

Corporate Governance

Basic Approach to Corporate Governance

As a company responsible for developing the infrastructure that forms the foundation of society, MHI's basic policy is to execute management in consideration of all stakeholders and strive to enhance corporate governance on an ongoing basis in pursuit of sustained growth of MHI Group and improvement of its corporate value in the medium and long terms. In accordance with this basic policy, MHI endeavors to improve its management system, such as by enhancing its management oversight function through the separation of management oversight and execution and

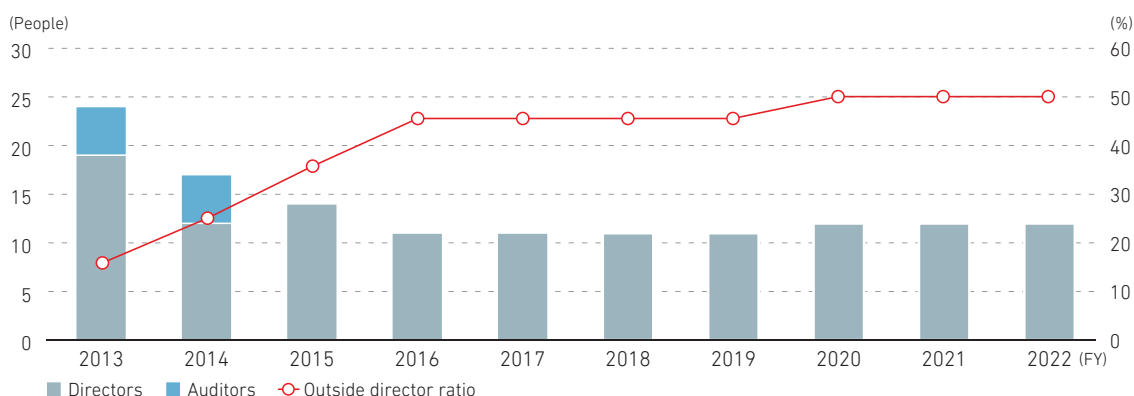
the inclusion of outside directors. MHI is building a Japanese-style global management model that places priority on sounder, more transparent management, diversity and harmony. MHI has also established our basic framework for and approach to corporate governance in our Corporate Governance Guidelines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

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

Main Actions Taken to Strengthen Corporate Governance

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

Board Seats and Outside Director Ratio*



Corporate Governance Framework

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

1 Directors (Board of Directors)

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

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

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

2 Audit and Supervisory Committee

To secure the soundness and appropriateness of MHI's management decision-making and improve transparency, MHI's Audit and Supervisory Committee conducts a range of activities as listed in the "Status of Audit and Supervisory Committee Activities" section on page 67. The Audit and Supervisory Committee monitors the execution of duties of directors and prepares Audit Reports. It also has authority provided for by laws and

ordinances and Articles of Incorporation, including determining the details of agenda items presented to the General Meeting of Shareholders related to the appointment, dismissal, or non-reappointment of an accounting auditor, and the statement of opinions related to the appointment or dismissal of directors who are not Audit and Supervisory Committee members.

3 Chief Officers and Standing Executives in Charge of Operations

MHI has introduced a chief officer system. Specifically, portions of the CEO*² (President)'s responsibilities and authority are delegated to a number of chief officers reporting to the CEO. These chief officers consist of domain CEOs (the heads of individual business domains) as well as the CSO*³, CFO*⁴, and CTO*⁵. The CEO takes charge of overall business operations, and the domain CEOs take control of executing businesses within their individual domains based on overall Group strategies. The CSO is in charge of the planning of company-wide management policies and the CFO takes charge of finance and accounting. The CTO is in charge of the supervision and execution of overall operations related to technology strategies, research and development of products and new technologies, digital innovation, value chain, marketing and innovation. In addition, the CSO, CFO, and CTO have company-wide authority to give instructions and commands and provide support to business domains. The GC*⁶ and standing executive in charge of HR*⁷ assist the CEO with his duties by supervising and executing activities in line with the CEO's mission. The GC takes overall control of management audits, general administration, legal affairs, and risk management. The standing executive in charge of HR takes overall responsibility for human resources and labor relations. Since April 2023, a Senior Executive Vice President has been appointed to assist the duties of the CEO. The Senior Executive Vice President promotes MHI's Energy Transition and expansion of business in growth areas as an Assistant to President and CEO.

