News Release

Japan Credit Rating Agency, Ltd.

23-D-1749

March 29, 2024

# Second Opinion on Positive Impact Evaluation Provided by Sumitomo Mitsui Trust Bank to Mitsubishi Heavy Industries, Ltd.

Japan Credit Rating Agency, Ltd. (JCR) has submitted a second opinion on the Positive Impact Evaluation to be implemented by Sumitomo Mitsui Trust Bank, Limited for Mitsubishi Heavy Industries, Ltd.

## < Summary>

This Second Opinion has confirmed that the Positive Impact Evaluation (hereinafter referred to as "this PI Evaluation") made to Mitsubishi Heavy Industries, Ltd. (hereinafter referred to as "the Company" or "MHI" and the Company and its consolidated subsidiaries are collectively referred to as "MHI Group") by Sumitomo Mitsui Trust Bank, Ltd. (hereinafter referred to as "SMTB") is aligned with "Principles for Positive Impact Evaluation" and "Model Framework for Financial Products for Corporate with Unspecified Use of Proceeds" (hereinafter referred to as "the Model Framework") formulated by the United Nations Environment Program Finance Initiative (hereinafter referred to as "UNEP FI") and "Concept Paper on Impact Finance" complied by Positive Impact Evaluation Taskforce (hereinafter referred to as "PI Evaluation TF") established based on the Paragraph 2 (4) of the Outline for Establishing the High-Level Panel on ESG Finance set up by Ministry of the Environment. Japan Credit Rating Agency, Ltd. (hereinafter referred to as JCR",) as an independent third-party institution, has confirmed: (i) the reasonability of this PI Evaluation and impacts of finance based on this PI Evaluation and (ii) the alignment of SMTB PI Evaluation Framework and this PI Evaluation with the Principles for Positive Impact Evaluation so as to provide the transparency and objectivity of the assessment recommended in PRINCIPLE FOUR in the PI Evaluation. This Second Opinion covers only this PI Evaluation as of March 29, 2024 and the expiration date shall conform hereto.

**(1) Rationality of this PI Evaluation and Impact of Finance based on this PI Evaluation**

The Company is a major heavy machinery manufacturer that has operated: (i) "Energy Systems" Segment that has mainly dealt with power generation systems; (ii) "Plants & Infrastructure Systems" Segment that has worked on commercial ships, chemical plants, transportation systems or metals machinery; (iii) "Logistics, Thermal & Drive Systems" Segment that has served material handling systems such as forklifts and auto-related parts, including HVAC systems or turbochargers; and (iv) "Aircraft, Defense & Space" Segment that has handled commercial aviation, defense products for land, sea and air or rockets.

In accordance with the Three Principles that are at the heart of MHI Principles, the Company 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. To enhance corporate value and grow in the medium to long term through solutions to social issues, in FY2020, the Company identified Material Issues that it shall be addressing and narrowed down to five items: (i) "Provide energy solutions to enable a carbon neutral world"; (ii) "Transform society through AI and digitalization"; (iii) "Build a safer and more secure world": (iv) "Promote diversity and improve employee engagement"; and (v) "Enhance corporate governance." The Material Issues the Company identified are reflected within its 2021 Medium-Term Business Plan and progress of each Material Issue is managed with progress monitoring indicators (KPI,) and the PDCA cycle is

steadily applied.
The entire business activities in the Company were comprehensively analyzed in this PI Evaluation. Three impacts were selected as follows: (i) Contributing to the realization of a carbon neutral world; (ii) Contributing to fully-automated and labor-saving measures; and (iii) Promoting diversity, after identifying impact areas in light of its sustainability activities, and then KPI was set for each impact. The impacts from (i) to (iii) are all related to the Company's Material Issues. The KPI on the impacts of these three items will be monitored hereafter.
JCR has evaluated that the details of the impact identified in this PI Evaluation have been appropriately analyzed in accordance with the items shown in the Model Framework. JCR also has evaluated that variety, efficiency, leverage and additionality are expected to be included in the impact based on the KPI in this PI Evaluation as a result of confirming the impact in accordance with the evaluation criteria exemplified in the Principles for Positive Impact Evaluation. The said KPI has also been adequate in light of the impact identification and sustainability activities described above. The monitoring policy in this PI Evaluation has been evaluated as appropriate in light of the impact identification and KPI contents in this PI Evaluation. Accordingly, JCR has evaluated that a comprehensive impact analysis (identifying, evaluating and monitoring impacts) in the Model Framework has been fully utilized in this PI Evaluation. The Model Framework has captured the three aspects (environment, society and economy) on the Sustainable Development Goals (hereinafter referred to as "SDGs".)

**(2) Alignment of SMTB PI Evaluation Framework and this PI Evaluation with the Principles for Positive Impact Evaluation**

JCR has evaluated that processes, methodologies and the management of internal regulations/systems on PI Evaluation for products developed by SMTB and the PI Evaluation for the Company have been aligned with all the requirements in the Principles for Positive Impact Evaluation. This PI Evaluation has also been aligned with the Concept Paper on Impact Finance.

Consequently, JCR has confirmed that this PI Evaluation has been aligned with the Principles for Positive Impact Evaluation, the Model Framework and the Concept Paper on Impact Finance.

*Please refer to the following pages for the details of the written opinion.

# Second Opinion

Evaluation Target: Positive Impact Evaluation by Sumitomo Mitsui Trust Bank, Limited to Mitsubishi Heavy Industries, Ltd.

March 29, 2024

Japan Credit Rating Agency, Ltd.

# Table of Contents

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## I. Positioning and Purpose of the Second Opinion

JCR has provided a Second Opinion for the PI Evaluation made by SMTB to MHI in accordance with the Principles for Positive Impact Evaluation and the Model Framework formulated by UNEP FI and the Concept Paper on Impact Finance compiled by the PI Evaluation TF. This PI Evaluation is expected to be referenced by SMTB and other financial institutions with its approval through several finance carried out as FI Evaluation to the Company. PI Evaluation refers to an operation to identify and evaluate the positive impact provided through corporate activities and to make and monitor lending and investments with the aim of contributing to realizing a sustainable society by promoting corporate activities to achieve the goals of the SDGs through the review and evaluation of such activities by financial institutions.

The Principles for Positive Impact Evaluation consist of four principles. The Principle One is to ensure that positive results have been confirmed for the three pillars (environment, society, and economy) that contribute to the SDGs, and that the negative impacts have been duly identified and mitigated. The Principle Two is to develop an evaluation framework, including adequate processes, methodologies and evaluation tools for providing the PI Evaluation. The Principle Three is to provide transparency for details, such as projects to measure positive impacts, evaluating/monitoring processes and positive impacts. The Principle Four is to ensure that PI Evaluation products have been evaluated by internal departments or a third party.

To provide the transparency and objectivity of the evaluation recommended in the PI Evaluation Principle Four, JCR has intended to confirm the followings in this Second Opinion: (i) the rationality of this PI Evaluation and the impacts of the finance based on this PI Evaluation and the alignment of SMTB PI Evaluation Framework and this PI Evaluation with the Principles for Positive Impact Evaluation; and (ii) the alignment of this PI Evaluation with the Principles for Positive Impact Evaluation, the Model Framework and the Concept Paper on Impact Finance.

## II. Overview of the Second Opinion

SMTB has expressed its opinions on the PI Evaluation to be provided to MHI in this Second Opinion on March 29, 2024 with the following items.

<Rationality of this PI Evaluation>

1. Overview of MHI Sustainability Activities
2. Assessment of Appropriateness of Impact Identification
3. Assessment of Appropriateness of KPI and Impact Assessment
4. Assessment of Appropriateness of Monitoring Policies
5. Assessment of Use of the Model Framework

<Alignment with the Principles for PI Evaluation>

1. Whether processes, methodologies and internal regulations/systems on PI Evaluation products developed by SMTB have been aligned with the Principles for Positive Impact Evaluation.
2. Whether SMTB has properly conducted the PI Evaluation in accordance with its internal regulations

## III. Rationality of this PI Evaluation

In this section, JCR will confirm the use of the holistic impact analysis (identifying, evaluating and monitoring impacts) of the Model Framework in this PI Evaluation and the impact of finance based on this PI Evaluation (i.e., (i) Variety, (ii) Magnitude, (iii) Efficiency, (iv) Leverage and (v) Additionality.)

1. Outline of MHI

1-1. Business Overview

MHI and its affiliated firms have been collaboratively working for design, manufacture, service or installation in many businesses. The Company has four reportable segments: "Energy Systems"; "Plants & Infrastructure Systems"; "Logistics, Thermal & Drive Systems"; and "Aircraft, Defense & Space." The relation between the main operational details and the segments are as follows:

Figure 1 MHI Business Overview

| Segment | Main Business Contents |
|---|---|
| Energy Systems | Design, manufacture, sell, provide services for or install Thermal power generation systems (GTCC[1] and Steam power,) Nuclear power generation systems (Light-water reactors, Nuclear fuel cycle & Advanced solutions,) Wind power generators, Aero engines, Compressors, AQCS[2] or Marine machinery |
| Plants & Infrastructure Systems | Design, manufacture, sell, provide services for or install Metals machinery, Commercial ships, Engineering, Environmental systems or Machinery systems |
| Logistics, Thermal & Drive Systems | Design, manufacture, sells, provide services for or install Material handling systems, Turbochargers, Engines, HVAC systems or Automotive air conditioners |
| Aircraft, Defense & Space | Design, manufacture, sell, provide services for or install Commercial aviation, Defense aircraft, Missile systems, Naval ships, Special vehicles, Maritime systems (torpedoes) or Space systems |

Source: *Mitsubishi Heavy Industries, Ltd. Securities Report (FY2022)*

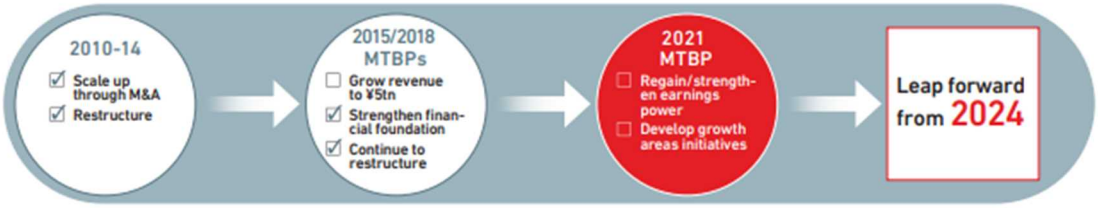
[1] Gas Turbine Combined Cycle
[2] Air Quality Control System

1-2. Overview of MHI Business Strategy and the Medium-Term Business Plan

MHI has worked to expand its scale and strengthen its financial foundation in light of the outcomes of expansion of its business scale through M&A or promotion of structural reforms in the first half of the 2010s under the 2015 Medium-Term Business Plan and 2018 Medium-Term Business Plan. Meanwhile, the business environment has been drastically changed due to the COVID-19 pandemic and rapid progress in decarbonization, and it is expected to have major changes in the industrial structure in the future.

In light of these challenges, the Company made policies to address "Strengthening profitability" and "Developing growth areas" and intended to form the foundation to leap forward in 2024 and beyond in the current 2021 Medium-Term Business Plan announced in October 2020.

Figure 2 2021 Medium-Term Business Plan Policy




Source: *MHI Report 2021 for the Year Ended March 2021 (FY 2020))*

MHI has defined two growth areas: (i) "Energy Transition," which aims to decarbonize energy supply; and (ii) "Smart Infrastructure," which is to realize the decarbonization, energy conservation and automation of energy demand. In the Energy Transition, the Company is pushing ahead with the decarbonization of existing infrastructure while building hydrogen and $CO_2$ solutions ecosystems. Through the Smart Infrastructure initiatives, the Company is working to meet customer needs by providing one-stop automation, optimization and high reliability solutions, and it is addressing the following areas as priorities for its initiatives: "Intelligent Logistics Systems," "Decarbonization and Energy Conservation of Data Centers" and "Infrastructure to Support Autonomous Mobility." By decarbonizing the generation and use of energy, MHI is contributing both to achieving Net Zero carbon emissions by 2040 and to realizing a carbon neutral world in the "MISSION NET ZERO" declared by the Company in October 2021.

Figure 3 Two Growth Areas and MISSION NET ZERO


Source: *MHI 2021 Medium-Term Business Plan Progress (FY2021-2023)* in April 2023

1-3. Opinions on Sustainability Systems and Management Methods

(1) Sustainability Policy and Organizational Structure

In accordance with the Three Principles[3] that are at the heart of MHI Principles, the Company serves as a manufacturing corporation that contributes to societal progress through its business endeavors of delivering products and technologies in support of social and industrial infrastructure worldwide. MHI 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 promote CSR (Corporate Social Responsibility) in tandem with its business activities. Furthermore, the Company believes 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 CSR Action Guidelines serve as collective standards for all its employees. These guidelines provide a concrete and easy-to-understand way for employees to consistently keep sustainability in mind as the Company contributes to societal progress through its business endeavors and its Principles centered on the principles of CSR as policies on sustainability

[3] The corporate philosophy set forth in the 1930s by Koyata Iwasaki, the fourth president of Mitsubishi Goshi Kaisha.
Corporate Responsibility to Society "*Shoki Hoko*": Strive to enrich society, both materially and spiritually, while contributing towards the preservation of the global environment.
Integrity and Fairness "*Shoji Komei*": Maintain principles of transparency and openness, conducting business with integrity and fairness.
Global Understanding through Business "*Ritsugyo Boeki*": Expand business, based on an all-encompassing global perspective.

and CSR.

In 2015, MHI established the MHI Group Global Code of Conduct, a provision of common principles which stipulates how its employees with various backgrounds, nationalities and cultures should act and behave. Regarding the environment, MHI has established the "Basic Policy on Environmental Matters" and "Action Guidelines" to encourage initiatives to reduce environmental burden based on them. As for the human rights, the Company formulated the "MHI Policy on Human Rights" while supporting international norms such as the Universal Declaration of Human Rights.

Figure 4 Sustainability Policy


Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY2022)*

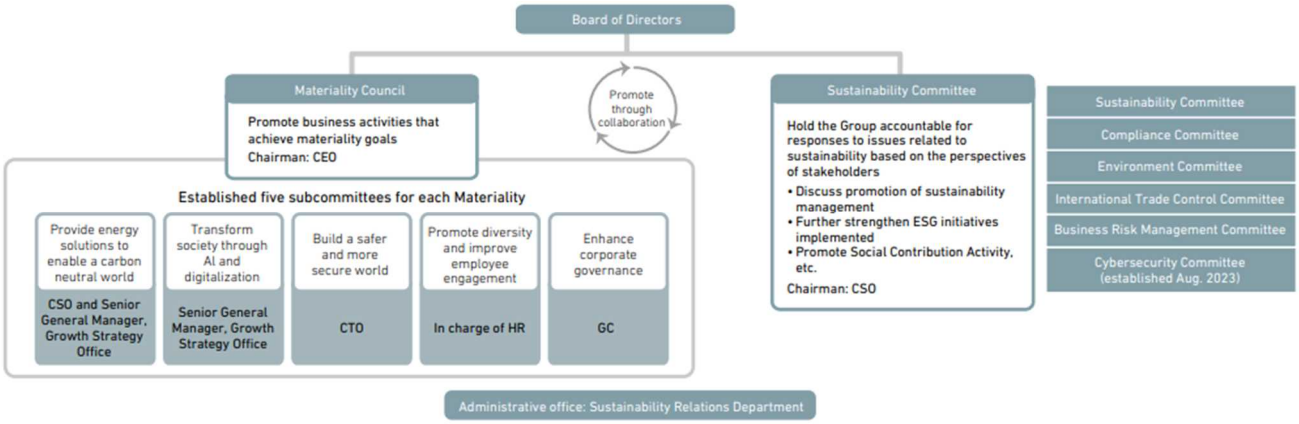
MHI developed and reorganized the former CSR Committee into the Sustainability Committee and newly established the Materiality Council on October 1, 2021 in consideration of the environmental, social and economic sustainability of companies demanded by the international community, institutional investors or other stakeholders, and the Company will further strengthen its sustainability management system centered on the issues and values faced by modern society.

Chaired by CSO (executive officer in charge of sustainability,) including Executive Vice Presidents, GC, CFO, CTO, officer in charge of HR and head of Business Strategy Office (meetings are convened with domain CEOs as members in accordance with the agenda,) in principle, meetings of the Sustainability Committee are held twice each year and the Committee undertakes deliberations and makes decisions with respect to responses undertaken in relation to challenges having to do with sustainability such as basic policies concerning ESG initiatives and promotes activities related to such matters with the aim of establishing of ESG/sustainability promotion management. MHI makes management-level decisions on ESG issues as a business concern, such as TCFD (Task Force on Climate-related Financial Disclosures) or human rights due diligence and also has formed a cross-divisional

task force team to examine concrete action plans and aims to achieve both a sustainable society and increase corporate value for the medium to long term. Matters of importance concerning sustainability are reported to the Board of Directors and the contents of activities undertaken in relation to Material Issues are also the subject of reports to be provided to the Board of Directors on a periodic basis and serve as important themes for those members to consider when it comes to sustainability management.

