remote monitoring and operational support system.

- **Enhance corporate governance**

  - Contributed to the transformation of society through AI and digitalization.

- **In charge of HR**

  - Contributed to the transformation of society through AI and digitalization.

- **Promote human development and invest in human resources**

  - Contributed to the transformation of society through AI and digitalization.

- **Enhance corporate governance**

  - Contributed to the transformation of society through AI and digitalization.

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- **In charge of HR**

  - Contributed to the transformation of society through AI and digitalization.
Responses to Risks and Opportunities Caused by Climate Change (Disclosure in Accordance with TCFD Recommendations)

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

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

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

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

Strategies (Scenario Analysis)

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

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

- **Fossil Fuel Dependency Scenario**
  A scenario in which climate change policies are not made stricter and the dependence on fossil fuels proceeds.

which assumes a global average temperature increase of 4.0°C above pre-industrial levels by the year 2100.

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

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

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

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

Decarbonization Scenario

- **Decarbonization Scenario – Carbon pricing**
  - Increased carbon border due to escalated carbon pricing, including carbon tax. Particularly concerning is the tightening of regulations in Japan, which accounts for over 70% of our bases' emissions.

- **Measures**
  - Shift to carbon neutral manufacturing
  - See page 24 for details.
  - Consider incorporating technologies such as high-temperature heat pumps, hydrogen power generation equipment, and CCUS in our manufacturing facilities.

Decarbonization Scenario

- **Decarbonization Scenario – Transition Risk**
  - Damage to the factories or supplied plants of our group or partners. Especially damage to properties in Japan, given that around 90% of disasters in the last 5 years have been in Japan. Typhoons and torrential rains.

- **Measures**
  - Regularly review the ESG Business Continuity Plan and conduct training for employees and relevant persons.
  - Implement countermeasures to risk identify in risk assessments at all Japan plants.

- **Decarbonization Scenario**
  - **Fossil Fuel Dependency Scenario**

Risks
- **Fossil Fuel Dependency Scenario**
  - Rapid decline of demand for large-scale centralized power supplies due to more than expected promotion of renewable energy resources.

- **Measures**
  - Accelerate the development of not only conventional fossil-fuel power plants but also hydrogen power generation technology at a large scale.
  - Support the restarting of nuclear power plants which are large-scale carbon-free power sources, the installation of severe accident management facilities, and the establishment of nuclear fuel cycles.
  - Develop and commercialize next-generation light water reactors with enhanced safety (mid-2030s).
  - Reduce supply shortages of small water reactors that contribute to resource efficiency and the reduction of radioactive waste, and high-temperature gas reactors that meet the emission reduction/hydrogen needs of industry (after 2040).

Decarbonization Scenario

- **Fossil Fuel Dependency Scenario**
  - Damage to the factories or supplied plants of our group or partners. Especially damage to properties in Japan, given that around 90% of disasters in the last 5 years have been in Japan. Typhoons and torrential rains.

- **Measures**
  - Implement countermeasures to risk identify in risk assessments at all Japan plants.

- **Decarbonization Scenario**
  - **Business Risks (Transition Risks)**

Risks
- **Decarbonization Scenario**
  - Accelerate the commercialization of hydrogen gas turbines through verification of all stages of the process from hydrogen production to power generation, focusing on the construction of a hydrogen park.

- **Measures**
  - For details, see the special feature “MHI Group’s Carbon Neutrality Initiatives” on page 30.

- **Decarbonization Scenario**
  - **Business Risks (Physical Risks)**

- **Decarbonization Scenario**
  - **Fossil Fuel Dependency Scenario**

Risks
- **Fossil Fuel Dependency Scenario**
  - Damage to the factories or supplied plants of our group or partners. Especially damage to properties in Japan, given that around 90% of disasters in the last 5 years have been in Japan. Typhoons and torrential rains.

- **Measures**
  - Implement countermeasures to risk identify in risk assessments at all Japan plants.

Decarbonization Scenario

- **Fossil Fuel Dependency Scenario**

- **Measures**
  - Hedge risks with damage insurance.
  - Conduct training for employees and relevant persons.
  - Accelerate the commercialization of hydrogen gas reactors that meet the emission reduction/hydrogen needs of industry (after 2040).

- **Measures**
  - For details, see the special feature “MHI Group’s Carbon Neutrality Initiatives” on page 30.

Risk Management System

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

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

Metrics and Targets

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

The first target is to reduce the Group's CO2 emissions (Scopes 1 and 2) to Net Zero by 2040. As an interim target, we also plan to reduce emissions by 50% by 2030 (versus 2019 levels). This represents a reduction of CO2 emissions from production activities at the Group's plants and other facilities. Through such efforts, we are committed to achieving carbon neutral plants by applying our developed technologies and promoting further energy saving.

The second target is to achieve Net Zero CO2 emissions across the entire value chain by 2040. As an interim target, we also plan to reduce emissions by 50% by 2030 (versus 2019 levels). This is primarily based on our customers reducing CO2 emissions (Scope 3), through the use of our Group’s products, as well as reduction contributions from the widespread use of CCUS.

