

ESG DATA BOOK 2018

For the Year Ended March 31, 2018

Editorial Policy

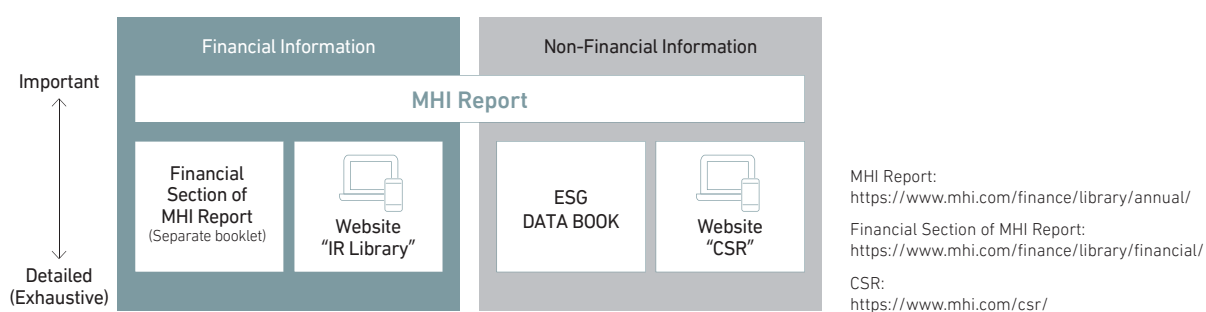
Reason for Publishing and Positioning of This Report (ESG DATA BOOK)

Keeping its principles and Group Statement as its base, MHI Group aims to continue its development alongside the changing world by responding to the present and future issues and needs of society with a variety of technologies and services.

To enhance the understanding of our philosophy among all of our stakeholders, we have integrated financial information, including management strategy and operating performance, with non-financial information related to the Group's environmental and social activities into the MHI Report (MHI Group Integrated Report). This ESG Report (ESG DATA BOOK) functions as a supplementary document to the MHI Report and summarizes information pertaining to environmental, social, and governance (ESG), meant to introduce detailed performance data of our ESG efforts to all of our stakeholders, who possess a vested interest in this information.

Structure of Information Disclosure

The MHI Report contains financial and non-financial information that is important to understanding MHI Group. The ESG DATA BOOK and the Company CSR website contain more detailed non-financial information.



Coverage

Target organization: In principal, the scope of reporting includes MHI and its consolidated subsidiaries. The scope of some information is for MHI on a non-consolidated basis, in which case it is identified as such.

Target period: From April 1, 2017 to March 31, 2018 (includes information on some activities after March 31, 2018)

Third-party Assurance

To enhance the reliability of data, we have received third-party assurance. (For details, please see pages 72-76.)

(Note) Data subject to third-party assurance is indicated with ✓.

- Assurance Statement on Environmental data
- Assurance Statement on Social data

Reference Guidelines

- International Integrated Reporting Council (IIRC) International Integrated Reporting Framework
- Global Reporting Initiative (GRI) Sustainability Reporting Standards
GRI Guidelines Comparison Tables https://www.mhi.com/csr/management/report_gri.html
- Ministry of the Environment of Japan Environmental Reporting Guidelines (2012 version, 2018 version)
- Ministry of Economy, Trade and Industry of Japan's "The Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation"

Forward-Looking Statements

Forecasts regarding future performance presented in these materials are based on judgments made in accordance with information available at the time this presentation was prepared. As such, these projections involve risks and uncertainty. For this reason, investors are recommended not to depend solely on these projections for making investment decisions. It is possible that actual results may change significantly from these projections for a number of factors. Such factors include, but are not limited to, economic trends affecting the Company's operating environment, currency movement of the yen value against the U.S. dollar and other foreign currencies, and trends of stock markets in Japan. Also, the results projected here should not be construed in any way as being guaranteed by the Company.

Contents

Editorial Policy

CSR Management

▶ CSR Framework	2
▶ Stakeholders	5
▶ Materiality	8
▶ SDGs Initiative	10

Governance

▶ Corporate Governance	11
▶ Risk Management	16
▶ Compliance	18
▶ Product Stewardship	23
▶ Customer Relationship Management	27
▶ Innovation Management	30
▶ Supply Chain Management	34

Environment

▶ Environmental Management	36
▶ Climate Change	45
▶ Water Risk	49
▶ Biodiversity	51
▶ Waste / Pollution	53

Contributions to Society

▶ Labour Practice	55
▶ Occupational Health and Safety	57
▶ Human Resources Development	60
▶ Talent Attraction and Retention	62
▶ Human Rights	65
▶ Corporate Philanthropy	67
▶ Recognition from Society	71
▶ Third-party Assurance	72

CSR Management

► CSR Framework

Policy

In accordance with the three statements that are at the heart of our Principles, the MHI Group 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. In this way, MHI is contributing to the resolution of global issues. Furthermore, MHI believes the basis of corporate social responsibility (CSR) is to engage in business activities that take its diverse range of stakeholders into consideration and return profits to all stakeholders in optimum fashion, while at the same time providing excellent products and technologies to realize a sustainable society and a secure future for people and the planet.

In 2007, we formulated CSR Action Guidelines to serve as collective standards for all MHI Group employees. These guidelines provide a concrete and easy-to-understand way for employees to consistently keep CSR in mind as the Group contributes to societal progress through its business endeavors and through a corporate creed centered on the principles of CSR.

In 2015, we formulated the MHI Group Code of Conduct in response to the Group's globalization and diversification. As a global company, the MHI Group employs individuals from different backgrounds, nationalities, and cultures, and the code of conduct describes how MHI employees should conduct themselves. Furthermore, we promote respect for human rights and support international standards such as the Universal Declaration of Human Rights. In light of the Guiding Principles on Business and Human Rights, adopted by the United Nations in 2011, and in keeping with international society's increasing emphasis on human rights, we formulated the MHI Basic Policy on Human Rights in 2014. In 2017, we stepped up our global activities, such as participating in the World Business Council for Sustainable Development (WBCSD). Going forward, as well, we aim contribute further toward the realization of a sustainable society.

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

(Others)

MHI Group Code of Conduct	https://www.mhi.com/company/aboutmhi/policy/conduct.html
MHI Basic Policy on Human Rights	https://www.mhi.com/csr/social/huamnrights.html
Privacy Policy	https://www.mhi.com/privacy.html
Policy of Safety and Health	https://www.mhi.com/company/aboutmhi/policy/safety_health.html
Procurement Policy	https://www.mhi.com/company/procurement/policy/index.html
MHI Group Supply Chain CSR Promotion Guidelines and Basic Policy Concerning Conflict Minerals	https://www.mhi.com/company/procurement/csr/
MHI Group Policy for Social Contribution Activities	https://www.mhi.com/csr/social/contribution.html

CSR Promotion System

MHI has established the CSR Committee as the management-level body for making decisions related to CSR. The CSR Committee comprises four members and is chaired by the CSO, a member of the board of directors, and head of the Business Strategy Office (representative director, executive vice president). In principle, the committee meets twice each year to determine various policies and material items related to CSR and to conduct status reports.

As is outlined below, we have also put in place various committees, such as the Compliance Committee and the Environment Committee, to deliberate material items related to CSR.

■ Audit and Supervisory Committee	Members: Audit and Supervisory Committee Members (five) Number of meetings: 15 (FY2017)
■ Nomination and Remuneration Meetings	Members: Outside Directors (five) and the President and CEO Number of meetings: 3 (FY2017)
■ Outside Directors' Meetings	Members: Outside Directors (five) + management personnel (as necessary) Number of meetings: 2 (FY2017)
■ CSR Committee	Members: Chaired by the Executive Vice President, who also serves as CSO and the head of the Business Strategy Office (the executive officer in charge of CSR), and is composed of the GC (general counsel), CFO, CTO, and the officer in charge of HR (human resources). Number of meetings: 2 (FY2017)
■ Compliance Committee	Members: Chaired by the Executive Vice President, GC, and composed of 24 members. Number of meetings: 2 (FY2017)
■ Committee for Raising Awareness of Human Rights	Members: Chaired by the Executive Vice President, who is in charge of HR, and composed of 25 members. Number of meetings: As many as necessary
■ MHI Group Environment Committee	Members: Chaired by Senior Executive Vice President, CTO and composed of 10 members. Number of meetings: 1 (FY2017)
■ International Trade Control Committee	Members: Chaired by the Executive Vice President, GC, and composed of 13 members. Number of meetings: 2 (FY2017)

Conformity to International Code of Conduct

Being a global company, MHI always conducts its business activities in accordance with international codes of conduct. In 2004, MHI became a participant in the United Nations Global Compact, committing itself to making ongoing efforts throughout the Group to respect and carry out its Ten Principles spanning four basic areas: human rights, labour, environment, and anti-corruption. We promote CSR activities that are in accordance with ISO 26000, which was formulated in 2010 as an international guideline on the social responsibilities of organizations. We endeavor to disclose information in accordance with Japanese and overseas reporting standards. One such international standard for the reporting of non-financial information is the Sustainability Reporting Standards of the Global Reporting Standards Initiative.

Pick Up

The Ten Principles of the Global Compact

The "United Nations Global Compact" is a voluntary initiative initially proposed by Kofi Annan, who was the UN Secretary General, at the World Economic Forum at Davos in 1999. On that occasion, Mr. Annan called for business corporations and organizations worldwide to embrace and promote a set of principles, now ten in number, within their respective capacities. The Global Compact's principles address four basic areas: human rights, labour, the environment, and anti-corruption.

In keeping with the compact's principles, the Company is contributing in myriad ways that include developing and disseminating technologies to protect the environment, providing support areas that suffer natural disasters, and promoting the awareness of human rights.

Participation in the UN Global Compact

Human Rights	■ Principle 1	Businesses should support and respect the protection of internationally proclaimed human rights; and
	■ Principle 2	make sure they are not complicit in human rights abuses.
Labour	■ Principle 3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
	■ Principle 4	the elimination of all forms of forced and compulsory labour;
	■ Principle 5	the effective abolition of child labour; and
	■ Principle 6	the elimination of discrimination in respect of employment and occupation.
Environment	■ Principle 7	Businesses should support a precautionary approach to environmental challenges;
	■ Principle 8	undertake initiatives to promote greater environmental responsibility; and
	■ Principle 9	encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	■ Principle 10	Businesses should work against all forms of corruption, including extortion and bribery.

The seven core subjects of ISO 26000, and MHI's main efforts

1. Organizational governance

Organizational governance

■ Corporate Governance ■ Risk Management

2. Human rights

Due diligence / Human rights risk situations / Avoidance of complicity / Resolving grievances / Discrimination and vulnerable groups / Civil and political rights / Economic, social and cultural rights / Fundamental principles and rights at work

■ Human Rights ■ Supply Chain Management

3. Labour practices

Employment and employment relationships / Conditions of work and social protection / Social dialogue / Health and safety at work / Human development and training in the workplace

■ Labour Practice ■ Occupational Health and Safety ■ Human Capital Development ■ Talent Attraction and Retention

4. The environment

Prevention of pollution / Sustainable resource use / Climate change mitigation and adaptation / Protection of the environment, biodiversity and restoration of natural habitats

■ Environmental Management ■ Climate Change ■ Water Risk ■ Biodiversity ■ Waste Pollution

5. Fair operating practices

Anti-corruption / Responsible political involvement / Fair competition / Promoting social responsibility in the value chain / Respect for property rights

■ Compliance

6. Consumer issues (responsibility towards customers)

Fair marketing, factual and unbiased information and fair contractual practices / Protecting consumers' health and safety / Sustainable consumption / Consumer service, support, and complaint and dispute resolution / Consumer data protection and privacy / Access to essential services / Education and awareness

■ Product Stewardship ■ Customer Relationship Management

7. Community involvement and development

Community involvement / Education and culture / Employment creation and skills development / Technology development and access / Wealth and income creation / Health / Social investment

■ Corporate philanthropy

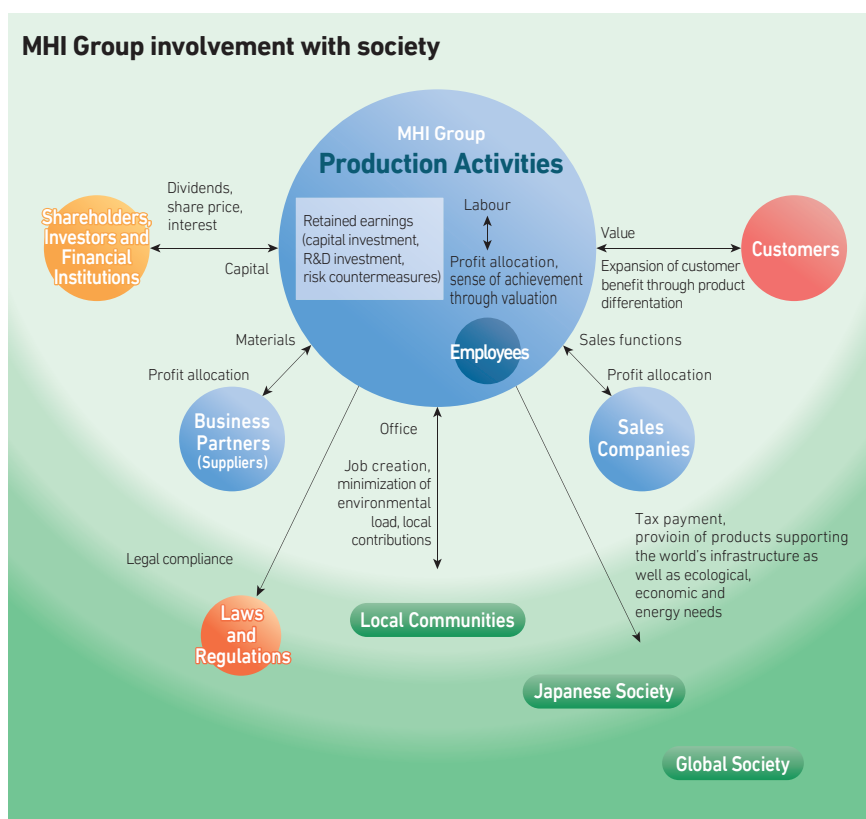
(Note) The core subjects and issues were determined in reference to Understanding ISO 26000 (November 2010), translated by the Japan Standards Association.

► Stakeholders

Our Stakeholders

In accordance with the three principles that define the spirit of our creed, the MHI Group 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. In this way MHI is contributing to the resolution of global issues.

Furthermore, MHI believes the basis of corporate social responsibility (CSR) is to engage in business activities that take its diverse range of stakeholders into consideration and return profits to all stakeholders in optimum fashion, while at the same time providing excellent products and technologies to realize a sustainable society and a secure future for people and the planet.



Relationship with Stakeholders

MHI Group prioritizes management initiatives that reflect input from the various stakeholders in its business activities, including customers, suppliers, business partners, Group employees, and local communities. In addition to seeking out stakeholder input 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.

In fiscal 2017 we participated in the International Conference on Business and Human Rights in Tokyo, sponsored by CAUX Round Table, and exchanged opinions on business and human rights issues with experts from Japan and overseas. Specifically, we received useful advice on building a Grievance Mechanism as laid out in the United Nations' Guiding Principles on Business and Human Rights, including the method introduction and the scope of such a mechanism.