In principle, meetings of the Materiality Council are held twice each year and the President and CEO serves as the Chair. At these meetings, the Council promotes business activities aimed at the achievement of the goals put in place when it comes to Material Issues. The Company has established five subcommittees in order to go about improving upon its corporate value through the solving of social issues and achieve mid-to-long-term growth, with each subcommittee having their own individual responsible and department in charge of the respective Material Issue specified by MHI in 2020 and to monitor business activities aimed at achieving goals for Material Issues and to direct business divisions to take appropriate actions to which each subcommittee pertains. In doing this, the Company is working to increase the concrete connections that exist between business activities and each respective Material Issue.

Figure 5 Sustainability Promotion System




Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY2022)*

(2) Material Issues on Sustainability

To enhance corporate value and grow in the medium to long term through solutions to social issues, in FY 2020, MHI has identified Material Issues it should be addressing.

The Company inventoried its businesses and initiatives, linked them to a list of social issues prioritized in line with international frameworks — including the SDGs, the GRI Standards, ISO26000, the SASB Standards, the EU taxonomy and others, identified 37 social issue

themes related to MHI, and then evaluated importance of social issues assessed (Vertical axis: degree of impact on society; Horizontal axis: degree of impact on the Company) and mapped along two axes and postulated Nine Material Issues based on the Material Issues Matrix. These nine Material Issues were narrowed down to six items through discussion held at Materiality review meetings consisting of CSR Committee members or Dialogue held with outside experts. CSR Committee members narrowed Material Issues down to five issues: (i) Provide energy solutions to enable a carbon neutral world; (ii) Transform society through AI and digitalization; (iii) Build a safer and more secure world; (iv) Promote diversity and improve employee engagement; and (v) Enhance corporate governance, which were finally and officially determined through the Executive Committee and Board of Directors in September 2020.

The identified materiality have been reflected in the 2021 Medium-Term Business Plan. Progress of each Material Issue is managed with progress monitoring indicators (KPI,) and the PDCA cycle is steadily applied. MHI plans to announce a new Medium-Term Business Plan in FY 2024.

SMTB has confirmed that global issues on sustainability or the opinions of external experts have been fully reflected in the process to identify Material Issues, and Material Issues have been established on important impact areas/topics identified in "2-1. Overview of Comprehensive Analysis and Impact Areas/Topics."

Figure 6 Material Issues


Source: *Mitsubishi Heavy Industries Group Sustainability Management*

Figure 7 KPI List

| Material Issues (Officer in Charge) | Company-wide Goals | Progress Monitoring Indicator (KPI)[4] |
|---|---|---|
| Provide energy solutions to enable a carbon neutral world<br><br><CSO and Senior General Manager, Growth Strategy Office> | Reduce the $CO_2$ emissions of MHI Group.<br>Achieve Net Zero $CO_2$ emissions from its operations by 2040 (Scopes 1 and 2) | Reduce total $CO_2$ emissions from business activities (Scopes 1 and 2) by 50 percent by 2030 (compared to 2014 levels,) and achieve net zero by 2040. |
| | Contribution to society throughout the value chain by 2040.<br>Achieve Net Zero $CO_2$ emissions from its entire value chain by 2040 (Scope 3 + reduction through CCUS) | Reduce $CO_2$ emissions across the entire value chain (Scope 3 + CCUS contribution for $CO_2$ reduction) by 50 percent by 2030 (compared to 2019 levels) and achieve Net Zero by 2040. |
| | | Develop products and services that contribute to decarbonization of the energy supply by 2040 (Energy Transition) |

[4] Scope of handling: It refers to MHI Group (Global) in cases where there is no description in the progress monitoring indicator (KPI) column.

| | | |
|---|---|---|
| | | Develop products and services that contribute to conservation, decarbonization and automation of energy use by 2040 (Smart Infrastructure) |
| | | Develop and prove new products and services that contribute to the carbon cycle |
| Transform society through AI and digitalization<br><br><Senior General Manager, Growth Strategy Office> | Expand lineup of useful and sustainable AI/digital products meeting needs of customers and users | Steadily increase the number of newly developed advanced AI and digital solutions (services, products, R&D) that solve customer issues |
| | Contribute to a sustainable society through future-oriented energy management strategies that use AI and digitalization to appropriately and efficiently manage power supply and demand | Propose optimal energy infrastructures to customers according to the characteristics of the region |
| | | Increase the number of products linked to future-oriented energy management systems |
| | Improve its working environment to produce creative products | Improve employees' awareness of creative time and environments |
| Build a safer and more secure world<br><br><CTO> | Boost the resilience of products, businesses and infrastructure | Carry out various disaster impact assessments and promote the development and practical application of resilient designs and technologies |
| | Implement fully-automated and labor-saving measures | Promote the development and practical application of technologies that enable the remote operation and automatic inspection of products, businesses and infrastructure |
| | Continuously strengthen cybersecurity measures for all MHI products | Promote the development and practical application of cybersecurity technologies |
| Promoting diversity and improve employee engagement<br><br><In charge of HR> | Project new value through participation of diverse human resources | Increase the ratio of women on the Board of Directors to at least 30 percent by 2030 |
| | | Double the ratio of women in management positions by 2030 (compared to FY 2021) |
| | | In accordance with the MHI Group Human Rights Policy, raise awareness of diversity among Group employees through education and other efforts |
| | Ensure safe and comfortable workplaces | Reduce the number of serious accidents to zero |
| | | Maintain a labor (work absence) accident frequency at a rate that is equal to or lower than the industry average |

| | | |
|---|---|---|
| | Improve its environment that maximizes employee performance and develop human resources who are healthy, energetic and able to contribute to society | Raise the employee awareness survey's "engagement" score above the global average by FY 2030 |
| Enhance corporate governance<br><br><GC> | Further enhance deliberations by the Board of Directors | Maintain the ratio of Independent Outside Directors on the Board of Directors at 50 percent or more (MHI) |
| | | Assess the effectiveness of the Board of Directors annually to ensure and improve it (MHI) |
| | Promote legal compliance and honest and fair business practices | Maintain the number of serious laws/regulation violations at zero |
| | | Continue activities that promote an open organizational culture |
| | Further promote responsible (CSR) procurement in the global supply chain | Promote sustainability and CSR procurement activities with partners to build a sustainable supply chain |
| | | Offer continuous educative information to suppliers/business partners in order to establish and maintain sustainable supply chain |
| | Create opportunities to explain non-financial information | Conduct ESG briefings to investors at least once a year |

Source: *MHI Report 2023 for the Year Ended March 2023 (FY 2022)*

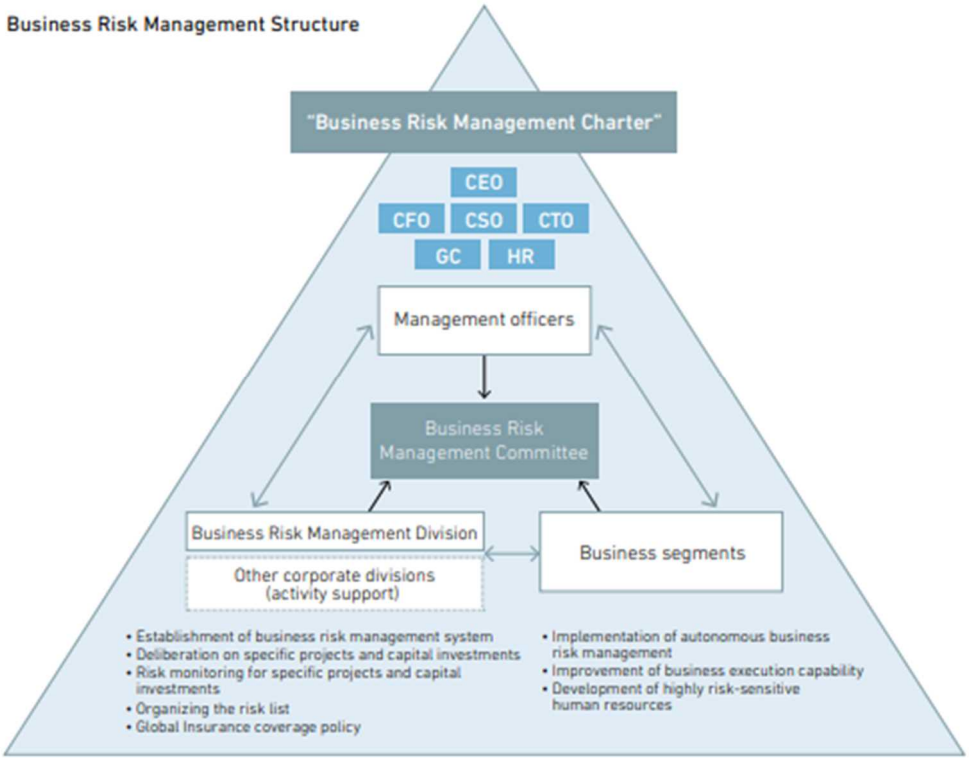
(3) Policy and Management System for Risks to Society and the Environment

Throughout MHI's history, it has achieved sustained growth by taking up diverse new challenges or initiatives in numerous business areas. At the same time, on occasion the Company has experienced losses on a large scale. In order for MHI 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/communities as well as to improve and strengthen operations in its existing business markets. Such challenges will entail business risks, and the firm's ability to curb risks wields significant influence on its business results and growth potentials.

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

Risk Management Charter has been observed and practiced as the Company's foremost set of rules, and the Business Risk Management Committee has been held as a forum for sharing information on important risks or discussing response policies by top management, and MHI is pursuing more organized business risk management and clarifying the roles of management, business segments and corporate departments.

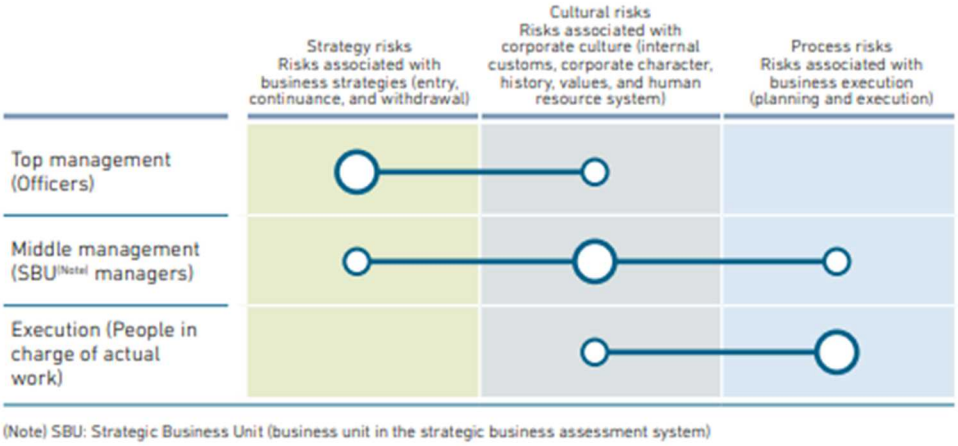
Figure 8 MHI Business Risk Management Structure




Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

The Company believes 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 MHI to succeed in the global market, it needs to take bold and daring risks, but it also needs to manage those risks. That is the perfect combination for continually increasing its 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.

Figure 9 MHI Business Risk Management Matrix

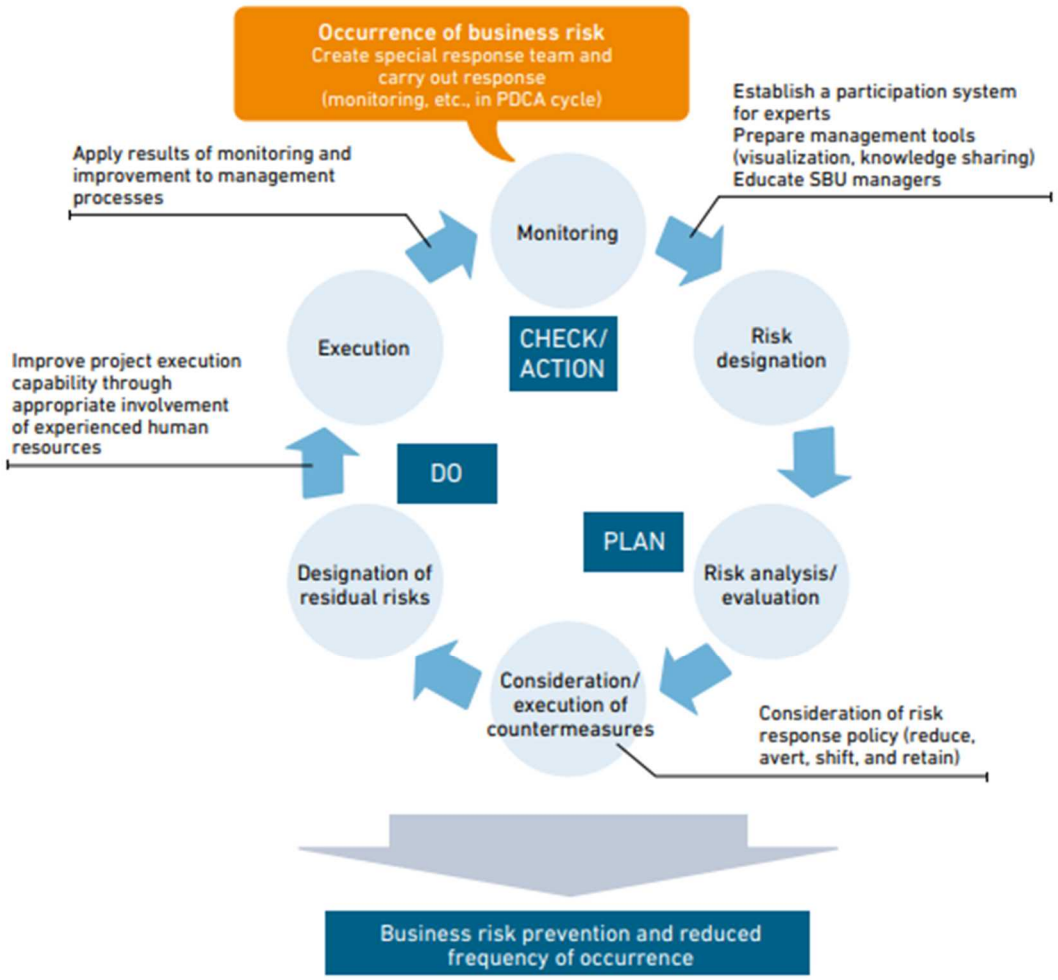



Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

With the Business Risk Management Division acting as the responsible department, MHI engages in business risk management activities bringing together management, business segments and corporate departments.

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, MHI also develops human resources in charge of business risk management or cultivate a culture of responding to risks through such efforts as providing training for SBU manager candidates.

Figure 10 MHI Business Risk Management Process




Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

The Company formulated the "MHI Group Human Rights Policy" in 2013 to ensure respect for the human rights of all stakeholders involved in its business activities and to contribute to the development of a sustainable society. In today's globalized society, MHI recognizes the importance to protect human rights not only within its own company but throughout the entire value chains of its businesses. In 2021, MHI revised the Policy and established a system to address a variety of human rights issues. Under this policy, which is based on the UN Guiding Principles on Business and Human Rights, the Company is building the mechanisms to enhance human rights due diligence, identifying potential adverse impacts on its stakeholders and setting down measures to prevent and mitigate any such impacts.

In December 2018, the Company, from a supply chain perspective, revised MHI Group Supply Chain CSR Promotion Guidelines established in June 2010 to include more specific

details on consideration of human rights and occupational safety and consideration of the environment. By sharing the Company's approach to CSR procurement with suppliers and also with the suppliers who make up the supply chains of its suppliers, it is promoting sustainability and CSR activities across the entire supply chain.

(4) Security Export Control System

MHI strives to conduct thorough monitoring by performing assessments and transaction screenings, including confirmation of the country or region of destination, use and customer when exporting commodities or providing technologies overseas and acquiring the necessary export licenses and permissions prior to export in line with the international security export control framework. Through the MHI Group Global Code of Conduct established in May 2015, the Company has conducted awareness training of export control to all its executives and employees. Furthermore, through the Global Policy on Export-Related Laws and Regulations Compliance released in October 2017, MHI has set fundamental standards and rules in connection with the proper implementation of Export Controls that each Group company is expected to follow.

Based on (1) to (4) above, SMTB has evaluated that a solid sustainability promotion system has been established and that appropriate impact management has been operated.

2. Assessment of Appropriateness of Impact Identification

2-1. Overview of Comprehensive Analysis and Impact Areas/Topics

MHI's entire business activities were comprehensively analyzed and impact areas/topics were identified in light of its sustainability activities in this PI Evaluation.

