

# CREATING A MANAGEMENT FOUNDATION THAT RESPONDS TO GLOBAL SOCIETY: ESG INITIATIVES

To evolve as a truly global corporation, MHI Group is creating a management foundation that achieves harmony with global society, taking the environment, society, and governance (ESG) into account. We are also working to achieve sustainable growth by accommodating the dramatic environmental changes and broad-ranging diversity occurring around the world to generate high added value for society.

## Identifying the Three Material Issues

In fiscal 2014, MHI Group identified three material ESG issues that significantly affect both society and corporate value, taking into account the current external environment and the Group's own situation with regard to business execution and progress on globalization. From the viewpoint of society, this process incorporates various international standards, including ISO 26000 and the Global Reporting Initiative (GRI), as well as stakeholder opinions and mega trends. At the same time, from a business viewpoint we have conducted hearings of individual divisions, performed risk analysis from a business perspective, and obtained management approval as one aspect of the formulation of business strategies.

Through initiatives involving these three material issues, we are creating the management foundations to adapt to global society.

## 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

### Objective

Ensure an organizational culture in which values are shared globally and universally

### Strategic KPIs

- Instill globally consistent policies that conform with the international code of conduct (establish universality)
- Enhance transparency (assure universality)
- Enhance disclosure and stakeholder engagement

### KPI: Number of whistleblowing cases

We have established the MHI Whistleblowing Hotline, which is available to all employees, including those of Group companies, and the MHI External Whistleblower Hotline. The Compliance Committee secretariat promptly investigates and responds appropriately to all reports made to these hotlines.

FY/cases			
Number of whistleblowing cases, by Type	2014	2015	2016
Labor and the work environment	48	39	42
Overall discipline and breaches of manners	49	24	28
Transaction-related laws	14	8	11
Consultations and opinions	26	11	3
Other	48	49	34
Total (number of corrections and improvements)	185 (110)	131 (85)	118 (64)

## 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

### Objective

Be an organization that embraces diversity (Ensure that barriers to diversity are removed)

### Strategic KPIs

Improvement in diversity-related indicators

### KPI: Number of female managers

In July 2014, MHI set a target to increase the number of the Company's female managers (in positions of section manager and higher) threefold from the current level by 2020, and is promoting the active participation of women in the workplace in conjunction with its pursuit of diversity management.

FY/people		
2014	2015	2016
85	102	126

\* In principle, these figures include Mitsubishi Heavy Industries, Ltd., and Mitsubishi Hitachi Power Systems, Ltd.

## 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

### Objective

Enact strategic measures and business operations that meet the needs of global society

### Strategic KPIs

Improvement in stakeholder evaluations (SRI surveys, customer satisfaction surveys, etc.)

Please see our segment-specific strategies (pages 35, 39, and 43) for examples of initiatives to address these material issues in our three business domains. 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.

CSR site > <http://www.mhi.com/company/csr/index.html>

## Material Issue 1 An Optimal Governance Structure Based on Our Corporate Culture

### Conforming with International Codes of Conduct in Japan and Overseas

In 2004, MHI joined the United Nations Global Compact. We are committed to the spread and practice of the Compact's 10 principles spanning four basic areas—human rights, labor, environment, and anti-corruption—and are pursuing business activities in conformance with international codes of conduct.

In terms of corporate governance, we aim to develop "Japanese-style global management," focusing on the improvement of management soundness and transparency, as well as on diversity and harmony. To this end, to date we have carried out a number of reforms; we have increased our number of outside directors, revised our executive compensation system, and transitioned to a company with an Audit and Supervisory Committee.

As part of our compliance efforts, in 2001, we established the "MHI Compliance Committee" and developed the "MHI Compliance Guidelines." In 2015, we established the "MHI Group Global Code of Conduct." As a global company, MHI Group employs approximately 83,000 individuals from different backgrounds, nationalities, and cultures.

We recognize MHI Group needs to make the most of diversity and operate with a single corporate culture that enables it to compete successfully in the global market.

The Code of Conduct describes how MHI Group employees should conduct themselves in such categories as fair competition, anti-corruption, and compliance with export-related laws and regulations.

