Sustainability Management

Relationships with Stakeholders

We believe that corporate social responsibility (CSR) 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 as a company that helps to move society forward through its operations. We issued CSR Action Guidelines in 2007 to foster a shared mindset among Group personnel and instituted the MHI Group Code of Conduct in 2015. Together, they set common standards on how Group personnel with diverse backgrounds, nationalities and cultures should conduct themselves. We have set analogous policies for the environment and human rights also. Specifically, we issued our Basic Policy on Environmental Matters and Action Guidelines, under which we endeavor to reduce environmental burden, in 1996 and the MHI Basic Policy on Human Rights in 2014.

We have also endorsed international human rights standards, most notably the Universal Declaration of Human Rights.

We value input from various stakeholders connected with our business activities, including customers, suppliers, business partners, Group employees and local communities. We place priority on incorporating their input into our management.

In addition to input gleaned from stakeholders in the course of day-to-day operations, we also endeavor to keep abreast of societal views through dialogue with NGOs and thought leaders with expertise in sustainability and social issues.

Meanwhile, we are building mutually cooperative relationships with NPOs and conducting activities to help resolve global societal problems in addition to responding to the needs of and challenges facing communities in which our operations are located.

▶ MHI Group involvement with society
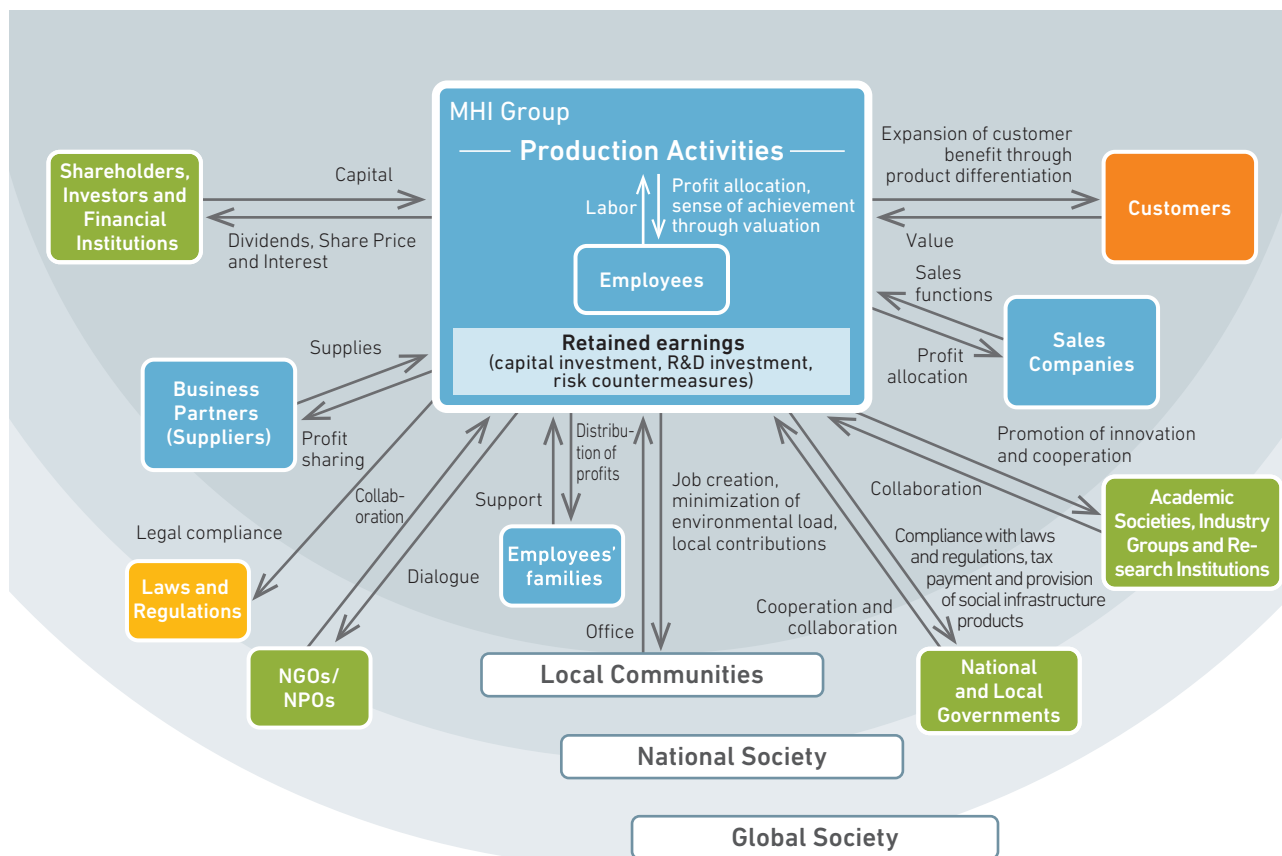
Sustainability Management

Global Initiatives

Conformity with International Norms and Information Disclosure

As a global company, MHI Group always conducts its business activities in accord with international norms. We joined the United Nations Global Compact in 2004. As a signatory, we are committed to propagating and practicing its Ten Principles pertaining to human rights, labor, the environment and anticorruption. We are also committed to compliance with ISO 26000, an international standard on organizational social responsibility. We apply its guidance to our sustainability activities. We strive to disclose information on our activities in accordance with reporting standards such as the Sustainability Reporting Standards of the Global Reporting Initiative.