(1) Segment Analysis

The breakdown per reportable segment based on orders received, order backlog, revenue, profit from business activities, R&D expenses and capital expenditures is as follows: The four segments, "Energy Systems," "Plants & Infrastructure Systems," "Logistics, Thermal & Drive Systems" and " Aircraft, Defense & Space" have been analyzed and MHI's businesses have been organized as "Engine and turbine manufacturing industry (excluding aircraft, vehicles and cycle engines)," "Other general machinery manufacturing industry," "Lifting/cargo handling equipment manufacturing industry" and "Aerospace and its related machine manufacturing industry'' upon analysis in the International Standard Industrial Classification of All Economic Activities.

Figure 11 Orders Received, Order Backlog, Revenue and Profit from Business Activities by Reportable Segment (for the Year Ended March 2023)

(Unit: billion yen)

| Segment | Orders received | Order backlog | Revenue | Profit from business activities |
|---|---|---|---|---|
| Energy Systems | 1,791.7 | 3,325.6 | 1,738.6 | 85.1 |
| Plants & Infrastructure Systems | 845.4 | 1,509.2 | 675.6 | 32.7 |
| Logistics, Thermal & Drive Systems | 1,215.0 | 54.8 | 1,203.7 | 38.9 |
| Aircraft, Defense & Space | 703.6 | 1,171.8 | 619.4 | 39.9 |
| Corporate or Elimination | (54.5) | 0.2 | (34.7) | (3.5) |
| Total | 4,501.3 | 6,061.8 | 4,202.7 | 193.3 |

Source: *Mitsubishi Heavy Industries, Ltd. Securities Report (FY 2022)*

Figure 12 R&D Expenses and Capital Expenditures per Reporting Segment (for the Year Ended March 2023)

(Unit: billion yen)

| Segment | R&D Expenses | Capital Expenditures |
|---|---|---|
| Energy Systems | 40.8 | 35.3 |
| Plants & Infrastructure Systems | 9.9 | 7.2 |
| Logistics, Thermal & Drive Systems | 14.6 | 62.2 |
| Aircraft, Defense & Space | 38.7 | 18.8 |
| Others/Common[5] | 23.1 | 18.6 |
| Total | 127.4 | 142.3 |

Source: *MHI Report 2023 for the Year Ended March 2023 (FY 2022)*

(2) Area Analysis

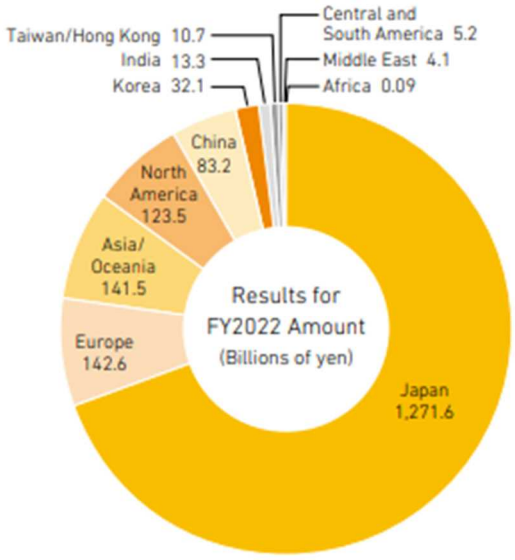
The breakdown for the procurement amount, main equipment and revenue by region (however, main equipment shows the aggregate number per main location of MHI's business offices and its subsidiaries) are as follows and all of them are located in Japan, Europe and Asia/Oceania (only in Asia as for revenue,) and North America accounts for approximately 90 percent of the total. MHI has confirmed that the United Kingdom, Netherlands and Germany account for a large share in Europe; China, Thailand, the Philippines and Australia account for a large share in Asia and Oceania, and the United States accounts for a large share in North America.

The Company has been therefore mainly analyzed on Japan and Europe (the United Kingdom, Netherlands and Germany,) Asia/Oceania (China, Thailand, Philippines and Australia) and North America (the United States,) which account for a large proportion of MHI's procurement amounts and revenue. MHI has confirmed that there has been no negative impact in the countries/regions, which are not subject to analysis this time.

[5] Corporate Departments or Shared Technology Framework

Figure 13 Procurement Amount by Region (for the Year Ended March 2023)

| Region | Results for FY2022 Amount (Billions of yen) |
|---|---|
| Japan | 12,716 |
| Europe | 1,426 |
| Asia/Oceania | 1,415 |
| North America | 1,235 |
| China | 832 |
| Korea | 321 |
| India | 133 |
| Taiwan/Hong Kong | 107 |
| Central and South America | 52 |
| Middle East | 41 |
| Africa | 0.9 |




Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

Figure 14 Amounts of Major Equipment by Office/Subsidiary[6] (for the Year Ended March 2023 *Head office is excluded)

(Unit: billion yen)

| | Amount | Breakdown |
|---|---|---|
| Japan | 518.2 | 73.3% |
| The US | 108.7 | 15.4% |
| The UK | 29.6 | 4.2% |
| Netherlands | 26.8 | 3.8% |
| Thailand | 23.6 | 3.3% |
| Total | 707.0 | 100.0% |

Source: Prepared by SMTB based on *Mitsubishi Heavy Industries, Ltd. Securities Report FY 2022*

[6] Aggregation figures of buildings/structures, machinery systems/delivery equipment and vehicles, tools, furniture/fixtures, land, right of use assets and construction in progress held by MHI's offices (excluding head office) or domestic and foreign subsidiaries by main location/country.

Figure 15 Overseas Sales by Region

(Unit: billion yen)

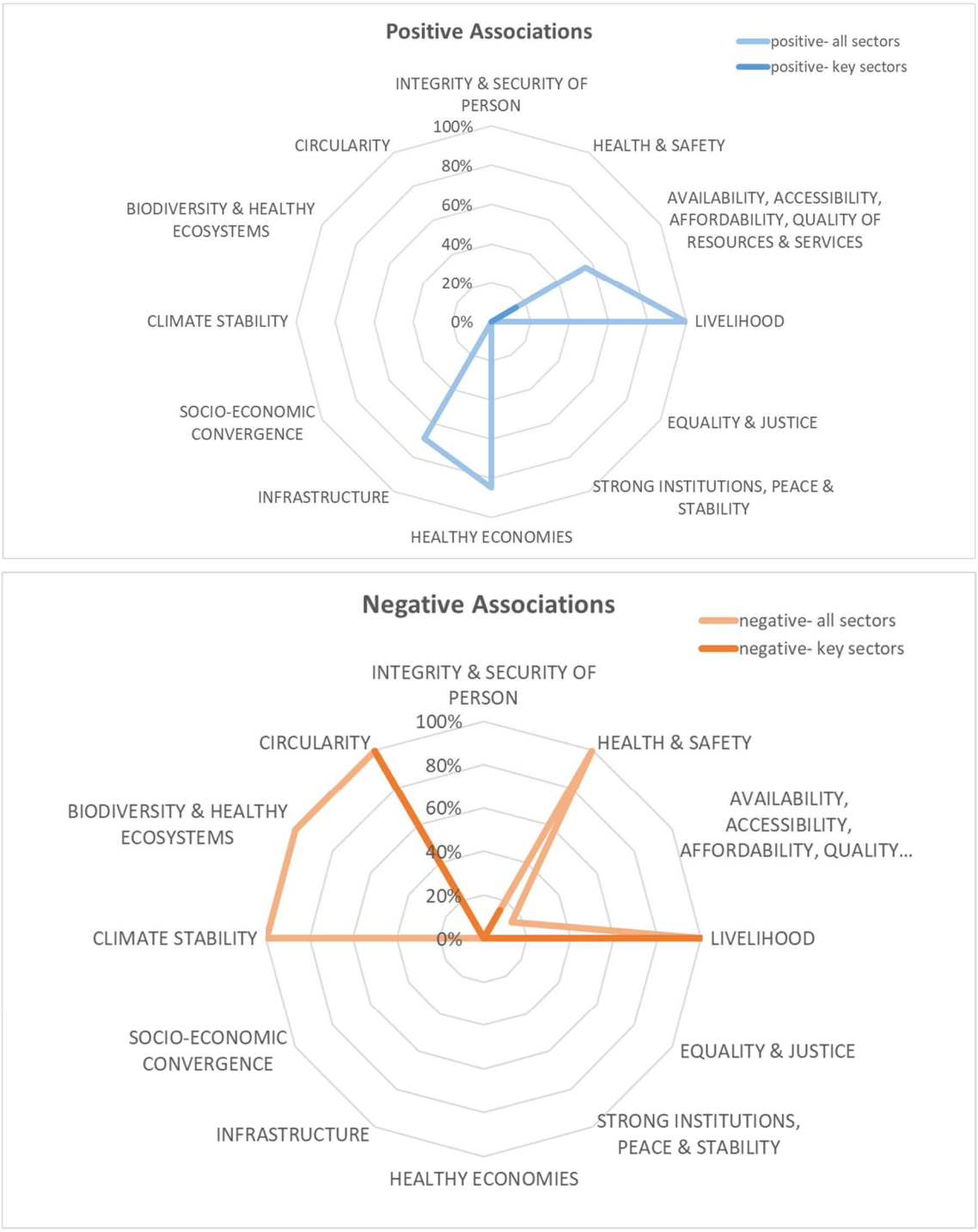
| | Year Ended March 31, 2021 | | Year Ended March 31, 2022 | | Year Ended March 31, 2023 | |
|---|---|---|---|---|---|---|
| | Amount | Breakdown | Amount | Breakdown | Amount | Breakdown |
| Japan | 1,947.9 | 52.6% | 1,887.7 | 48.9% | 1,808.3 | 43.0% |
| North America | 618.0 | 16.7% | 632.6 | 16.4% | 812.7 | 19.3% |
| Asia | 573.1 | 15.5% | 672.2 | 17.4% | 714.2 | 17.0% |
| Europe | 318.7 | 8.6% | 361.8 | 9.4% | 405.0 | 9.6% |
| Central and South America | 83.8 | 2.3% | 107.3 | 2.8% | 255.6 | 6.1% |
| Middle East | 79.6 | 2.2% | 110.3 | 2.9% | 113.4 | 2.7% |
| Africa | 51.3 | 1.4% | 48.6 | 1.3% | 41.7 | 1.0% |
| Oceania | 27.1 | 0.7% | 39.3 | 1.0% | 51.5 | 1.2% |
| Total | 3,699.9 | 100.0% | 3,860.2 | 100.0% | 4,202.7 | 100.0% |

Source: MHI website/INVESTORS – FINANCIAL DATA – Overseas Sales by Region

(3) Impact Radar Chart

MHI's impact areas/topics identified with impact analysis tools provided by UNEP FI in light of the perspectives of the aforementioned segments and areas are as follows:

Figure 16 Impact Radar Chart




Source: Created by SMTB based on UNEP FI Impact Analysis Tool

(4) Supply Chain Analysis

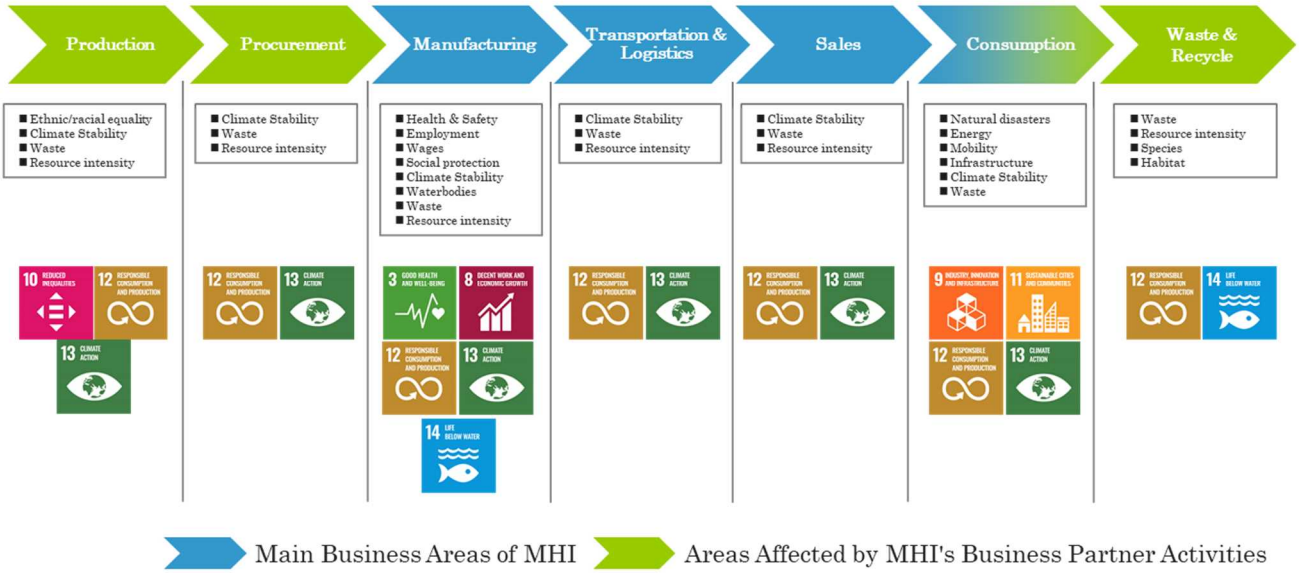
MHI is an engineering manufacturer that leverages the technology it has built up over many years so as to provide solutions in sea, air and space sectors, respectively. The Company has developed a large variety of businesses through each business domain and segment, and therefore the supply chains in which it has involved (areas affected by activities of MHI's

business partners) have been wide ranging.

Of "Engine and turbine manufacturing industry (excluding aircraft, vehicles and cycle engines,)" "Other general machinery manufacturing industry," "Lifting/cargo handling equipment manufacturing industry" and "Aerospace and its related machinery manufacturing industry," there are potential environmental burdens, such as energy consumption, GHG emissions or waste generation by not only using its products but also in respective processes, such as manufacture, transport and sale as negative impacts, including power generation systems or aero engines, compressors, commercial ships, chemical plants, material handling systems, engines or airplanes/missile systems, which have been developed by the Company. MHI has however been working to reduce not only energy used or waste generated in its own Company but also making efforts to lower the environmental burdens centered on decarbonization from both the energy supply side such as its customers and the energy demand side through development of new growth areas (energy transition, smart Infrastructure) defined in its 2021 Medium-Term Business Plan.

MHI procures a variety of materials or services both domestically and globally, including raw materials, machinery, equipment or components. MHI works to build mutually beneficial relationships of trust with suppliers who are fairly and impartially evaluated and selected in accordance with related laws, regulations and social norms in procuring materials or services. In December 2018, MHI revised its Group Supply Chain CSR Promotion Guidelines to include more specific details on consideration of human rights and occupational safety or consideration of the environment. The Guidelines consist of the following five items: (i) " Compliance and Corporate Ethics"; (ii) " Safety, Quality, Cost, Delivery and Innovation"; (iii) "Human Rights, Health and Safety"; (iv) "Respect for the Environment"; and (v) "Contribution to the region and society." The Company has shared its approach to CSR procurement with suppliers and also with the suppliers who make up the supply chains of its suppliers and explained its CSR promotion guidelines at platforms, such as "Business partner meetings" or "Business policy briefings" and it is promoting sustainability/CSR activities across the entire supply chain by disseminating the conduct expected of suppliers by introducing cases of ESG risks in the supply chain.

Figure 17 Structural Outline of Supply Chain




Source: Created by SMTB

(5) Identifying Impact Areas/Topics

The followings are MHI's impact areas/topics in light of the aforementioned (4) Supply chain analysis for the impact areas/topics shown in Figure 16. "Means of transportation" is excluded from the table below as there has been no negative impact.

Figure 18 Impact Areas/Topics Identified

| Impact Areas | Impact Topics | PI | NI |
|---|---|---|---|
| INTEGRITY & SECURITY OF PERSON | Conflict | | |
| | Modern slavery | | |
| | Child labour | | |
| | Data privacy | | |
| | Natural disasters | | |
| HEALTH & SAFETY | | | |
| AVAILABILITY, ACCESSIBILITY, AFFORDABILITY & QUALITY OF RESOURCES & SERVICES | Water | | |
| | Food | | |
| | Energy | | |
| | Housing | | |
| | Healthcare & sanitatation | | |
| | Education | | |
| | Mobility | | |
| | Information | | |
| | Connectivity | | |
| | Culture & heritage | | |
| | Finance | | |
| LIVELIHOOD | Employment | | |
| | Wages | | |
| | Social protection | | |
| EQUALITY & JUSTICE | Gender equality | | |
| | Ethnic/racial equality | | |
| | Age discriminiation | | |
| | Other vulnerable groups | | |
| STRONG INSITUTIONS, PEACE & STABILITY | Rule of Law | | |
| | Civil liberties | | |
| HEALTHY ECONOMIES | Sector diversity | | |
| | Flourishing MSMEs | | |
| INFRASTRUCTURE | | | |
| SOCIO-ECONOMIC CONVERGENCE | | | |
| CLIMATE STABILITY | | | |
| BIODIVERSITY & HEALTHY ECOSYSTEMS | Waterbodies | | |
| | Air | | |
| | Soil | | |
| | Species | | |
| | Habitat | | |
| CIRCULARITY | Resource intensity | | |
| | Waste | | |

※PI: Positive Impact, NI: Negative Impact

Source: Created by SMTB based on UNEP FI Impact Analysis Tool

2-2. Assessment of Individual Impact

(1) Setting of Individual Impact

Impact themes have been established as described in the Figures 26 and 27 in this evaluation in light of the aforementioned analysis.

