# Becoming a Company That Is Highly Regarded in International Society

As a company that conducts business activities on a global scale, the Company's impact on the environment and society is increasing. Accordingly, ensuring social sustainability is essential to earning the trust of international society. Through our business activities, we strive to address the issues society faces. As part of this process, we consider it important to identify material issues that have a major impact on society and our corporate value, and we focus on prioritizing management resources in these areas.

Based on this policy, we identified material issues from two perspectives: society's perspective and a business perspective. The first involved considering various international standards, stakeholder opinions, and mega trends, while for the second we referred to hearings conducted among each of our departments. Recognizing the need for the process of identifying material issues to be conducted in the same manner as risk analysis and business strategy formulation for the Company's businesses, the identifications were decided after being approved by management.

This process of identifying material issues was linked with the formulation of our 2015 Medium-Term Business Plan as well as our medium-to-long-term management guidelines.

**MATERIAL ISSUE 1**

## An Optimal Governance Structure Based on Our Corporate Culture
- An optimized organization to continually contribute to society through business
- The assurance of fair operating practices and appropriate labor practices

**MATERIAL ISSUE 2**

## The Use of Global Human Resources
- The attraction and development of human resources with the ability to respond to globalization
- Diversity and equal opportunity, including the empowerment of female employees

**MATERIAL ISSUE 3**

## Response to Mega Trends
- Innovation and quality control to meet global needs
- Enhanced safety and security, including improved information disclosure and transparency

**Consideration from the Perspective of Our Businesses: Three Major Changes MHI Faces**

In considering material issues from a business perspective, we conducted hearings of our 16 business departments. Although awareness of specific issues differed among the departments, the following three major changes emerged as common themes.

| Changes in the Ideal State of the Organization | Globalization | Changes in the Business Model |
|---|---|---|
| Due to our consolidation and restructuring into four business domains, decision-making systems had become more agile. On the other hand, during the transition period of reorganization it was necessary to exercise caution with respect to the management of Group companies on the safety and environmental fronts. | Rapid globalization and an increase in the number of Group companies had emphasized the importance of reinforcing governance and clarifying responsibility and authority. | Our business has changed from one focused on selling equipment to customers to a model spanning the entire product life cycle—one of making our own decisions as a business owner, including the provision of maintenance and other services. |

- Strengthen the function of supervising decision makers
- Manage workplaces from a compliance perspective

- Establish global governance
- Delegate substantial authority to local human resources
- Cultivate global human resources proficient in different organizational cultures
- Hire and promote human resources overseas

- Increase sensitivity toward and respond swiftly to market trends, society's needs, and our impact on society

## Process of Identifying Material Issues

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|---|---|
| **Incorporating Society's Perspective** | Taking a stakeholder perspective[1] on the core subjects of ISO 26000, we narrowed down to 84 the items of importance to MHI. We then referred to such guidelines as the Global Reporting Initiative (GRI) "Sustainability Reporting Guidelines (Fourth Edition, or G4)" and subsequently grouped together similar items and reduced the list to 49 items in seven departments. |
| **Arranging the Issues from the Perspective of MHI's Business** | We conducted hearings of our 16 departments, confirming the importance to our business of the 49 issues. We also ascertained that three major changes were consistently raised as issues with the business reorganizations the Company has undergone in recent years: changes in the ideal state of the organization, globalization, and changes in the business model. |
| **Confirming Appropriateness** | We engaged in dialogue with specialized overseas institutions to confirm that our process of identifying material issues was appropriate. |
| **Narrowing Down the Issues in Line with Mega Trends** | We referred to priority items from 2015 in *Building the Post-2015 Business Engagement Architecture*,[2] published by the United Nations Global Compact, confirming that our business perspective was not divergent from sustainability mega trends, consolidating the number of items to 25. |
| **Identifying Material Issues** | Based on the shortlist of 25 items determined from the perspectives of the Company's business and mega trends, we identified three material issues for the Company. |
| **Obtaining Management Authorization** | The CSR Committee[3] deliberated and decided on the items. |

[1]. We referred to the results of stakeholder questionnaire surveys, SRI surveys, records of meetings with institutional investors, supplier surveys submitted to customers, and stakeholder engagement programs, among others.
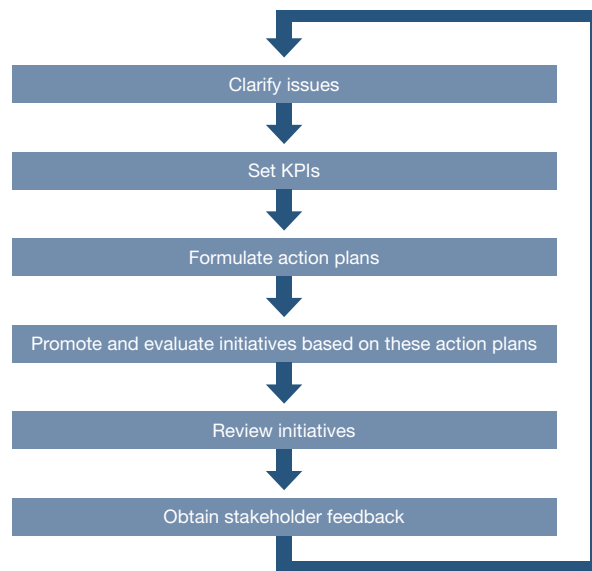[2]. This publication is a call for companies to commit to and promote and support activities to achieve targets set by the United Nations.
[3]. Chaired by the head of the Business Strategy Office (the executive officer in charge of CSR), the CSR Committee includes the CAO/CRO, CFO, CTO, and the officer in charge of Global Business Planning & Operations as well as the officer in charge of Human Resources, Labor Relations, and Global Personnel.

## Future Activities

In the process of identifying material issues, we confirmed international society's expectations of us and the issues we face with regard to promoting companywide reforms. We have reflected this information in the 2015 Medium-Term Business Plan we launched in May 2015.

As activities going forward, we intend to set key performance indicators (KPIs) for each issue, formulate action plans, and advance measures. In addition to surveys to identify the impact of our businesses on society, we plan to conduct hearings and questionnaires to obtain stakeholder feedback on our initiatives targeting material issues. Throughout the Company, we will undertake initiatives targeting these material issues as we work to enhance corporate value.

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Clarify issues
    ↓
Set KPIs
    ↓
Formulate action plans
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Promote and evaluate initiatives based on these action plans
    ↓
Review initiatives
    ↓
Obtain stakeholder feedback
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The following sections of this report introduce initiatives related to the material issues we have identified.

| P44 Corporate Governance | ▶ | **MATERIAL ISSUE 1** An Optimal Governance Structure Based on Our Corporate Culture |
|---|---|---|
| P49 Human Resources | ▶ | **MATERIAL ISSUE 2** The Use of Global Human Resources |
| P50 Intellectual Property Activities and R&D | ▶ | **MATERIAL ISSUE 3** Response to Mega Trends |

Please see our website for information on CSR initiatives and detailed data on the environment, society, and governance (ESG). This site contains information on our policies and strategies for CSR and ESG, various initiatives, and ESG data related to socially responsible investment. In November 2015, we plan to update this website with information from fiscal 2014.

CSR site
▶ http://www.mhi-global.com/company/csr/policy/index.html