■ Stakeholder dialogues

Contents	Date	Attendees ^(Note)	Outline
Mediation between business and human rights	September 14, 2016	Roel Nieuwenkamp (Chair of the Organisation for Economic Co-operation and Development (OECD) Working Party on Responsible Business Conduct) Thomas Thomas (CEO, the ASEAN CSR Network (ACN))	Dialogue with experts who have extensive knowledge on human rights, environmental issues, governance, etc. regarding measures to deal with human rights risks in the supply chain.
The material issues and future initiatives	September 15, 2015	Motoko Aizawa (Managing Director and Chair, IHRB US Board, Institute for Human Rights and Business) Amol Mehra (Director, International Corporate Accountability Roundtable) Christopher Schuller (Legal Adviser on Business and Human Rights, German Institute for Human Rights) Allan Lerberg Jørgensen (Department Director of Human Rights and Development, Danish Institute for Human Rights)	Held dialogue with overseas experts centered on formulating a global debate on business and human rights with regard to the content of material issues and future initiatives
Material Issues Identification Process	September 3, 2014	John Morrison (Institute for Human Rights and Business) Catherine Poulsen-Hansen (Danish Institute for Human Rights) Amol Mehra (International Corporate Accountability Round Table)	MHI Group conducted a dialogue with three experts from overseas concerning our Material Issues Identification Process, which determines what social issues are to be prioritized and addressed.
Main human rights issues in the manufacturing sector	March 13, 2013	Makoto Teranaka (Visiting Professor, Faculty of Contemporary Law, Tokyo Keizai University) Hiroshi Ishida (Executive Director of Caux Round Table Japan, Global CRT Senior Advisor, Professor at Institute of Business and Accounting, Kwansei Gakuin University, Part-time Lecturer Kyushu University Business School)	MHI held a stakeholder dialogue to learn from two experts, Mr. Makoto Teranaka and Mr. Hiroshi Ishida, in order to identify human rights impacts.
Approach to Environmental and Energy Technologies In Line with MHI's "Environment Vision 2030"	February 27, 2012 March 8 and 27, 2012	Mariko Kawaguchi (Head of ESG Research Department Daiwa Institute of Research) Norio Fukao (Professor and Director of Publicity Strategy Headquarters, Nagasaki University) Setsu Mori (Editor-in-Chief of "Alterna," a business information magazine about the environment and CSR)	MHI Group conducted a dialogue about our "Environment Vision 2030," with outside experts.
Expectations for Science Class Support Activities	February 17, 2011	Takuya Suga (Teacher and Vice Principal, Hiroshima Minamikanon Elementary School) Sumio Endo (Director, Kodomo Uchu Mirai Association) Yuichi Taguchi (Kodomo Uchu Mirai Association)	Discussions were held with the Board of Education and NPO to exchange opinions on the Kodomo Uchu Mirai Association (KU-MA), or "Children, Space, Future Association."

(Note) Indicated roles and titles are as of the indicated date.

Collaboration with our Stakeholder

MHI has operated the in-house system Funds for Community Engagement (former Social Contribution Fund) since fiscal 2012 to promote active involvement in social contribution activities designed to address needs and issues of the local communities around Company facilities and contribute to the solution of global societal issues. Under this system, time donated to volunteer work by Company employees is converted to a monetary value, which is then converted to an equivalent budget allocation. Money in the budget is used along with the dispatch of employee volunteers to build collaborative relationships with NPOs and other local groups and address social issues together.

List of support recipients in fiscal 2017

Region of activity	Affiliated organization	Field of activity
Nagasaki (Japan)	Fine Network Nagasaki (NPO)	Social welfare
Nagasaki (Japan)	Association to protect the Dozaki of environment	Environment
Yamaguchi (Japan)	Special Olympics Nippon Yamaguchi	Social welfare
Yamaguchi (Japan)	Shimonoseki Misaka Sakura Tomonokai (NPO)	Environment and social welfare
Yamaguchi (Japan)	Symphony Net (NPO)	Social welfare
Yamaguchi (Japan)	Association of educational activity for youth (NPO)	Education
Yamaguchi (Japan)	Mam association	Social welfare
Shiga (Japan)	Ritto Forest Club projects, Ritto-city Society of Commerce and Industry	Environment
Shiga (Japan)	Network for Protection Lake Biwa with the Common Reed (Phragmites Australis)	Environment
Kanagawa (Japan)	Sagamihara City Rugby Ball Association (NPO)	Health and sports

► Materiality

Material Issues of MHI Group

We at MHI Group consider issues that could have significant impact on the creation of corporate and social values within the group as material issues which need to be addressed with high priority.

The following issues have been identified as material issues through a materiality assessment conducted within MHI Group from both corporate and social perspectives with due considerations given to internationally recognized standards and the concerns of our stakeholders.

Material Issues

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 labour 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

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

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 and others)

Key Performance Indicators for Material Issues

MHI Group has set KPIs to enable the evaluation of strategic KPI outcomes and progress towards the achievement of target material issues, and conducts CSR activities accordingly. As the number of initiative indicators increases, we will report on targets, results, and case studies for specific initiatives.

KPI for material issue 1: Number of whistleblowing cases

We have provided two hotlines where any actual or potential breach of the Code of Conduct, and any other actual or potential breaches of ethics, including bribery and corruption, can be reported: 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 all reports made to these hotlines, and takes appropriate remedial or preventive action where breaches are identified.

Number of whistleblowing cases, by type

Type	FY 2015	FY 2016	FY 2017
Labour and the work environment	39	42	49
Overall discipline and breaches of manners	24	28	17
Transaction-related laws	8	11	11
Consultations and opinions	11	3	0
Other	49	34	36
Total (number of corrections and improvements)	113 (85)	118 (64)	113 (59)

KPI for material Issue 2: 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. To this end, the Company is promoting the active participation of women in the workplace in conjunction with its pursuit of diversity management.

Number of female managers

FY 2015	FY 2016	FY 2017
102	126	149

(Note) People in positions of section manager or higher as of April 1 of each year. In principal, figures are for MHI and Mitsubishi Hitachi Power Systems, Ltd.

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 ^(Note 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 ^(Note 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.

(Note 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.

(Note 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.

► SDGs Initiatives

MHI GROUP × SDGs

MHI Group has been an innovative partner to society through a broad range of businesses for more than 130 years. We are now being called on as a company to play an even greater role in responding to the megatrends society faces and helping resolve the various issues outlined by the Sustainable Development Goals (SDGs^(Note)). Going forward, and in keeping with the spirit of its principles ("We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide.") and as a manufacturing company, MHI Group will deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide. We provide the world with products and technologies that support the social and industrial infrastructure. We also contribute toward the resolution of issues on a global scale.

(Note) SDGs: In September 2015, the United Nations adopted these 17 goals to be achieved by 2030.



MMHI Group is well-placed to focus its energies on Goal 13 of the SDGs: "Take urgent action to combat climate change and its impacts." In addition to decreasing greenhouse gas emissions, we are striving to reduce environmental impact of all processes across our business activities. At the same time, we are pursuing specific measures to address climate change, such as by providing power plants with low environmental impact, renewable energy facilities, and CO₂ recovery plants.

Governance

► Corporate Governance

As a company responsible for developing the infrastructure that forms the foundation of society, MHI Group's basic policy is to manage the Company in consideration of all stakeholders and to make efforts to enhance corporate governance on an ongoing basis in pursuit of sustained growth of MHI Group and improvement of its corporate value in the medium and long term. In accordance with such basic policy, MHI endeavors to improve its management system by, among other ways, working to enhance its management oversight function, separating management oversight and execution, and inviting Outside Directors on the Board, and develop a "Japanese-style global management" focusing on the improvement of the soundness and transparency of its management as well as on diversity and harmony. As part of a corporate governance reform, in 2015 MHI transitioned to a Company with an Audit and Supervisory Committee, with Outside Directors numbering five, including three who are Audit and Supervisory Committee members. In 2016, we established the Nomination and Remuneration Meetings and reduced the number of directors from 14 to 11 (maintaining the number of Outside Directors at five). Through this reform, we aim to accelerate decision-making and strengthen the supervisory function.

(Reference) Corporate Governance of Mitsubishi Heavy Industries, Ltd. <https://www.mhi.com/company/aboutmhi/governance/>

Number of Outside Directors

2018

5

Ratio of Outside Directors

2018

45%

Performance Data

Corporate Governance

Independence of the Board of Directors

Independence policy,
target

(Reference)

Article 21 of the Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd. clearly addresses our goal: "MHI shall endeavor to make the number of independent Outside Directors who meet MHI's independence criteria ... constitute one third or more of all members of the Board of Directors."

Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.

https://www.mhi.com/finance/management/governance/pdf/corporate_governance.pdf

Diversity of Board of Directors

When selecting directors who are not Audit and Supervisory Committee members, it is MHI's policy to nominate as candidates those who have extensive experience in executing MHI's business, and who see things from the perspective of senior management; and in addition, to invite more than one individual as candidates for the role of Outside Directors to perform supervision from an objective standpoint while giving consideration to external stakeholders.

Furthermore, from the perspective of ensuring effective audits, as directors who are Audit and Supervisory Committee members, MHI's policy is to select individuals who have extensive knowledge and experience in various fields such as corporate management, legal, finance, and accounting in a well-balanced manner.

Corporate governance structure

Number of directors		Total
		11
	Executive directors	3
	Non-executive directors	8
	Independent directors	5
	Female directors	1
	Non-Japanese directors	1

Separation of role of Chairman and CEO	
	Separate

Functions and committees

Audit	
Name	Audit and Supervisory Committee
Members	Audit and Supervisory Committee members (five)
Number of meetings	15 (FY2017)

Selection and nomination	
Name	Nomination and Remuneration Meetings
Members	Outside Directors (five) and the President and CEO
Number of meetings	3 (FY2017)

Others-related to governance	
Name	Outside Directors' Meetings
Members	Outside Directors (five) + management personnel (as necessary)
Number of meetings	2 (FY2017)

CSR	
Name	CSR Committee
Members	Chaired by the Executive Vice President, who also serves as CSO and the head of the Business Strategy Office (the executive officer in charge of CSR), and is composed of the GC (general counsel), CFO, CTO (Chief Technology Officer), and the officer in charge of HR (human resources).
Number of meetings	2 (FY2017)

Compliance	Name	Compliance Committee
	Members	Chaired by the Executive Vice President, GC, and composed of 24 members.
	Number of meetings	2 (FY2017)
Human Rights	Name	Committee for Raising Awareness of Human Rights
	Members	Chaired by the Executive Vice President, who is in charge of HR, and composed of 25 members.
	Number of meetings	As many as necessary
Environment	Name	MHI Group Environment Committee
	Members	Chaired by Senior Executive Vice President, CTO and composed of 10 members.
	Number of meetings	1 (FY2017)
Others-related to governance	Name	International Trade Control Committee
	Members	Chaired by the Executive Vice President, GC, and composed of 13 members.
	Number of meetings	2 (FY2017)

Effectiveness of the Board of Directors

Board meeting attendance		Unit	
Average	%		97 (FY2017)
The minimum attendance	%		79 (FY2017)

Rate of Attendance at Board of Directors Meetings by Directors	Name	Position (as of March 31, 2018)	Board meeting attendance (for the year ended March 31, 2018)
	Hideaki Omiya	Chairman of the Board	100%
	Shunichi Miyanaga	President and CEO	100%
	Masanori Koguchi	Director, Executive Vice President, CFO, Head of Business Strategy Office	100%
	Michisuke Nayama	Director, Executive Vice President, CTO	100%
	Naoyuki Shinohara	Outside Director	100%
	Ken Kobayashi	Outside Director	79%
	Seiji Izumisawa	Director, Full-time Audit and Supervisory Committee Member	100%
	Toshifumi Goto	Director, Full-time Audit and Supervisory Committee Member	100%
	Nobuo Kuroyanagi	Outside Director, Audit and Supervisory Committee Member	93%
	Christina Ahmadjian	Outside Director, Audit and Supervisory Committee Member	100%
	Shinichiro Ito	Outside Director, Audit and Supervisory Committee Member	100%

Directors' terms of office		Unit	
	year		1 (2 for Audit and Supervisory Committee members)
Average	year		5 (As of October 2018)

Standards related to restrictions on number of concurrent positions	Around three for inside directors
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Board evaluation results

MHI has been engaged in multiple measures for enhancement of corporate governance. Taking advantage of the enactment of the Corporate Governance Code, we have introduced an annual evaluation of the Board of Directors (MHI Corporate Governance Guideline, Article 32) aiming at ensuring further effectiveness of the Board of Directors by verifying its functional efficiency as an entity and being fully accountable for stakeholders, by conducting holistic analysis and evaluation of the Board.

In fiscal 2017, continuing from the previous fiscal year's analysis and evaluation, we, using the process below, conducted analysis and evaluation from four main perspectives. Board of Directors composition, operation of the Board of Directors, the supervisory function of the Board of Directors, and a structure to support Outside Directors.

- Self-evaluation questionnaire completed by all directors (including Outside Directors).
- Meetings carried out exclusively with Outside Directors.
- Discussing results of the self-evaluation at the Board meeting.
- Results of the evaluation are reported and resolved at the Board meeting based on the self-evaluation and discussions.

Through the processes mentioned above, the overall effectiveness of the Board of Directors in 2017 has been ensured with no major concerns.

The status of activity concerning the issues recognized in the Board evaluation conducted in the previous year (FY2016), as well as major issues recognized this time, and future responses are as follows.

1. Initiatives to address issues recognized in the previous year

- (1) We provided opportunities for training for directors, such as lectures on financial strategies, visits to our domestic and overseas bases, etc.
- (2) We are constantly working to enhance deliberations at the Board of Directors by preparing materials with clear points and providing them to directors in advance.
- (3) We revised the matters of discussion and reporting for the Board of Directors to improve the efficiency and mobility of business execution and to strengthen the supervisory functions of the Board of Directors.
- (4) We held two meetings consisting of solely Outside Directors to provide them with an opportunity for communication between Outside Directors.

2. Issues recognized this time and future initiatives

- (1) Reconsideration of Governance systems (including the Nomination and Remuneration Meetings)
We will examine the processes related to election and remuneration of directors from the perspective of improving objectivity and transparency of these procedures based on the revised Corporate Governance Code.
- (2) Enhancing deliberations at the Board of Directors
We will further enhance deliberations at the Board of Directors by clarifying points of discussion in materials used by the Board of Directors, providing these materials to directors in advance, and making explanations to the Board members in a simple and clean manner.
- (3) Increasing opportunities for Outside Directors to gather information
We will hold meetings between Outside Directors and executive officers in each department to increase opportunities for Outside Directors to gather information and deepen their understanding of the Company.

Remuneration of directors

Remuneration ^(Note)	Position	Number	Unit	Total	Base remuneration	Performance-linked remuneration	Stock remuneration
Directors who are not serving as Audit and Supervisory Committee members (excluding Outside Directors)		4	Millions of yen	462	219	143	99
Directors who are serving as Audit and Supervisory Committee members (excluding Outside Directors)		4	Millions of yen	136	136	—	—
Outside Directors		5	Millions of yen	83	83	—	—

(Note) Table above includes two directors who retired this fiscal year.

