

A Message from the President & CEO

TOWARDS A SAFE, SECURE, & SUSTAINABLE FUTURE

Leveraging our manufacturing expertise to address changing societal issues, we will help realize a safe, secure, and sustainable society.

Seiji Izumisawa

President & CEO



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Embracing Different Values and Moving Forward Together

In FY2023, global uncertainty persisted as a new conflict erupted in the Palestinian territories while the situation in Ukraine remained at a standstill. In Japan, the Nikkei 225 reached record highs, but the depreciation of the yen continued to unprecedented levels. It was a year of significant changes, but two key observations stand out overall. The first is that the values and norms that shaped our postwar world are wavering, leading to divisions and

widening inequality in various areas, and suggesting that human history has reached a critical turning point. Second, it is important to recognize and embrace new, increasingly diverse values, rather than to try to make things conform to one particular standard. If we all do not make an effort to recognize views that differ from our own, human society will not last. I find myself greatly concerned by this lately.

Making an Ongoing Contribution to the World

MHI Group has a core value that has remained steadfast throughout the ages: the determination to dedicate our resources—technological, human, and otherwise—to resolve issues confronting global society and help realize a safe, secure, and sustainable society. This is our true purpose as an organization.

I would like to share a personal story that illustrates this core value. In the past, MHI Group participated in the project to construct the International Space Station (ISS). It was a collaborative project involving the United States, Japan, Canada, several European countries, and Russia, with our Group participating as a member of the Japanese team. I was on the front lines of the project as an engineer, and I still vividly remember how the various Japanese companies set aside competition to truly function as “Team Japan.” We discussed and exchanged ideas on how best to

create value together. My senior colleagues and I approached our work not from the perspective of our own company’s interests, but with a broader view—focusing on what was best for Japan and the world as a whole.

Always considering the bigger picture in our work is ingrained in MHI Group’s corporate culture. This is precisely why we have been able to tackle large-scale issues related to energy, the environment, and infrastructure over the years. As we engage in business, we continually reflect on what is expected of us and what role we should play in creating a safe, secure, and sustainable society. I am committed to repeatedly communicating the Group’s purpose and values to our employees worldwide, so we can continue developing the corporate culture we have inherited from our forebears.

Commitment to MISSION NET ZERO

In our MISSION NET ZERO declaration of 2021, we set the goal of achieving Carbon Neutrality by 2040. But why 2040? It is because we determined that, for our customers who use our products and services to achieve Carbon Neutrality by 2050, the Group must realize the necessary technologies 10 years before then.

So far, we have been able to reduce our Scopes 1 and 2 CO₂ emissions generally in line with the plan. As we move forward, however, achieving Carbon Neutrality will require considerable investment, and we will need to accelerate

our efforts to meet this challenge. One key initiative is the Advanced Carbon Neutrality Project at Mihara Machinery Works. During this project, we are working to decarbonize Mihara Machinery Works by electrifying heat sources, conserving energy, and installing solar panels. We will apply the techniques developed during this project to other plants across MHI Group to help them become carbon neutral as well.

Reducing MHI Group’s Scope 3 emissions will greatly contribute to the realization of global Carbon Neutrality.

We have nearly completed the technical groundwork for fuel conversions of thermal power plants to hydrogen and ammonia, as well as for CO₂ capture. Achieving decarbonization on a societal scale, however, will require mechanisms whereby the necessary cost burden is shared across society. To successfully develop such a mechanism, we will need to build long-term partnerships with both upstream and downstream partners within the various value chains. To ensure that our partners recognize us as a trustworthy counterpart, we must present our technological capabilities and ideas in a tangible way. Accordingly, we will conduct research and validation testing at the aforementioned Mihara Carbon Neutral Plant, as well as Takasago Hydrogen Park and Nagasaki Carbon Neutral Park, and use the results of these efforts to create real-world decarbonization solutions.

▶ For more information, please refer to "Special Feature: MISSION NET ZERO" (PP38-49).