Within the business execution framework consisting of the CEO (President) and primarily these chief officers, there is an Executive Committee chaired by President Seiji Izumisawa (and consisting of executive officers, including the President, chief officers, and standing executives in charge of operations). This deliberative body uses a council system to deliberate on vital items pertaining to execution of duties, thereby enabling appropriate management decision-making and execution of duties.

*2 Chief Executive Officer

*3 Chief Strategy Officer

*4 Chief Financial Officer

*5 Chief Technology Officer

*6 General Counsel

*7 Human Resources

Corporate Governance

4 Nomination and Remuneration Advisory Council

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

Positioning	Advisory institution to the Board of Directors
Objectives	Obtain the opinions and advice of independent outside directors to ensure transparency and soundness of procedures prior to deliberations by the Board of Directors on matters relating to the nomination of candidates for directors, the dismissal of directors, and the appointment and dismissal of the CEO and other management executives, and matters relating to the determination of remuneration of directors (excluding directors who are serving as Audit and Supervisory Committee members).
Participants	Chairman, President and all outside directors
Number of meetings held	Held five times in FY2022

5 Director Skills Matrix

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

In overseeing the management of MHI Group working on this mission, we believe that this requires knowledge of and experience and expertise in Socio-Economic Issues, Risk Management/Compliance, Global Enterprise Management, Technology/Digitalization, Marketing, Finance/Accounting and Human Resource. Our Board of Directors must possess a well-balanced mix of such knowledge, experience and expertise.

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

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

- (Notes) 1. The black dots in the seven rightmost columns do not indicate the entire range of knowledge, experience and expertise that the given director possesses.
 2. The reasons knowledge, experience and expertise are thought to be important are as stated in the following table.
 3. The presence or absence of each form of knowledge, experience and expertise is determined through self-evaluations and deliberations in the Nomination and Remuneration Advisory Council by performing evaluations based on the experience and public qualifications, etc. of each director.

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

Board of Directors' Main Deliberation Items

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

General Meeting of Shareholders	•Resolution on matters for calling Annual General Meeting of Shareholders	•Partial amendment of Articles of Incorporation
Items related to financial results	•Financial results	•Shareholder return policy
Items related to Executives and Board Members	•Board Evaluation, remuneration of directors, and executive appointments (including chief officers)	•Director and officer liability (D&O) insurance policies
Management plan	•Status of progress on 2021 MTBP	
Internal controls	•Status of internal control systems operation	
Resolutions on and status of execution of important operations	•Status of business in individual domains and segments	•Business integration in power generator area with Mitsubishi Electric Corporation
	•Status of execution of operations by individual chief officers	•Termination of SpaceJet development activity
	•Integration of Mitsubishi Heavy Industries Engineering, Ltd.	•Status of progress of growth strategy
Others	•Key-risk identification and management process	•Sustainability initiatives
	•Study of the appropriateness of strategic shareholding	•Cybersecurity strategy

In addition to the above, the agenda items for the Board of Directors meetings are explained in advance to outside directors for the purpose of free and vigorous discussion and exchange of opinions at the meetings. Also, as described in the "Board Evaluation Results and Future Initiatives," in FY2022, we addressed issues identified by an evaluation of the Board's effectiveness, including

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

Board Evaluation Results and Future Initiatives

MHI has introduced an annual evaluation of the Board of Directors (hereinafter referred to as the “Board Evaluation”) aiming at ensuring further effectiveness of the Board of Directors by verifying its functional efficiency as an entity and being fully accountable to stakeholders, by conducting holistic analysis and evaluation of the Board.