Measurement metrics for variable remuneration		
Internal Financial Success Metrics		The remuneration is determined based on the business performance of which he/she is in charge.
External Financial Success Metrics		The remuneration is determined based on the consolidated earnings of the Company.

Variable remuneration linked to long-term performance	Ratio	
	22%	Stock remuneration

Individual remuneration ^(Note)	Name	Position	Unit	Total	Base remuneration	Performance-linked remuneration	Stock options
	Hideaki Omiya	Director	Millions of yen	149	68	47	34
	Shunichi Miyanaga	Director	Millions of yen	149	68	47	34

(Note) Officers receiving more than 100 million yen in total sum

Average salary of all employees and CEO remuneration		Unit	
CEO remuneration		Millions of yen	149
Mean employee salary		Millions of yen	8.4
Ratio		time	17.9

Commitment to initiatives

Commitment to initiatives	
	UN Global Compact
	Global Reporting Initiative
	ISO26000

► Risk Management

Enhancement of business risk management

Throughout its history, MHI Group has achieved sustained growth by taking up diverse new challenges and initiatives in numerous business areas. At the same time, on occasion we have experienced losses on a large scale. In recent years especially, with the globalization of its business activities, the expanding scale of individual projects, and ongoing development of increasingly complex technologies, the scale of attendant risks is becoming larger than ever before.

In order for MHI Group 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 as well as to improve and strengthen operations in its existing business markets. Such challenges will entail business risks, and a company's ability to curb risks yields significant influence on its business results and growth potentials.

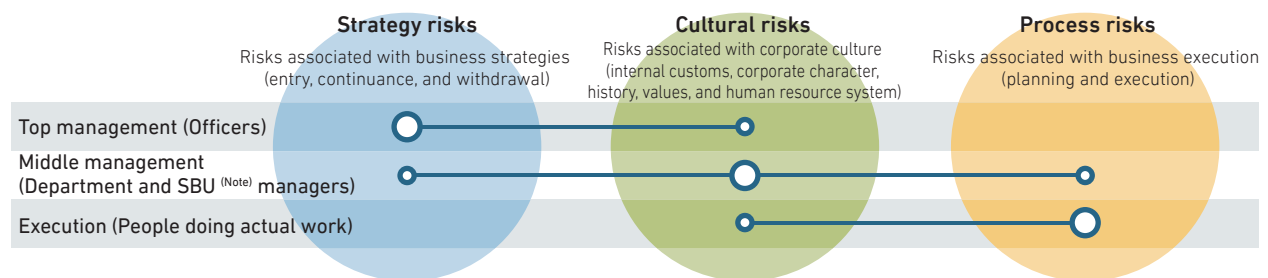
To promote challenges of this kind and prepare for the next leap into the future, MHI Group, applying its past experience and lessons learned, aims to create the mechanisms that will ensure the effective execution of business risk management. At the same time, we reinforce advanced, intelligent systems and process monitoring, both of which support top management's strategy decisions. Through these approaches, we will pursue "controlled risk-taking" that will enable us to carry out carefully planned challenges toward expanding our business.

Outline of Business Risk Management

No corporation can avoid taking risks. We believe 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 our Group to succeed in the global market, we need to take bold and daring risks, but we also need to manage those risks. That is the perfect combination for continually increasing our 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. For details, please see the chart below (Matrix of Business Risk Management).

■ Matrix of Business Risk Management

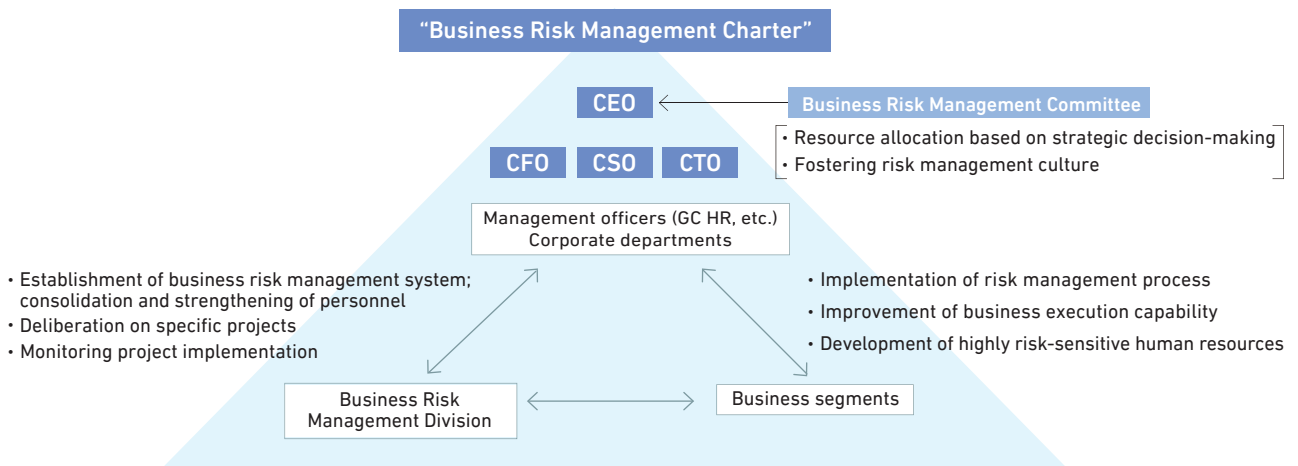


(Note) SBU: Strategic Business Unit

Business Risk Management Structure

Through the following measures, MHI Group is pursuing more organized business risk management and clarifying the roles of management, business segments, and corporate departments.

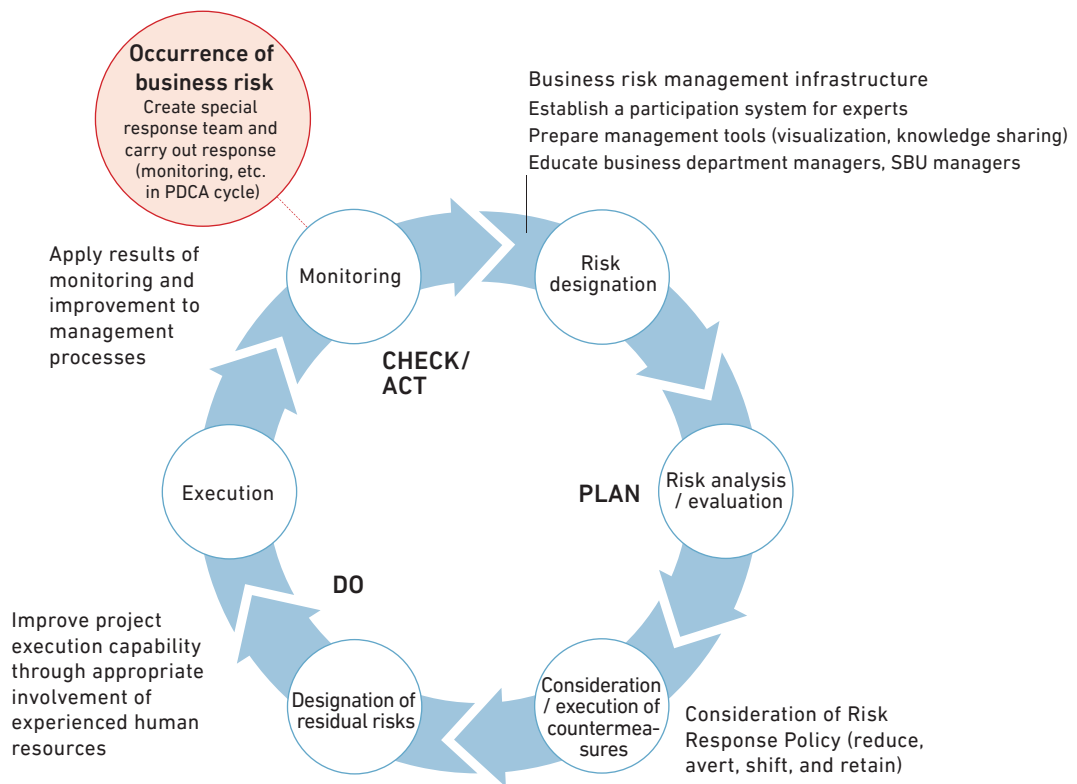
- 1 Observe and practice the Business Risk Management Charter as the Company's foremost set of rules**
→ Clarify, observe, and practice risk management targets, etc.
- 2 Hold meetings of the Business Risk Management Committee, headed by the CEO**
→ Share information on important risks and discuss policy response by top-level management.



Content of Activities

With the Business Risk Management Department acting since April 2016 as the responsible department that reports directly to the CEO, MHI Group engages in business risk management activities bringing together management, business segments, and corporate departments. The chart below (Business Risk Management Process) outlines specific activities. In addition to improving systems and processes to prevent business risks and reduce the frequency with which such risks manifest themselves, we also develop human resources in charge of business risk management and cultivate a culture of responding to risks through training by the Group’s management team.

Business Risk Management Process^(Note)



- **Define and categorize business risks**
- **Have knowledgeable specialists participate in risk assessment discussions**
- **Develop tools** risk quantification, visualization, AI utilization
- **Strengthen discussions** participation of top management, business divisions, and corporate departments



Business risk prevention and reduced frequency of occurrence

(Note) Refer to ISO 31000

► Compliance

MHI Group attaches importance to complying with applicable laws and social norms, and promoting fair and honest business practices. The Compliance Committee, established in May 2001, meets biannually to draw up Groupwide compliance promotion plans, confirm progress of previously made plans, and engage in other activities.

Since 2003, to increase awareness of compliance among individual employees, we have conducted discussion-based compliance training every year at the workplace level, themed on compliance cases that could arise on-site.

In May 2015, we issued the MHI Group Global Code of Conduct. As a global group, MHI Group employs thousands of individuals from different backgrounds, nationalities, and cultures. This diversity of talent and perspectives is one of our greatest assets. With recognizing the diverse backgrounds of our employees, it is important to work together and to promote our business under a common corporate culture.

This Code of Conduct sets out the basic principles and policies that all MHI employees should follow. We disseminate this Code of Conduct among the MHI Group employees around the world through e-learning and by distributing booklets.

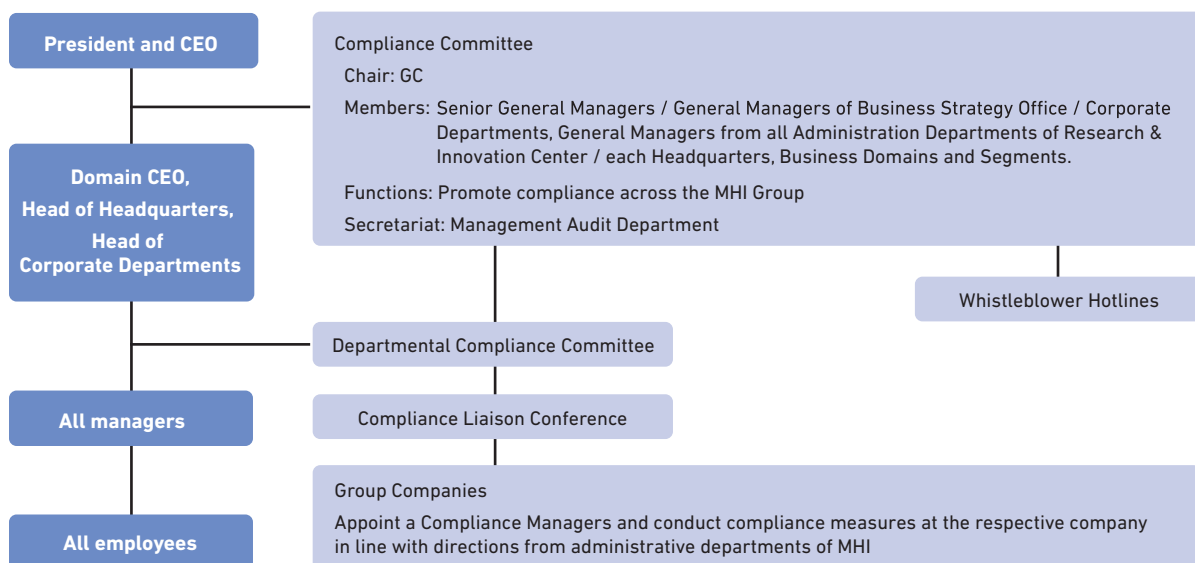
The MHI Board of Directors are keeping grasp of the status on compliance promotion, compliance risks management, the occurrence of compliance-related incidents and all other important compliance-related cases of the Group, by being reported of the operation on internal control systems as well as the execution of roles and duties of General Counsel.

In addition, and in order to keep raising awareness of compliance, we are conducting e-learning and study sessions for Group employees in Japan and overseas on anti-trust laws, anti-bribery, and export-related laws and regulations. Furthermore, we have created a compliance guidebook for employees engaging in technical and skilled jobs at MHI and Group companies in Japan, and we are promoting face-to-face training at each worksite.

In September 2017, we formulated the MHI Compliance Promotion Global Policy, clarifying basic matters and rules related to compliance promotion, such as the organizational framework, roles, and administration standards that each Group company should follow. Along with the Global Code of Conduct, by clarifying our common code of conduct and basic rules that must be complied with throughout the Group, we are working to strengthen internal controls and enhance the level of compliance throughout the entire Group.

(Reference) MHI Group Global Code of Conduct <https://www.mhi.com/company/aboutmhi/policy/conduct.html>

Compliance Promotion System (as of January 1, 2018)



Number of participants in compliance training

2017 **84,300**

Pick Up

Firm response to unjust demands made by any organization, group or individual engaged in unlawful activities

MHI will at all times respond firmly to and will not have any relationship with any organization, group or individual, including, but not limited to, crime syndicates, gangs, mafias, terrorists, drug dealers or other criminal organizations that are engaged in unlawful activities or would damage the Company's reputation in accordance with the MHI Group Code of Conduct.

MHI has established departments to take measures in the event that unjust demands are made by such elements. The departments work together with related divisions or group companies to deal comprehensively with any incident that arises. In addition, MHI has issued alerts to relevant divisions and group companies and conducted compliance training, to thoroughly make all employees understand the essentials of how to be prepared for and respond to any unjust demand made of them. To gain advice and support for dealing with such demands, the Company also works proactively to build close cooperative relationships with police, attorney-at-law, and organizations specialized in such matters.

As ordinances to eliminate organized crime groups were enacted by all prefectures in Japan since 2011, MHI Group has added clauses to its contracts with clients and business partners accordingly and further step up efforts to eliminate such elements.