The Group possesses a broad selection of technologies and solutions in all business areas, including the decarbonization of customers’ existing equipment, and will continue contributing to the reduction of global CO2 emissions by offering a variety of solutions.

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

For more details about disclosure in accordance with TCFD recommendations, please visit our website at: [https://www.mhi.com/sustainability/environment/climate_change.html](https://www.mhi.com/sustainability/environment/climate_change.html)
Building HR Platform

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

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

Development of Talent Pool for Succession

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

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

MHI Group Talent Development Guidelines

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.

Approach to Human Resource Development

The growth of each member of the Group is positioned as the source of sustainable 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 responsibility and feedback to stipulate operational plans (on-the-job training and training and development) and measures to resolve issues.

We will endeavor to steadily develop the next generation of human resources on a global level to enhance corporate value by working to further discover talent by lowering the target age and introducing an open application system, while proceeding to further diversify and expand the pool of managerial talent.

Development of a Corporate Culture Fully Leveraging Each Employee

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

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

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

Promotion of Diversity and Inclusion

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

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

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

HR Tech Promotion and Digital Transformation Support

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

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

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

Health and Safety Initiatives

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

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

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

**As of March 31, 2022**

<table>
<thead>
<tr>
<th>Input</th>
<th>Output</th>
<th>Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>¥4,810.7 billion</td>
<td>¥5,116.3 billion</td>
</tr>
<tr>
<td>Total equity</td>
<td>¥1,439.3 billion</td>
<td>¥1,662.5 billion</td>
</tr>
<tr>
<td>Interest-bearing debt</td>
<td>¥905.6 billion</td>
<td>¥734.9 billion</td>
</tr>
<tr>
<td>Number of employees</td>
<td>79,974 people</td>
<td>77,991 people</td>
</tr>
<tr>
<td>Number of patents held</td>
<td>25,968</td>
<td>25,654</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>¥113.6 billion</td>
<td>¥125.7 billion</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>¥122.8 billion</td>
<td>¥158.7 billion</td>
</tr>
<tr>
<td>Total energy consumption*1</td>
<td>1,709 GWh</td>
<td>1,866 GWh</td>
</tr>
<tr>
<td>Number of overseas employees</td>
<td>29,032 people</td>
<td>27,962 people</td>
</tr>
<tr>
<td>Orders received</td>
<td>¥4,067.7 billion</td>
<td>¥4,067.7 billion</td>
</tr>
<tr>
<td>Revenue</td>
<td>¥3,860.2 billion</td>
<td>¥4,085.6 billion</td>
</tr>
<tr>
<td>Profit from business activities</td>
<td>¥160.2 billion</td>
<td>¥173.4 billion</td>
</tr>
<tr>
<td>EBITDA</td>
<td>¥292.4 billion</td>
<td>¥301.8 billion</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>7.6%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Greenhouse gas (CO2) emissions*1</td>
<td>516 kilotons</td>
<td>579.0 kilotons</td>
</tr>
<tr>
<td>ROE</td>
<td>7.7%</td>
<td>7.3%</td>
</tr>
<tr>
<td>Free cash flows</td>
<td>¥301.8 billion</td>
<td>¥379.2 billion</td>
</tr>
<tr>
<td>Dividend payments (for FY2021)</td>
<td>¥40.3 billion</td>
<td>¥40.3 billion</td>
</tr>
</tbody>
</table>

*1 Data are for MHI on a non-consolidated basis and 158 Group companies.

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.

---

### Performance Data

#### Number of Employees/Ratio of Overseas Employees

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Employees</th>
<th>Ratio of Overseas Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>80,652</td>
<td>31.7%</td>
</tr>
<tr>
<td>2018</td>
<td>80,744</td>
<td>31.6%</td>
</tr>
<tr>
<td>2019</td>
<td>81,637</td>
<td>31.4%</td>
</tr>
<tr>
<td>2020</td>
<td>79,974</td>
<td>31.2%</td>
</tr>
<tr>
<td>2021</td>
<td>77,991</td>
<td>31.3%</td>
</tr>
</tbody>
</table>

#### Revenue/Overseas Sales Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (Billions of yen)</th>
<th>Overseas sales ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>4,085.6</td>
<td>56.1%</td>
</tr>
<tr>
<td>2018</td>
<td>4,078.3</td>
<td>56.1%</td>
</tr>
<tr>
<td>2019</td>
<td>4,041.3</td>
<td>56.1%</td>
</tr>
<tr>
<td>2020</td>
<td>3,969.9</td>
<td>56.1%</td>
</tr>
<tr>
<td>2021</td>
<td>3,860.2</td>
<td>56.1%</td>
</tr>
</tbody>
</table>

#### Research and Development Expenses/As a Percentage of Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Research and development expenses (Billions of yen)</th>
<th>As a percentage of revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>176.8</td>
<td>4.3%</td>
</tr>
<tr>
<td>2018</td>
<td>152.1</td>
<td>3.7%</td>
</tr>
<tr>
<td>2019</td>
<td>146.8</td>
<td>3.6%</td>
</tr>
<tr>
<td>2020</td>
<td>125.7</td>
<td>3.6%</td>
</tr>
<tr>
<td>2021</td>
<td>113.6</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