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

Process and Results of FY2022 Board Evaluation

Process	Continuing on from FY2021, the Board of Directors conducted an evaluation process based on the following four points: “Composition of the Board of Directors,” “Operation of the Board of Directors,” “Supervisory function of the Board of Directors,” and “Structure to support outside directors.” ① Evaluation was conducted based on a questionnaire survey of all directors including outside directors. ② Opinions were exchanged in meetings among outside directors. ③ The Board of Directors held discussions based on the results of the questionnaire survey. ④ The Board Evaluation results were approved by the Board of Directors in light of the above evaluation and discussions.
Results	The overall effectiveness of the Board of Directors in FY2022 has been ensured with no major concerns, etc.

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

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

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

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

Status of Audit and Supervisory Committee Activities

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

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

Moreover, in order to support the duties of the Audit and Supervisory Committee, the Audit and Supervisory Committee's Office has been set up with six dedicated staff members to facilitate the work carried out by the Audit and Supervisory Committee. The Audit and Supervisory Committee primarily monitors and verifies the execution of duties of directors, the appropriateness of business reports, etc., adequacy of audits by the accounting auditor, and the effectiveness of the internal control system. The result of this monitoring and verification is provided to the Company's shareholders via an audit report. In FY2022, the Audit and Supervisory Committee operated on designated priorities to accomplish the 2021 MTBP, including progress on matters deemed to require the Committee's oversight, responses to matters with significant impacts and the status of creation and implementation of the internal control system.

Full-time Audit and Supervisory Committee members attend important meetings such as Executive Committee meetings, MTBP meetings, Sustainability Committee meetings and Compliance Committee meetings, and endeavor to identify and monitor how the management is performing in a timely and appropriate manner, as well as conduct audits to ascertain whether the duties of the directors are being executed in compliance with laws and ordinances and the Articles of Incorporation, and whether the corporate operations are being performed properly through inspection regarding, and confirmation of, legal

compliance status, and through the monitoring and verification of the creation and implementation of the internal control system, including internal controls over financial reporting and other relevant items.

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

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

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

In addition, the Audit and Supervisory Committee expressed its opinion on the appointment and remuneration of directors who are not members of the Audit and Supervisory Committee at the Thursday, June 29, 2023, Annual General Meeting of Shareholders. Also, the Audit and Supervisory Committee assessed the accounting auditor KPMG AZSA LLC on criteria including ensuring a system for the proper execution of duties, independence, appropriateness of audits, and auditing ability and expertise. Having determined that all requirements were satisfied, the Audit and Supervisory Committee resolved to reappoint KPMG AZSA LLC as the accounting auditor.

Officers' Remuneration Structure

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

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

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

from business activities exceeds ¥400 billion.