Of the impact areas/topics identified in the Figure 18, the followings are not included in the impact themes in this evaluation as their negative impacts have been sufficiently controlled: (a) "Health and Safety"; (b) "Wages" and "Social Protection"; and (c) "Waters" and "Atmosphere" and "Resource Intensity" and "Waste.'' Meanwhile, "Energy" or "Climate Stability" will be taken up as impact themes, considering that there are noteworthy initiatives as described below.

(a) "Health and Safety"

MHI Group Policy of Safety and Health was established by the Senior Vice President in charge of Human Resources who is responsible for occupational Safety and Health. Its main elements are a basic policy, "Giving utmost priority to Safety and Health in the spirit of respect for human life" and three action guidelines: "Strict compliance with laws and regulations," "Awareness raising on safety and health" and "Fostering of a safety culture." Based on this policy, the Company implements initiatives to create a safe and healthy workplace and to maintain and improve physical and mental health. MHI extends these initiatives to the affiliate and partner businesses who collaborate with its employees in its business activities.

To clarify which initiatives to prioritize, the Senior Vice President in charge of Human Resources draws up a corporate Safety and Health management plan for each fiscal year, presents it for discussion to the statutory Safety and Health Committee and reports regularly to the committee on the progress of the plan. In this way, labor and management work together to promote Safety and Health activity.

Based on the corporate Safety and Health management plan, each domain CEO draws up a management program based on a management system approach for the systematic and continuous implementation of Safety and Health management, clarifies the goals and targets of the initiatives for the current fiscal year, and then rolls out preventive activities against occupational accidents. Each domain CEO also monitors the progress of the plan through internal audit and undertakes management review based on its results.

In addition to the aforementioned corporate Safety and Health management plan, to deal with risks that may cause industrial accidents, the departments responsible for Safety and Health, manufacturing and local construction take the central role in making risk assessments of operational procedures, equipment or facilities and chemical substances. After determining an order of priority based on the seriousness of the risk, the departments take action to eliminate or reduce any risks identified. For employees who are still gaining experience and other relevant staff members, the Company provides safety training using visual training materials or hands-on facilities that simulate the experience of an industrial accident and works to improve safety sensitivity and fosters a safety culture. MHI's frequency rate[7] has been on the decline since the fiscal year ended March, 2020 and the negative impact on Health and Safety has been sufficiently controlled.

[7] It refers to the number of casualties due to occupational accidents per 1 million cumulative actual working hours. (Ministry of Health, Labour and Welfare)

Figure 19 Trends in Frequency Rates in MHI Group

| | Fiscal Year Ended March 2020 | Fiscal Year Ended March 2021 | Fiscal Year Ended March 2022 | Fiscal Year Ended March 2023 |
|---|---|---|---|---|
| MHI Group[8] | 0.25 | 0.35 | 0.34 | 0.30 |

Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

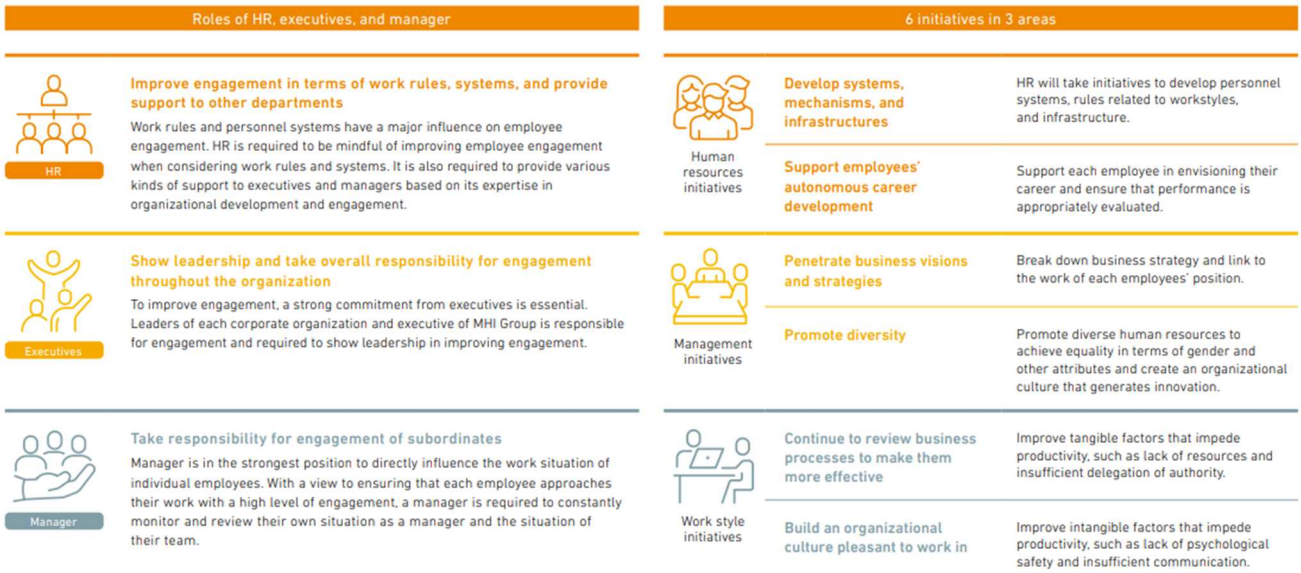
(b) "Wages" and "Social Protection"

MHI has a corporate mission 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." In order to fulfill this mission, the Company has established the MHI Group Talent Development Guidelines as a guideline to indicate the direction of medium to long term efforts for talent development. Under the Guidelines, MHI is promoting a variety of talent development measures while sharing its values of ownership, collaboration and challenge, and its attitude toward talent development throughout the Group.

The Company has seen the attraction and retention of talent as a very important aspect in its human resource strategy. In particular, promoting diversity along with improving employee engagement have been positioned as an MHI Material Issues. Mainly, the human resources department (hereinafter referred to as "HR",) executives and managers have addressed to improve engagement based on a three-way partnership after stipulating their roles. The Company has worked to improve engagement through six different initiatives in three corresponding areas for HR, executives, and managers. To ensure that the leadership of each corporate organization is committed to improving engagement, domain and segment CEOs and all chief officers are required to describe each organization's initiatives to improve engagement at the Board of Directors report.

[8] Employees and Contractors

Figure 20 Initiatives to Improve MHI Engagement




*Source: Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

In this way, negative impacts on the Wages and the Social protection have been also sufficiently controlled.

(c) "Waters" & "Atmosphere" and "Resource Intensity" & "Waste"

The Fifth Environmental Targets, which represent the medium-term goals, were established at a meeting of the Environment Committee held in March 2021, including reductions in water usage and reductions in waste generation.

Figure 21 Fifth Environmental Target

| KPI Item | Scope of Target | Target (FY2021 - FY2023) |
|---|---|---|
| Reduction in $CO_2$ emissions | Entire MHI Group | Reduction in $CO_2$ emissions per unit from offices and plants by 9 percent in FY2023 relative to FY2014. |
| Reduction in water usage | | Reduction in water usage per unit in FY2023 by 7 percent relative to FY2014.<br>(Water: industrial water, tap water, groundwater, rivers, lakes; excludes seawater.) |
| Reduction in waste generation | | Reduction in waste generation per unit in FY2023 by 7 percent relative to FY2014<br>(Excluding valuable materials; including hazardous waste.) |

Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

In terms of water usage, MHI has been making its efforts to reduce water usage in its business activities by conducting checks on water leakage or undergoing repairs in a timely manner. The Company has created an action plan to reduce water consumption and appropriately manage water resources through each Group subsidiary's environment-management program and similar measures and has established a structure to adequately manage water resources. MHI monitors the progress of the effort by each subsidiary, using an IT system that allows for compilation and reporting of water-related data.

Through these efforts, MHI has achieved reductions in water usage per unit, which far exceeds its targets in both FY 2021 and FY 2022, and it has strived to significantly reduce the amount of wastewater (for MHI on a non-consolidated basis) in FY 2021.

Figure 22 Changes in Water Usage per Unit (FY 2019 - FY 2022)


Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

Figure 23 Changes in Wastewater Volume (FY 2019 - FY 2022)

(Unit: 10,000 $m^3$)

| FY 2019 | FY 2020 | FY 2021 | FY 2022 |
|---|---|---|---|
| 794 | 781 | 668 | 671 |

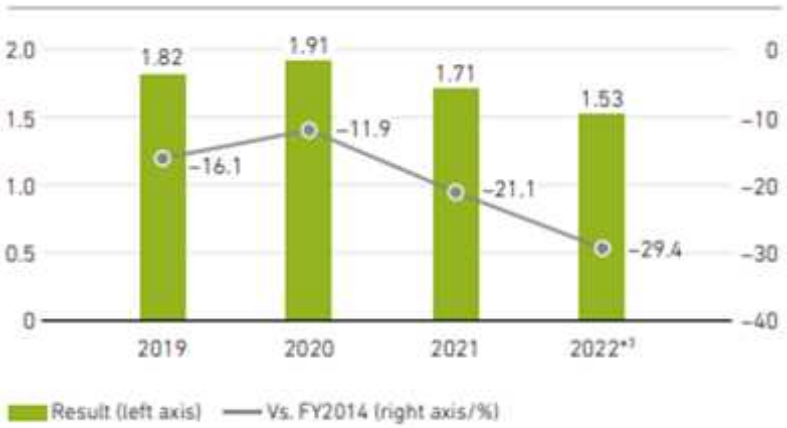
Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

With regard to waste, MHI has strived to reduce waste generation, promote thorough separation or reuse of waste and reduce waste generation by minimizing resources. The government has already significantly reduced Volatile Organic Compounds (hereinafter referred to as "VOC",) important air pollutants—reduced approximately 60 percent relative to FY 2000 as of 2011. It is recommended to address to reduce VOC in order not to go

negative relative to FY 2010 at least in five years (or three years) as a whole[9], which is a direction that the government shall aim for. MHI set internal targets to reduce levels of xylene, toluene and ethylbenzene—chemicals that are emitted in large volumes—in the atmosphere while continuously monitoring air emissions. MHI has set unified reduction targets for the Group and is working on them across the Group to reduce waste emissions. The Company has set consistent Groupwide reduction targets in relation to reducing waste discharge and has undertaken measures on a Groupwide basis. MHI has created an action plan to reduce waste discharge through each Group subsidiary's environment-management program and similar measures. Regarding data related to waste and VOC, an IT system is used for compilation and reporting to review the progress of each company.

Through these initiatives, MHI achieved reductions in waste emissions per unit that far exceeded its targets in both FY 2021 and FY 2022, and the Company continued to reduce VOC emissions for FY 2021 and simultaneously, it maintained the level as same as that in FY 2022.

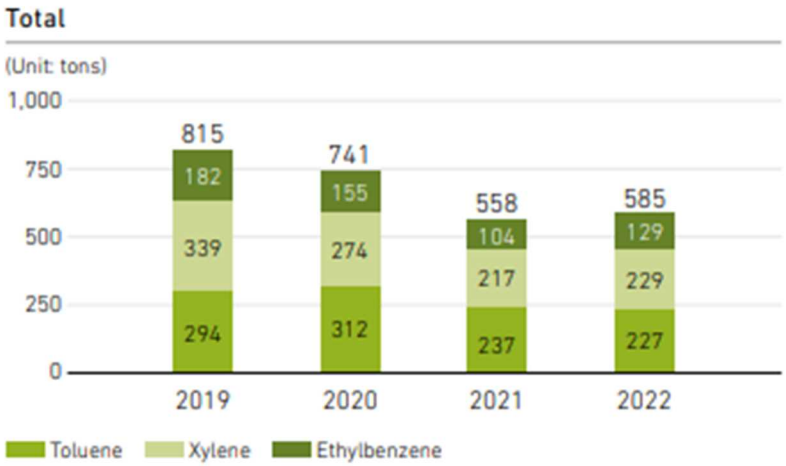
Figure 24 Changes in Waste Emissions per Unit (FY 2019 – FY 2022)




Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

[9] Industrial Structure Council, Joint Working Group on Industrial Environmental Risk Measures: Regarding the direction of future voluntary efforts to reduce VOC emissions and the concept of how to set policies.

Figure 25 Trends in VOC Emissions (FY 2019 – FY 2022)




Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

In this way, negative impacts on Waters & Atmosphere, Resource Intensity and Waste have been substantially controlled.

Figure 26 Impact Areas/Topics in this Evaluation[10]

| Impact Areas | Impact Topics | PI | NI |
|---|---|---|---|
| INTEGRITY & SECURITY OF PERSON | Conflict | | |
| | Modern slavery | | |
| | Child labour | | |
| | Data privacy | | |
| | Natural disasters | | |
| HEALTH & SAFETY | | | |
| AVAILABILITY, ACCESSIBILITY, AFFORDABILITY & QUALITY OF RESOURCES & SERVICES | Water | | |
| | Food | | |
| | Energy | ● | |
| | Housing | | |
| | Healthcare & sanitatation | | |
| | Education | | |
| | Mobility | | |
| | Information | | |
| | Connectivity | | |
| | Culture & heritage | | |
| | Finance | | |
| LIVELIHOOD | Employment | ● | |
| | Wages | | |
| | Social protection | | |
| EQUALITY & JUSTICE | Gender equality | | ● |
| | Ethnic/racial equality | | |
| | Age discriminiation | | |
| | Other vulnerable groups | | |
| STRONG INSITUTIONS, PEACE & STABILITY | Rule of Law | | |
| | Civil liberties | | |
| HEALTHY ECONOMIES | Sector diversity | | |
| | Flourishing MSMEs | | |
| INFRASTRUCTURE | | ● | |
| SOCIO-ECONOMIC CONVERGENCE | | | |
| CLIMATE STABILITY | | ● | ● |
| BIODIVERSITY & HEALTHY ECOSYSTEMS | Waterbodies | | |
| | Air | | |
| | Soil | | |
| | Species | | |
| | Habitat | | |
| CIRCULARITY | Resource intensity | | |
| | Waste | | |

※PI: Positive Impact, NI: Negative Impact

Source: Created by SMTB based on UNEP FI Impact Analysis Tool

[10] "●" in the Figure 26 indicates the impact areas/topics in this evaluation.