Performance Data

Compliance

Compliance structure

Chief executive	Masahiko Mishima (Executive Vice President, GC)	
Responsible institution or committee	Name	Compliance Committee
	Members	Chaired by the Executive Vice President, General Council, and composed of 24 members.
	Number of meetings	2 (FY2017)

Whistle-blowing system	<p>We have the MHI Group Whistleblowing Hotline, which is available to all employees, including those of Group companies, and the MHI Group External Whistleblowing Hotline, which is overseen by external lawyers. In addition to Group employees, any related external parties, including business partners, can utilize these hotlines to report concerns on corruption, including bribery, or other compliance-related issues. We also have systems which accept reports in the languages spoken at our major business locations, including English, Chinese, and Thai. The Compliance Committee Secretariat promptly investigates and responds appropriately to all reports made to these hotlines. Information on how to report is contained in the MHI Group Portal accessible by all employees and in bulletins published in-house. This was followed by the establishment of the internal and external Harassment Contact Hotlines in January 2012 as a measure to respond to harassment, which is becoming an increasingly serious social issue.</p> <p>With the operation of the hotlines, protection of the rights afforded to informants, including confidentiality, were set out in the 2007 Company regulations entitled Compliance Promotion Regulations. These regulations state that the whistleblower's name will not be released without his/her consent, and that the whistleblower will not be placed at any disadvantage because of the information he/she has reported.</p> <p>Employees have been advised of the protection of the rights given to whistleblowers with the existence of the hotline.</p>
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Compliance situation

Training	2013	2014	2015	2016	2017	Coverage
Number of attendees	75,871	82,292	75,303	93,353	84,300	Group
Number of whistle-blowing reports	2013	2014	2015	2016	2017	Coverage
	240	185	131	118	113	Group

Compliance awareness survey

Since fiscal 2004, MHI has been conducting a yearly compliance awareness survey. Since fiscal 2013, MHI had expanded this survey to all employees of the Group, in combination with its e-learning compliance training. In fiscal 2015, we checked the degree of recognition and awareness of the MHI Group Global Code of Conduct, formulated that year, which has led to greater awareness of compliance among employees and consideration of measures to ensure thorough compliance promotion. Through these surveys, we are able to check the efficacy of existing measures while keeping our compliance efforts consistent and thorough.

Reporting on breaches

In fiscal 2017, we received 113 reports through our whistleblowing system, including reports suggesting corruption, such as embezzlement or bribery. Among them we made corrective action on 59 cases. 26 cases out of them were identified as cases of compliance breaches, as shown in the table above (including breaches carried over from previous fiscal years).

There was no significant breach last year, with no related fines or penalties as a result.

Anti-corruption

Anti-corruption Policy

MHI maintains a policy prohibiting conduct that leads to any form of corruption, and as a signatory company of the UN Global Compact since 2004, we have worked to disseminate and practice the ten principles contained within the four domains of the Compact, including anti-corruption. MHI strives for fairness in its global commercial transactions by strictly complying with the anti-bribery laws of all countries, including Japan's Unfair Competition Prevention Act which prohibits the giving of illicit benefits to foreign public officials. In 2005, MHI established the Guidelines for the Prevention of Bribery Involving Foreign Civil Servants to define rules of conduct based on the Unfair Competition Prevention Act. In addition, we issued the Anti-Bribery Rules and Anti-Bribery Procedural Guidelines based on these guidelines in February 2012 in order to respond to the enactment of the British Bribery Act 2010 of July 2011 and strengthened regulations in various countries. MHI also set forth screening procedures for engaging with trading companies and distributors.

Furthermore, through the MHI Group Global Code of Conduct, established in May 2015, we are thoroughly engaged in preventing bribery toward all Group directors and employees. In September 2016, we also issued the Guidance for the Prevention of Bribery of Foreign Public Officials, an interpretation of related legislation and internal rules, and we strive to comply with the rules and the Global Code of Conduct. A global policy, formulated in September 2017, stipulates MHI Group companies to monitor whether measures to prevent bribery are being appropriately managed and deal with if needed.

Moreover, to evaluate and improve the MHI Group's organization for preventing bribery, we appointed an expert and carried out a bribery risk assessment in 2017.

Coverage

MHI Group	
(Reference) MHI Group Global Code of Conduct	https://www.mhi.com/company/aboutmhi/policy/conduct.html

Total Donations and Contributions (fiscal 2017)

Political contributions: ¥33 million

Employee training

Since fiscal 2014, we have promoted anti-bribery education across MHI and Group companies in Japan and overseas. Since fiscal 2015, we have conducted training to make every employee in MHI Group worldwide aware of the MHI Group Global Code of Conduct, which includes prohibition of bribery. Since fiscal 2014, MHI and its Group companies worldwide have steadily conducted e-learning education to prevent bribery, mainly for manager-level employees. Approximately 17,000 employees in total have taken these courses so far. In 2017, we conducted face-to-face training on bribery prevention in eight locations nationwide, and around 800 people have taken this training so far.

Anti-trust

Anti-trust policy

MHI has worked to prevent the violation of anti-trust laws through messages from top management and through the use of rules and manuals such as the Code of Conduct Pertaining to Communication/Contact with Competitors. In May 2015, we published the MHI Group Global Code of Conduct and thoroughly ensured that all executive officers and employees throughout MHI Group are aware that anti-competitive conduct is strictly forbidden.

Coverage

(Reference)

MHI Group

MHI Group Global Code of Conduct

<https://www.mhi.com/company/aboutmhi/policy/conduct.html>

Employee training

MHI entered into a plea agreement with the U.S. Department of Justice concerning the U.S. anti-trust laws in 2013, in connection with the sales of compressors and condensers for automotive air-conditioning systems. In response to this, we have continued every effort to raise compliance awareness and to prevent its recurrence. Specifically, in order to ensure thorough compliance throughout the whole MHI Group, we have reinforced compliance training by various means including educational videos, lectures by lawyers, and e-learning programs.

In addition, since fiscal 2015 we have conducted training to make every employee in the MHI Group worldwide aware of the MHI Group Global Code of Conduct, which includes compliance with competition laws.

Since fiscal 2014, MHI and its Group companies worldwide have steadily conducted e-learning education to comply with anti-trust laws, mainly for manager-level employees. Approximately 15,000 employees in total have taken these e-learning courses so far. In 2017, we conducted face-to-face training on compliance with anti-trust law in eight locations nationwide, and around 800 people have taken this training so far.

Security Export Control

Export Control Policy

From the perspective of maintaining international peace and safety, the export and transfer of products, services, technologies or information that could be used in the development or manufacture of weapons of mass destruction or conventional weapons are managed under an international security trade control framework.

MHI Group also 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.

Through the MHI Group Global Code of Conduct, established in May 2015, we have conducted awareness training of export control to all MHI Group executives and employees. Furthermore, through the Global Policy on Export-Related Laws and Regulations Compliance, released in October 2017, we have set fundamental standards and rules in connection with the proper implementation of Export Controls that each Group company is expected to follow.

Coverage

(Reference)

MHI Group
MHI Group Global Code of Conduct <https://www.mhi.com/company/aboutmhi/policy/conduct.html>

Employee training

We are making steady progress in providing education, including face-to-face education and e-learning, focused on export controls throughout the whole MHI Group. We have conducted e-learning on export control for MHI and Group companies in Japan since fiscal 2007, and a total of 35,000 people have taken these courses to date. Since fiscal 2016, we have been conducting e-learning on export control for people at overseas Group companies at the management level, and 4,300 people have completed these classes so far.

Furthermore, since fiscal 2015 we have made steady progress in providing education for all employees of MHI and its Group companies in Japan and overseas to further familiarize themselves with the MHI Group Global Code of Conduct, including export control.

► Product Stewardship

It goes without saying that, as a global and highly diversified manufacturer, the MHI Group's top priority is to ensure the safety and quality of its products. We have formulated a quality management system (QMS) for individual businesses and products based on ISO 9001^(Note) and other official standards and obtain third-party assurance on an individual basis. As awareness efforts related to safety and quality, we work to educate employees about safety and quality to prevent product accidents. One example of this is the establishment of the Accident Exhibit and Materials Room based on past accidents.

(Note) Includes JISQ9100 and other product-specific quality systems

Total number of product safety and quality trainees

2017 Total Approximately **15,000**

Pick Up

Quality and safety programs for key products

Nuclear Safety Steering Committee continues to establish nuclear safety

In December 2004, we established the Managing Board for Innovation in the Nuclear Business in light of a secondary piping damage accident in August 2004 at the Mihama Nuclear Power Plant Unit 3, which was built by MHI and operated by Kansai Electric Power. In January 2013, the name of the board was changed to Nuclear Safety Steering Committee to share and decide the issues and courses of action related to MHI's nuclear business, as well as to internally reform and expand the nuclear quality assurance management system. The committee has been conducting these activities under the guidance of a steering committee whose mission is to manage activities that help ensure nuclear safety.

In fiscal 2016, the Nuclear Safety Steering Committee reported and deliberated on the status of efforts to promote safety culture and maintain or enhance the level of nuclear power safety. These efforts include passing on technologies, cultivating human resources, and strengthening cooperation with business partners. Also, it was confirmed by the Nuclear Safety Steering Committee that the nuclear power-related divisions of Mitsubishi Hitachi Power Systems, Ltd. held meetings with the nuclear safety promotion committee, where top management from the Company headquarters and personnel at individual plants responsible for nuclear power deliberated on a Companywide basis on initiatives related to nuclear safety, in addition to standard activities.

Measures for enhancing PWR power plant safety

MHI set up an emergency task force immediately after the Great East Japan Earthquake. After the Advanced Plant Safety Department was established in August 2011, the task force was transferred to this department and developed countermeasures against the blackout that occurred at the Fukushima Daiichi Nuclear Power Plant. The task force has been reflecting these countermeasures at PWR power plants built by MHI in Japan. Furthermore, the new safety criteria that was developed by the Nuclear Regulation Authority (NRA: established in September 2012) went into effect in July 2013, and in August 2015, PWR power plants that have satisfied the new safety criteria resumed operations.

Currently, safety inspections are underway at other PWR power plants geared toward restarting their operations and sequentially these plants have been restarting. MHI is providing technical support to power companies to restart operations at these domestic PWR power plants at the soonest date possible. MHI has been supporting power companies to implement midium- and long-term countermeasures, such as filtered containment vents and secondary back-up generators. MHI continues to contribute to the improvement of the safety and reliability of nuclear power plants and to the establishment of a stable power supply.

Shipbuilding: enhancing QMS activities to prevent product accidents

Mitsubishi Shipbuilding Co., Ltd. (MHIMSB), and Mitsubishi Heavy Industries Marine Structure Co., Ltd. (MHIMST), which are involved in the commercial ships business & marine structure business, are engaged in the manufacturing and engineering business for a wide range of ships and marine products in the Yokohama, Shimonoseki, Nagasaki, and Kobe regions. The companies strive to adopt the same quality indicators, non-conformity management systems, safety and quality education programs, and internal audits in all regions, and are working with each region to improve work processes and quality management framework to realize a more advanced QMS and cultivate an attitude focused on safety and quality. In our commercial ships business & marine structure business, MHIMSB and MHIMST work to deliver products and services that meet customers' expectations through ISO 9001 external audits for QMS activities.

Aircraft: Raising awareness for aircraft safety through education and training, and promoting of QMS-related activities

In the aircraft manufacture business, based on the Aircraft Safety Policy, assurance of aircraft safety is our top priority. All employees engaged the aircraft manufacturing operation and management understand the gravity of aviation accidents. Accordingly, as part of our educational activities aimed at ensuring thorough awareness of aircraft safety, we are implementing various training programs for relevant employees, primarily in management positions. These include training where employees learn through educational tours of the Japan Airlines Safety Promotion Center and climbing the Osutaka Ridge to pay respects to those who died in the Japan Airlines Flight 123 accident in 1985; workshops that communicate the lessons learned from an emergency landing accident involving an MH2000 helicopter and an accident where a F-2 jet fighter crashed and burst into flames (instructions on new work procedures / application of independent verification programs) in 2000 and 2007 respectively; initiatives to prevent leftover foreign objects; and training where employees learn through active discussions with pilots. In addition, we are working to improve quality on an ongoing basis through QMS-related activities based on JIS Q 9100.

Transportation systems: ensuring the safety of transportation systems based on quality management systems

Mitsubishi Heavy Industries Engineering, Ltd. (MHIENG) is working on the development of various transportation systems with a high potential for use in public settings, such as Automated People Mover (APM) for use in airports and other facilities in cities and Light Rail Vehicle. To ensure that such transportation systems function with a high degree of safety, MHIENG operates a quality management system based on ISO 9001 and our own quality policies in all processes from design, procurement, and manufacturing to installation and test operation. Every year, top managers review these activities, evaluate the effectiveness of the quality management system, and propose new actions for improvement. Workshops are also held so that relevant personnel can share information, for example, information on revisions made to laws, regulations and standards pertaining to railways. Mechanisms are also being developed to incorporate safety standards and customer requirements in various countries into the initial design stage of projects developed in and outside Japan. In addition to these efforts, MHIENG has introduced a system tool for the sharing of lessons learned from past projects. Employees involved in past projects disclose and record their experiences and lessons learned so that current project members can acquire and share useful skills and knowledge, and find a stronger awareness of product safety.

Air-conditioners: With customer safety as a top priority, safety design, verification processes and product-related risk management processes are incorporated in design management standards

The air-conditioning and refrigeration business^(Note) acquired ISO 9001 certification in 1994 and established design management standards for product design and development to ensure the safety of air-conditioners. These standards are based on quality policies that are derived from our quality management system. During product development, quality checksheets and other measures are used per these standards to fully verify safety throughout the life cycle of a product, from development to usage and disposal, in addition to checks against physical harm or financial damage caused by fire, explosions, and toxic substances. In the unlikely event that a serious product-related accident does occur in the market, we will take immediate steps to ensure customer safety, promptly confirm facts, analyze the cause, conduct an investigation, implement corrective actions, report to the appropriate government agencies, and disclose this information to users and the market. Based on the product safety policy described above, in January 2018 we requested that users of our air-conditioners who meet certain conditions submit them for free inspection and repair. We will take the lessons learned from this occurrence to foster a work climate throughout the Company, including businesses overseas, that places the prevention of reoccurrences of incidents and product safety as top priorities.

(Note) MHI's air-conditioning and refrigeration business has been taken over by Mitsubishi Heavy Industries Thermal Systems, Ltd. who commenced operations in October 2016.

Maintaining and strengthening defense production and technological bases

Contributing to the peace and safety of Japan through technology

MHI is dedicated to the core vision of supplying cutting-edge technology for national safety and security. As a leading supplier in the Japanese defense industry, MHI endeavors to maintain and strengthen defense production and technological bases. MHI develops and manufactures a vast array of defense equipment based on the requirements of the government of Japan, including fighter planes, helicopters, missiles, defense vessels, and tanks, and also provides operational support. The environment surrounding the defense of Japan has been changing dramatically over the last few years. In light of the current financial difficulty of Japan and the speed of technological progress, it is increasingly important to maintain and strengthen defense production and technological bases, in order to satisfy the requirements of the government. MHI is focusing on the future security environment and is developing various technologies that meet the needs of the country. This includes research into stealth and weight-reduction technologies and avionics to be applied to future jet fighters, and into technology related to high-water-speed at sea for amphibious vehicles. We are also working on dual-use businesses such as cybersecurity, drone application, and satellite data analysis that utilize advanced technologies developed on the foundation of experience in the defense business up to this point. Cutting-edge technologies in the defense sector have a broad reach, and ripple effects to the civilian sector are expected, in the fields of materials, components, and processing technology. Therefore we believe defense technologies can also contribute to long-term technological advances in Japan and the defense sector is expected to develop as a national strategic industry.