In the second half of fiscal 2016, we developed the e-Learning course of the said Code of Conduct to facilitate deeper understanding.

Furthermore, in fiscal 2016, we placed compliance promotion specialists in our strategic regional headquarters in each area—China, Asia Pacific, Europe, and North America—to promote global compliance activities adapted to the characteristics of their respective countries and regions. In August 2016, we held our first introductory training in Shinagawa for specialists responsible for audits and compliance in each region. Each member made a presentation on efforts in their region. One participant stated, "This was a good opportunity to interact with members from other regions who we don't normally get a chance to communicate with, and it was very motivating to see what the situation is like in other regions. I think it was a very worthwhile experience." In short, we will continue to promote global compliance in cooperation with the members in each region.



Compliance introduction training for local staff in individual regions

### Dialogue with Stakeholders

MHI seeks to incorporate into its management activities input from a host of stakeholders, including customers, suppliers, business partners, Group employees, and members of local communities. Through our business activities, we communicate with a variety of stakeholders on a daily basis. In addition, through dialogue with outside experts on CSR and social issues, we actively seek to reflect society's perspective. In fiscal 2016, we engaged in dialogue with two outside experts with extensive knowledge in such areas as human rights, the environment, and governance.

During the dialogue, Mr. Nieuwenkamp introduced leading examples of other companies' due diligence efforts in the supply chain, particularly with regard to minerals involving a high risk of human rights abuses. As a first step, he advised identifying and recognizing areas of potential risk by risk-mapping the supply chain. Mr. Thomas noted the fact that MHI had not come head to head with serious human rights problems to date was a good sign. In order to respond appropriately to such issues if they occurred, however, he suggested it was necessary to constantly remain vigilant about human rights risks throughout MHI's extensive business activities. Going forward, we plan to continue incorporating such stakeholder opinions into our management.

**Date:** September 14, 2016

**Overseas experts:** Mr. Roel Nieuwenkamp (Chair, OECD Working Party on Responsible Business Conduct)  
Mr. Thomas Thomas (CEO, ASEAN CSR network)

**Dialogue contact:** CSR division

**Facilitator:** Mr. Saul Takahashi (Japan Representative, Business & Human Rights Resource Centre)



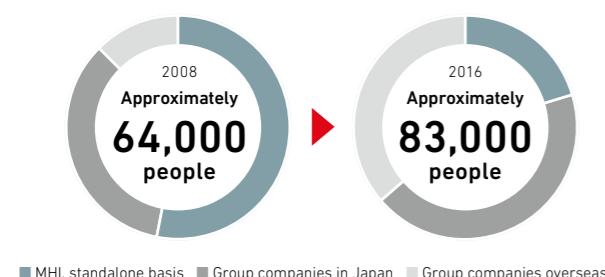
## CREATING A MANAGEMENT FOUNDATION THAT RESPONDS TO GLOBAL SOCIETY: ESG INITIATIVES

### Material Issue **2** The Use of Global Human Resources

#### Establishing a Global HR Department

The Group's composition of human resources has changed significantly, in line with the transition to business companies, the onward march of globalization, and an increase in mergers, acquisitions, and joint ventures.

##### Composition of Employees in 2008 and 2016



To date, MHI Group has sought to create a system for cultivating global human resources that takes business needs into account, with initiatives aimed at enhancing responsiveness on both the skill and mindset fronts. Our global developments in recent years have necessitated a number of additional measures. These include cooperating with people in charge of human resources at overseas Group companies from the planning stages to effectively utilize our resources, introducing and utilizing an effective recruiting platform that leverages the Company's brand, and liaising with overseas business schools to strengthen the local human resource development function. We are nearly finished with our creation of a global human resource database that contains HR information on some 83,000 employees at 180 companies on a consolidated basis, including those overseas. Through this database, we will be able to conduct statistical analyses from various angles, including by region and type of work.

#### Promoting the Active Participation of Women

MHI is promoting the active participation of women in the workplace in conjunction with the Company's pursuit of diversity management.

Our current phase of activity addresses the following themes: expanding the number of female employees, offering career support for employees raising children or providing nursing care by setting up a system that does not interrupt careers, and fostering a corporate culture that supports an active role for female employees. Moreover, we are considering flexible working styles that facilitate a quick return to work after childbirth or raising children, and creating a framework and an environment to further promote the careers of female employees.