2-3. Evaluation by JCR

JCR has evaluated that the detailed impact identified in this PI Evaluation has been adequately analyzed in line with items shown in the Model Framework after confirming the followings:

| Points to be confirmed in the Model Framework | Confirmation result by JCR |
|---|---|
| Consideration of the operating context of the Corporate given its sector and type of activity, including the key relevant sustainability challenges in its operating location/countries of operations and whether the Corporate's activities contribute to these. | The entire business activities of MHI have been holistically analyzed from the perspectives of the industry, area and supply chain and the impact areas/topics have been identified. |
| Consideration of relevant market practices and standards (e.g. The Ten Principles of the UN Global Compact) and whether the Corporate adheres to these. | JCR has confirmed that MHI has participated in four fields – human rights, labor, the environment and anti-corruption – in the Ten Principles of the UN Global Compact and has declared its endorsement of the TCFD recommendations, and the Company has promoted responses, respectively. |
| Consideration of the Corporate's strategic intent and/or commitments to deliver positive impacts and/or manage negative impacts, as publicly expressed in corporate social responsibility (CSR) reports, integrated reports or other public information. | Impact areas/topics have been identified based on "MHI Report 2023 for the Year Ended March 2023 (FY2022)," "Securities Report" or "SUSTAINABILITY DATABOOK 2023" published by MHI, respectively. |
| Use of taxonomies, as drawn up by global initiatives such as the Green Bond Principles or at the country level, to identify a priori positive impact sectors or activities and/or geographic locations (e.g. low or middle income countries) or types of economic actors (e.g. small and medium size enterprises). | Impact areas/topics have been identified by leveraging the UNEP FI impact analysis tool or project classification in the Green Bond Principles/Social Bond Principles. |
| Consideration of the Product Initiator's exclusion lists, if any. | JCR has confirmed that MHI is not categorized into ineligible companies based |

| | |
|---|---|
| | on the financing policies established by SMTB. |
| Consideration of the Corporate's involvement in sensitive activities, i.e. activities that can trigger significant negative impacts when not conducted in a sustainable way. | $CO_2$ emissions have been identified as significant negative impacts expectable in MHI's businesses, which shall be controlled as its Material Issues. |
| Screening of available information regarding possible controversies to identify possible negative impacts linked to the Corporate's activities, and/or apparent contradictions between its communicated intents and its actual practice (e.g. behavior vis-a-vis stakeholders in its supply chain, or amongst its employees). | SMTB has, in principle, identified impact areas/topics based on MHI's public information; however, it has supplemented procedures for significant items by verifying the underlying internal documents and conducting interviews. JCR has confirmed that the detailed disclosure is consistent with actual activities through interviews conducted with MHI in light of the PI Evaluation report prepared by SMTB. |

3. Assessment of Appropriateness of KPI and Impact Assessment

3-1. Overview of KPI Setting

Figure 27 Impact Themes in this Evaluation

| | Impact Theme | Impact Area/Topic | Related Materiality | Related SDGs |
|---|---|---|---|---|
| (1) | Contributing to the realization of a carbon neutral world | Energy, Infrastructure and Climate stability | Provide energy solutions to enable a carbon neutral world | 7.1, 7.2, 7.3, 9.4, 13.1 |
| (2) | Contributing to fully-automated and labor-saving measures | Employment, Infrastructure | Transform society through AI and digitalization<br>Build a safer and more secure world | 8.2, 9.5, 11.3 |
| (3) | Promoting diversity | Employment, Gender Equality | Promote diversity and improve employee engagement | 5.5, 8.5, 10.2 |

(1) Contributing to the realization of a carbon neutral world

| | | |
|---|---|---|
| Increasing positive impact/reducing negative impact | | |
| Relationship with SDGs | | |
| | SDGs goals | "7. Affordable and Clean Energy," "9. Industry, Innovation and Infrastructure" and "13. Climate Action" |
| | SDGs targets | 7.1, 7.2, 7.3, 9.4, 13.1 |
| Impact area/topic | | |
| | Positive impact: "Energy," "Infrastructure" and "Climate Stability"<br>Negative impact: "Climate Stability" | |
| Impact with this theme | | |
| | Reducing GHG emissions | |
| Response policy, goals and indicators (KPI) | | |
| | Response policy (a) | $CO_2$ emission reduction |
| | Goals | Reduce total $CO_2$ emissions from business activities (Scopes 1 and 2) by 50 percent by 2030 (compared to 2014 levels), and achieve net zero by 2040 |
| | Indicators (KPI) | A reduction rate of total $CO_2$ emissions from business activities (Scopes 1 and 2) (Scope: MHI Group (Global)) |
| | Response policy (b) | Reducing $CO_2$ emissions across the MHI Group's entire value chain |
| | Goals | Reduce $CO_2$ emissions across the MHI Group's entire value chain (Scope 3 + CCUS contribution for $CO_2$ reduction) by 50 percent by 2030 (compared to 2019 levels) and achieve net zero by 2040 |

| | | | |
|---|---|---|---|
| | | Indicators (KPI) | A reduction rate of $CO_2$ emissions across the entire value chain (Scope 3 + CCUS contribution for $CO_2$ reduction) (Scope: MHI Group (Global)) |

i) Concepts for Evaluation of Response Policies and Goals and Setting of Indicators (KPI)

To enhance corporate value and grow in the medium to long term through solutions to social issues, MHI set forth "Provide energy solutions to enable a carbon neutral world" as one of the Material Issues with which it shall deal. In October 2021, MHI announced MISSION NET ZERO, its commitment to achieving Carbon Neutrality by 2040 as a company-wide goals to flesh out the Material Issues.

The first goal of MISSION NET ZERO, the Company's 2040 Carbon Neutrality Declaration, is to reduce its $CO_2$ emissions (Scopes 1 and 2) to 50 percent of 2014 levels by 2030 and to reach Net Zero emissions by 2040. The second goal involves carbon emissions from the value chain in which the Company operates (Scope 3), the majority of which arise from the customers' use of its products. Here, MHI aims to reduce $CO_2$ emissions throughout its entire value chain to 50 percent of 2019 levels by 2030, after deducting reductions from CCUS[11]. This goal shows MHI's determination to set an example by realizing Carbon Neutrality before the rest of the world and it was formulated as such in order to provide enough time for MHI products and technologies to be implemented around the globe, which has been highly evaluated as challenging goals by SMTB.

Figure 28 MISSION NET ZERO, "2040 Carbon Neutral Declaration"

| Target Year | Reduce $CO_2$ emissions across MHI Group Scope 1&2 | Reduce $CO_2$ emissions across MHI's value chain Scope 3 + reductions from CCUS |
|---|---|---|
| 2030 | −50% (compared to 2014) | −50% (compared to 2019) |
| 2040 | Net Zero | Net Zero |

Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

ii) Initiatives to Achieve Goals

Thanks to the earlier energy conservation efforts, MHI is already close to completing its interim target to reduce Scopes 1 and 2 carbon emissions by 50 percent in 2030, having cut $CO_2$ emissions by 45 percent (compared to 2014) in 2022. MHI is working toward decarbonization by using its Mihara Machinery Works as a model plant for Carbon Neutrality

[11] CCUS: Carbon dioxide Capture, Utilization and Storage

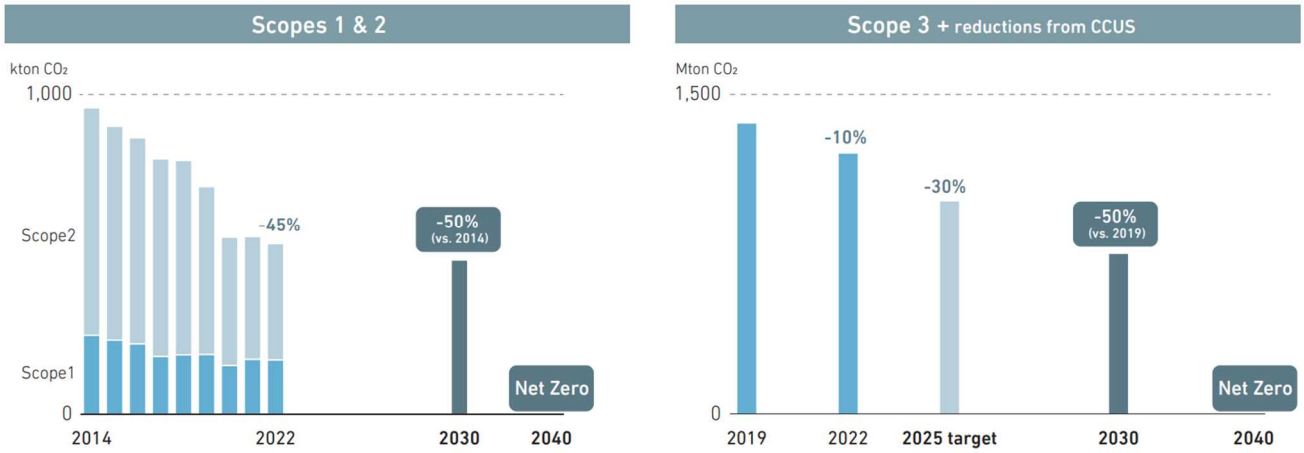
while more energy-saving efforts will be required to achieve Net Zero in 2040. In order to offset the 10,000 tons of $CO_2$ generated annually by Mihara Machinery Works, MHI is working with Chugoku Electric Power to install solar panels on site via a Power Purchase Agreement (PPA.) This project is designed to cover all electricity demand within the facility with non-fossil fuel energy, and installation of solar panels at Wadaoki Plant within Mihara Machinery Works was progressing as of June 2023.

Figure 29 Carbon Neutral Project at Mihara Machinery Works


Source: *MHI Report 2023 for the Year Ended March 2023 (FY 2022)*

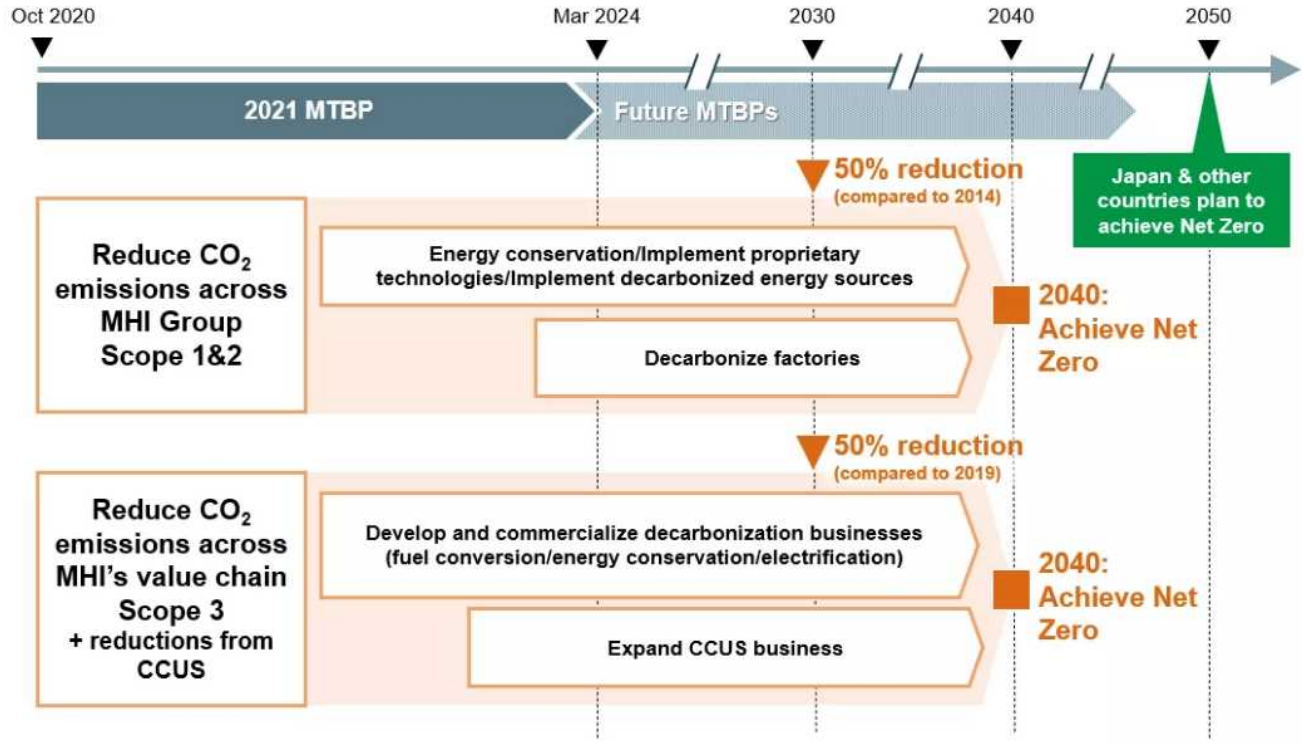
For Scope 3 emissions, MHI reduced emissions by 10 percent (compared to 2019) in 2022 and a variety of development efforts are underway in order to meet the interim target of 30 percent reduction in 2025, aiming for 50 percent reduction in 2030.

Figure 30 Progress toward $CO_2$ Emissions Reduction Goals (FY 2022)




Source: *MHI Report 2023 for the Year Ended March 2023 (FY 2022)*

Figure 31 Roadmap to Achieve Carbon Neutrality




Source: MHI's website/ COMPANY OVERVIEW – MHI Group's Declaration to achieve Carbon Neutral by 2040

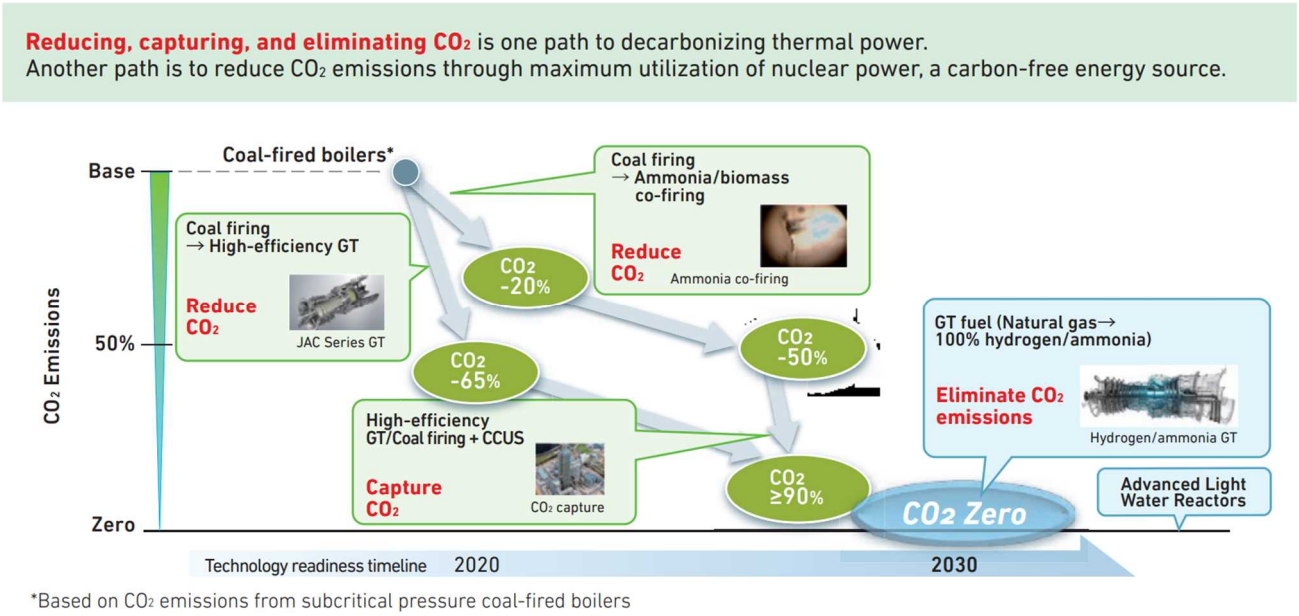
The two growth areas—Energy Transition and Smart Infrastructure—defined in the 2021 Business Plan are MHI's approach to promote decarbonization of both the generation and use of energy to achieve MISSION NET ZERO, "2040 Carbon Neutrality Declaration."

<Energy Transition (Decarbonization of the Energy Supply)>

"Energy Transition" aims to decarbonize energy supply and MHI is pushing ahead with the decarbonization of existing infrastructure while building hydrogen and $CO_2$ solutions ecosystems. "Decarbonizing Existing Infrastructure" is an initiative to develop products that can use decarbonization energy (including carbon neutrality) and promote the decarbonization of existing infrastructure with the focus on energy solutions, such as carbon-free power generation, biomass power generation, and gasification technologies. "Realizing a hydrogen solutions ecosystem" refers to an initiative to construct a hydrogen solutions ecosystem by switching from conventional fossil fuels to supply chains based on hydrogen and ammonia and to decarbonize energy upstream in the value chain. "Building a $CO_2$ solutions ecosystem" means efforts to build a CO2 ecosystem with products, technologies and services related to CCUS, from capture, transportation and storage of emitted $CO_2$ to utilization for industrial sectors that are difficult to decarbonize. MHI will promote decarbonization of existing infrastructure and make effective use of it in the short term while it will work to build the hydrogen or $CO_2$ solutions ecosystem and implement decarbonizing technologies, such as hydrogen gas turbines or CCS across the entire value chain in the medium to long term.

For example, reducing, capturing and eliminating $CO_2$ is path to decarbonizing thermal power.

Figure 32 Roadmap toward Decarbonization of Thermal Power Generation

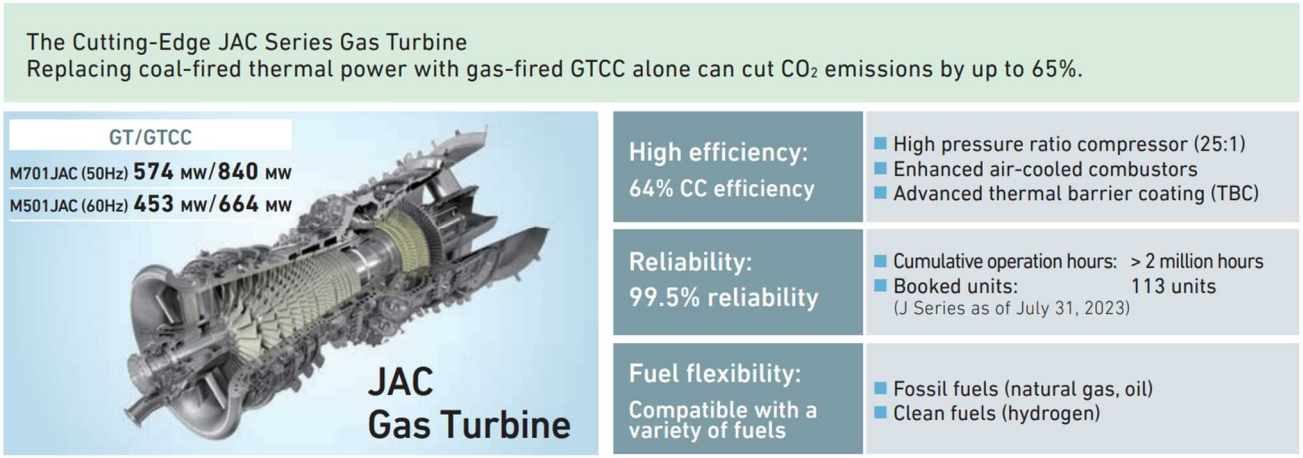



Source: *MHI Report 2023 for the Year Ended March 2023 (FY 2022)*

With regard to "reducing," existing coal-fired thermal power generation systems can reduce $CO_2$ through the co-firing of low- or carbon-free fuels or by replacing the existing coal-fired

systems with high-efficiency gas turbines. GTCC power generation[12] systems using cutting-edge JAC Series gas turbines have achieved a power generation efficiency of 64 percent, the highest level in the world. The result is an up to 65% reduction in $CO_2$ emissions compared to conventional coal-fired thermal power generation systems.