2021 MTBP: Building Strong Business and Financial Foundations

During the 2021 Medium-Term Business Plan (MTBP) period, our outlook was highly uncertain due to the COVID-19 pandemic, which was followed by material cost inflation and semiconductor shortages. For this reason, we paused our previous strategy, which focused on volume expansion, and instead worked to strengthen profitability. As a result, we successfully built strong business and financial foundations, posting record-high results in orders received, revenue, and business profit in FY2023. We attribute this achievement to the hard work of each and every employee and the support of our stakeholders, including our partner companies. I would like to express my sincere gratitude to everyone involved.

However, we did not achieve the desired results in some areas. Perhaps we could have raised our profit margin a step higher or done more to improve productivity. Although external factors beyond our control often posed challenges, there are undoubtedly areas where our own efforts could have led to better outcomes. Since becoming President, I have consistently encouraged our employees



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to approach their work with a sense of ownership, taking responsibility and initiative rather than simply doing what they are told. Five years have passed, and I feel that this mindset has taken root within our organization. However, there is still much more we can do. I encourage our

employees to embrace the challenge of achieving even greater results under the 2024 MTBP without becoming complacent with the successes of the 2021 MTBP. I trust that they will maintain a healthy sense of urgency, taking pride and enjoyment in the journey to reach new heights.

Launch of 2024 MTBP

Although we achieved record-high results and successfully built strong business and financial foundations during the last MTBP period, we are still not at the same level as our global competitors. We must also note that some of our products have already entered the maturity phase of their life cycles.

Taking all these factors into consideration and after extensive discussions, we formulated the 2024 MTBP, which emphasizes a robust framework aimed at ensuring sustained growth. This framework has three focus areas: Ensure steady performance in growing core businesses where growth is expected, Commercialize future growth

areas to lay the groundwork for future success, and Enhance our businesses' competitiveness to boost profitability. In this way, we aim to strengthen and evolve our approach to business portfolio management.

MHI Group offers a wide range of products, which are used by customers all over the world. Rather than developing business strategies and growth forecasts that are solely focused on our own interests, we aim to build a business structure that ensures the sustainable growth of the Group while fulfilling our responsibilities to our customers. We have articulated this approach as MHI Group's new portfolio management strategy.



Going forward, we will develop optimal strategies in the three aforementioned focus areas—Ensure steady performance in growing core businesses, Commercialize future growth areas, and Enhance our businesses' competitiveness—and chart a clear path to sustained growth. In our growing core businesses, we will target resource allocations on business expansion. In our future growth areas, as well, we will make steady progress in considerations regarding business opportunities and execute up-front investments in multiple initiatives, including CO₂ capture and electrification, with the aim of

further commercialization and upscaling in these areas. Furthermore, under the 2024 MTBP, we will leverage the business foundation established under the 2021 MTBP to generate stable cash flow, which we will strategically allocate to investments in our future, dividends to shareholders, and compensation for employees. Through these measures during the 2024 MTBP period, we aim to take our organization to the next level by achieving both business growth and stronger profitability.

▶ For more details, please refer to “Special Feature: 2024 MTBP” (PP26-37).

Contributing to Stable Energy Supplies and National Security

One of the initiatives within our plan to ensure steady performance in growing core businesses is to contribute to stable energy supplies. MHI Group has consistently advocated for a gradual transition to Carbon Neutrality through efficiency improvements and conversions to low- and zero-carbon fuels at existing facilities. In the past, however, we had often heard extreme views, such as those advocating that not only coal-fired thermal power, but indeed all forms of thermal power, should be phased out and replaced by renewable energy. However, more realistic solutions are now being considered, and thinking has shifted. There is now a broader recognition that a phased approach to decarbonization tailored to the situation in each region—rather than a one-size-fits-all approach—is needed. We take pride in the fact that our proposals for

achieving Carbon Neutrality, which are aligned with current needs, are resonating. We are committed to leveraging our technologies and experience to provide decarbonization solutions that ensure stable energy supplies.

Another key initiative related to our growing core businesses is our contribution to national security. As a leading company in Japan's defense industry, we have a responsibility to follow national policies and ensure that we support our country's security needs. The Group has worked in the defense sector for many years, contributing to Japan's peace and security. In light of recent changes in the security environment, Japan is reassessing its defense policies. We remain committed to consistently meeting the expectations placed upon us, as we have done in the past.