#### Number of Patents Held*6

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Patents Held*6</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>21,998</td>
</tr>
<tr>
<td>2018</td>
<td>23,201</td>
</tr>
<tr>
<td>2019</td>
<td>24,683</td>
</tr>
<tr>
<td>2020</td>
<td>25,968</td>
</tr>
<tr>
<td>2021</td>
<td>25,654</td>
</tr>
</tbody>
</table>

#### Greenhouse Gas (CO2) Emissions (Kilotons)

<table>
<thead>
<tr>
<th>Year</th>
<th>Emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>621*1</td>
</tr>
<tr>
<td>2018</td>
<td>793*1</td>
</tr>
<tr>
<td>2019</td>
<td>711*1</td>
</tr>
<tr>
<td>2020</td>
<td>550*1</td>
</tr>
<tr>
<td>2021</td>
<td>516*1</td>
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</tbody>
</table>

#### Industrial Accident Frequency Rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Frequency Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>0.18</td>
</tr>
<tr>
<td>2018</td>
<td>0.19</td>
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<tr>
<td>2019</td>
<td>0.22</td>
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<tr>
<td>2020</td>
<td>0.34</td>
</tr>
<tr>
<td>2021</td>
<td>0.15</td>
</tr>
</tbody>
</table>

#### Cash Dividends per Share/Dividend Payout Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend per Share</th>
<th>Dividend Payout Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>¥120</td>
<td>57.2%</td>
</tr>
<tr>
<td>2018</td>
<td>¥130</td>
<td>57.8%</td>
</tr>
<tr>
<td>2019</td>
<td>¥150</td>
<td>53.0%</td>
</tr>
<tr>
<td>2020</td>
<td>¥170</td>
<td>29.6%</td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Eleven-Year Financial and Non-Financial Data