Figure 33 JAC Series Gas Turbine



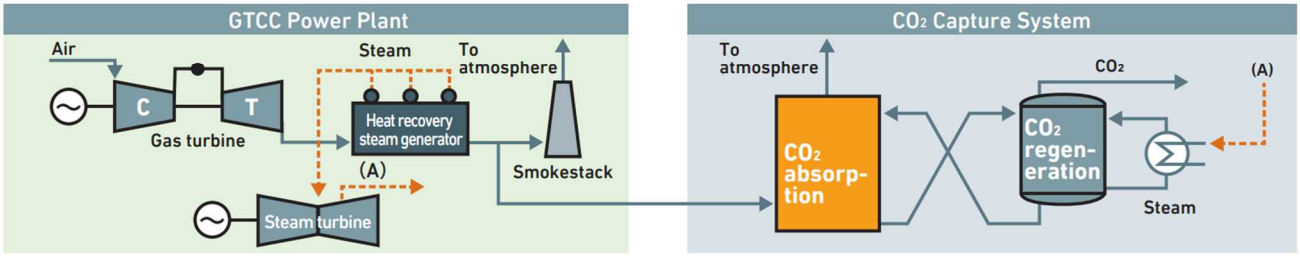

Source: *MHI Report 2023 for the Year Ended March 2023 (FY 2022)*

Concerning "capture," MHI has developed the KM CDR Process™ and Advanced KM CDR Process™ in collaboration with Kansai Electric Power Co., Inc. since 1990. Both of these technologies employ a chemical absorption method using a proprietary amine absorbent. MHI has delivered $CO_2$ capture systems for use in chemical plants and power generation facilities worldwide. The Company is the global leader in market share for commercial flue gas $CO_2$ capture plants on a capacity basis as of September 2023. The demand for combinations of high-efficiency GTCC power systems with $CO_2$ capture systems is increasing worldwide, driven by the establishment of legal frameworks supporting decarbonization such as the Inflation Reduction Act (IRA) in the U.S. In 2022, MHI awarded front-end engineering design (FEED) contracts for $CO_2$ capture systems to be applied to GTCC power plants in Alberta, Canada and Aberdeenshire, Scotland.

[12] GTCC: Gas turbine combined cycle power plant, which recovers high-temperature exhaust gas heat from a gas turbine to improve the overall thermal efficiency in a plant.

Figure 34 High-efficient GTCC and $CO_2$ Capture

By applying a $CO_2$ capture system to a high-efficiency GTCC power system, it is possible to capture over 90% of the $CO_2$ emitted.




Source: *MHI Report 2023 for the Year Ended March 2023 (FY 2022)*

Regarding "elimination," gas turbine fuels can be replaced from natural gas to hydrogen/ammonia to eliminate $CO_2$ emissions. In response to customer requests for a method to effectively utilize refinery and steel plant off-gas since the 1970s, MHI has manufactured gas turbines which fire off-gas containing hydrogen. Since the 1980s, the Company has developed technology to fire hydrogen in 15 MW class gas turbines. Leveraging these experience, MHI is working hard to develop next-generation combustion techniques which will make 100 percent hydrogen firing possible by resolving technical issues such as hydrogen's especially high combustion rate. In 2022, MHI has completed development of a large frame gas turbine combustor enabling 30 percent hydrogen co-firing and successfully conducted a combustion test with a 50 percent hydrogen mix, which effectively cleared the EU taxonomy's $CO_2$ emission standard. Going forward, the Company will develop new types of combustors aiming to launch 100 percent hydrogen firing for small- to mid-size gas turbines in 2025, and for large frame gas turbines in 2030 or thereafter.

<Smart Infrastructure (Decarbonization and Conservation of Energy Use)>
Decarbonization/energy conservation of energy use is one of the scopes for which the Smart Infrastructure aims (refer to the individual impact (2) for another scope, "Fully-automated and labor-saving measures.")

There are, for instance, initiatives to achieve decarbonization and energy conservation in data centers by providing next-generation cooling systems. The term, "data center" is a catchall for a specialized facility in which a variety of equipment, including servers and data transmission systems, are installed and operated. Along with ongoing efforts toward digital transformation (DX) in recent years, the role of data centers handling massive amounts of data is expanding in tandem with business continuity planning (BCP) to prepare for natural disasters, among other measures. Moreover, greater use of AI and digital twin technologies, upgrades to and expansion of 5G and 6G infrastructure, and the rollout of new IT-related technologies and services will spur calls for increased data bandwidth and transmission

speeds, which are expected to lead to the generation of even more heat by servers. In data centers, roughly 60 percent of power was supplied to servers while approximately 30 percent of power was used for cooling. Cooling in many cases also consumes a significant amount of water, which is an issue from the standpoint of water resource conservation. In coping with the increasing functionality and density of IT devices, the traditional air cooling systems are likely to become challenging. Accordingly, new technologies for efficiently and effectively cooling high heat-generating servers will become indispensable for efficient data center operations. As such, ensuring the sustainability of data centers, which are essential next-generation infrastructure, will require decarbonization of both energy supply and demand, from securing zero-carbon power sources to energy conservation solutions for IT equipment cooling.

In response to the aforementioned, MHI has begun development and validation testing of immersion and direct to chip cooling systems. In FY 2021, the result of the tests showed adequate cooling performance, successfully reducing power consumed by server cooling by 90 percent and reducing overall data center power consumption by 43 percent compared to existing data center models in validation testing of a compact data center, which MHI jointly conducted with KDDI Corporation (hereinafter referred to as "KDDI") and NEC Networks & System Integration Corporation (hereinafter referred to as "NEC Net SI.") KDDI, NEC Net SI and a number of server and chip suppliers joined MHI in the validation testing of an immersion cooling system in a hyperscale data center and achieved a 94 percent reduction in power used for server cooling compared to traditional data centers.

In order to achieve the goal of MISSION NET ZERO, "2040 Carbon Neutrality Declaration," SMTB has determined that promoting efforts to decarbonize both supply and demand is of significance. In addition to the reduction rate of the total $CO_2$ emissions (Scope 1 and 2) in business activities and the reduction rate of emissions in the entire value chain (Scope 3 and CCUS reduction contribution,) SMTB also plans to monitor the followings:

- Development and validation of products and services that contribute to decarbonization of energy supply (Energy Transition)
- Development and validation of products and services that contribute to conservation and decarbonization of energy demand (Smart Infrastructure)
- Development and validation of new products and services that contribute to the carbon cycle
- Proposals for optimal energy infrastructure depending upon regional characteristics of each customer and the development and validation of products that work with future-oriented energy management strategies

(2) Contributing to Fully-automated and Labor-saving Measures

| | | |
|---|---|---|
| Increased positive impact | | |
| Relationship with SDGs | | |
| | SDGs goals | "8. Decent Work and Economic Growth," "9. Industry, Innovation and Infrastructure" and "11. Sustainable Cities and Communities" |
| | SDGs targets | 8.2, 9.5, 11.3 |
| Impact area/topic | | |
| | Positive impact: "Employment" and "Infrastructure" | |
| Impact of this theme | | |
| | Fully-automated and labor-saving measures | |
| Response policy, goals and indicators (KPI) | | |
| | Response policy (a) | Implement fully-automated and labor-saving measures |
| | Goals | Promote the development and practical application of technologies that enable the remote operation and automatic inspection of products, businesses and infrastructure |
| | Indicators (KPI) | Initiatives for the development and practical application of technologies that enable the remote operation and automatic inspection of products, businesses and infrastructure |

ｉ) Concepts for Evaluation of Response Policies and Goals and Setting of Indicators (KPI)

Building a safe and secure society is essential for realizing affluent lives; however, in recent years, people have faced various risks, such as natural disasters, pandemics, a shrinking workforce and changes in the security environment including cyberspace. Under such circumstances, MHI set forth "Build a safer and more secure world" as one of the Material Issues, and since its establishment, MHI has contributed to the development of society by building critical infrastructure and taking on challenges in the unknown worlds of space and the deep sea.

"Implement fully-automated and labor-saving measures" is one of the goals of the Material Issues concerned, which is fleshed out in the 2021 Medium-Term Business Plan and the fully-automated and labor-saving measures are included in the scope along with decarbonization and energy saving in the Smart Infrastructure in the growth area.

In Japan, a labor shortage is becoming more serious due to a decline in the working-age population in addition to decreasing trends of population with a low birthrate and longevity, which could become constraints on domestic economic growth. The short of manpower has influenced the working environment, including increased overtime hours, fewer vacation days,

lower job satisfaction or lack of motivation as well as corporate management, which are issues from the perspective of decent work. Under these circumstances, innovations such as fully-automated AI have been attracting attention as a means of changing economic and social structures, and a fully-automated investment promotion is indicated as a plan in the 2024 Economic and Industrial Policy (Draft.) For instance, Japan has faced so-called "the 2024 Problem" as the work-style reform law for track drivers in the logistics sector was enacted in April 2024. The transportation capacity of commercial trucks will be reduced by 14 percent in FY 2024 and by 34 percent in FY 2030 if no measures are taken. Against this backdrop, in June 2023, the government formulated the "Policy Package for Logistics Innovation (hereinafter referred to as the "Policy Package")" as a measure in "Ministerial Conference on Logistics Innovation in Japan." In the Policy Package, one of the specific measures is to improve the efficiency of logistics (improving logistics efficiency and productivity through DX,) and the government will promote automation and mechanization; introducing forklifts, automatic warehouses or automated cargo handling equipment are examples. In February 2024, the government has established a midium- to long-term plan in which it aims to reduce waiting hours to be loaded and cargo handling operations per truck driver by 125 hours or more a year relative to FY 2019 by supporting shippers or logistics companies to make investments in equipment and systems for automation and mechanization.

Initiatives to improve productivity through automation and mechanization have been emphasized while supply chain disruption risks have been on the increase along with instability in the international situation as well as labor shortages, global momentum toward achieving decarbonization has been growing and reducing production costs are becoming more important with soaring prices of raw materials or energy in the manufacturing sector.

As described above, society's interests in and expectations for fully-automated and labor-saving measures have been growing in a variety of sectors to which MHI's "Implement fully-automated and labor-saving measures" have been responding. These social issues however cannot be solved simply by promoting automation and mechanization. For example, it is essential to standardize logistics, promote data coordination and implement services that leverage digital technologies, such as autonomous driving or drone logistics even only for the utilization of digital technologies in the logistics sector. Additionally, society as a whole collectively needs to work to solve issues, such as promoting the use of various transportation modes or improving the convenience of expressways through the government efforts. It is presently difficult to set quantitative progress monitoring indicators; for instance, autonomous driving is still under technological development.

SMTB has evaluated that MHI's efforts to further develop its knowledge or technologies,

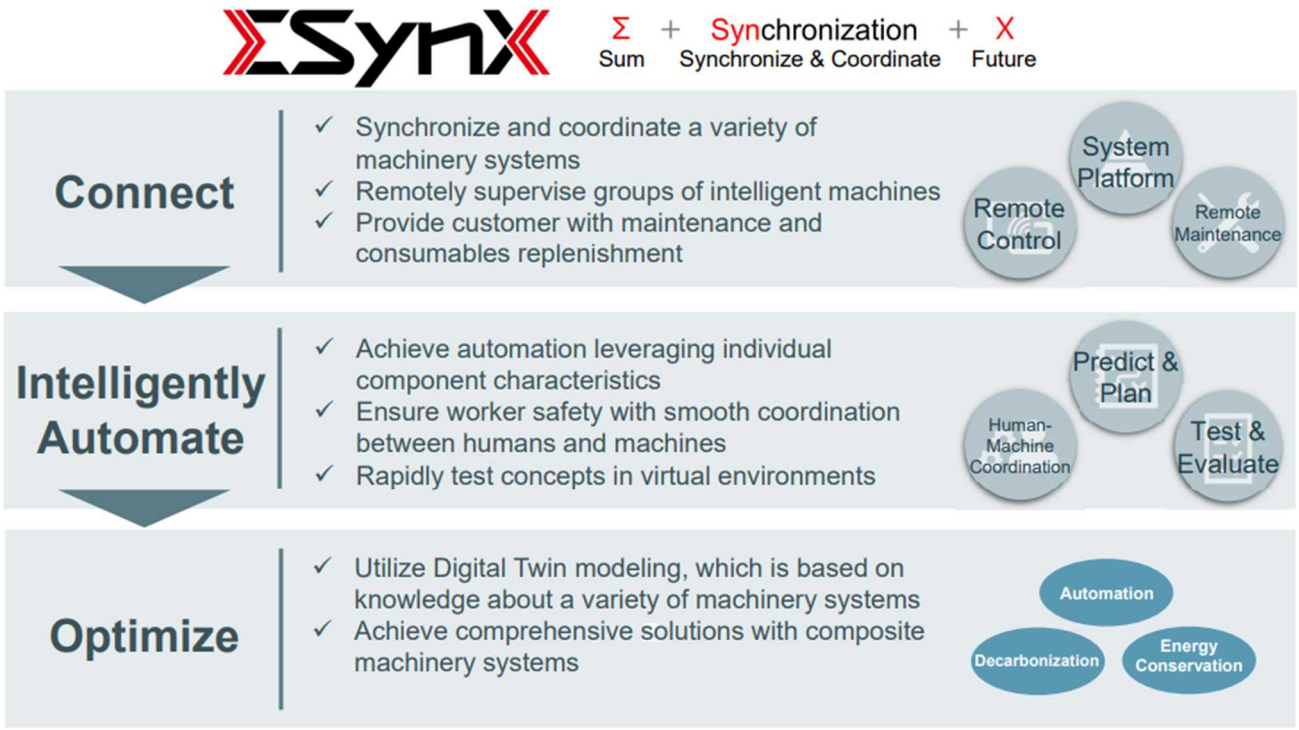
which have been cultivated by the Company and increase the possibilities for commercialization have been challenging and contributing to solving social issues for the medium to long term in these areas. In light of such background, "Initiative for the development and practical application of technologies that enable the remote operation and automatic inspection of products, businesses and infrastructure" have been adopted as an indicator (KPI) in this evaluation. With regard to this indicator (KPI,) one of the monitoring targets presently assumed is the progress of validation and business development of "Sigma SynX" (hereinafter referred to as "ΣSynX,") which has been positioned as a core initiative by MHI in the fully-automated and labor-saving measures. SMTB will monitor technical innovation/performance improvements that contribute to deploying to other uses or expanding application in addition to new orders for "Logistics intelligence" and "Freezer and refrigerated warehouses" for which the Company has already begun receiving orders or overseas deployment of "Freezer and refrigerated warehouses." In cases where any quantitative indicators (e.g., numerical targets for companies whose results will be regularly disclosed) are settable for "Implement fully-automated and labor-saving measures" hereafter, MHI is to consider reviewing the indicators (KPI) based on the details.

ii) Initiatives to Achieve Gals

"ΣSynX," an automation and intelligence platform is MHI's core initiative for fully-automated and labor-saving. MHI has developed and commercialized a variety of digital products, including control systems for machinery and power plants, remote monitoring and maintenance solutions or cyberattack prevention products. By linking all of these products with the ΣSynX platform, the Company aims to provide the functions and added value based on respective issues in new growth areas.

This is also an initiative in response to MHI's other Material Issues, "Transform society through AI and digitalization." For this Material Issues, MHI will seek to realize a society that balances economic development with the resolution of social issues (Society 5.0) by breaking away from preconceived notions and maximizing the use of AI and digitalization to pursue the question of what it means for people to lead affluent lives, and it set forth "Expand lineup of useful and sustainable AI/digital products meeting needs of customers and users" as one of its goals.