Submarines SEIRYU

Promoting nuclear power Public Acceptance (PA) activities

Since 1988, MHI has been hosting tours of nuclear power plant factories at Kobe Shipyard & Machinery Works to promote nuclear PA activities so that the attendees can gain a better understanding of the need for and safety of nuclear power generation. MHI encourages attendance on these tours every year. In addition, although our nuclear power plants are PWRs, which are different from BWRs of TEPCO's Fukushima Daiichi Nuclear Power Plant, MHI has been supporting TEPCO for stabilizing the accidents caused by the Great East Japan Earthquake. MHI has also been deploying emergency safety countermeasures at MHI-built nuclear power plants to increase their safety and reliability. MHI will continue PA activities, such as providing related information and hosting tours, to restore public confidence in nuclear power generation.

(Note) Nuclear Power PA (Public Acceptance) activities: Public outreach programs to provide a better understanding of nuclear energy



Touring the Kobe Shipyard & Machinery Works

Performance Data

Product Stewardship

Safety and quality management

Impact evaluation related to safety and quality

MHI has created a quality management system (QMS) to provide products that are safe and of assured high quality. The markets for the MHI Group's products are diverse, so we have a QMS in place for individual businesses and products to meet customer and market needs based on ISO 9001 and other official standards. Over 90% of locations have also acquired individual third-party certification. In April 2013, MHI established a QMS Promotion Group in the Monozukuri Innovation Planning Department (now the Value Chain Innovation Department). The QMS Promotion Group has been working to strengthen quality management, including at Group companies, and improve work processes to meet the needs of globalization by sharing technologies and knowledge horizontally across the Group.

Education and awareness related to safety and quality

It goes without saying that, as a global and highly diversified manufacturer, MHI Group's top priority is to ensure the safety and quality of its products. To promote product safety, we work to educate employees about safety and quality to prevent product accidents. One example of this is the establishment of the Accident Exhibit and Materials Room based on past accidents. The Accident Exhibit and Materials Room, opened in April 2010 at an MHI training center in Nagoya, introduces examples of serious accidents that have happened involving MHI Group products, such as a large cruise ship that caught fire while under construction. Its mission is to have all employees who handle MHI Group products, whether it be through design, procurement, manufacturing, or after-sale services, to pledge not to allow accidents like these to happen again, to learn from these accidents, and to put the lessons learned from these accidents to use in their respective jobs. The facility was given an extensive overhaul in April 2012, including the addition of new video presentations and artifacts designed to convey a greater sense of realism with regards to the nature of the accidents and the events experienced at the accident site. Approximately 35,000 visitors have passed through the facility since its opening. Meanwhile, since 2010 MHI has also held safety and quality training sessions describing past safety incidents, attended by employees, thereby increasing the total number of employees who have received this training to around 15,000.

Going forward, MHI will continue to expand its product safety education program to give employees more opportunities to become aware of the importance of safety and quality.

▶ Customer Relationship Management

One statement of our Principles is: "We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide." Therefore, the company's top priority is to always place itself in the customer's shoes and meet their expectations by providing products and services with high added value.

In fields of business where companies are our customers, such as power generation and engines, we ask customers directly to complete questionnaires. For example, for areas in which general consumers are our customers, such as air-conditioning, we have set up a desk to respond to Internet and telephone inquiries. Each year, we receive around 8,000 responses through these channels.

Basic CS Training, introduced in 2002, is used to improve employee awareness and foster the development of a customer-oriented corporate culture at MHI. Through these activities, MHI will continuously work to provide products and services that satisfy customers.

Number of violations related to advertising

2017

0

Pick Up

Implementing technical support as an aspect of preventative maintenance

Since 1999, Mitsubishi Hitachi Power Systems, Ltd. has been maintaining high operating rates at thermal power plants (gas turbine) around the world and providing technical support services to prevent problems. Through these paid services, we observe and support the operations of gas turbine plants 24 hours a day, 7 days a week in real time from remote monitoring centers established in two locations, one in Japan and the other abroad. We also established a remote monitoring center in the Philippines to monitor conventional plants, and are working to expand our services. We have been utilizing more than 10 years of the operational data of the plants to prevent problems. Also, we minimize shutdown of the plants by quickly and automatically detecting plant anomalies, applying quality engineering, and immediately implementing troubleshooting procedures.

As of September 2018, these services were used globally on 143 generators at 60 plants whose total output is over 30 million kilowatts, and we have been contributing to stable power generation operations for our customers.



Remote monitoring center

Performance Data

Customer Relationship Management

Customer satisfaction

Customer satisfaction survey

Since customer characteristics and business practices are quite different in each of our businesses, MHI Group does not conduct a uniform standardized customer satisfaction survey across the board. Each business unit utilizes their own optimized measurement method for Customer Relationship Management.

Thermal power systems:

Mitsubishi Hitachi Power Systems, Ltd., collects Voice of Customer (VOC) information through daily face-to-face communication. VOC information is classified into five categories (Maintainability and Operability, Consideration, Necessary Ability, Price, and Response Speed) to identify strengths and weaknesses. We work on areas such as technology development and Kaizen. Improvement activities based on the results of analyses are carried out on a daily basis.

In addition, the Company deploys web-based questionnaires specifically targeting overseas customers, with whom face-to-face communication is not easy, on an annual or biannual basis. The system collects and analyzes customers' comments on quality, price, and responsiveness of MHPS contact. The results are then used to further improve product quality and customer service.

Compressor:

Mitsubishi Heavy Industries Compressor Corporation conducts a customer satisfaction survey after each meeting with customers to gather customer feedback.

Air-Conditioning & Refrigeration:

Mitsubishi Heavy Industries Thermal Systems, Ltd., which engages B-to-C business in air-conditioners, ensures that customer input is always incorporated through the contact points set up with Internet, telephone, and so on.

Online strategy

Online strategy

Thermal power systems:

Mitsubishi Hitachi Power Systems, Ltd. provides online surveillance of product operation and evaluation of predictors or potential signals of trouble while also issuing operational status reports for some customers.

Air-Conditioning & Refrigeration:

Mitsubishi Heavy Industries Thermal Systems, Ltd. provides a remote monitoring service that enables energy-saving and centralized management of operational status of centrifugal chillers, air-conditioners, and heat pump units. This service includes trouble-sign diagnosis and the analysis of the cumulated operational data to make customer proposals for further energy-saving improvements.

Engine & Energy:

The Engine & Energy division of Mitsubishi Heavy Industries Engine & Turbocharger, Ltd., remotely monitors the status of engine power plant via the Internet to find warning signs of trouble, and to prevent it.

Advertising activities**Responsible advertising activities**

MHI Group promotes advertising activities based on its business plans that target stakeholders in all global regions. As MHI Group moves ahead with its activities, the relevant department confirms facts to ensure that accurate information is provided to customers, and endeavors to abide by all provisions in related laws and industries. After running advertisements, the Department assesses the improvement in recognition level in each form of media and the spreading of the corporate image. As part of our worldwide advertising strategies for fiscal 2017, we placed advertorials in the Financial Times (U.K.), Fortune (U.S.), Bloomberg (U.S.), The Economist (U.K.), BBC, and CNBC, as well as in leading newspapers in Japan (including the Yomiuri and the Nikkei). The advertorials gave a comprehensive introduction to MHI Group's operations and endeavored to communicate information with the objective of raising awareness among stakeholders in Japan and overseas.

Number of violations related to advertising, their content, and measures

There were no legal or regulatory violations related to our advertising activities in fiscal 2017.

► Innovation Management

Manufacturing technologies are the source of value creation for the MHI Group, and intellectual property activities and R&D are the bedrock of its businesses. Supporting our business strategies for growth, we are promoting the construction of a global system, led by the Chief Technology Officer (CTO), who is the head of technology.

In April 2016, MHI launched a new Shared Technology framework consolidating the Company's technologies as well as its marketing, procurement, and other functions, overseen by the CTO. We created this framework to maximize the MHI Group's comprehensive technological strength to bolster competitiveness over the medium to long term. About Research and Development, in 2015 we established a comprehensive Research & Development Center, consolidating five domestic R&D centers and transitioning to cross-organizational management in our R&D structure. Through this approach, we anticipate new technological synergies, enhanced human resource development, and greater efficiency in work performance and facility utilization. We are globalizing our R&D structure, and as part of these efforts, we are dispatching specialist engineers from research centers in Japan to our bases in the United Kingdom, Singapore, the United States, and China. We are making efforts to secure leading global technologies, information, and human resources, while conducting research and providing technological support that is closely aligned with market needs.

R&D expenditure

2017 **1,768** billions of yen

Percent of sales

2017 **4.3%**

Performance Data

Innovation Management

R&D situation

R&D expenditure	Unit	2013	2014	2015	2016	2017	Coverage
Total	Billions of yen	1,385	1,455	1,506	1,607	1,768	Group
% of sales		4.1	3.6	3.7	4.1	4.3	Group
Employees of R&D position	FTEs	1,300	1,300	1,300	1,300	1,300	Group

Open innovation case

Open innovation case 1

■ Case

MHI Group utilized the world's largest CO₂ capture system, using the KM CDR process, with a capture capacity of 4,776 metric tons per day for Petra Nova in the U.S. state of Texas, as part of a joint venture between Japan-based JX Nippon Oil & Gas Exploration Corporation (JX Nippon) and NRG Energy, Inc., an independent power producer in the U.S. This project was carried out in collaboration with Southern Company, a leading U.S. power producer. This process was well received by the energy sector and received the "Plant of the Year 2017" award from POWER Magazine.

<ul style="list-style-type: none"> ■ Benefit 	<p>MHI has been involved in R&D into CO₂ recovery technology for more than 25 years. This demonstration test of emissions at a coal-fired power plant owned by Southern Company has shortened the development period substantially. Furthermore, over a period of approximately five years, we have succeeded in scaling up the CO₂ recovery tenfold, from 500 tons per day (demonstration) to 5,000 tons (commercial). We believe this joint development has enabled us to significantly shorten the cycle from development to practical realization.</p>
<ul style="list-style-type: none"> ■ Other Impacts 	<p>The CO₂ recovery process we have developed is currently being used at WA Parish Generator No.8, a coal-fired thermal power plant owned by NRG Energy, Inc., in the U.S. state of Texas. This recovery, which commenced on December 29, 2016, resulted in the world's highest volume of CO₂ recovery (4,776 tons per day). We expect CO₂ recovery technology to grow more popular, contributing to efforts to stop global warming. As a result, we anticipate a 14% reduction in overall CO₂ emissions by 2050.</p>

Open innovation case 2	
<ul style="list-style-type: none"> ■ Case 	<p>MHI has invested in the Geodesic Capital Fund, an investment fund operated by Geodesic Capital. This company, based in the U.S. state of California, was established by John V. Roos, former U.S. ambassador to Japan.</p>
<ul style="list-style-type: none"> ■ Benefit 	<p>This action will introduce us to multiple venture companies centered in Silicon Valley. In addition, we will introduce the products and services of several of these companies and conduct evaluation research related to the introduction of such products and services into those of MHI. This in turn will lead to collaboration with individual companies.</p>
<ul style="list-style-type: none"> ■ Other Impacts 	<p>By participating in Geodesic-sponsored events to introduce venture companies, as well as seminars, we aim to obtain information on leading-edge technologies such as the Internet of Things, artificial intelligence (AI), and security, and promote their application to our products.</p>

Open innovation case 3	
<ul style="list-style-type: none"> ■ Case 	<p>MHI has collaborated with multiple recycled carbon fiber manufacturers to pioneer a new value chain framework ahead of the competition where recycled carbon fibers with high added value are extracted from composite waste materials produced during aircraft wing production for reuse as raw materials for carbon fiber composites.</p>
<ul style="list-style-type: none"> ■ Benefit 	<p>Through this process, MHI has reduced the energy load involved in carbon fiber production and reduced CO₂ emissions by 10%. MHI produces less than 1,000 tons of composite waste materials a year, and by recycling these materials, it is possible reduce emissions by close to 10,000 tons annually.</p>
<ul style="list-style-type: none"> ■ Other Impacts 	<p>We have created a new value chain that leverages the strength of a stable supply of composite material waste.</p>

Process innovation

Process innovation	
<ul style="list-style-type: none"> ■ Case ■ Benefit 	<p>Value chain innovation activity: We are continuously working on process streamlining and improvement in all business domains, contributing to shortening work hours and reducing costs. For example, by improving the manufacturing process and increasing the sophistication of production management systems in the renewable energy field, we were able to reduce the manufacturing lead time by half, and lower energy costs.</p>

Environmental innovation

Environmental innovation

- Case
- Benefit

Air-Conditioning & Refrigeration:

The ETI-Z series of next-generation centrifugal chillers, the first in the world to use the new environmentally friendly HFO-1233zd (E) refrigerant has been launched. This new refrigerant produces minimal greenhouse gas emissions. The new design of the ETI-Z series also enables best-in-class energy efficiency through the use of a compressor with a high-speed direct motor drive, reducing motor drive energy loss. Through these innovations, the ETI-Z series is able to achieve significant reductions in emissions without compromising on its compact size.

Product adaptation for emerging markets

Product adaptation case

Small and medium-sized gas turbine:

In emerging countries where power grid infrastructure is still rather poor, there is a strong demand for small distributed power sources. H-25 (HP: 28-42MW) ^(Note), a small- to medium-sized gas turbine, is a compact but highly efficient quality product tailored to the needs of emerging markets, and has been enjoying strong demand. In fiscal 2018, there were orders from China.

(Note) For reference, normally a large gas turbine for power generation has HP200 –300 MW and above, mostly for use in developed markets.

Air-Conditioning & Refrigeration:

The 1.5 kW home air-conditioner model has been launched into emerging markets in Southeast Asia (compared with another model with 2.2 kW for developed countries) to meet the needs of “keeping cool only for bedtime comfort” and has been enjoying good sales.

It is expected that this small-electricity model will also contribute to decreasing the burden to the infrastructure in areas where the supply of electricity is not stable.

Improving productivity

Technology introduction

By transferring sophisticated manufacturing technology as is, such as machine work and assembly in Japanese factories, we have been achieving both high quality production capability and cost competitiveness. This approach has been taken in various business and products in which quality is essential.

In addition, the technology of our primary thermal power plant products, including gas turbines, steam turbines, boilers, Flue Gas Desulfurization (FGD) plants and Selective Catalyst Reduction (SCR), has been introduced by providing licenses to manufacturers in China, Korea, India, etc.

Improving labour productivity

To maintain Japanese standards for high quality, a small group operation has been implemented; for developing skilled workers, Japanese engineer educators have been dispatched and overseas trainees have been accepted at Japanese sites.

Vietnam aircraft manufacturers have established an in-house manufacturing technology school where Japanese instructors instruct and educate the Vietnamese employees for their talent development. On-site OJT is also provided, for facilitating early acquisition of the skills. OJT opportunities in Japan (Ooe Factory) are also provided for the Vietnamese employees, aiming at skill acquisition through mutual exchange of employees.