To address climate change in particular, we joined the international NPO CDP in 2004. We aim to completely decarbonize the Group's business activities by 2050 in accord with the MHI Group Long-Term Environmental Target set in December 2017. As a first step, we are targeting a 44% reduction (relative to FY2014) in our business activities' total direct (Scope 1) and indirect (Scope 2) CO_2 emissions by 2030. We have also endorsed the Task Force on Climate-Related Financial Disclosures' (TCFD) recommendations and follow them with respect to analysis, disclosure, etc.

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 CO_2 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.

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
  Collaboration with renewable energy toward realizing a decarbonization society in the future (e.g., 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.

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*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.

Materiality

Materiality of MHI Group

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

In response to the increasing importance of sustainability in international standards and guidelines, as seen in recent years in the Sustainable Development Goals (SDGs) adopted by the United Nations, growing ESG Investment, and the E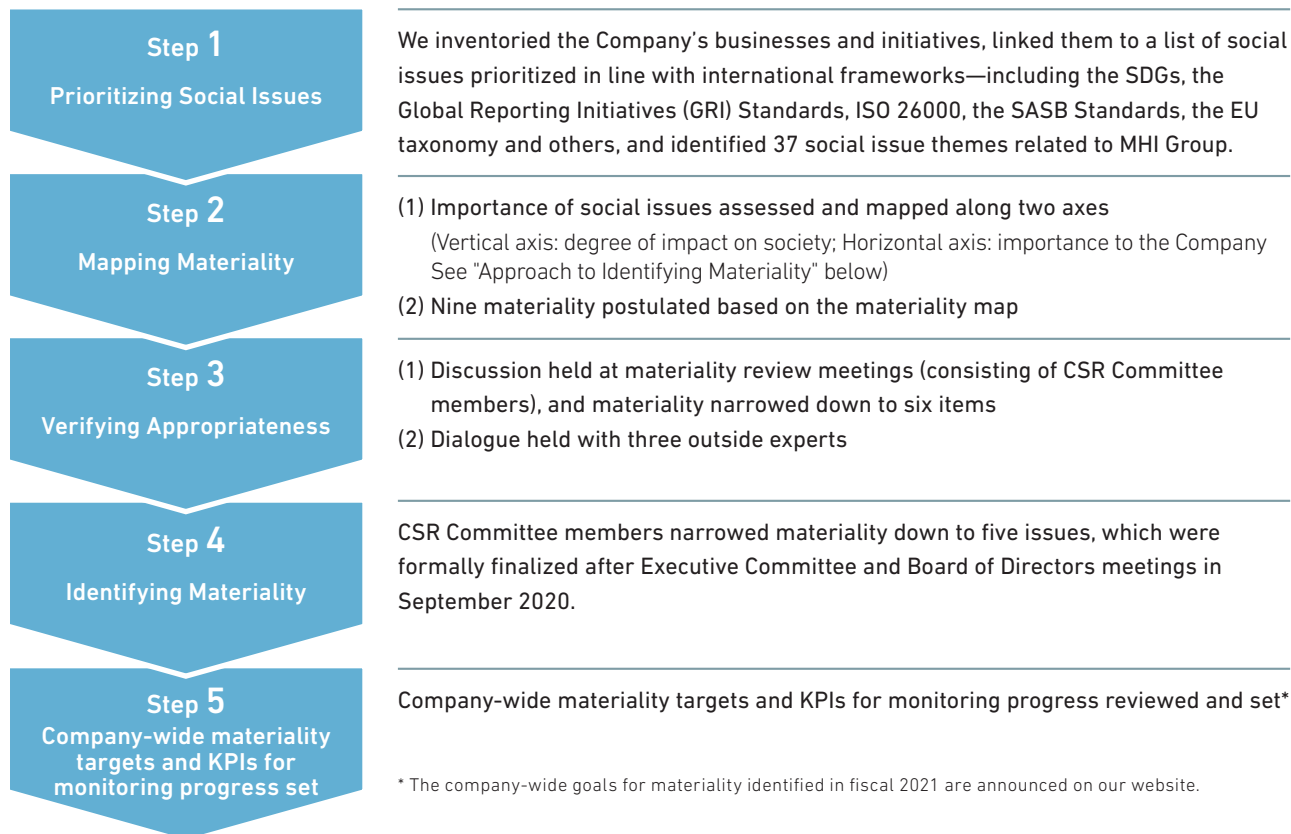U taxonomy and subsequent changes in megatrends influencing the MHI Group, in 2020 we reviewed the materiality identified in 2015 and added five new items as noted below.