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

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

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

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

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

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

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

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

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

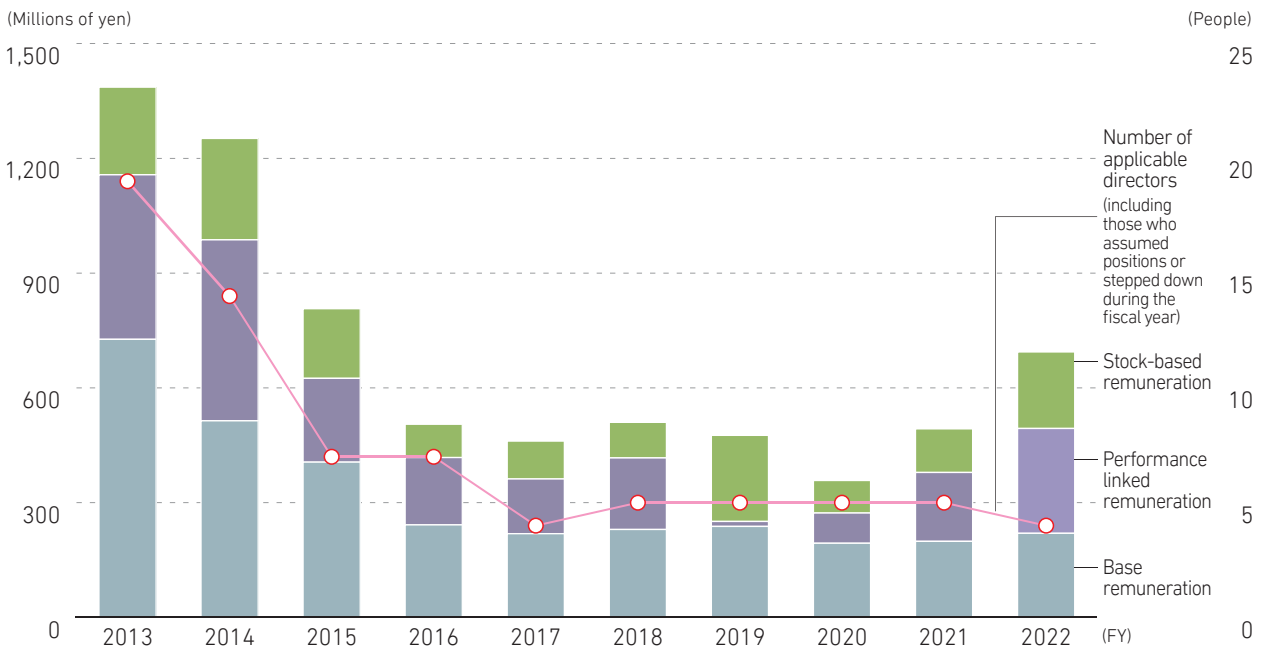
Performance-linked remuneration: Position-based payment coefficient x Profit from business activities for the given fiscal year ÷ 10,000 x Coefficient of business results

- Performance-linked remuneration is paid when the Company records a profit from business activities (or after adjustment in the event that partial adjustments are made) and carries out dividend payments.
- *From the current fiscal year, the key indicator in business plans was changed from profit before income taxes to profit from business activities to increase the linkage with business plans such as the Medium-Term Business Plan
- The position-based payment coefficient is determined in accordance with a director's position and the details of his or her duties, etc.
 - The coefficient of business results evaluates the performance and results of a business of which a director is in charge. It is determined within a range from 1.3 to 0.7.

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

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

► Remuneration of Directors (FY2022)

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

- The recipients include one director who was an Audit and Supervisory Committee member who stepped down on June 29, 2022 (date of the 97th Annual General Meeting of Shareholders).
- The maximum permitted monetary remuneration amount for directors who are not serving as Audit and Supervisory Committee members is ¥1,200 million per fiscal year (resolution of the 90th Annual General Meeting of Shareholders on June 26, 2015).
- The total amount of stock-based remuneration is the amount of expenses recognized for the 446,000 stock award points granted in total during FY2022 (equivalent to 44,600 shares of MHI) concerning the Board Incentive Plan Trust, which is a stock-based remuneration system that issues or provides shares of MHI and money in the amount equivalent to the liquidation value of MHI shares based on stock award points granted to directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members) in accordance with, among other factors, the rank of the position of each director and the financial results of MHI. In addition, the maximum permitted amount of stock award points is 1,000,000 points (based on resolution of the 94th Annual General Meeting of Shareholders on June 27, 2019) per fiscal year for directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members).
- The maximum permitted monetary remuneration amount is ¥300 million per fiscal year for directors who are serving as Audit and Supervisory Committee members (resolution of the 90th Annual General Meeting of Shareholders on June 26, 2015).