**Reviewing procurement agreements
or inventory levels**

Air-Conditioning & Refrigeration:

We sell our products through dealerships and distributors in each country (including emerging countries). However, when orders are received, we perform checks of the inventory status along trading routes and the level of demand in each country to keep inventory from accumulating.

Furthermore, by devising improved production methods, we are building a supply system that can adjust to changes in demand by shortening production lead time.

► Supply Chain Management

MHI procures a variety of materials and services both domestically and globally, including raw materials, machinery, equipment, and components. MHI is open to all motivated and competitive suppliers. Suppliers are fairly and impartially evaluated and selected in accordance with related laws, regulations, and social norms in order to build relationships of trust based on win-win partnerships.

In June 2010, MHI established the MHI Group Supply Chain CSR Promotion Guidelines. We seek cooperation from our business partners regarding respect for human rights in the supply chain. To this end, we have shared the created guidelines with our suppliers in order to promote CSR activities throughout the supply chain. In the Guidelines, five basic policies are established: compliance; product safety; good quality, cost, and delivery (QCD); technical improvement and business with full consideration of human rights; and work environment. Suppliers are expected to embrace the MHI Guidelines, which are introduced at suppliers' conferences and on the Company's website.

(Reference) MHI Group Supply Chain CSR Promotion Guidelines <https://www.mhi.com/company/procurement/csr/>

Number of participants in procurement related training

2017

Total number of participants **1,387**

Performance Data

Supply chain management

Supply chain structure

Spending analysis (analysis of procurement history)

We conduct spending analysis, that is an analysis of our procurement history and manage the number of suppliers and purchasing cost according to procurement item category.

Critical suppliers

Definition of critical suppliers

By business unit, MHI nominates critical suppliers those suppliers that supply important or large quantities of parts or equipment or suppliers that are available where no alternatives exist.

Tier 1 suppliers 19,933 (FY2017)

Primary Tier 1 suppliers 16,212 (FY2017)

Supply chain monitoring

Supply chain monitoring

MHI monitors and evaluates its critical Tier 1 suppliers' quality, cost, delivery, technical capability, and management (incl. ESG) based on each business unit.

Evaluated suppliers in last 3 years 2,025 companies

Ratio 9.5%

Conflict minerals

Basic Policy Concerning Conflict Minerals

Armed groups engaged in conflicts in the Democratic Republic of the Congo and neighboring countries have committed serious human rights abuses and acts of environmental destruction. This issue has caught the world's attention. Some of the proceeds from the minerals produced in this region (tin, tantalum, tungsten, and gold, hereinafter "conflict minerals") are thought to be a source of funding for these armed groups. MHI Group has no intention of abetting human rights abuses or environmental destruction by procuring raw materials, parts or products which contain the conflict minerals. A survey conducted in fiscal 2017 targeting smelter and country of origin, which is mineral procurement source for automobile parts, the results confirmed that 320 smelters out of 3,588 identified are certified under the conflict-free smelter program. We will continue to work with our customers, suppliers, industry groups and others in efforts to avoid benefiting the armed groups.

(Reference)

MHI Group Supply Chain CSR Promotion Guidelines <https://www.mhi.com/company/procurement/csr/>

Our improvements in the supply chain

Procurement Education and Training

Procurement departments at MHI provide a range of training programs designed to ensure compliance with the applicable laws and regulations. Since fiscal 2014, MHI has focused on providing training to more Group companies. In fiscal 2017, 1,170 employees from MHI Group companies attended training sessions covering procurement-related laws and regulations, and important points to be aware of when carrying out procurement work. A total of 132 new employees and employees just transferred to procurement departments attended an introductory course on basic information concerning procurement practices, overseas procurement, and the negotiation of commercial contracts.

Environment

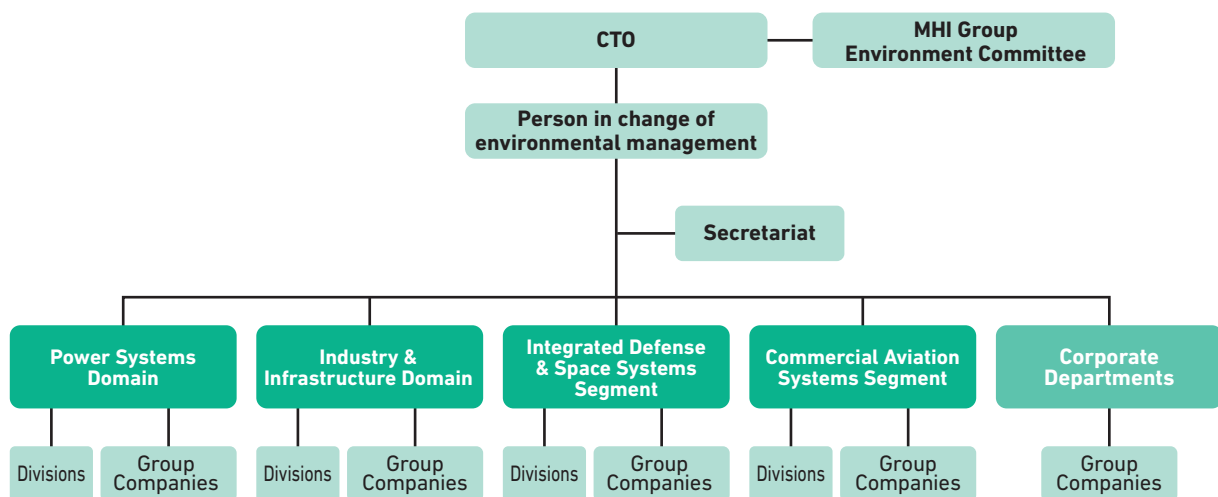
► Environmental Management

With environmental problems gaining recognition on a global scale, MHI Group established the Environment Committee in 1996 in order to clarify its attitude toward the environment, to express its stance to people both inside and outside the Company, 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 (refer below), in line with the MHI Group’s principles: “We deliver reliable and innovative solutions that make a lasting difference to customers and communities worldwide.” Since that time, the entire Group has worked to promote environmental initiatives through maintaining a dialogue with suppliers and other stakeholders in accordance with this Basic Policy and these guidelines. MHI Group made partial revisions to its Basic Policy on Environmental Matters and Action Guidelines in January 2018 with the approval of the Executive Committee, chaired by the President and CEO.

On October 1, 2013, we restructured the Group’s Business Headquarters Structure and transitioned to a Business Domain Structure. The former structure was managed according to product groupings and manufacturing locations, whereas the new structure seeks to manifest our total capabilities in the market through the sharing of customers, core technologies, and business strategies, thereby increasing management efficiency. By making this shift in the area of environmental management as well, in January 2017 we transitioned to an environmental management system based on domains, segments, and corporate units in order to invest management resources in a timely manner and boost management efficiency.

As a result of this change, environmental management at MHI Group transitioned toward the establishment of Domain Environment Committees—in principle for each domain, segment, and corporate unit. These committees formulate measures to address environmental issues and promote their implementation to each of the regional works (plants) and Group companies they oversee. On the other hand, the MHI Group Environment Committee, chaired by the Chief Technology Officer (CTO) who takes charge of environmental management, is the committee that promote policies and initiatives shared throughout the Group. The Committee, whose members are selected from the domains, segments, and corporate units, drafts plans for deployment across all Group companies via the domains, segments, and corporate units. MHI Group’s organizational chart for environmental management is shown below.

The MHI Group’s Environmental Management Organization



The MHI Group Long-Term Environmental Target and the Fourth MHI Group Environmental Targets were established at a meeting of the Environment Committee held in December 2017. The Long-Term Environmental Target is focused on reducing CO₂ by fiscal 2030, the same target year as the Paris Agreement. The Fourth MHI Group Environmental Targets aim for reduction in CO₂ emissions, more efficient water usage, and reduction in waste generation by fiscal 2020. MHI Group will work together to achieve these goals in order to address the problem of climate change.

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.

Action Guidelines

1. Prioritize environmental protection within company operations, and take steps across the entire MHI Group to protect and enhance the environment.
2. Clarify roles and responsibilities regarding environmental protection by developing an organizational structure to deal with matters related to environmental protection, and to define environment-related procedures, etc.
3. Strive continuously to improve and enhance environmental protection activities not only by fully complying with environmental laws and regulations but also, when necessary, by establishing, implementing and evaluating independent standards and setting environmental goals and targets.
4. Strive to alleviate burden on the environment in all aspects of company business activities, from product R&D and design to procurement of raw materials, manufacture, transport, usage, servicing and disposal, through pollution prevention, conservation of resources, energy saving, and waste reduction.
5. Strive to develop and market advanced and highly reliable technology and products that contribute to solving environmental and energy challenges.
6. Strive to preserve the environment in partnership with our stakeholders and gain their understanding of this policy.
7. Take steps to raise environmental awareness among all group employees through environmental education, etc., while delivering environment-related information to the public and taking part in CSR activities.

Formulated in 1996 (Revised in January 2018)

Long-Term Environmental Target (FY2030)

Unit CO₂ emissions **-16%** Compared with FY2014 (Note)

Environmental Targets(FY2020)

Unit CO₂ emissions **-6%** Compared with FY2014 (Note)

Unit water consumption **-6%** Compared with FY2014 (Note)

Unit waste generation **-6%** Compared with FY2014 (Note)

(Note) Consolidated Group Companies

Pick Up

■ The MHI Group Long-Term Environmental Target (FY2030)

Category	Item	Scope of target	Target (FY2018-FY2030)
Reduction in greenhouse gas emissions	Reduction in CO ₂ emissions	Entire MHI Group	Reduce ^(Note 1) the unit CO ₂ emissions in FY2030 by 16% compared to FY2014. The numerator: The sum of the CO ₂ emissions of all Group companies. Unit: ton. The denominator: The total consolidated sales of all Group companies. Unit: Yen. (Note 1) Annually whether 1% reduction of the unit CO ₂ emissions is achieved or not will be evaluated.

(Note) Consolidated Group Companies will be subject to this target.

■ The Fourth MHI Group Environmental Targets (FY2018-FY2020)

Category	Item	Scope of target	Target (FY2018-FY2020)
1. Reduction in greenhouse gas emissions	1.1 Reduction in CO ₂ emissions	1.1.1 Entire MHI Group	Reduce ^(Note 1) the unit CO ₂ emissions in FY2020 by 6% compared to FY2014. The numerator: The sum of the CO ₂ emissions of all Group companies. Unit: ton. The denominator: The total consolidated sales of all Group companies. Unit: Yen. (Note 1) Annually whether 1% reduction of the unit CO ₂ emissions is achieved or not will be evaluated.
2. More efficient water usage	2.1 Reduction in water usage	2.1.1 Entire MHI Group	Reduce ^(Note 1) the unit water consumption in FY2020 by 6% compared to FY2014. (Water: industrial water, tap water, groundwater, rivers, lakes; excluding seawater). The numerator: The sum of the water consumption of all Group companies. Unit: m ³ . The denominator: The total consolidated sales of all Group companies. Unit: Yen. (Note 1) Annually whether 1% reduction of the unit water consumption is achieved or not will be evaluated.
3. Reduction in waste generation	3.1 Reduction in waste generation	3.1.1 Entire MHI Group	Reduce ^(Note 1) the unit waste generation in FY2020 by 6% compared to FY2014. The numerator: The sum of the waste generated by all Group companies' activities. Unit: ton. The denominator: The total consolidated sales of all Group companies. Unit: Yen. (Note 1) Annually whether 1% reduction of the unit waste generation is achieved or not will be evaluated.

(Note) Consolidated Group Companies will be subject to this target.

■ The Third MHI Group Environmental Targets (FY2015-FY2017)

Category	Item	Scope of target	Target (FY2015-FY2017)
1. Reduction in greenhouse gas emissions	1.1 Reduction in CO ₂ emissions	1.1.1 Group companies in Japan	Reduce ^(Note 1) the unit energy consumption in FY2017 by 3% compared to FY2014. The numerator: The sum of crude oil equivalent value of all group companies' energy consumptions in Japan. Unit: kiloliter. The denominator: The total consolidated sales of all group companies in Japan. Unit: Yen. (Note 1) Annually whether 1% reduction of the unit energy consumption is achieved or not will be evaluated.

Category	Item	Scope of target	Target (FY2015-FY2017)
1. Reduction in greenhouse gas emissions	1.1 Reduction in CO ₂ emissions	1.1.2 Group companies in countries other than Japan	Reduce ^(Note 1) the unit energy consumption in FY2017 by 3% ^(Note 2) compared to FY2014. The numerator: The sum of crude oil equivalent value of all group companies' energy consumptions in countries other than Japan. Unit: kiloliter. The denominator: The total consolidated sales of all group companies in countries other than Japan. Unit: Yen. (Note 1) Annually whether 1% reduction of the unit energy consumption is achieved or not will be evaluated. (Note 2) To fit the laws and regulations of each country, each company may be set their own goal.
	1.2 CO ₂ Reductions with MHI Group Product Usage	1.2.1 Entire MHI Group (promoted by Head Office)	Promote the manufacture of environmentally friendly products, and report every year on the contribution to CO ₂ reductions through the use of products sold.
2. Reduction in waste generation	2.1 Reduction in landfill disposal ratio	2.1.1 Group companies in Japan	Ensure that the landfill disposal ratio of the entire group companies in Japan is less than 0.6% in FY2017. (However, the landfill ratio of each works, plants and districts of MHI is less than 0.5% and the other group companies in Japan as a whole is less than 2.5%.) The numerator: The sum of the landfill waste of all group companies in Japan. Unit: ton The denominator: The sum of the total waste of all group companies in Japan. Unit: ton
3. Reduction in emissions of chemical substances	3.1 Reduction in VOC emissions	3.1.1 Group companies in Japan	Reduce ^(Note 1) the unit atmospheric emission of VOC (xylene, toluene and ethylbenzene) in FY2017 by 3% compared to FY2014. The numerator: The total atmospheric emissions ^(Note 2) of xylene, toluene and ethylbenzene of all group companies in Japan. Unit: ton (Note 1) Annually whether 1% reduction of the unit atmospheric emission is achieved or not will be evaluated. (Note 2) Except for use in research and testing purposes. The denominator: The total consolidated sales of all group companies in Japan. Unit: Yen.
4. More efficient water usage	4.1 Reduction in water usage	4.1.1 Group companies in Japan	Reduce ^(Note 1) the unit water consumption in FY2017 by 3% compared to FY2014. (water: industrial water, tap water, groundwater, rivers, lakes; excluding seawater). The numerator: The sum of the water consumption of all group companies in Japan. Unit: m ³ . The denominator: The total consolidated sales of all group companies in Japan. Unit: Yen. (Note 1) Annually whether 1% reduction of the unit water consumption is achieved or not will be evaluated.

Category	Item	Scope of target	Target (FY2015-FY2017)
4. More efficient water usage	4.1 Reduction in water usage	4.1.2 Group companies in countries other than Japan	Reduce ^(Note 1) the unit water consumption in FY2017 by 3% ^(Note 2) compared to FY2014. (water: industrial water, tap water, groundwater, rivers, lakes; excluding seawater). The numerator: The sum of the water consumption of all group companies in countries other than Japan. Unit: m ³ . The denominator: The total consolidated sales of all group companies in countries other than Japan. Unit: Yen. (Note 1) Annually whether 1% reduction of the unit water consumption is achieved or not will be evaluated. (Note 2) To fit the laws and regulations of each country, each company may be set their own goal.