In July 2014, MHI set a target to increase the number of the Company's female managers (in positions of section manager and higher) threefold from the current level by 2020. MHI systematically cultivated female employees for managerial positions, so



Rolling out measures that incorporate Group companies overseas (HR conference in Europe)

As well as expanding measures that we have already been implementing, in April 2017, we launched a new Global HR Department as a specialized organization to further strengthen and promote human resource management (eg. talent management) globally on a consolidated Group basis. Seeking to anticipate future changes in the business environment and personnel structure, the scope includes overseas acquisitions and joint ventures. In addition to further grassroots efforts to utilize human resources regardless of whether they are located in Japan or overseas, the new department aims to accelerate measures to maximize resources at the global level, particularly high-level executives.

As one example, we are introducing a platform system in the talent management field to make full use of the human resource data we are accumulating, as outlined above. For instance, the new system enables us to scour the Group in Japan and overseas for candidates to take over important management positions. At the same time, we are formulating common Group HR guidelines that will form the basis for these measures.

the number of female managers is rising steadily: 85 in fiscal 2014, 102 in fiscal 2015, 126 in fiscal 2016, and 149 in fiscal 2017.\*

\* In principle, these figures include Mitsubishi Heavy Industries, Ltd., and Mitsubishi Hitachi Power Systems, Ltd.



Project team to reinforce hiring of women in the sciences

### Material Issue **3** Response to Mega Trends

#### Domestic and Overseas Market Initiatives

To promote our further growth as a global company, we launched the Marketing & Innovation Headquarters in fiscal 2016. The Marketing & Innovation Headquarters conducts surveys to ascertain changes in the business environment and technology trends, as well as social trends and technological needs in specific regions around the world, and then analyzes market

opportunities and risks for MHI Group. In addition to creating diverse strategies and ideas for expanding and strengthening our businesses in Japan and overseas, the Marketing & Innovation Headquarters will propose business ventures, products, and services, and validate their viability in cooperation with customers and business partners.

#### Increasing Open Innovation

MHI's FY2015 Business Plan called for the Company's Research & Innovation Center to serve as an integrated laboratory with two pillars of activity: to enhance the ability to innovate proactively by making use of outside capabilities throughout the value chain, and to strengthen the technology platform by concentrating on comparative advantages in global markets.

Specifically, the R&I Center is concentrating on the development of elemental technologies that can be applied to multiple products in the areas of materials, fluids, and heat transfer, as well as manufacturing process technologies throughout the

value chain. This is achieved by collaborating with leading universities and research institutions in Japan and overseas. We are already applying large-scale numerical simulation technology, which is a key to product development and design in such areas of gas turbines. By collaborating with leading universities and research institutions around the world, we intend to reduce our development period for technologies and products.

To continue developing products that will win out in global competition, we aim to augment development efficiency by increasing our number of collaboration partners and fields.

#### Global Expansion of Manufacturing Technologies Transfer

In pursuing the global expansion of technologies, we recognize that simply transferring the technologies and expertise we have cultivated in Japan is unlikely to go smoothly. The Value Chain Headquarters supports the local adaptation of technologies and transfer of know-how, taking into account the capabilities of local

factories and suppliers. Such support includes revising manufacturing specifications, developing the supply chain with alternative parts and materials available locally, and providing training to workers and suppliers.

#### Innovation Center (Tentative Name)

In a global market changing at dizzying speeds, in considering MHI Group's long-term growth strategy, which involves multiple companies that are strong in the fields of machinery and engineering, we must go beyond efforts from within MHI Group. Additionally, we will draw upon cutting-edge knowledge from outside MHI Group. To realize such initiatives, we are planning to establish the Innovation Center (tentative name). This laboratory will have a higher degree of freedom than traditional R&D

organizations to appoint researchers from outside MHI Group, who will have the ability to take an unprecedentedly creative approach to their research activities. We will apply their research outputs to develop fundamental technologies and new products for MHI Group.

For strategies on the technology front,

> Please refer to the CTO's Message on page 18.