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

**Years ended March 31**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders received</td>
<td>¥ 3,188</td>
<td>¥ 3,032</td>
<td>¥ 3,420</td>
<td>¥ 4,691</td>
<td>¥ 4,485</td>
<td>¥ 4,276</td>
<td>¥ 3,875</td>
<td>¥ 3,667</td>
<td>¥ 3,853</td>
<td>¥ 4,186</td>
<td>¥ 3,363</td>
</tr>
<tr>
<td>Revenue</td>
<td>¥ 2,820</td>
<td>¥ 2,817</td>
<td>¥ 3,349</td>
<td>¥ 3,992</td>
<td>¥ 4,048</td>
<td>¥ 3,914</td>
<td>¥ 4,110</td>
<td>¥ 4,056</td>
<td>¥ 4,083</td>
<td>¥ 4,041</td>
<td>¥ 3,999</td>
</tr>
<tr>
<td>Profit from business activities</td>
<td>¥ 119</td>
<td>¥ 163</td>
<td>¥ 206</td>
<td>¥ 291</td>
<td>¥ 309</td>
<td>¥ 165</td>
<td>¥ 126</td>
<td>¥ 58</td>
<td>¥ 20</td>
<td>¥ 25</td>
<td>¥ 50</td>
</tr>
<tr>
<td>Profit before income taxes</td>
<td>¥ 68</td>
<td>¥ 155</td>
<td>¥ 214</td>
<td>¥ 232</td>
<td>¥ 132</td>
<td>¥ 167</td>
<td>¥ 128</td>
<td>¥ 32</td>
<td>¥ 195</td>
<td>(32)</td>
<td>45</td>
</tr>
<tr>
<td>Profit attributable to owners of the parent</td>
<td>¥ 24</td>
<td>¥ 97</td>
<td>¥ 160</td>
<td>¥ 164</td>
<td>¥ 104</td>
<td>¥ 87</td>
<td>¥ 70</td>
<td>¥ 74</td>
<td>(13)</td>
<td>110</td>
<td>87</td>
</tr>
<tr>
<td>Research and development expenses</td>
<td>¥ 121</td>
<td>¥ 120</td>
<td>¥ 138</td>
<td>¥ 145</td>
<td>¥ 150</td>
<td>¥ 160</td>
<td>¥ 178</td>
<td>¥ 178</td>
<td>¥ 152</td>
<td>¥ 148</td>
<td>¥ 125</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>¥ 3,120</td>
<td>¥ 118</td>
<td>¥ 148</td>
<td>¥ 156</td>
<td>¥ 175</td>
<td>¥ 204</td>
<td>¥ 158</td>
<td>¥ 158</td>
<td>¥ 147</td>
<td>¥ 163</td>
<td>¥ 125</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>¥ 126</td>
<td>¥ 119</td>
<td>¥ 134</td>
<td>¥ 157</td>
<td>¥ 158</td>
<td>¥ 172</td>
<td>¥ 176</td>
<td>¥ 174</td>
<td>¥ 135</td>
<td>¥ 144</td>
<td>¥ 139</td>
</tr>
<tr>
<td>Total assets</td>
<td>¥ 3,963</td>
<td>¥ 3,936</td>
<td>¥ 4,866</td>
<td>¥ 5,520</td>
<td>¥ 5,500</td>
<td>¥ 5,481</td>
<td>¥ 5,487</td>
<td>¥ 5,248</td>
<td>¥ 5,240</td>
<td>¥ 4,965</td>
<td>¥ 4,810</td>
</tr>
<tr>
<td>Total equity</td>
<td>¥ 1,306</td>
<td>¥ 1,430</td>
<td>¥ 1,774</td>
<td>¥ 2,120</td>
<td>¥ 1,999</td>
<td>¥ 2,104</td>
<td>¥ 2,164</td>
<td>¥ 1,693</td>
<td>¥ 1,726</td>
<td>¥ 1,290</td>
<td>¥ 1,439</td>
</tr>
<tr>
<td>Interest-bearing debt</td>
<td>¥ 1,517</td>
<td>¥ 1,031</td>
<td>¥ 974</td>
<td>¥ 955</td>
<td>¥ 1,052</td>
<td>¥ 925</td>
<td>¥ 813</td>
<td>¥ 813</td>
<td>¥ 665</td>
<td>¥ 598</td>
<td>¥ 906</td>
</tr>
<tr>
<td>Cash flows from operating activities</td>
<td>¥ 200</td>
<td>¥ 288</td>
<td>¥ 293</td>
<td>¥ 287</td>
<td>¥ 270</td>
<td>¥ 95</td>
<td>¥ 341</td>
<td>¥ 415</td>
<td>¥ 407</td>
<td>¥ 420</td>
<td>¥ 425</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>(47.0)</td>
<td>(176.7)</td>
<td>(151.5)</td>
<td>(174.1)</td>
<td>(262.4)</td>
<td>8.7</td>
<td>(137.1)</td>
<td>(238.1)</td>
<td>(161.8)</td>
<td>(239.5)</td>
<td>(182.2)</td>
</tr>
<tr>
<td>Free cash flows</td>
<td>¥ 153</td>
<td>¥ 211</td>
<td>¥ 144</td>
<td>¥ 38.6</td>
<td>¥ 7.5</td>
<td>¥ 104</td>
<td>¥ 207</td>
<td>¥ 167</td>
<td>¥ 258</td>
<td>¥ 212</td>
<td>¥ 277</td>
</tr>
<tr>
<td>Cash flows from financing activities</td>
<td>(183.6)</td>
<td>(154.2)</td>
<td>(136.8)</td>
<td>(45.8)</td>
<td>(23.1)</td>
<td>(142.0)</td>
<td>(152.1)</td>
<td>(112.3)</td>
<td>(271.0)</td>
<td>(204.4)</td>
<td>(221.7)</td>
</tr>
<tr>
<td>Per share information of common stock¹⁴</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Basic earnings (losses) per share</td>
<td>¥ 73.15</td>
<td>¥ 290.09</td>
<td>¥ 478.13</td>
<td>¥ 329.04</td>
<td>¥ 190.17</td>
<td>¥ 261.24</td>
<td>¥ 209.82</td>
<td>¥ 217.99</td>
<td>¥ 328.39</td>
<td>¥ 299.39</td>
<td>¥ 120.92</td>
</tr>
<tr>
<td>Total earnings per share</td>
<td>¥ 2,820.84</td>
<td>¥ 4,109.00</td>
<td>¥ 4,998.86</td>
<td>¥ 5,308.47</td>
<td>¥ 5,030.00</td>
<td>¥ 4,209.61</td>
<td>¥ 3,373.73</td>
<td>¥ 4,468.73</td>
<td>¥ 383.72</td>
<td>¥ 120.92</td>
<td>¥ 2,764</td>
</tr>
<tr>
<td>Dividends per share of common stock</td>
<td>¥ 60.00</td>
<td>¥ 80.00</td>
<td>¥ 80.00</td>
<td>¥ 110.00</td>
<td>¥ 120.00</td>
<td>¥ 120.00</td>
<td>¥ 120.00</td>
<td>¥ 130.00</td>
<td>¥ 150.00</td>
<td>¥ 75.00</td>
<td>¥ 100.00</td>
</tr>
</tbody>
</table>
| Ratios
| Overseas sales ratio | 41.9% | 44.8% | 49.3% | 53.4% | 55.4% | 53.5% | 54.2% | 55.1% | 54.0% | 52.0% | 47.4% |
| Ratio of profit from business activities | 4.0% | 5.8% | 6.2% | 7.4% | 7.6% | 3.8% | 3.1% | 1.4% | 4.6% | 0.7% | 1.5% |
| Return on equity | 1.9% | 7.4% | 11.0% | 6.3% | 3.7% | 5.1% | 3.9% | 7.9% | 6.6% | 3.1% | 2.7% |
| Return on assets | 0.6% | 2.3% | 3.6% | 2.1% | 1.2% | 1.6% | 1.3% | (0.1%) | 2.1% | 1.7% | 0.8% |
| Current ratio | 153.9% | 155.0% | 139.2% | 146.2% | 135.7% | 139.4% | 141.0% | 122.2% | 121.6% | 101.1% | 104.7% |
| D/E ratio¹⁵ | 89% | 72% | 54% | 46% | 53% | 44% | 38% | 48% | 46% | 43% | 44% |
| Equity ratio¹⁶ | 31.7% | 35.0% | 31.6% | 32.3% | 30.5% | 32.5% | 33.3% | 26.6% | 29.4% | 28.4% | 30.8% |
| Dividend payout ratio¹⁷ | 82.0% | 67.5% | 72.2% | 60.9% | 53.3% | 45.5% | 57.2% | 43.6% | 39.6% | 57.8% | 62.0% |

**Non-financial indexes**

**MHI Group has adopted the International Financial Reporting Standards (IFRS) from fiscal 2018.** Actual financial numbers for fiscal 2017 and data for fiscal 2016 and earlier are calculated as if the reverse stock split had been conducted at the beginning of the respective fiscal years. Calculations of per-share data are based on these assumptions.