Performance Data

Environmental management

Responsible person

Chief Technology Officer (Senior Executive Vice President)

Committee

Name	MHI Group Environment Committee
Members	Chaired by Senior Executive Vice President, CTO and composed of 10 members.
Number of meetings	1 (FY 2017)

ISO14001 certification (As of March 31, 2018)

		Cover ratio of target sites	
Group company	Domestic	19 companies	36%
Group company	Overseas	8 companies	16%

Other certification (As of March 31, 2018)

EcoAction 21	2 companies
K-EMS (Certification by City of Kobe)	3 companies

Environmental audit

MHI Group conducts internal environmental audits at works (plants) in Japan to ensure compliance with environmental laws and regulations and to conduct physical, on-site verification of operational conditions. Based on the environmental policy, these audits confirm that countermeasures against climate change, pollution, and measures for water conservation have been properly implemented as part of the environment management system. The audits are performed by teams composed of auditors coming from outside the works (plants) and districts being audited. We promote activities in accordance with environmental management regulations, and confirm that the environmental management system is undergoing ongoing improvements.

Reporting on breaches^(Note 1)

There was no significant breach last year.

(Note 1) Coverage is group companies of Japan.

Environmental KPIs

The Third MHI Group Environmental Targets

KPI(1) Reduction in energy consumption	Target	Reduce the unit energy consumption by 3% compared to FY2014.
	Target Year	FY2017
KPI(2) Reduction in water usage	Target	Reduce the unit water consumption by 3% compared to FY2014.
	Target Year	FY2017
KPI(3) Reduction in emissions of chemical substances ^(Note 1)	Target	Reduce the unit atmospheric emission of VOC by 3% compared to FY2014.
	Target Year	FY2017
KPI(4) Reduction in waste generation	Target	Ensure that the landfill disposal ratio of all Group companies in Japan is less than 0.6% in FY2017.
	Target Year	FY2017

(Note 1) Three substances are targeted: xylene, toluene, and ethylbenzene.

	2014		2015		2016		2017	
	Performance	Performance	Compared with FY2014	Performance	Compared with FY2014	Performance	Compared with FY2014	
KPI(1) Energy consumption / Sales in Japan	11.01 ^(Note 2)	10.79 ^(Note 3)	Down 2%	11.60 ^(Note 9)	Up 5.4%	10.40 ^(Note 11)	Down 5.5%	
KPI(1) Energy consumption / Sales Overseas	6.12 ^(Note 4)	6.02 ^(Note 5)	Down 1.6%	8.66 ^(Note 10)	Up 41.5%	11.13 ^(Note 12)	Up 81.9%	
KPI(2) Water usage / Sales in Japan	0.29 ^(Note 2)	0.27 ^(Note 3)	Down 6.9%	0.28 ^(Note 13)	Down 3.4%	0.25 ^(Note 2)	Down 14.1%	
KPI(2) Water usage / Sales Overseas	0.08 ^(Note 4)	0.07 ^(Note 5)	Down 12.5%	0.11 ^(Note 5)	Up 37.5%	0.31 ^(Note 12)	Up 287.5%	
KPI(3) Emissions of chemical substances / Sales in Japan ^(Note 1)	41.09 ^(Note 6)	54.72 ^(Note 7)	Up 33%	43.78 ^(Note 7)	Up 7%	40.34 ^(Note 13)	Down 1.8%	
KPI(4) Landfill waste disposal ratio in the total waste generation in Japan	0.35 ^(Note 8)	1.34 ^(Note 8)	-	0.47 ^(Note 2)	-	0.57 ^(Note 2)	-	

(Note 2) MHI on a non-consolidated basis and 49 Group companies in Japan.

(Note 3) MHI on a non-consolidated basis and 45 Group companies in Japan.

(Note 4) Overseas 26 Group companies

(Note 5) Overseas 25 Group companies

(Note 6) MHI on a non-consolidated basis. Includes the Nagasaki, Takasago, and Yokohama plants of Mitsubishi Hitachi Power Systems, Ltd.

(Note 7) MHI on a non-consolidated basis and four Group companies in Japan.

(Note 8) MHI on a non-consolidated basis and 20 Group companies in Japan

(Note 9) MHI on a non-consolidated basis and 50 Group companies in Japan.

(Note 10) Overseas 87 Group companies

(Note 11) MHI on a non-consolidated basis and 54 Group companies in Japan.

(Note 12) Overseas 98 Group companies

(Note 13) MHI on a non-consolidated basis and 28 Group companies in Japan.

Environmental action

Environmental management in each sites (Note 14)

MHI Group has prepared and uses an ISO-based manual for each works (plants), encompassing such issues as risk identification methods, daily management procedures, and contingency plans. At each works (plants), emergency response drills are carried out to confirm the effectiveness of the response procedures for emergencies such as oil spills and earthquakes.

In the event of any crisis, the Company's in-house crisis management information system is prepared to quickly convey information to the President.

(Note 14) In principle, MHI on a non-consolidated basis

Environmental activities

Fostering environmental awareness (Note 14)

At MHI, each works formulates its own environmental education curriculum based on e-learning and other methods to provide environmental education to employees. In addition to the internal environmental auditor training program organized by our training center, specialized training that deals with daily management procedures and handling emergencies also takes place for employees doing painting tasks and handling dangerous materials.

Activities for environmental preservation

Supporting conservation survey for loggerhead turtles in danger of extinction
 Promoting forest conservation and non-native species removal activities

(Reference)

Biodiversity (p51)

Environmental reporting coverage

Coverage

In principle, scope of the financial and environment-related non-financial information disclosure of MHI Group includes Mitsubishi Heavy Industries Ltd. and consolidated subsidiaries. When some non-financial information applies to either only MHI Ltd. or the specific scope of business at our subsidiaries, such specific scope is defined separately.

Referenced guidelines

References guidelines

Global Reporting Initiative's (GRI) Sustainability Reporting Standards
 The International Integrated Reporting Council's (IIRC) International Integrated Reporting Framework
 Ministry of the Environment's Environmental Reporting Guidelines (2012 version, 2018 version)
 ISO 26000 Guidance on Social Responsibility
 Ministry of Economy, Trade and Industry of Japan's The Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation

Product Stewardship

Life-cycle assessment

Environmental Standards for Product Development

In 2005, we formulated the Basic Guidelines for Environment-Friendly Product Fabrication. This technology standard provides a framework for creating products that contribute to environmental preservation and CO₂ reduction. Under these guidelines, we assess the environmental impact of products across their life cycles and strive to create products that reduce environmental impact (not disclosed).

Life cycle stages included LCA

Every year, we calculate the amount of CO₂ reduction achieved by the use of our representative products. CO₂ reductions from the fiscal 1990 level through the use of MHI Group's products in fiscal 2017 came to approximately 49,790 thousand tons.

Environmental impact assessment in products development and design phase

Assessment of environmental impact ^(Note 14)

MHI formally established Basic Guidelines for Environment-Friendly Product Fabrication (not disclosed) in 2005 as one of the standards for producing and manufacturing guidelines common across the Company based on which we have been pursuing efforts to reduce environmental impact across the entire product life cycle.

(Note 14) In principle, MHI on a non-consolidated basis

Environmental product declaration

Environmental product declaration

Since the majority of our products are industrial products for BtoB sales, we need confirmation with each customer regarding the precise details required for product tests, provisions, and contracts by going beyond the general Environmental Product Declaration in order to ensure the environmental standards and performance to be met. As for products for the general public (BtoC), we have air conditioners that are fully compatible with the Energy Saving Labeling Program authorized by the Ministry of Economy, Trade and Industry (METI) by meet 100% of the set energy-saving standards. Concerning the S6M3F-MTK-S marine engine, we have also obtained the Environmental Advanced Secondary Qualification Label for Fishing Vessels certified by the Ministry of the Environment in Japan.

% of revenue

Less than 5%

Collection and recycling of used products

Collection and recycling of used products

Although the majority of our products are industrial products targeted for business to business (BtoB) use, we promote product management throughout their entire life cycle, including disposal and recycling, through project stewardship centered on eco-design and eco-labeling.

As for products targeted for the general public (BtoC), air conditioners are subject to the Home Appliances Recycling Law of Japan, and are therefore collected in compliance with relevant laws and regulations. Furthermore, our rental forklifts are selected from registered Rental UP vehicles, inspected, and have parts replaced based on our in-company standards. These vehicles are then divided into three ranks according to replacement parts, painting, and warranty period for sale as a "certified second-hand vehicle." We are currently developing this business model as the first of its kind in Japan.

% of revenue

Less than 5%

► Climate Change

The Third MHI Group Environmental Targets (FY2015–2017) establish the target of reducing greenhouse gas emissions.

Greenhouse gas emissions in fiscal 2017 amounted to 838 thousand tons ^(Note 1), which is higher than fiscal 2016. The primary reason for this increase was an expansion in the scope of data collection through the addition of new data from Group companies in Japan and overseas. MHI Group will continue its efforts to reduce greenhouse gases in fiscal 2018 and beyond in accordance with The Fourth MHI Group Environmental Targets.

Greenhouse gas emission volume (Scope 1 & 2)

2017 **838** thousand tons (Note 1)

(Note 1) MHI on a non-consolidated basis and 152 Group companies.

Performance Data

Climate Change

Climate change governance

Committee

MHI Group Environment Committee

Risk management measures

At MHI, the Environment Committee chaired by the Chief Technology Officer, is the Committee with the chief responsibility for matters concerning climate change. In fiscal 2016, the Environmental Planning Group at MHI Headquarters served as the Secretariat. The managers of individual divisions assess climate change risk and other forms of environmental risk using benchmarks for the scale of impact on business operations and society, and the urgency of risk countermeasures. Significant risks are relayed through Environmental Planning Group channels to the Environment Committee, which then deliberates on countermeasures. Especially serious risks are reported to the Executive Committee headed by the Company President. The Executive Committee then explores reported risks and implements Companywide measures against those deemed important. These risks will be proposed to the Board of Directors for deliberation when members of the Board of Directors present at the Executive Committee deem it important to do so.

Recommendations for policies related to climate change

In order to maximize efforts to combat climate change, MHI Group makes policy recommendations through the Japan Business Federation.

Incentives toward management activities related to the issue of climate change

In fiscal 2017, as part of its Group-wide award system, the MHI Group established the Best Environmental Product Award and the Best Environmental Practices Award as categories in its annual Best Innovation Awards. Winners receive awards amounting to hundreds of thousands of yen. In fiscal 2017 we granted Best Environmental Product awards to people responsible for three products: a CO₂ recovery plant featuring the world's largest processing capacity; an energy-independent sewage-sludge incinerator; and a centrifugal chiller using a low-GWP refrigerant. The Best Environmental Practices Award recognizes business practices that reduce environmental impact. This award was given to members responsible for constructing a business model with partner companies to recycle carbon fiber reinforced polymers (CFRP) used in aircraft, which were previously considered difficult to recycle.

CDP submission

We have submitted a CDP response since fiscal 2004, and the evaluation of fiscal 2017 was B.

Climate change opportunities and risks

Climate change opportunities

Implementation of the Paris Agreement is expected to spur global growth in the demand for highly efficient natural gas-fired power generation as a step toward the creation of a low-carbon society. MHI Group has developed and begun supplying power-generating plants powered by high-efficiency gas turbines as well as systems for the recovery of CO₂ from power plant exhaust gases. The Group considers emissions regulations overseas to be a significant business opportunity.

Energy-saving activities

MHI Group conducts a variety of energy-saving activities at each site, including the use of LED lighting and highly energy efficient substation equipment, and is working to improve energy-saving and energy efficiency.

Products and technologies that mitigate climate change

Products and technologies that mitigate climate change and CO₂ reductions through the use of MHI Group products

MHI Group is working to create a low-carbon society across a broad spectrum of fields, including large-scale power generation technologies such as highly efficient thermal power generation plants and nuclear power plants; power generation systems that utilize wind, geothermal, and other renewable energies; ships and transportation systems for improving the efficiency of the transportation sector; and high energy-saving air-conditioning systems that use heat pump technology. In fiscal 2017, through the use of MHI Group's main products, CO₂ reductions came to about 49.79 million tons from the fiscal 1990 level.

GHG Emissions

Direct greenhouse gas emissions (Scope 1)

		Unit	2014 ^(Note 1)	2015 ^(Note 2)	2016 ^(Note 3)	2017 ^(Note 4)
CO ₂ emissions (consolidated)	Performance	t	238,803	185,951	221,316	188,712
	Assurance	t	Domestic only	Domestic only	Domestic only	151,681 ✓ domestic only

(Note 1) MHI on a non-consolidated basis and 75 Group companies.

(Note 2) MHI on a non-consolidated basis and 70 Group companies.

(Note 3) MHI on a non-consolidated basis and 137 Group companies.

(Note 4) MHI on a non-consolidated basis and 152 Group companies. (Coverage: 94% of consolidated revenues)

			2014 ^(Note 1)	2015 ^(Note 2)	2016 ^(Note 3)	2017 ^(Note 4)
		Unit				
Other emissions (MHI)						
CH ₄	Performance	t-CO ₂	324.8	486.3	193.1	82.0
N ₂ O	Performance	t-CO ₂	225.6	186.9	123.7	458.1
HFCs	Performance	t-CO ₂	655.8	1,036.7	1,545.5	791.6
PFCs	Performance	t-CO ₂	0	0	0	0
SFCs	Performance	t-CO ₂	57.6	44.8	44.1	42.8
Other	Performance	t-CO ₂	0	0	0	0

Indirect greenhouse gas (Scope2)

			2014 ^(Note 1)	2015 ^(Note 2)	2016 ^(Note 3)	2017 ^(Note 4)
		Unit				
Greenhouse gas emissions						
	Performance	t	650,965	606,087	653,269	649,549
	Assurance	t	Domestic only	Domestic only	Domestic only	433,845 ✓ domestic only

(Note 1) MHI on a non-consolidated basis and 75 Group companies.

(Note 2) MHI on a non-consolidated basis and 70 Group companies.

(Note 3) MHI on a non-consolidated basis and 137 Group companies.

(Note 4) MHI on a non-consolidated basis and 152 Group companies. (Coverage: 94% of consolidated revenues)

GHG Emissions (other) ^(Note)

			2017 ^(Note)
		Unit	
Greenhouse gas emissions			
Transport and delivery			
(downstream emissions)		Performance	t
			3,095

(Note) MHI on a non-consolidated basis

Energy Consumption
Energy consumption

			2014 ^(Note 1)	2015 ^(Note 2)	2016 ^(Note 3)	2017 ^(Note 4)
		Unit				
Energy consumption						
	Performance	MWh	1,983,704	2,039,087	2,425,331	2,231,491

Electricity purchased

			2014 ^(Note 1)	2015 ^(Note 2)	2016 ^(Note 3)	2017 ^(Note 4)
		Unit				
Electricity purchased						
	Performance	MWh	1,043,459	1,106,660	1,263,512	1,269,718

Renewable energy

			2015 ^(Note 2)	2016 ^(Note 3)	2017 ^(Note 4)
		Unit			
Renewable energy consumption					
	Performance	MWh	2,246	10,198	12,601

(Note 1) MHI on a non-consolidated basis and 75 Group companies.

