

MHI Group's Sustainability Initiatives

Policy on CSR

MHI Group provides products and technologies that support fundamental infrastructure worldwide and contributes to solving problems on a global scale as a manufacturing corporation that contributes to the advancement of society through its business activities. Furthermore, MHI believes the basis of corporate social responsibility (CSR) is to develop business activities that take into consideration a variety of stakeholders and to return profits to all stakeholders in optimum manner, while at the same time providing outstanding products and technologies to realize a sustainable society and a secure future for people.

In 2007, we established CSR Action Guidelines to provide a common mindset among the Group employees and to make it easier to visualize Our Principles in concrete terms, which state our philosophy on CSR. In 2015, we established the MHI Group Code of Conduct, which sets forth a common code of conduct for employees with diverse backgrounds, nationalities, and cultures. We also support international standards such as the Universal Declaration of Human Rights, and in 2014 established the MHI Basic Policy on Human Rights.

Conformity to International Code of Conduct

In 2004, MHI Group joined the United Nations Global Compact, committing itself to promoting and practicing its Ten Principles spanning four basic areas: human rights, labour, environment, and anticorruption, throughout the Group. We also emphasize ISO 26000, an international guideline on the social responsibilities of organizations, and use it to promote CSR activities. We strive to disclose information on our activities in accordance with reporting standards such as the Sustainability Reporting Standards of the Global Reporting Standards Initiative.

Materiality

MHI Group considers issues that could have a significant impact both on society and its corporate value as material issues which need to be addressed with high priority. We identify material issues through a materiality assessment conducted within MHI Group from both social and corporate perspectives with due considerations given to international standards and the concerns of our stakeholders and address such issues.

CSR Action Guidelines

MHI strives to move the world toward a more secure future. Through our technology, our business practices, and our people, we:

▶ Care for the planet

We are eco-conscious, and engineer environmentally-friendly technologies that improve sustainability and protect the Earth

▶ Create a more harmonious society

We embrace integrity and proactive participation to solve societal challenges

▶ Inspire the future

We cultivate global talent who share a vision and desire to move the world forward for generations to come

Please see "CSR Management."
<https://www.mhi.com/csr/management>

Material Issues of MHI Group

Issues that could have significant impact on the creation of corporate and social values

1. An Optimal Governance Structure Based on Our Corporate Culture

- An optimized organization to continually contribute to society through our business
- The assurance of fair operating practices and appropriate Labor practices

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

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)

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

The current set of material issues (Materiality) were specified in 2015, but since then the importance of global sustainability initiatives has grown, as illustrated by the adoption of the UN's Sustainable Development Goals (SDGs) and growing investment in Environment, Society, and Governance (ESG). Along with this, there has been a change in the megatrends that may affect the Group, and accordingly we are currently re-specifying and verifying our material issues (Materiality) (we plan to list these in our ESG DATABOOK 2020).

Processes Defining Material Issues

Material issues are specified and verified in the following process from the perspective of stakeholder dialogue.

Incorporating Society's Perspective

Through taking a stakeholder perspective*1 on the core subjects of ISO 26000, we narrowed potential issues down to 84 items of importance to MHI. We then referred to such guidelines as the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines (Fourth Edition, 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 with of our 16 departments, confirming the importance of the 49 issues to our business. We also ascertained three major changes that 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. This resulted in 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 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 our customers, and stakeholder engagement programs, among others.

*2 This publication is a call for companies to commit to and promote and support activities aimed to achieve the targets set by the United Nations.

MHI Group's Sustainability Initiatives

MHI Group Stakeholders

In line with Our Principles, MHI Group strives to develop social infrastructure and produce products that contribute to reducing the environmental impact of economic activity by its customers. The basis of our CSR activities is to optimally return the profit gained from the provision of our products to all stakeholders involved in our business activities, and minimize the environmental impact of the Group's production activities.