¹⁾ U.S. dollar amounts in this report are translated from yen, for convenience only, at the rate of ¥122.39 = U.S.$1, the exchange rate prevailing at March 31, 2022.

²⁾ The Company conducted a 1-for-10 reverse stock split on common shares on October 1, 2017. The interim dividend for fiscal 2017 was calculated taking into account this reverse stock split.

³⁾ Social contribution expenses (Billions of yen) 2.5 1.7 1.7

⁴⁾ Return on assets = profit attributable to owners of the parent / total assets

⁵⁾ Return on equity = profit attributable to owners of the parent / (total equity–share subscription rights–non-controlling interests)

⁶⁾ D/E ratio = interest-bearing debt / total equity

⁷⁾ Equity ratio = total equity−share subscription rights−non-controlling interests / total equity

⁸⁾ Number of female managers

⁹⁾ Industrial accident frequency rate

¹⁰⁾ Dividend payout ratio = dividends / profit attributable to owners of the parent

¹¹⁾ Environmental Management System

¹²⁾ Renewable energy (% of total energy consumption)

¹³⁾ Scope 2 (Kilotons)

¹⁴⁾ Scope 1 (Kilotons)

¹⁵⁾ Scope 2 (Kilotons)

¹⁶⁾ Non-financial indexes

¹⁷⁾ Non-financial indexes

¹⁸⁾ Number of employees

¹⁹⁾ Number of female managers

²⁰⁾ Industrial accident frequency rate

²¹⁾ Total energy consumption (GWh)

²²⁾ Renewable energy (% of total energy consumption)

²³⁾ Scope 1 (Kilotons)

²⁴⁾ Scope 2 (Kilotons)

²⁵⁾ Social contribution expenses (Billions of yen)
## Consolidated Statement of Financial Position

Mitsubishi Heavy Industries, Ltd. and Consolidated Subsidiaries

As of April 1, 2020 / March 31, 2021 / March 31, 2022

### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>As of April 1, 2020</th>
<th>As of March 31, 2021</th>
<th>As of March 31, 2022</th>
<th>As of March 31, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>¥281,626</td>
<td>¥245,421</td>
<td>¥314,257</td>
<td>$2,567,668</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>611,976</td>
<td>655,181</td>
<td>744,466</td>
<td>6,082,735</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>28,539</td>
<td>30,677</td>
<td>70,952</td>
<td>579,720</td>
</tr>
<tr>
<td>Contract assets</td>
<td>576,061</td>
<td>578,936</td>
<td>654,972</td>
<td>5,351,515</td>
</tr>
<tr>
<td>Inventories</td>
<td>726,228</td>
<td>713,498</td>
<td>798,601</td>
<td>6,525,051</td>
</tr>
<tr>
<td>Other current assets</td>
<td>206,261</td>
<td>230,955</td>
<td>219,875</td>
<td>1,796,511</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>2,838,493</td>
<td>2,454,670</td>
<td>2,803,126</td>
<td>22,903,227</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>As of April 1, 2020</th>
<th>As of March 31, 2021</th>
<th>As of March 31, 2022</th>
<th>As of March 31, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current assets:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment (&quot;PPE&quot;)</td>
<td>792,920</td>
<td>779,696</td>
<td>790,204</td>
<td>$6,456,442</td>
</tr>
<tr>
<td>Goodwill</td>
<td>124,500</td>
<td>124,500</td>
<td>128,690</td>
<td>1,051,474</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>78,908</td>
<td>74,722</td>
<td>70,400</td>
<td>575,210</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>96,201</td>
<td>93,321</td>
<td>98,255</td>
<td>802,802</td>
</tr>
<tr>
<td>Investments accounted for using the equity method</td>
<td>177,569</td>
<td>182,897</td>
<td>212,828</td>
<td>1,738,932</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>391,538</td>
<td>560,213</td>
<td>487,430</td>
<td>3,982,596</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>382,729</td>
<td>378,338</td>
<td>352,261</td>
<td>2,878,184</td>
</tr>
<tr>
<td>Other non-current assets</td>
<td>102,827</td>
<td>162,365</td>
<td>173,164</td>
<td>1,414,690</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>2,147,196</td>
<td>2,356,056</td>
<td>2,313,214</td>
<td>18,900,351</td>
</tr>
</tbody>
</table>