The materiality we identified is reflected in the 2021 Medium-term Business Plan announced in October 2020 and targets have been set for each, with progress regularly monitored as part of the Group's non-financial management indicators.
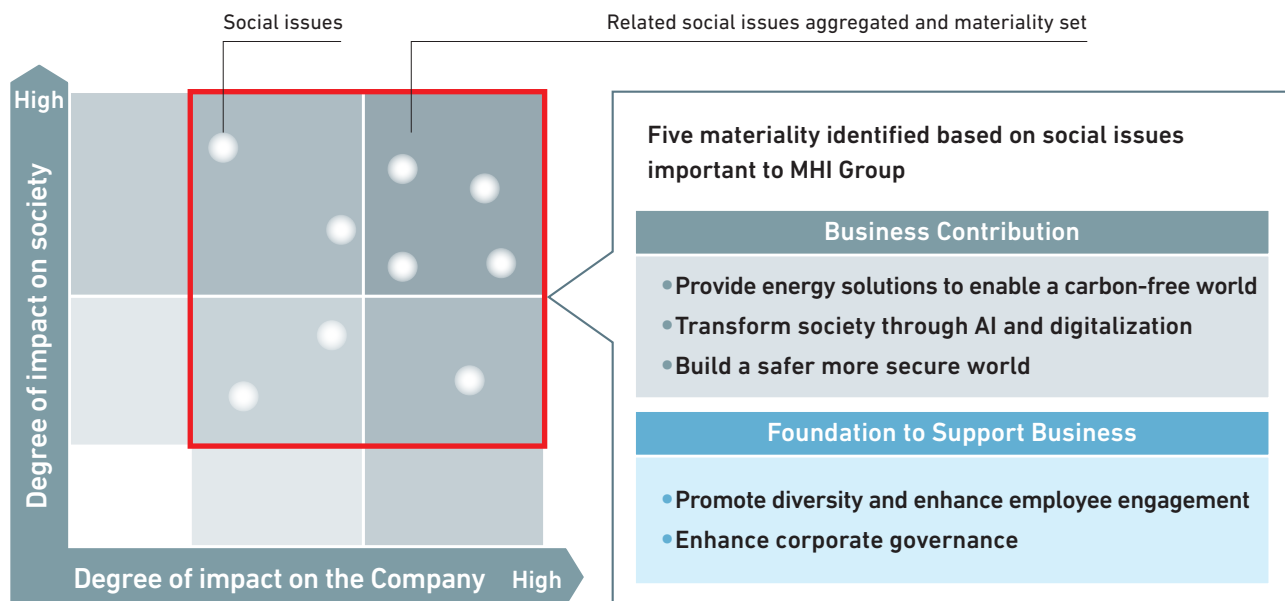
	Materiality	Company-wide objectives	SDGs
Business Contribution (Business)	**Provide energy solutions to enable a decarbonized world**	• Help build infrastructure that will realize a decarbonized society by 2050 • Help decarbonize energy-intensive sectors by 2050 • Help build a circular society/closed-loop systems • Decarbonize MHI Group's business activities by 2050	7 AFFORDABLE AND CLEAN ENERGY, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 13 CLIMATE ACTION
	Transform society through AI and digitalization	• Expand offerings of sustainable, user-friendly AI-enabled/digital products • Propose future energy management solutions • Foster environment conducive to creative product development	8 DECENT WORK AND ECONOMIC GROWTH, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 11 SUSTAINABLE CITIES AND COMMUNITIES, 13 CLIMATE ACTION
	Build a safer and more secure world	• Improve key infrastructure's resilience • Automate/reduce manpower requirements of key infrastructure • Continuously upgrade cybersecurity across all MHI Group products • Productize cross-domain security technologies • Cultivate engineers capable of both safety- and security-minded product development	3 GOOD HEALTH AND WELL-BEING, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 11 SUSTAINABLE CITIES AND COMMUNITIES, 13 CLIMATE ACTION, 16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Foundation to Support Business (Corporate)	**Promote diversity and increase employee engagement**	• Create new value with diverse human resources • Ensure workplaces are safe and comfortable • Develop healthy, dynamic human resources capable of contributing to society • Support/facilitate every employee's autonomous/self-motivated growth • Increase engagement	4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH, 10 REDUCED INEQUALITIES, 17 PARTNERSHIPS FOR THE GOALS
	Enhance corporate governance	• Further expand Board of Directors' deliberative purview • Promote legal/regulatory compliance and honest, fair and impartial business practices • Further increase socially responsible sourcing's prevalence in global supply chains • Create opportunities to present nonfinancial information	16 PEACE, JUSTICE AND STRONG INSTITUTIONS, 17 PARTNERSHIPS FOR THE GOALS

Sustainability Management

Processes Defining Materiality

Step 1
Prioritizing Social Issues

We inventoried the Company's businesses and initiatives, linked them to a list of social issues prioritized in line with international frameworks—including the SDGs, the Global Reporting Initiatives (GRI) Standards, ISO 26000, the SASB Standards, the EU taxonomy and others, and identified 37 social issue themes related to MHI Group.