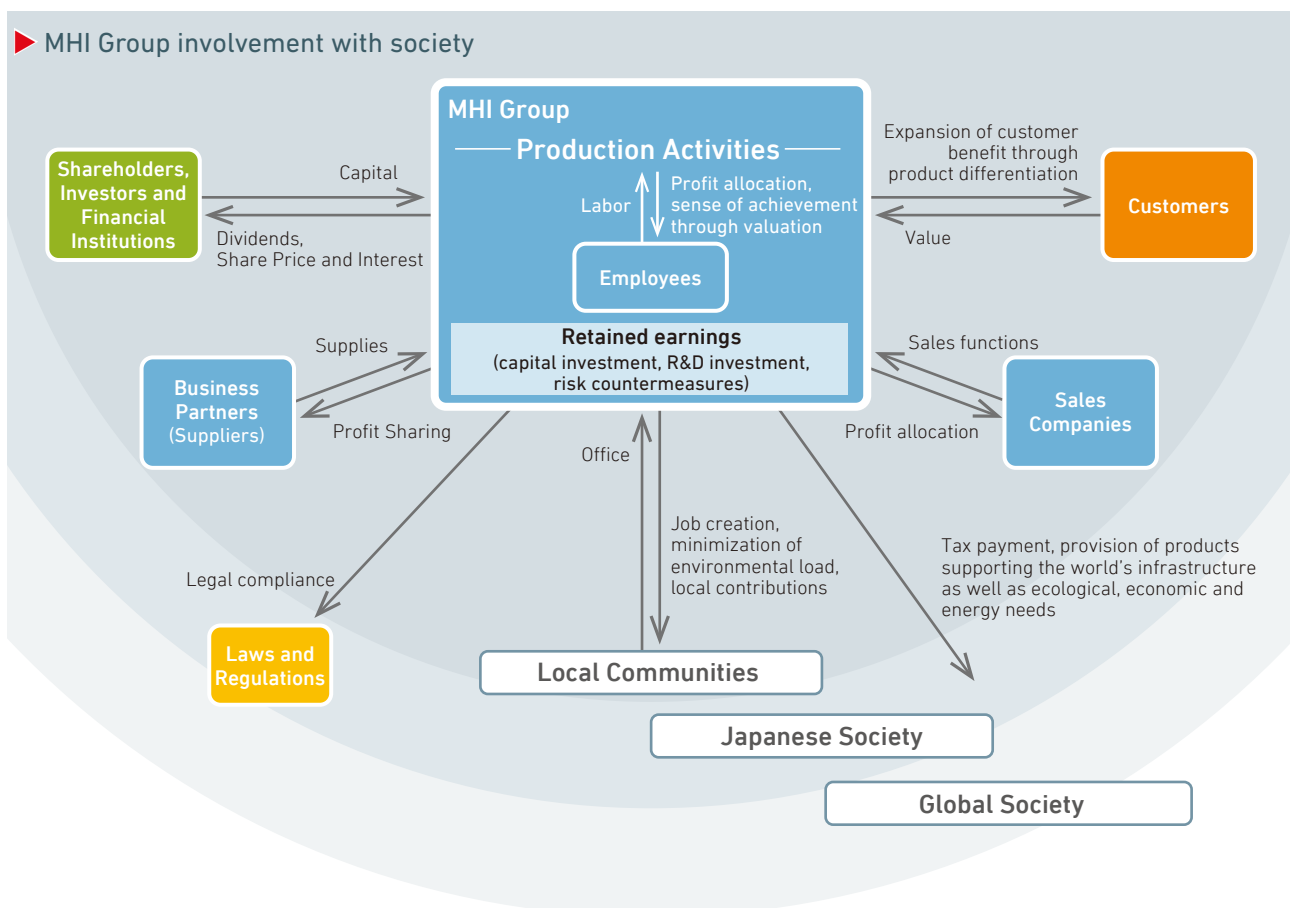
Dialogue with Stakeholders

We place great importance on incorporating the opinions of various stakeholders in its business activities, including customers, suppliers, business partners, Group employees, and local communities, into our management. In addition to seeking out the opinions of stakeholders in its everyday activities, MHI engages

in dialogue with experts and NGOs having specialized expertise related to CSR and global issues, striving to incorporate societal viewpoints.