Policy and Trends of Strategic Shareholding

Acquisition, Holding and Reduction Policy

MHI acquires and holds shares necessary for the Group's sustainable growth and value improvement, as a means of developing business strategies, creating business opportunities and building, maintaining and strengthening business relationships leading to these. MHI holds strategic shareholdings accounting for over 16% of total equity (consolidated) as of March 31, 2023, and promotes initiatives to reduce strategic holding of shares to less than 15% by the end of FY2025 and less than 10% by the end of FY2030, with the aim of improving its capital efficiency and status of financial risk.

Verification Policy and Results for Holding Individual Stocks

The Board of Directors annually reassesses all strategic shareholdings from multiple standpoints, including their compatibility with the Group's business strategies, their actual or prospective role in creating or expanding business opportunities, their returns, and strengthening of the Group's business relationship with their issuer. The economic rationale is confirmed by whether or not the total of the related earnings from each stock, such as dividends and related business profits on transactions, exceeds MHI's target capital cost (weighted average cost of capital). As a result of verification performed in 2022, numerous stocks were identified as candidates for reduction due to the decreased significance of holding and MHI's reduction target.

Reduction in Strategic Shareholdings

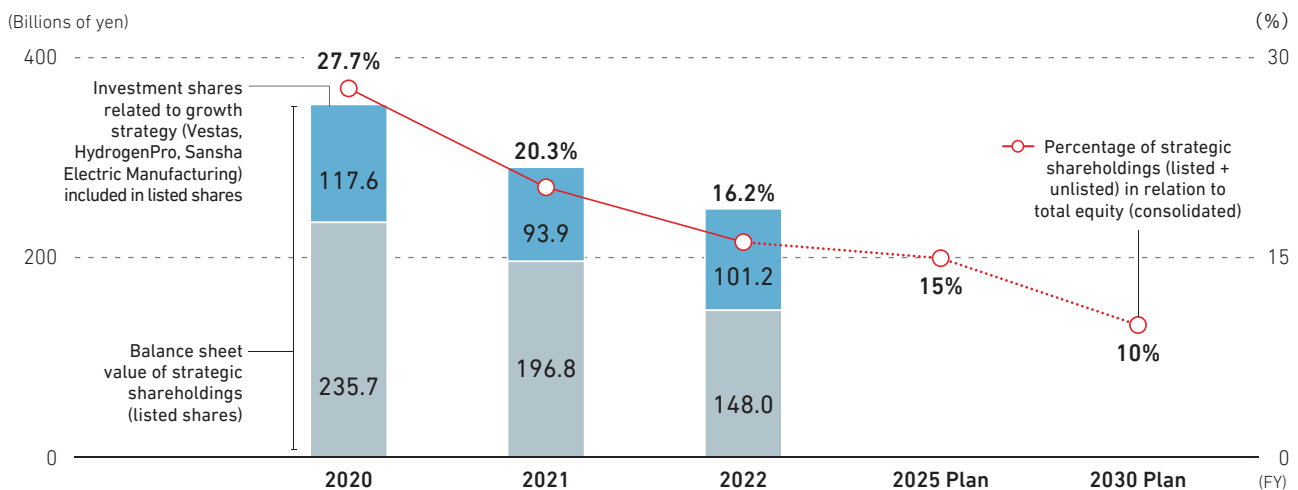
Based on the latest verification, MHI sold 15 individual stocks in FY2022 for ¥58.1 billion (including seven stocks sold partially), and the total value on the balance sheet at the end of the fiscal year was ¥297.2 billion (down ¥40.3 billion year-on-year).

In addition, the shares of Vestas Wind Systems A/S HydrogenPro ASA and Sansha Electric Manufacturing Co., Ltd. (with a total value of ¥101.2 billion on the balance sheet as of the end of the fiscal year) are included in the listed shares held by MHI. MHI has stated that Energy Transition is a growth area for MHI Group in the 2021

Medium-Term Business Plan, and acquired these shares for maintaining and strengthening the relationship with them as strategic partners in decarbonization-related businesses such as renewable energy and green hydrogen business.

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

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



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

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

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

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

*2 Total value of complete sales and partial sales