Figure 35 ΣSynX



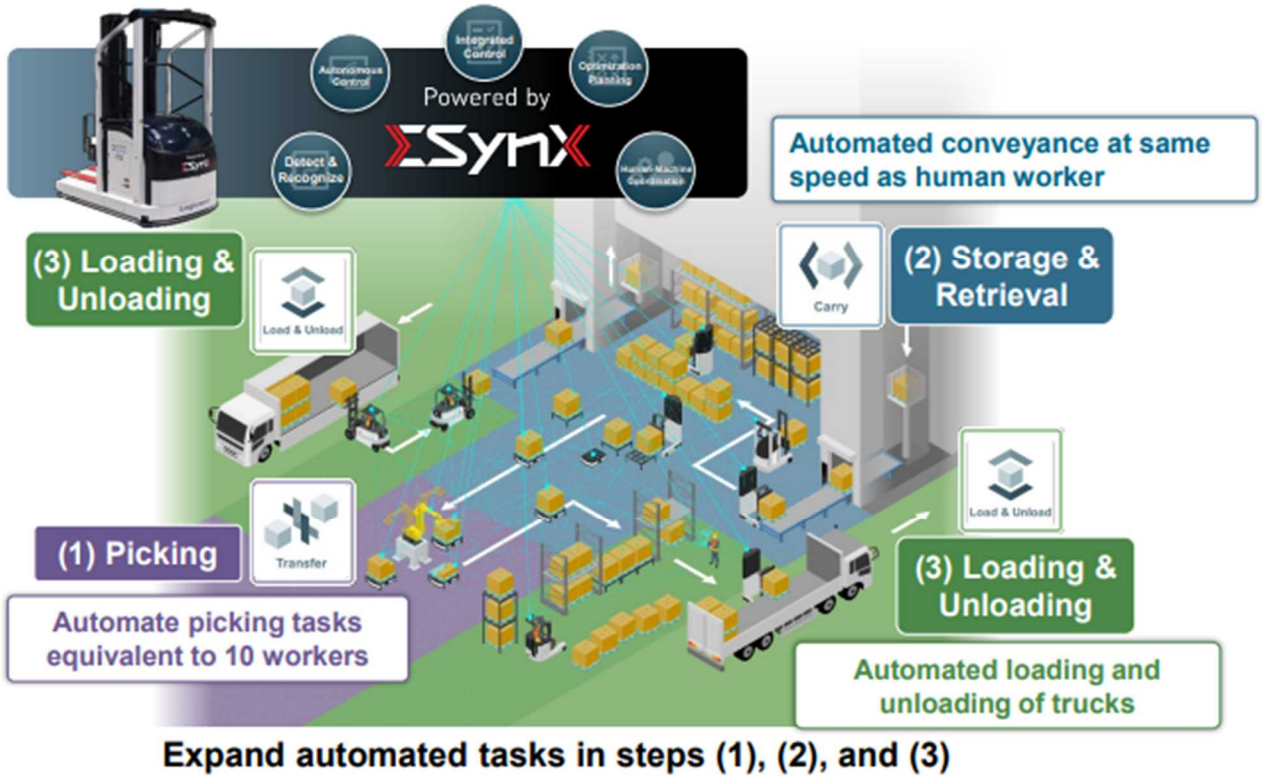

Source: *MHI 2021 Medium-Term Business Plan Progress (FY 2021-2023)* in October 2021

"ΣSynX" is a platform for use cases throughout industry of which MHI has positioned "logistics intelligence" and "freezer and refrigerated warehouses" as well as the aforementioned "data centers" as new three areas. The target revenues for those three areas were presented in the 2021 Medium-Term Business Plan Progress (FY 2021-2023) announced in April 2023 although the progress of results will not be disclosed at the present moment as three of which have just begun their demonstration or commercialization. However, since a main focus in data centers is energy conservation, the logistics intelligence and the freezer and refrigerated warehouses will be illustrated as examples for this individual impact.

MHI has made efforts to integrate ΣSynX into AGF[13]and WCS[14] to drive warehouse logistics automation as an example of the Logistics intelligence. Picking, loading/unloading and storage/retrieval can be optimized by connecting AGF or the Warehouse Control System with ΣSynX.

[13] AGF: Automated Guided Forklift
[14] WCS: Warehouse Control System

Figure 36 ΣSynX/Logistics Intelligence



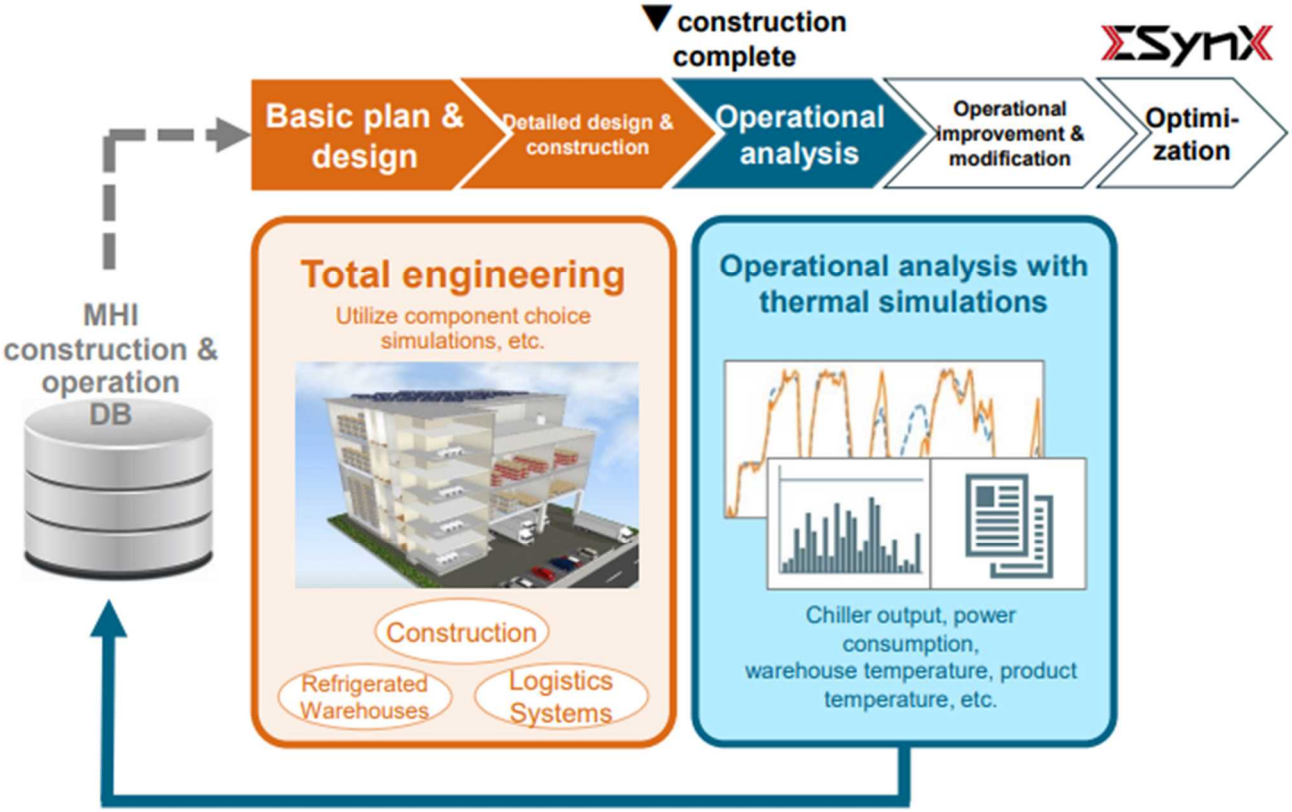

Source:*MHI 2021 Medium-Term Business Plan Progress (FY 2021-2023)* in April 2023

MHI completed joint trial tests of automated picking in beverage warehouses with Kirin Beverage Company, Limited and KIRIN GROUP LOGISTICS CO., LTD. in the Kirin Group launched in November 2022. The demonstration verified the efficiency of the automated picking system utilizing the ΣSynX solution concept to introduce automation and intelligence for the conventional picking work that had been performed manually by workers, responsible for considering how to improve efficiency in their picking operations. The system utilizes a proprietary optimization engine and integrated control system to efficiently coordinate multiple AGFs, AGVs, and palletizers for the picking process. This automated picking solution will be installed in the Ebina Logistics Center managed by KIRIN GROUP LOGISTICS CO., LTD. (East Japan Regional Office and Shonan Branch Office) and the full-scale operation is scheduled to begin in December 2024. MHI will continue to expand its businesses and aims to increase its business scale to 50 billion yen by FY 2030.

As an example of the freezer and refrigerated warehouses, the Company has provided an optimal solution by highly improving cooling efficiency and lowering power consumption through a combination of MHI's engineering/civil engineering and construction technology and HVAC. In January 2023, the Company delivered a freezer/refrigerated warehouse to Kyoto Enkangyo Oroshi Kyodo Kumiai, an intermediate wholesale cooperative in the Kyoto Municipal Central Wholesale Market. In this project, the construction period for warehouse

was shortened by 1.5 months by implementing optimal design from both civil engineering and construction and equipment aspects and the construction was accelerated with FEED (Front End Engineering Design,)[15] which utilized 3D design that has been fostered in plant construction or architecture areas, or simulation tools to select optimal equipment. In addition, power consumption has been significantly reduced through operational analyses with thermal simulations (chiller output, power consumption, warehouse temperature or product temperature.) MHI's forklifts for freezer and refrigerated warehouses will be introduced and contributing to the optimization of logistics operations after these warehouses begin their operations. MHI aims to grow its domestic business to 15 billion yen in FY 2030 and plans to expand its business in Southeast Asia where cold chains are needed.

Figure 37 ΣSynX/Freezer and Refrigerated Warehouse




Source: *Mitsubishi Heavy Industries 2021 Medium-Term Business Plan Progress (FY 2021-2023)* in April 2023

[15] Basic design performed after conceptual design or business feasibility study (FS) with the advantage that needs fewer changes after the final design due to consideration of technical issues or estimated costs.

(3) Promoting Diversity

| | | |
|---|---|---|
| Increasing positive impact/reducing negative impact | | |
| Relationship with SDGs | | |
| | SDGs goals | "5. Gender Equality," "8. Decent Work and Economic Growth" and "10. Reduced Inequalities" |
| | SDGs targets | 5.5, 8.5, 10.2 |
| Impact area/topic | | |
| | Positive Impact: "Employment"<br>Negative impact: "Gender equality" | |
| Impact with this theme | | |
| | Project new value through participation of diverse human resources | |
| Response policy, goals and indicators (KPI) | | |
| | Response policy (a) | Project new value through participation of diverse human resources |
| | Goals | I. Increase the ratio of women on the Board of Directors to at least 30 percent by 2030 (for MHI on a non-consolidated basis)<br>II. Double the ratio of women in management positions domestically and internationally by 2030 (compared to FY2021) (MHI Group (Global)) |
| | Indicators (KPI) | I. The ratio of women on the Board of Directors (for MHI on a non-consolidated basis)<br>II. The increase rate of the ratio of women in management positions (MHI Group (Global)) |

i ) Concepts for Evaluation of Response Policies and Goals and Setting of Indicators (KPI)

To sustain the Company's ongoing development and maximize the creation of shared value with society, it considers diversity, such as gender, age, nationality, disability status and other factors, is an asset among its workforce and the backbone of its business. Promoting diversity has been positioned as an MHI Material Issue. MHI has also established a diversity promotion organization to coordinate related initiatives.

In order for MHI to grow sustainably, it is crucial to achieve gender diversity and increase the participation of females at manager and executive roles with regard to promotion of the advancement of females.

It is required to promote diversity throughout society; however, the proportion of women employed in the manufacturing or construction industries is much lower than that in all other industries (an average between 2019 and 2022: total in all industries: 26.8 percent, manufacturing industry: 22.4 percent, construction industry: 14.1 percent,) and the ratio of female in managerial positions is also low (an average between 2019 and 2022: total in all

industries: 11.2 percent, transportation machinery and equipment manufacturing industry: 2.6 percent, other manufacturing industry 5.5 percent, construction industry: 3.5 percent (all employees in positions of section manager or higher.)[16] At MHI, as of 2022, the proportion of women in all employees is 13.8 percent (MHI Group,) the ratio of women in management positions[17] is 4.5 percent (MHI Group)/2.9 percent (MHI on a non-consolidated basis,) and the ratio of female executives is 4.5 percent (MHI Group)/3.9 percent (MHI on a non-consolidated basis.)

Figure 38 Ratio of Women in Each Position at MHI

| | Target range | 2021 | 2022 |
|---|---|---|---|
| All Employees | MHI Group | 13.4% | 13.8% |
| Manager | MHI Group | 4.5% | 4.5% |
| | MHI | 2.9% | 2.9% |
| Executives | MHI Group | 4.5% | 4.2% |
| | MHI | 3.9% | 3.9% |

Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

More women are participating in policy- and decision-making processes and diverse human resources are actively playing their roles, which will lead to enhanced economic activity or productivity, and diversified work styles will lead to pleasant work for both men and women and maximize individual abilities. SMTB has, however, evaluated that MHI's targets: (i) Increase the ratio of women on the Board of Directors to at least 30 percent by 2030 (Scope: for MHI on a non-consolidated basis); and (ii) Double the ratio of female in management positions by 2030 (compared to FY2021) (Scope: MHI Group) are not easy to achieve comparing to latest results in manufacturing and construction industries or of the Company.)

ii) Initiatives to Achieve Goals

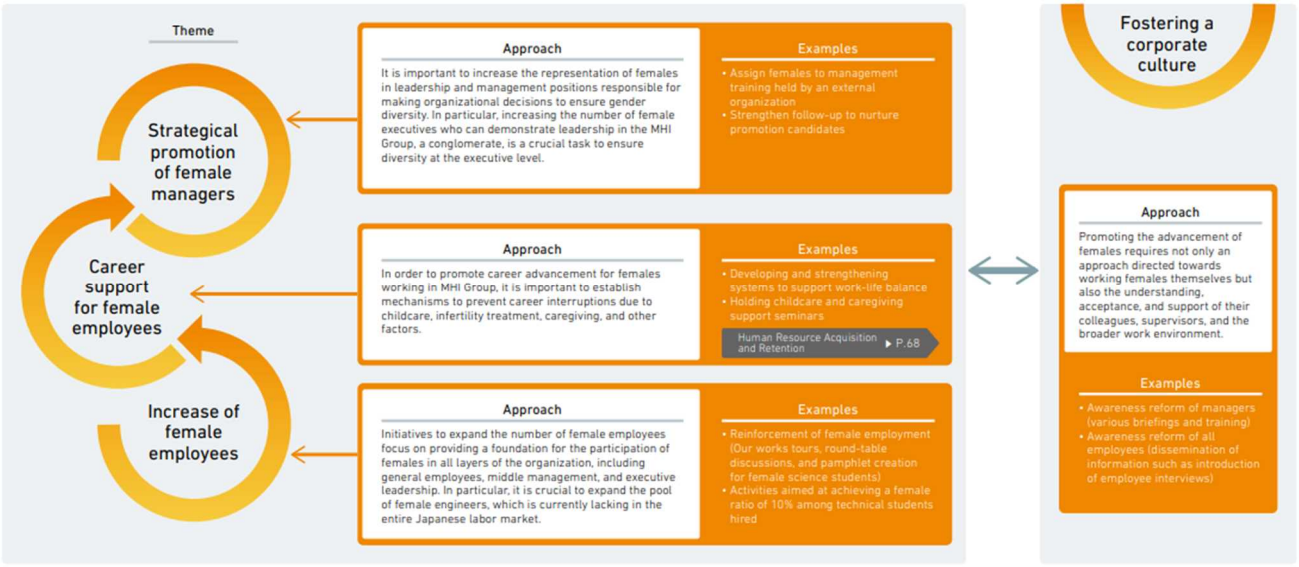
In order to realize a firm that can play an active role regardless of gender, MHI is working to promote the advancement of females by focusing on three elements of the employee experience cycle—increase of female employees, career support for female employees and strategic promotion of female managers—and the fourth element of fostering a corporate culture that supports them in terms of promoting the advancement of females. For instance, in order to increase female employees, MHI is making efforts to reinforce female employment, such as providing its works tours, having round-table discussions and creating pamphlets for

[16] Regarding the "average value" in the standards on the certification system based on The Act on the Promotion of Female Participation and Career Advancement in the Workplace (Ministry of Health, Labor and Welfare) on May 31, 2020

[17] Executive refers to directors, accounting advisors and corporate auditors according to the Companies Act in Japan

female science students as an initiative to increase the number of female employees focus on providing a foundation for the participation of females in all layers of the organization, including general employees, middle management and executive leadership. MHI has also determined that it is, in particular, crucial to expand the pool of female engineers, which is currently lacking in the entire Japanese labor market and it is working on activities aimed at continuously achieving a female ratio of 10 percent among technical students hired. MHI is approaching to increase the representation of females in leadership and management positions responsible for making organizational decisions to ensure gender diversity by assigning females to management training held by an external organization and strengthening follow-up to nurture promotion candidates in the "Strategical promotion of female managers."

Figure 39 Initiatives to Promote the Advancement of Females




Source: *Mitsubishi Heavy Industries Group SUSTAINABILITY DATABOOK 2023 for the Year Ended March 2023 (FY 2022)*

In areas beyond female empowerment, MHI is working to provide differently abled people with opportunities to play active roles at work by considering a working environment, equipment and facilities. The Company also is making efforts to support the active participation of senior employees by introducing an extended employment program up to the age of 65, aiming to create an environment where the rich knowledge and skills cultivated through years of experience can be put to good use. SMTB will monitor the followings in addition to the ratio of female executives or of women in management positions as part of MHI's diversity, equity and inclusion efforts as it aims at sustainable growth hereafter.