### LIABILITIES AND EQUITY

<table>
<thead>
<tr>
<th></th>
<th>As of April 1, 2020</th>
<th>As of March 31, 2021</th>
<th>As of March 31, 2022</th>
<th>As of March 31, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds, borrowings and other financial liabilities</td>
<td>¥769,099</td>
<td>¥445,147</td>
<td>¥304,651</td>
<td>$2,489,182</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>824,030</td>
<td>763,731</td>
<td>863,281</td>
<td>7,053,525</td>
</tr>
<tr>
<td>Income taxes payable</td>
<td>28,994</td>
<td>12,237</td>
<td>28,784</td>
<td>235,182</td>
</tr>
<tr>
<td>Contract liabilities</td>
<td>835,465</td>
<td>731,814</td>
<td>886,551</td>
<td>7,243,655</td>
</tr>
<tr>
<td>Provisions</td>
<td>199,446</td>
<td>207,876</td>
<td>203,585</td>
<td>1,663,412</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>151,657</td>
<td>184,453</td>
<td>193,865</td>
<td>1,583,993</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>2,808,742</td>
<td>2,345,240</td>
<td>2,480,720</td>
<td>20,248,976</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>As of April 1, 2020</th>
<th>As of March 31, 2021</th>
<th>As of March 31, 2022</th>
<th>As of March 31, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-current liabilities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bonds, borrowings and other financial liabilities</td>
<td>601,770</td>
<td>790,862</td>
<td>773,622</td>
<td>6,320,957</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>7,318</td>
<td>6,597</td>
<td>6,217</td>
<td>50,796</td>
</tr>
<tr>
<td>Retirement benefit liabilities</td>
<td>145,890</td>
<td>124,432</td>
<td>76,824</td>
<td>627,698</td>
</tr>
<tr>
<td>Provisions</td>
<td>58,173</td>
<td>50,485</td>
<td>62,218</td>
<td>508,358</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>73,718</td>
<td>53,699</td>
<td>54,207</td>
<td>442,903</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>886,871</td>
<td>1,026,076</td>
<td>973,090</td>
<td>7,950,731</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>As of April 1, 2020</th>
<th>As of March 31, 2021</th>
<th>As of March 31, 2022</th>
<th>As of March 31, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities</strong></td>
<td>3,695,614</td>
<td>3,371,337</td>
<td>3,453,810</td>
<td>28,219,707</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>As of April 1, 2020</th>
<th>As of March 31, 2021</th>
<th>As of March 31, 2022</th>
<th>As of March 31, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equity:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>265,608</td>
<td>265,608</td>
<td>265,608</td>
<td>2,170,177</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>49,667</td>
<td>47,265</td>
<td>45,061</td>
<td>368,175</td>
</tr>
<tr>
<td>Treasury shares</td>
<td>(5,374)</td>
<td>(4,452)</td>
<td>(4,946)</td>
<td>(48,582)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>886,307</td>
<td>952,528</td>
<td>1,099,158</td>
<td>8,980,782</td>
</tr>
<tr>
<td>Other components of equity</td>
<td>22,133</td>
<td>105,393</td>
<td>172,728</td>
<td>1,411,291</td>
</tr>
<tr>
<td>Equity attributable to owners of the parent</td>
<td>1,218,343</td>
<td>1,366,342</td>
<td>1,576,611</td>
<td>12,881,861</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>71,732</td>
<td>73,047</td>
<td>85,918</td>
<td>702,001</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>1,290,076</td>
<td>1,439,390</td>
<td>1,662,529</td>
<td>13,583,863</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>As of April 1, 2020</th>
<th>As of March 31, 2021</th>
<th>As of March 31, 2022</th>
<th>As of March 31, 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>¥4,985,690</td>
<td>¥4,810,727</td>
<td>¥5,116,340</td>
<td>¥41,803,578</td>
</tr>
</tbody>
</table>
### Consolidated Statement of Profit or Loss

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>¥3,860,283</td>
<td>$31,540,836</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>3,204,371</td>
<td>26,181,640</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>583,482</td>
<td>5,359,187</td>
</tr>
<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td>531,383</td>
<td>4,548,794</td>
</tr>
<tr>
<td><strong>Share of profit of investments accounted for using the equity method</strong></td>
<td>15,158</td>
<td>137,764</td>
</tr>
<tr>
<td><strong>Other income</strong>*</td>
<td>68,972</td>
<td>563,542</td>
</tr>
<tr>
<td><strong>Other expenses</strong></td>
<td>180,873</td>
<td>202,443</td>
</tr>
<tr>
<td><strong>Profit from business activities</strong></td>
<td>54,081</td>
<td>1,309,257</td>
</tr>
<tr>
<td><strong>Finance income</strong></td>
<td>11,677</td>
<td>260,699</td>
</tr>
<tr>
<td><strong>Finance costs</strong></td>
<td>16,404</td>
<td>150,853</td>
</tr>
<tr>
<td><strong>Profit before income taxes</strong></td>
<td>49,355</td>
<td>1,619,102</td>
</tr>
<tr>
<td><strong>Income taxes</strong></td>
<td>6,153</td>
<td>392,425</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>43,202</td>
<td>1,026,668</td>
</tr>
</tbody>
</table>