Strengthening Human Capital

As part of our efforts to strengthen human capital, we are promoting mid-career recruitment, implementing an internal job posting system to facilitate employee transfers, and actively recruiting women and international talent. In addition, we are enhancing our training programs and expanding our investment in education with the aim of cultivating more than 20,000 Digital Innovation (DI)-proficient personnel by 2030.

Looking to the future, in this time of VUCA,* we expect the makeup of society and the issues facing us to become

even more complex. In such an environment, finding solutions to various challenges requires not only the ability to solve existing problems but, more importantly, the ability to identify what the problems are in the first place. With this in mind, we are actively reviewing and enhancing our education programs and the career paths we offer.

*VUCA: volatility, uncertainty, complexity, and ambiguity

▶ For more details, please refer to “MHI Group's HR Strategy: Launching the Future” (PP86-93).

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Advantage of Providing Diverse Product Technologies

MHI Group is a manufacturer with a diverse range of product technologies. We possess numerous technologies and have established a system and tradition for applying these technologies across various products. We also have shared platforms that span our diverse product lines and encompass human resources, technological expertise, and manufacturing infrastructure, including service capabilities. These are a significant strength of the Group and apply a premium to our corporate value as we work to create new products.

One example related to this is our investigation into the cause of the failure of H-II Launch Vehicle No. 8 in 1999. We started by recovering the rocket engine from a depth of 3,000 meters on the ocean floor. Members from our research institute who specialized in structural integrity

engineering for ships and nuclear energy systems joined the team and contributed significantly to identifying the cause of the failure. The investigation laid the foundation for new structural design standards of rocket engines, leading to the high success rate of the current H-IIA Launch Vehicle and paving the way for the development of the H3 Launch Vehicle. In this way, we successfully applied technologies related to shipbuilding—a business we have pursued since our founding—to the cutting-edge field of aerospace. Our ability to apply the Group's exceptional technologies and human capital in various other business and product areas is one of our greatest strengths. Advanced technologies will continue to evolve over time, but I believe that the Group's shared platforms will remain a powerful, premium asset.

Becoming a Hub Driving Societal Transformation

Amid advances in AI and other digital technologies, the need to create value in cyberspace is gaining increased attention. However, the importance of the physical world where people live has not diminished. In the real world, power plants and transmission networks are essential for supplying energy. The increasing use of AI is expected to further drive up power consumption. While mobility and logistics are indispensable to modern life, the infrastructure that supports them is also important. In this evolving society, the Group will leverage our core strengths in manufacturing to address various challenges, support people's lives, and contribute to societal transformation.

Moreover, simply manufacturing and delivering products, as we have traditionally done, is insufficient to sustain a business and often fails to create new value. As reflected in our ΣSynX (Sigma SynX) automation and intelligence platform, we will create new systems to intelligently connect machines and provide these systems to our customers. Demand for such solutions is likely to

grow, and we believe we will be able to develop new business models in this area.

As society has become more complex, the challenges and needs across different regions, countries, and customers have come to vary significantly. To provide realistic solutions in this context, we are not tackling these challenges alone. Instead, we are expanding our business both upstream and downstream within value chains, while also building ties with like-minded partners to address these issues together. In the case of CO₂ capture, for example, a complete value chain—from capture and transportation to utilization or storage—must be established before carbon capture can be implemented at scale. For hydrogen, as well, it is essential to create a framework for sharing technologies and costs. MHI Group seeks to become a central hub to connect the upstream and downstream segments of these value chains, thus completing the chains and allowing them to operate effectively.



Providing Society with Peace of Mind Based on Relationships of Trust

MHI Group has for many years sought to help realize a safe, secure, comfortable, and sustainable society. Safety can be evaluated quantitatively, but security is difficult to consider objectively, as it depends on people's subjective emotions. I believe that the basis for providing a sense of security lies in the relationships of trust we build. We aspire to be a corporate group that society trusts—we aim for people to

feel secure knowing that MHI Group is involved and have confidence in a given subject simply because MHI Group is the one explaining it. Accordingly, we will continue working with sincerity in each of our businesses, one step at a time. We appreciate the continued understanding and support of our stakeholders.