Collaboration with our Stakeholders

In addition to responding to the needs and issues of each region where our business bases are located, we build mutually cooperative relations with NPOs and other such entities and deploy activities that contribute to solutions to global social issues. As one example, MHI operates an in-house system, Funds for Community Engagement. Under this system, time donated to volunteer work by MHI Group employees is converted to a monetary value, which is then converted to an equivalent budget allocation. We provide funds for such activities and dispatch employees to volunteer work in accordance with the budget.



Environmental Management

MHI Group established the Environment Committee in 1996 in order to clarify its attitude toward the environment and to direct and promote its environmental activities. At its first meeting, the Environment Committee formulated the Basic Policy on Environmental Matters and Action Guidelines, in line with Our Principles: “We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide.” Since then, the Group has taken various measures to reduce environmental impact of economic activity in accordance with this Basic Policy and these guidelines.

See our “ESG DATABOOK” for more information on the environment.
<https://www.mhi.com/csr/library>

Basic Policy on Environmental Matters

Provision 1 of MHI Group’s principles reads: “We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide.” This means that our primary purpose is to contribute to society through R&D, manufacturing and other business activities. The company shall undertake all aspects of its business activities with the understanding that it is an integral member of society and will strive to reduce its burden on the environment, contributing to the development of a sustainable society.

Efforts toward the Task Force on Climate-related Financial Disclosures

Offering solutions to address the issue of climate change is MHI Group’s contribution and responsibility to society. Efforts to do so are part of the Group’s business strategy and determined after Groupwide discussion. Initiatives on reducing environmental burden are carried out across the entire Group. We conducted the initiatives and analysis below centered on the energy-related products business, which has the biggest impact on the environment.

1 Climate scenario for the Under 2°C increase goal

Power demand will grow worldwide and share of renewable energy will increase.

United States and Europe:
Power demand is increasing due to the progress in electrification. Meanwhile, society is aiming for decarbonization as the penetration of renewable energy.

Southeast Asia:
Power demand is increasing by economic growth. Stable power supply is required in addition to renewable energy.

2 Climate-related risks and opportunities

- Downward trend in the market for new coal-fired thermal power facilities.
- Meanwhile, demand still remains for the thermal power with low environmental emissions with the energy security needs.
Strong demand for modernizing existing power plants reducing CO₂ and other environmental emissions for stable energy supply.
- Solid market expected over medium- to long-term demand for new gas power plants with expansion of the LNG market.
- Growth in offshore wind turbine market (Expansion from Europe into greater North America and Asia (approx. 4–6 GW per year))

3 Business strategies and risk management

- Optimization of resources for the market after 2021 (reorganization, personnel shifts, etc.)
- Provision of solutions for low-carbon needs
Strengthen mass production systems for offshore wind turbines and launch the world’s largest turbine.
Collaboration with renewable energy toward realizing a decarbonization society in the future (eg. the development of hydrogen-powered gas turbines).
- Promotion of state-of-the-art technologies (IGCC, highly efficient GTCC/USC*¹, CCS/CCUS*²)
- Provision of AI/IoT technology solutions
- Development of Key Index Approach (QoEn™ Index)*³ to support necessary energy supply with high-quality energy infrastructure in accordance with the characteristics and needs of target area.

4 Financial impact

Disclosure of results at earnings announcements, business strategy meetings, etc., upon examination within business forecasts.

*1 Ultra super critical

*2 Carbon capture and storage/carbon capture utilization and storage

*3 QoEn™ is a registered trademark of Mitsubishi Heavy Industries, Ltd.