Step 2
Mapping Materiality

(1) Importance of social issues assessed and mapped along two axes
(Vertical axis: degree of impact on society; Horizontal axis: importance to the Company See "Approach to Identifying Materiality" below)
(2) Nine materiality postulated based on the materiality map

Step 3
Verifying Appropriateness

(1) Discussion held at materiality review meetings (consisting of CSR Committee members), and materiality narrowed down to six items
(2) Dialogue held with three outside experts

Step 4
Identifying Materiality

CSR Committee members narrowed materiality down to five issues, which were formally finalized after Executive Committee and Board of Directors meetings in September 2020.

Step 5
Company-wide materiality targets and KPIs for monitoring progress set

Company-wide materiality targets and KPIs for monitoring progress reviewed and set*

* The company-wide goals for materiality identified in fiscal 2021 are announced on our website.

▶ Approach to Identifying Materiality

Social issues

Related social issues aggregated and materiality set

Degree of impact on society — High

Degree of impact on the Company — High

Five materiality identified based on social issues important to MHI Group

Business Contribution
- Provide energy solutions to enable a carbon-free world
- Transform society through AI and digitalization
- Build a safer more secure world

Foundation to Support Business
- Promote diversity and enhance employee engagement
- Enhance corporate governance

Dialogue held with experts to discuss identifying materiality (Step 3 of determination process)

On September 4, 2020, a dialogue was held with three experts to discuss identifying materiality. Valuable opinions were offered by the three based on their knowledge of their respective areas of expertise.

Expert Profiles	Their Opinions
Specially Appointed Professor, Graduate School of Social Design Studies, Rikkyo University **Mariko Kawaguchi**	● As the world shifts direction toward decarbonization, putting forth decarbonization rather than low-carbon goals is more in line with the times. ● What about specifying your approach to adapting to climate change? Adaptation is one area in which we expect something of MHI. You can create a powerful message by reevaluating your approach with the understanding that disasters and climate change come as a set.
Chief Executive Officer, Sustainability Forum Japan Board Member **Toshihiko Goto**	● The current materiality represents a significant improvement over those announced in 2015 because they also encompass the Company's development strategy. ● It is important to demonstrate the relationship between materiality and your medium- to long-term development strategy. ● Materiality would be further improved by an outside-in perspective on your own business, based on the social issues. ● Given that more than half of MHI's business is overseas, materiality needs to be compiled with an awareness of their relationship to human rights as well.
Professor, Graduate School of Engineering Special Advisor to the President Institute of Engineering Innovation, School of Engineering, the University of Tokyo **Ichiro Sakata**	● If you can put forth ideas for overcoming the trade-off between the shift to smart technologies and increased energy consumption associated with the growing volume of information traffic, this should have an impact on your business strategy and materiality. ● Taking issues of digitalization and data into consideration based on MHI's future growth might result in a more forward-thinking discussion. Those elements can provide a new driver toward efforts to achieve a better society.

■ **Response to Opinions**

Based on these dialogues, our materiality now reflects both decarbonization and energy issues in an effort to clearly set forth MHI Group's response to climate change. In addition, based on suggestions regarding digitalization and data, we have incorporated an AI/Digitalization item as part of our business materiality. We have also positioned respect for human rights as a more important issue of materiality given the expansion of MHI Group's business activities around the globe. With regards to the relationship between materiality and our medium- to long-term development strategy, we established our Medium-Term Business Plan with an understanding of the materiality identified, and will conduct regular monitoring of our materiality targets.

Objective-setting meeting with outside directors (Step 5 of determination process)

Step 5 of the materiality determination process involves setting company-wide objectives and selecting KPIs for monitoring progress. This step was performed mainly by a task force comprising young and mid-level employees who will shoulder MHI Group's future. In May 2021, the task force met with outside directors and discussed the objectives and metrics.

Whereas many companies set such quantitative management objectives and metrics on a top-down basis, the process at MHI was anchored by selected task force members. At the meeting, outside directors said that the discussion of objectives and metrics in the context of the connection between societal issues and MHI Group's value creation was an excellent experience for the Group and task force members.

They also commented on the need for continued proactive discussion. We will continue to foster lively discussion.