- Differently abled people employment rate
- The ratio of females in all employees

3-2. Evaluation by JCR

JCR has evaluated that variety, magnitude, efficiency and additionality are expected to be delivered to the impact based on the KPI in this PI Evaluation after examining it in accordance with the evaluation criteria exemplified in the PI Evaluation Principles as follows: Such KPI is adequate in light of the aforementioned impact identified and MHI's sustainability activities.

| 1. Variety of positive impacts delivered |
|---|
| The finance based on this PI Evaluation is expected to variously have positive impacts and reduce negative impacts throughout MHI's value chain.<br>The three impacts indicated by their respective KPI cover a wide range of impact areas/topics as shown below.<br>(1) Contributing to the realization of a carbon neutral world<br>Positive impact: "Energy," "Infrastructure" and "Climate stability"<br>Negative impact: "Climate Stability"<br>(2) Contributing to fully-automated and labor-saving measures<br>Positive Impact: "Employment" and "Infrastructure"<br>(3) Promoting diversity<br>Positive Impact: "Employment"<br>Negative impact: "Gender equality"<br>The followings are exemplified: (i) Creation of renewable energy during procurement; (ii) R&D, such as hydrogen gas turbines and fully-automated and labor-saving equipment during manufacturing; or (iii) Introduction of energy conservation equipment during use from the perspective of the value chain. |
| 2. Magnitude of impacts delivered |
| The finance based on this PI Evaluation is expected to have significant positive impacts and reduce negative impacts.<br>MHI is a major heavy machinery manufacturer that provides solutions integrated with advanced technologies in a wide range of areas, including shipbuilding, infrastructure, such as transportation systems, commercial aviation or power generation systems and space systems. The revenue was 4,202.7 billion yen for FY 2022, the highest in the domestic heavy industry and preeminent among peers. In particular, gas turbines achieved the world's top market share in 2022 and established a position as a leader in the market and industry. MHI has focused to disseminate power generation equipment centered on its mainstay, a J-type gas turbine and has contributed to stably supplying electricity that is essential for economic development around the globe and realizing a carbon-free society, one of the KPI, which have a significant impact. The Company with the top market share in gas turbines will bring about the momentum for making investments in hydrogen-related equipment and will have a large impact on the market |

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| through R&D and commercialization of hydrogen gas turbines. In cases where carbon neutral factories are realized and fully-automated and labor-saving equipment is introduced, it will have a ripple effect in plants in other industries. |
| 3. Scale of impacts delivered relative to amount of funds spent (i.e. efficiency of the instrument) |
| The finance based on this PI Evaluation is expected to efficiently have positive impacts and reduce negative impacts.<br>MHI identified Material Issues with which MHI Group shall tackle to improve corporate value and grow for the medium to long term through resolving social issues. The Material Issues identified are reflected within its 2021 Medium-Term Business Plan. Progress of each Material Issue is managed with progress monitoring indicators (KPI,) and business activities aimed at achieving goals for Material Issues are monitored and appropriate actions are directed to be taken in the Materiality Council, and the PDCA cycle is steadily applied.<br>The impact indicated by each KPI in this PI Evaluation is related to the Material Issues identified by MHI, and it is expected to efficiently have and control impacts supported by finance based on this PI Evaluation. |
| 4. Degree of leverage of private funds relative to public funds and/or donations |
| The degree of leverage is out of evaluation concerning the impact indicated by each KPI. |
| 5. Level of additionality |
| The finance based on this PI Evaluation is expected to have additional impacts on several goals and targets of the 17 goals and 169 targets of the SDGs as listed below. |

(1) SDGs goals and targets on contributing to the realization of a decarbonized society


**Goal 7: Affordable and Clean Energy**

**Target 7.1** By 2030, ensure universal access to affordable, reliable and modern energy services

**Target 7.2** By 2030, increase substantially the share of renewable energy in the global energy mix

**Target 7.3** By 2030, double the global rate of improvement in energy efficiency


**Goal 9: Industry, Innovation and Infrastructure**

**Target 9.4** By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities


**Goal 13: Climate Action**

**Target 13.1** Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

(2) SDGs goals and targets on contributing to fully-automated and labor-saving measures


**Goal 8: Decent Work and Economic Growth**

**Target 8.2** Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors


**Goal 9: Industry, Innovation and Infrastructure**

**Target 9.5** Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending


**Goal 11: Sustainable Cities and Communities**

**Target 11.3** By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management in all countries

(3) SDGs goals and targets on promoting diversity


**Goal 5: Gender Equality**

**Target 5.5** Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life


**Goal 8: Decent Work and Economic Growth**

**Target 8.5** By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value


**Goal 10: Reduced Inequalities**

**Target 10.2** By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

4. Assessment of Appropriateness of Monitoring Policies

SMTB will annually monitor that the intended positive impacts are continuously created from MHI's business activities and that material negative impacts are successively and appropriately avoided or reduced. SMTB has requested MHI to disclose information continuously, regularly and timely as necessary as for impact-generating activities or KPI in concluding an agreement for this PI Evaluation. SMTB will monitor the progress and efforts to achieve the goals by examining MHI's various information disclosed, and the results will be released on the SMTB Group's website. SMTB will also confirm the measures taken up to the target year after the finance contract period based on this PI Evaluation or the setting of subsequent goals in cases where the target year arrives during the agreement period with regard to the goals on each KPI. In cases where any event occurs, SMTB will interview MHI for the situation and will engage in countermeasures as necessary.

Financial institutions other than SMTB, which have provided finance based on this PI Evaluation can confirm the aforementioned monitoring results on the SMTB Group website. The financial institutions concerned will directly engage with MHI at their own discretion where appropriate in light of the confirmation of the monitoring results.

As a result of monitoring, the details of this PI Evaluation will be updated in cases where: (i) there is any event that has a significant impact on MHI's sustainability activities, which are prerequisites for this PI Evaluation (changes in sustainability policies/promotion structures, changes in Material Issues, occurrence of M&A, significant changes in systems such as regulations or abnormal events, including natural disasters or epidemics); (ii) there is any change in the impact selected in this PI Evaluation due to the (i) above and other factors; or (iii) there is any change in the KPI/goals.

JCR has evaluated that the aforementioned monitoring policy has been adequate in light of the impact identified and KPI details in this PI Evaluation.

5. Assessment of Use of the Model Framework

On the basis of sections 2 through 4 mentioned above, JCR has evaluated that the holistic impact analysis (identifying, assessing and monitoring impacts) of the Model Framework to grasp the three dimensions in relation to SDGs (environmental, social, and economic) have been adequately implemented in this PI Evaluation.

## IV. Alignment with PI Evaluation Principles

JCR has evaluated that SMTB's processes, methodologies and internal regulations/systems' improvement on product development for PI Evaluation and the PI Evaluation to MHI have been aligned with all requirements in the PI Evaluation Principles as described below. JCR has also confirmed that this PI Evaluation has been aligned with the Concept Paper on Impact Finance.

1. PI Evaluation PRINCIPLE ONE: Definition

| Principle | Confirmation result by JCR |
|---|---|
| PI Evaluation is that which serves to finance Positive Impact Business. | This PI Evaluation is positioned as a framework for SMTB to implement PI Evaluation to support MHI's positive impact business. |
| PI Evaluation is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social,) once any potential negative impacts to any of the pillars have been duly identified and mitigated. | The finance based on this PI Evaluation is expected to identify and mitigate negative impacts on the three pillars (economic, environmental and social) and have positive results. |
| By virtue of this holistic appraisal of sustainability issues, PI Evaluation constitutes a direct response to the challenge of financing the SDGs. | The finance based on this PI Evaluation will clarify the relationship with the SDGs and will constitute a response that directly contributable to the goals in question. |
| The Principles are intended to be applicable across all categories of financial instruments and the business activities that underpin them. | Various types of financing including term loans are assumed in this PI Evaluation. |
| The Principles for Positive Impact Evaluation are not sector based. | This PI Evaluation analyzes the Company's entire business activities. |
| The Principles acknowledge the interconnectedness of sustainability issues and therefore base themselves on a global assessment of positive and negative impacts rather than on the singling-out of sectors. | Both of the positive and negative aspects of each impact are focused in this PI Evaluation. A target to improve the impact is set for items with negative aspects while a goal to maximize the impact is established for items with positive aspects. |

2. PI Evaluation PRINCIPLE TWO: Framework

| Principle | Confirmation result by JCR |
|---|---|
| To promote the delivery of PI Evaluation, entities (financial or non-financial) need adequate processes, methodologies and tools, to identify and monitor the positive impact of the activities, projects, programs and/or entities to be financed or invested in. | SMTB developed processes, methodologies and tools so as to identify and monitor positive impacts. SMTB has also established detailed regulations as operational guidelines, which are effective in keeping staff informed and maintaining consistency in the assessment. As the number of projects increases, more effective lending and investments can be made as PI Evaluation by examining specific benchmarks for positive impact criteria that will serve as a reference to make a decision on the finance. |
| Entities should implement specific processes, criteria and methodologies to identify Positive Impact. The analysis should cover activities, projects and programs but also underlying companies. | SMTB has established processes, criteria and methodologies to identify positive impacts in line with the Model Framework and covered the entire business activities including subsidiaries in the analysis. |
| Entities should apply regular ESG risk management before determining Positive Impact eligibility. | SMTB leverages the Impact Radar and Impact Analysis Tool developed by UNEP FI in analyzing positive impacts. |
| Entities should implement specific processes, criteria and methodologies to monitor the achievement of intended impacts throughout the life-time of the financial instrument. | SMTB implemented processes, criteria and methodologies for monitoring. |
| Entities should allocate and equip staff with relevant mandates and skill sets to enforce the above processes. | SMTB has departments and personnel with the necessary skills to implement the aforementioned process. |
| Entities should seek second opinions and/or third-party assurances on the implementation of the above processes as appropriate. | SMTB requested JCR to provide its second opinion this time. |

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| Entities should review and update processes as appropriate on an on-going basis. | SMTB reviews and updates its processes as appropriate on an on-going basis in accordance with its internal regulations. To form the second opinion, JCR has referred to SMTB's internal regulations revised in October 2023. |
| Positive Impact analysis can be undertaken alongside existing procedures, for instance, at on-boarding and during periodical reviews of products, project or clients. Positive Impact analysis can make use of existing and recognized tools, standards and initiatives where applicable (for instance, in the case of project finance, the Equator Principles provide a recognised risk management standard). | SMTB uses the Impact Radar and Impact Analysis Tool developed by UNEP FI, which specify the criteria for reference in analyzing positive impacts. |

3. PI Evaluation PRINCIPLE THREE: Transparency

| Principle | Confirmation result by JCR |
|---|---|
| Entities (financial or non-financial) providing PI Evaluation should provide transparency and disclosure on:<br>・The activities, projects, programs and/or entities financed considered Positive Impact, the intended positive impacts thereof (as per Principle 1);<br>・The processes they have in place to determine eligibility, and to monitor and to verify impacts (as per Principle 2);<br>・The impacts achieved by the activities, projects, programs, and/or entities financed (as per Principle 4). | The finance based on this PI Evaluation provides transparency by obtaining and disclosing this second opinion. MHI will also disclose the items listed as KPI in MHI Report, SUSTAINABILITY DATABOOK or its website. SMTB will provide transparency by regularly verifying the achievement of the items concerned and conducting interviews where appropriate. |

4. PI Evaluation PRINCIPLE FOUR: Evaluation

| Principle | Confirmation result by JCR |
|---|---|
| The assessment of Positive Impact Evaluation delivered by entities (financial or non-financial) should be based on the actual impacts achieved. | SMTB has assessed impacts expected for the finance based upon this PI Evaluation founded on the five components: (i) Variety; (ii) Magnitude; (iii) Efficiency; (iv) Leverage; and (v) Additionality listed in the EI Evaluation PRINCIPLE FOUR. JCR received sufficient information before providing its second opinion on the impacts concerned. |

5. Concept Paper on Impact Finance

The Concept Paper on Impact Finance compiled by PI Evaluation TF has positioned the impact finance as advanced ESG finance that pursues impacts on the environment, society and economy, aiming to mainstream the impact finance with a large sum of private funds. In order to achieve the purpose in question, basic ideas have been organized with reference to the Concept Paper on Impact Finance in various lending and investments, which have been developed domestically and internationally although it is not principles, guidelines or regulations on the impact finance, and it is an important message from Ministry of the Environment and the ESG Finance High Level Panel so as to mainstream the impact finance in Japan.

Component 1: Lending and investments with the intention of creating a positive impact in at least one aspect, given that significant negative impacts in any of the environmental, social and economic aspects are appropriately mitigated and managed.

Component 2: Those that evaluate and monitor impacts

Component 3: Those that disclose information on impact evaluation results and monitoring results

Component 4: Aims to ensure appropriate risks/return for respective financial institutions/investors based on the medium- to long-term perspective.

The Concept Paper on Impact Finance defines impact finance as satisfying the four components above, and this PI Evaluation is aligned with these components. The process of identifying, evaluating and monitoring impacts in this PI Evaluation is aligned with the basic flow of impact finance, which, in particular, comprehensively figures out companies' diverse impacts as shown in the Concept Paper on Impact Finance.

## V. Conclusion

Accordingly, JCR has confirmed that this PI Evaluation has been aligned with the Principles for Positive Impact Evaluation, the Model Framework and the Basic Paper on Impact Finance.

Responsible Analysts for this Evaluation: Atsuko Kajiwara and Takuto Touda

## Important Explanation on this Second Opinion

1. Assumptions, Significance and limitation of the Second Opinion provided by JCR
The Second Opinion assigned and provided by Japan Credit Rating Agency (hereinafter referred to as "JCR") is a comprehensive statement of its current overall opinion on the alignment of the operating entity and procuring entity with the Principles for Positive Impact Evaluation formulated by the United Nations Environment Programme Finance Initiative and the Concept Paper on Impact Finance compiled by Positive Impact Finance Taskforce established in the ESG Finance High-Level Panel of Ministry of the Environment. The Second Opinion is not completely indicated the extent of the positive impacts brought about by this Positive Impact Evaluation.
The Second Opinion is an expression of opinion on the present plan or situation based on the information provided by the procuring entity and the operating entity who sought a second opinion and information independently gathered by JCR, and therefore it does not guarantee positive outcomes in the future. The Second Opinion does not quantitatively demonstrate positive effects through this PI Evaluation, and JCR assumes no responsibility for such effects. JCR will confirm that the achievement of the KPI in the PI Evaluation has been measured quantitatively and qualitatively by the procuring entity or a third party requested by the procuring entity; however, in principle, JCR does not directly measure it.

2. International Initiatives or Principles Referred to Prepare the Second Opinion
JCR has referred to the following principles in preparing this Second Opinion.
United Nations Environment Program Financial Initiative
・The Principles for Positive Impact Evaluation
・The Model Framework for Financial Products for Corporates with Unspecified Use of Proceeds
Positive Impact Finance Task Force in the ESG Finance High-Level Panel of Ministry of the Environment
・Concept Paper on Impact Finance

3. Relation with Conduct on Credit Rating Business
This Second Opinion is provided by JCR as its related business and differs from any conduct of credit rating business.

4. Relation with Credit Rating
This evaluation differs from credit rating and is not committed to providing a predetermined credit rating or making available for inspection.

5. Impartiality of JCR
There is neither capital nor personal relations that cause conflicts of interest between this evaluation target and JCR.



■Glossary
Second Opinion: This report provides a second opinion for the alignment of the Positive Impact Evaluation Principles prepared by banks with UNEP FI Positive Impact Financial Principles from the independent, neutral and impartial standpoint in response to a request from any person or entity who seeks the Second Opinion.
Operating Entity: A financial institution that provides positive impact evaluation.
Procuring Entity: A business company that makes a loan through positive impact evaluation for positive impact business.

■Status of registration as an external evaluator of sustainable finance
・United Nations Environment Programme, Financial Initiative, Positive Impact Working Group Members
・Registered as an external reviewer of Green Bonds by Ministry of the Environment
・ICMA (registered as an observer to the International Capital Markets Association,) Social Bond Principles, Climate Transition Finance Working Group Members
・Climate Bonds Initiative Approved Verifier

■Status of registration as a credit rating agency
・Credit Rating Agency, FSA Commissioner (Ratings) No.1
・EU Certified Credit Rating Agency
・NRSRO: JCR is registered in the following four of the five credit rating classes of NRSROs (Nationally Recognized Statistical Rating Organizations) defined by the U.S. Securities and Exchange Commission. (1) Financial institutions, brokers and dealers; (2) Insurance companies; (3) Corporate issuers; and (4) Issuers of government securities, municipal securities and foreign government securities. If any information is required to be disclosed under Rule 17g-7(a) of the U.S. Securities and Exchange Commission, such disclosure is attached to the news release posted on JCR's website (http://www.jcr.co.jp/en/).

■For all other inquiries, please contact us below
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