Earnings per share attributable to owners of the parent:

<table>
<thead>
<tr>
<th></th>
<th>Yen</th>
<th>U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic earnings per share</td>
<td>¥120.92</td>
<td>$2,764</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>120.83</td>
<td>338.24</td>
</tr>
</tbody>
</table>

### Consolidated Statement of Comprehensive Income

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

<table>
<thead>
<tr>
<th></th>
<th>Millions of yen</th>
<th>Thousands of U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit</strong></td>
<td>¥43,202</td>
<td>$1,026,668</td>
</tr>
<tr>
<td><strong>Items that will not be reclassified to profit or loss:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net gains from financial assets measured at FVTOCI</td>
<td>37,943</td>
<td>152,790</td>
</tr>
<tr>
<td>Remeasurement of defined benefit plans</td>
<td>56,097</td>
<td>409,673</td>
</tr>
<tr>
<td>Share of other comprehensive income(loss) of entities accounted for using the equity method</td>
<td>(163)</td>
<td>1,895</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>93,878</td>
<td>564,376</td>
</tr>
</tbody>
</table>

Earnings per share attributable to owners of the parent:

<table>
<thead>
<tr>
<th></th>
<th>Yen</th>
<th>U.S. dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic earnings per share</td>
<td>¥338.24</td>
<td>$2,764</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>338.05</td>
<td>2,762</td>
</tr>
</tbody>
</table>

* Other income includes dividend income.

The amounts of dividend income in the fiscal years ended March 31, 2021 and 2022 were ¥16,444 million yen and ¥17,286 million yen ($141,237 thousand) respectively.
### Consolidated Statement of Changes in Equity

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

**Balance as of April 1, 2021**

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Capital surplus</th>
<th>Treasury shares</th>
<th>Retained earnings</th>
<th>Other components of equity</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥5,374</td>
<td>¥886,307</td>
<td>¥222,133</td>
<td>¥1,218,343</td>
<td>¥71,732</td>
<td>¥1,290,076</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Profit**

- 40,639
- Other comprehensive income
- 132,995
- Comprehensive income
- 40,639
- Transfer to retained earnings
- 132,995
- Purchase of treasury shares
- 49,668
- Dividends
- 83
- Transfers with non-controlling interests
- (1,611)

**Balance as of March 31, 2021**

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Capital surplus</th>
<th>Treasury shares</th>
<th>Retained earnings</th>
<th>Other components of equity</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥5,341</td>
<td>¥1,133,541</td>
<td>¥73,113</td>
<td>¥1,325,656</td>
<td>¥8,430</td>
<td>¥1,434,133</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Other comprehensive income**

- 467
- Comprehensive income
- 467
- Transfers with non-controlling interests
- —

**Balance as of March 31, 2022**

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Capital surplus</th>
<th>Treasury shares</th>
<th>Retained earnings</th>
<th>Other components of equity</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥5,341</td>
<td>¥1,133,541</td>
<td>¥73,113</td>
<td>¥1,325,656</td>
<td>¥8,430</td>
<td>¥1,434,133</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Profit**

- 104,608
- Comprehensive income
- 104,608
- Transfers to retained earnings
- 132,995
- Purchase of treasury shares
- 49,668
- Dividends
- 83
- Transfers with non-controlling interests
- (1,611)

**Balance as of March 31, 2022**

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Capital surplus</th>
<th>Treasury shares</th>
<th>Retained earnings</th>
<th>Other components of equity</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥5,341</td>
<td>¥1,133,541</td>
<td>¥73,113</td>
<td>¥1,325,656</td>
<td>¥8,430</td>
<td>¥1,434,133</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Comprehensive income**

- 132,995
- Transfers with non-controlling interests
- —

**Balance as of March 31, 2022**

<table>
<thead>
<tr>
<th>Share capital</th>
<th>Capital surplus</th>
<th>Treasury shares</th>
<th>Retained earnings</th>
<th>Other components of equity</th>
<th>Total</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥5,341</td>
<td>¥1,133,541</td>
<td>¥73,113</td>
<td>¥1,325,656</td>
<td>¥8,430</td>
<td>¥1,434,133</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Consolidated Statement of Cash Flows**

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

**Cash flows from operating activities:**

- Profit before income taxes
- ¥39,935
- Depreciation, amortization and impairment loss
- ¥238,258
- Finance income and costs
- (5,369)
- Share of profit of subsidiaries accounted for using the equity method
- (15,160)
- Loss (gain) on sale of shares of subsidiaries and affiliates
- (83,041)
- Loss (gain) on sale of PPE, and intangible assets
- (45,570)
- Loss on disposal of PPE, and intangible assets
- 6,912
- Decrease (increase) in trade receivables
- (27,739)
- Decrease (increase) in contract assets
- 4,308
- Decrease (increase) in inventories and advanced payments
- 57,222
- Increase (decrease) in trade payables
- 68,731
- Increase (decrease) in contract liabilities
- (124,703)
- Increase (decrease) in provisions
- (11,011)
- Decrease (increase) in retirement benefit liabilities
- 3,494

**Net increase (decrease) in operating activities**

- ¥94,948

**Cash flows from investing activities:**

- Payments into time deposits
- (9,244)
- Proceeds from withdrawal of time deposits
- 13,161
- Purchases of PPE and intangible assets
- (146,212)
- Proceeds from sales of PPE and intangible assets
- 43,956
- Purchases of investments (including investments accounted for using the equity method)
- (15,796)
- Proceeds from sales and redemption of investments
- 12,521
- Proceeds for sale of businesses (including subsidiaries)
- (1,694)
- Proceeds from sales of businesses (including subsidiaries)
- 987
- Payments for acquisition of businesses (including subsidiaries)
- (71,082)
- Payments for acquisition of businesses (including subsidiaries)
- 987
- Net decrease (increase) in short-term loans
- 708
- Net decrease (increase) in long-term loans
- (8,482)
- Proceeds from sale of businesses (including subsidiaries)
- 222
- Payments for derivative transactions
- (3,770)
- Proceeds from derivative transactions
- 6,425
- Others
- (2,240)

**Net cash provided by (used in) investing activities**

- ¥152,297

**Cash flows from financing activities:**

- Proceeds from issuance of bonds
- 268,744
- Proceeds from long-term borrowings
- 2,005,237
- Payments for redemption of bonds
- (10,000)
- Proceeds from sale of shares of subsidiaries and affiliates
- 285,563

**Net cash (used in) financing activities**

- ¥2,232,227
Corporate Data

As of March 31, 2022

Head Office:
2-3, Marunouchi 3-chome, Chiyoda-ku, Tokyo, 100-8332, Japan
Phone: (+81) 3-4275-6200

Established:
January 11, 1950

Paid-in Capital:
¥66.9 billion

Total Number of Issuable Shares:
605,000,000

Total Number of Shares Issued:
337,364,781

Number of Shareholders:
247,986

Number of Employees:
77,991 (Consolidated)
22,755 (Non-consolidated)

Stock Listings:
Tokyo, Nagoya, Fukuoka, and Sapporo Stock Exchanges

Ticker Code:
TOLI

Manager of the Register of Shareholders:
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8312, Japan

Independent Auditors:
KPMG AZSA LLC
1-2 Tsukado-cho, Shinjuku-ku, Tokyo 162-8551, Japan

Major Shareholders

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of Shares Issued (thousands)</th>
<th>Composition Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Street Bank and Trust Company 505225</td>
<td>3,084,454</td>
<td>0.9</td>
</tr>
<tr>
<td>Mitsubishi Heavy Industries Trading-Partner Shareholding Association</td>
<td>3,277,500</td>
<td>0.9</td>
</tr>
<tr>
<td>JP Morgan Chase Bank 385781</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mitsubishi Heavy Industries Employee Shareholding Association</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Retirement Benefit Trust Account for The Bank of Mitsubishi UFJ, Ltd.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Nomura Trust and Banking Co., Ltd.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mitsubishi Heavy Industries Trading-Partner Shareholding Association</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meiji Yasuda Life Insurance Company 8,002,274</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>19.6</td>
<td></td>
</tr>
<tr>
<td>Custody Bank of Japan, Ltd. (Trust Account)</td>
<td>5.0</td>
<td></td>
</tr>
<tr>
<td>Miji Yasuda Life Insurance Company</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>The Nomura Trust and Banking Co., Ltd. (Retirement Benefit Trust Account for The Bank of Mitsubishi UFJ, Ltd.)</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>Mitsubishi Heavy Industries Trading-Partner Shareholding Association</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>State Street Bank West Client – Treaty 505234</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>JP Morgan Chase Bank 385781</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Mitsubishi Heavy Industries Trading-Partner Shareholding Association</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>State Street Bank and Trust Company 505001</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>State Street Bank and Trust Company 505225</td>
<td>0.9</td>
<td></td>
</tr>
</tbody>
</table>

Classified by Number of Holdings

<table>
<thead>
<tr>
<th>Individual and Others</th>
<th>Financial Institutions</th>
<th>Foreign Institutions and Individuals</th>
<th>Securities Companies</th>
<th>Other Corporations</th>
</tr>
</thead>
<tbody>
<tr>
<td>37.3%</td>
<td>31.2%</td>
<td>29.7%</td>
<td>2.9%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Stock Price Range and Trading Volume (Tokyo Stock Exchange)

- MHI common stock price range
- TSE
- TOPIX

Status of IR Activities

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

Briefings for Analysts and Institutional Investors
The CFO briefed analysts and institutional investors on our financial results on a quarterly basis. At the year-end and 1H earnings briefings, the President provided progress updates on our 3-year business plan, the 2021 Medium-Term Business Plan (MTBP).

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

Dialogue with Japanese and Foreign Institutional Investors
We held meetings with institutional investors in Japan, North America, Europe, and Asia to explain our financial results and management strategies, and solicited their opinions on our management. We also actively participated in conferences held in Japan and abroad for domestic and foreign institutional investors throughout the year.

Status of Inclusion in ESG Indexes

As of the end of August 2022

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

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

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

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

Publication of our MHI Report 2022

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

September 2022
Investor Relations & Shareholder Relations Department