(Note 2) MHI on a non-consolidated basis and 70 Group companies.

(Note 3) MHI on a non-consolidated basis and 137 Group companies.

(Note 4) MHI on a non-consolidated basis and 152 Group companies. (Coverage: 94% of consolidated revenues)

Energy use in FY2017 (Japan) ^(Note 5)

	Unit	2017
Purchased Electricity	MWh	840,664
Heavy fuel oil A	kL	4,512
Gasoline	kL	2,211
Diesel/Gas oil	kL	7,007
Kerosene	kL	3,319
Jet fuel	kL	749
Coal for fuel use	t	262
City gas	thousand tons	39,434
Liquefied Petroleum Gas	t	5,346
Liquefied Natural Gas	t	578
Petroleum hydrocarbon gas	thousand tons	0.4
Hot water	GJ	5
Chilled water	GJ	13,064
Steam	GJ	11,278

(Note 5) MHI on a non-consolidated basis and 66 Group companies in Japan.

► Water Risk

The Third MHI Group Environmental Targets (FY2015–FY2017) established the target of reducing unit water usage across the entire MHI Group, including both domestic and overseas businesses.

In fiscal 2017, domestic water usage for the Group totaled 6,830 thousand m³, a decrease from fiscal 2016. However, the water usage for the Group overseas totaled 1,682 thousand m³, an increase from fiscal 2016. The primary reason for this increase was an expansion in the scope of data collection through the addition of new data from Group companies in Japan and overseas. MHI Group will continue its efforts to reduce water usage in fiscal 2018 and beyond in accordance with The Fourth MHI Group Environmental Targets.

Water Usage



(Note 1) The scope of data collection includes MHI on a non-consolidated basis and 58 Group companies in Japan.

(Note 2) The scope of data is 98 overseas Group companies.

Performance Data

Water Risk

Water risk governance

Committee	MHI Group Environment Committee
Risk management measures related to water risks	In the Third MHI Group Environmental Targets (FY2015–FY2017), MHI also set consistent Groupwide reduction targets in relation to the effective use of water resources, and is currently undertaking Groupwide measures. An IT system is being used for the reporting and accumulation of water-related data for MHI factories in Japan of MHI on a non-consolidated basis and for Group companies within and outside Japan.

Water risk management

Management of water quality	Waste water is managed and treated in accordance with relevant laws and regulations.
Management of changes to laws, regulations, taxes, and water prices	Domestically, once information on any regulation change or revision is obtained, we take appropriate action promptly as necessary. With regard to overseas factories belonging to Group companies, we are promoting the collection of data related to their water use.

Water Used During Products' Life Cycle

Products contributing to the reduction of water use

For example, desalination plants for converting sea water into plain water are often built in combination with power plants constructed in Saudi Arabia, where water resources are limited. Combining our products from a wide range of areas, MHI has been delivering solutions for issues pertaining to water resources.

Relaxation of water quality effects by using products

We are contributing to alleviating the influence of water quality through environment-friendly thermal power generation systems, such as wastewater treatment of desulfurization equipment.

Water usage

Water usage amount	Unit	2014	2015 ^(Note 1)	2016 ^(Note 2)	2017 ^(Note 3)
Quantity of water intake	thousand m ³	8,450	8,474	9,044	8,513
Assurance		-	Domestic only	Domestic only	6,831 ✓ domestic only
Usage amount	thousand m ³	8,450	8,474	9,366	8,957
Unit reduction rate (Compared with FY2014 levels)	%	-	11.9	7.2	21.5
Breakdown by Quantity of water intake					
Tap water	thousand m ³	-	-	3,837	3,685
Assurance		-	-	Domestic only	2,249 ✓
Industrial water	thousand m ³	-	-	3,446	3,070
Assurance		-	-	Domestic only	2,845 ✓
Groundwater	thousand m ³	-	-	1,761	1,758
Assurance		-	-	Domestic only	1,737 ✓
Recycled water usage					
Reused water usage	thousand m ³	-	-	322 ^(Note 4)	441 ^(Note 4)
Ratio of recycled water usage	%	-	-	7.8 ^(Note 4)	6.7 ^(Note 4)

(Note 1) The scope of data collection includes MHI on a non-consolidated basis and 75 Group companies.

(Note 2) The scope of data collection includes MHI on a non-consolidated basis and 131 Group companies.

(Note 3) The scope of data collection includes MHI on a non-consolidated basis and 156 Group companies.

(Note 4) The Scope of data is MHI on a non-consolidated basis.

► Biodiversity

The Basic Policy on Environmental Matters and Action Guidelines and the MHI Group CSR Action Guidelines include the concepts of the Guidelines for Private Sector Engagement in Biodiversity released by the Ministry of the Environment and the Biodiversity Declaration from the Japan Business Federation.

Each district pursues various biological diversity activities in accordance with these principles and guidelines.

Pick Up

Supporting conservation survey for loggerhead turtles in danger of extinction

In Tanegashima, a key location for the Group's rocket launch business, MHI Group offered its support for the Tanegashima Loggerhead Turtle Survey, an event sponsored by EarthWatch Japan, an authorized NPO. The loggerhead turtle is in danger of global extinction. Although Tanegashima is the second largest spawning ground for the loggerhead turtle, there have been very few individual identification surveys conducted in the past for the purpose of preservation. Accordingly, we anticipate that the Tanegashima Loggerhead Turtle Survey will not only help to clarify the ecology of the loggerhead turtle but also lead to its preservation.

Surveys were conducted four times between June and July 2017, and Group employees acted as volunteers to assist in tagging individual turtles for identification purposes under the direction of the Sea Turtle Association of Japan. This project is recognized as a project promoted by the Japan Committee for United Nations Decade on Biodiversity (UNDB).



Employee volunteers receiving preliminary lectures before the survey



Group photo shoot with survey participants



Employee volunteers prepare to check the beach for a night survey



Loggerhead turtle laying eggs

Promoting forest conservation and non-native species removal activities

In recent years, MHI Group has been an active supporter of corporate forestry programs together with local governments and other organizations. We are involved in ongoing local government forest care programs. Centering on employees and their families, tree planting and thinning efforts are underway to protect the forests that provide habitats for many different creatures.

Working with NPOs and other organizations, MHI also actively participates in programs to remove non-native species that are impacting Japan's ecosystem.

At the Sagamihara Machinery Works, MHI Group has worked with Kanagawa prefecture as partners in forest rebuilding through the Kanagawa Suigen no Morizukuri Jigyuu (Kanagawa Water Forest Creation Project) every year since 2009, assisting with planning and carrying out forest conservation activities. The purpose of this partnership is to raise awareness for the conservation of the natural environment among employees



Participating employees and their families

Conserving Biodiversity at Business Sites

Based on the results of environmental assessments at the Takasago plant of Mitsubishi Hitachi Power Systems, Ltd., the Company has established flowerbeds to preserve *salvia plebeia*, a rare plant. In addition, the Company is working to exterminate invasive alien plants, such as the Madagascar ragwort, that have been placed on the blacklist of warning species by the Ministry of the Environment and Hyogo prefecture. Furthermore, as a business with locations in the same prefecture as Lake Biwa, Mitsubishi Heavy Industries Machine Tool Co., Ltd, with headquarters in Ritto City, Shiga Prefecture, participates yearly in efforts to remove invasive fish in an event sponsored by the Biwako-Wo-Modosukai (Team to Bring Back Lake Biwa). Through these efforts, the Company is cooperating in the environmental conservation and ecological conservation of Lake Biwa.

Performance Data

Initiatives on Biodiversity

Action plan and impact assessment pertaining to biodiversity

We are performing a variety of initiatives to minimize the impact on biodiversity surrounding business locations.

► Waste / Pollution

As part of The Third MHI Group Environmental Targets (FY2015–FY2017), we set targets to reduce waste generation and landfill disposal amounts. Regarding volatile organic compounds (VOCs), we set targets to reduce levels of xylene, toluene, and ethylbenzene—chemicals that are emitted in large volumes—in the atmosphere.

In fiscal 2017, the amount of waste generated decreased from fiscal 2016, but the landfill disposal amount increased compared to fiscal 2016. The primary reason for this increase was an expansion in the scope of data collection through the addition of landfill disposal data from overseas Group companies. Atmospheric emissions of VOCs amounted to 1,150 tons in fiscal 2017, a decrease from fiscal 2016.

MHI Group will continue its efforts to reduce waste generation in fiscal 2018 and beyond in accordance with The Fourth MHI Group Environmental Targets. We will also continue to work to reduce VOC emissions by setting internal targets.

Amount of waste generated

FY2017 **169** thousand tons ^(Note 1)

Atmospheric Emissions of Xylene, Toluene, and Ethylbenzene

FY2017 **1,150** t ^(Note 2)

Amount of landfill waste disposed

FY2017 **9.6** thousand tons ^(Note 1)

(Note 1) Including valuables. The scope of data collection includes MHI on a non-consolidated basis and 152 Group companies in Japan.

(Note 2) The scope of data collection includes MHI on a non-consolidated basis and 28 Group companies in Japan.

Performance Data

Waste / Pollution

Waste generation

Waste generation	Unit	2014 ^(Note 2)	2015 ^(Note 2)	2016 ^(Note 3)	2017
Waste generation ^(Note 1)	t	138,000	131,395	178,665	169,181 ^(Note 4)
Assurance	t	-	Domestic only	Domestic only	119,268 ✓ domestic only
Landfill waste disposal amount	t	484	2,144	7,668	9,652 ^(Note 4)

(Note 1) Including valuables.

(Note 2) The scope of data collection includes MHI on a non-consolidated basis and 20 Group companies in Japan.

(Note 3) The scope of data collection includes MHI on a non-consolidated basis and 137 Group companies.

(Note 4) The scope of data collection includes MHI on a non-consolidated basis and 152 Group companies. (Coverage: 94% of consolidated revenues)

Hazardous waste generation

Hazardous waste generation	Unit	2014 ^(Note 1)	2015 ^(Note 1)	2016 ^(Note 2)	2017 ^(Note 3)
	t	3,651	6,238	11,288	11,253

(Note 1) The Scope of data is MHI on a non-consolidated basis.

(Note 2) The scope of data collection includes MHI on a non-consolidated basis and 137 Group companies.

(Note 3) The scope of data collection includes MHI on a non-consolidated basis and 152 Group companies.

VOC emissions

VOC emissions	Unit	2014 ^(Note 1)	2015 ^(Note 1)	2016 ^(Note 2)	2017 ^(Note 3)
Total	t	1,184	1,546	1,199	1,150
Toluene	t	355	336	310	342
Xylene	t	524	797	596	520
Ethylbenzene	t	237	396	293	288

(Note 1) The scope of data collection includes MHI on a non-consolidated basis and 4 Group companies in Japan.

(Note 2) The scope of data collection includes MHI on a non-consolidated basis and 10 Group companies in Japan.

(Note 3) The scope of data collection includes MHI on a non-consolidated basis and 28 Group companies in Japan.

Contributions to Society

► Labour Practice

In order to provide a work environment where each and every employee can reach their full potential, MHI Group formulated the MHI Group Global Code of Conduct and is working to foster a corporate culture and establish various systems to serve such a purpose. We also carefully comply with the laws and regulations of each country in regard to payment, working hours, and labour standards. At the same time, we are working to further improve our work environment.

Moreover, we are concluding collective agreements with labour unions and compiling opinions regarding topics such as wages, bonuses, occupational health and safety, improvements to various systems, and business conditions. In doing so, we are maintaining a dialogue between labour unions and management.

MHI considers diversity to be essential for human resources, who represent the core of its business activities from the perspectives of accelerating globalization and adapting to various business environments. Focusing on securing and enhancing the readiness of our global business as well as on promoting the active participation of women, we will strengthen diversity management.

To promote diversity, we will advance diversity management in position-based training and thereby foster a corporate culture where women play an active role. In addition, the Chairman of the Board regularly attends meetings for The Declaration on Action by a Group of Male Leaders Who Will Create a Society in Which Women Shine held by the Gender Equality Bureau Cabinet Office, in solidarity with the goals of the declaration.

In July 2014, MHI set a target to increase the number of female managers in positions of section manager and higher in the Company threefold from the current level by 2020. Our current phase of activity addresses four themes: increasing the number of female employees, offering career support for employees raising children or providing nursing care, systematically developing female employees in managerial positions, and fostering a corporate culture that supports diversity management. 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. We aim to promote social independence for differently abled people and provide a place where they can find success in accordance with their abilities. We are also supporting our employees by continuously considering our workplace environment and appropriate equipment and facilities –including a move to barrier-free facilities– maintaining a health management center and providing consulting services. We are also making efforts to create new areas where differently abled people can play an active role. Moreover, in 2003 we introduced a system for reemploying workers who are past retirement age (aged 60). In addition, we implemented the Employment Extension System in 2013 to realize more balanced treatment and improved employee benefits for these workers than what was offered under the previous reemployment system.

Number of female managers at MHI

2017 **85** (MHI)

Performance Data

Labour Practice

Diversity and Equal Opportunity

		Unit	2013	2014	2015	2016	2017	Coverage
Number of employees (At the end of the fiscal year)	Total		68,213	80,583	81,845	83,932	82,728	Consolidated
			22,147	21,117	19,357	16,824	14,717	MHI
	Male		20,013	19,069	17,414	15,166	13,213	MHI
		%	90.4	90.3	90.0	90.1	89.8	MHI
	Female		2,134	2,048	1,943	1,658	1,504	MHI
		%	9.6	9.7	10.0	9.9	10.2	MHI

		Unit	2013	2014	2015	2016	2017	Coverage
Executive	Total		51	55	59	54	58	MHI
	Male		50	54	58	53	57	MHI
		%	98.0	98.2	98.3	98.1	98.3	MHI
	Female		1	1	1	1	1	MHI
		%	2.0	1.8	1.7	1.9	1.7	MHI

		Unit	2013	2014	2015	2016	2017	Coverage
Manager (in positions of section manager and higher)	Total		5,170	4,057	4,108	3,478	3,083	MHI
	Male		5,094	3,990	4,029	3,398	2,998	MHI
		%	98.5	98.3	98.1	97.7	97.2	MHI
	Female		76	67	79	80	85	MHI
		%	1.5	1.7	1.9	2.3	2.8	MHI

		Unit	2013	2014	2015	2016	2017	Coverage
Differently -abled people	Employment rate	%	2.14	2.17	2.22	2.17	2.13	MHI

		Unit	2013	2014	2015	2016	2017	Coverage
Number of employees re-hired over retirement age(60yrs)	Total		1,922	1,844	1,613	1,284	925	MHI

Freedom of Association

		Unit	2013	2014	2015	2016	2017	Coverage
Employees covered by collective bargaining agreements		%	99.9	99.9	99.9	99.9	99.9	MHI
Number of labour union-management consultations		times	38	36	44	36	43	MHI

Layoffs

		Unit	2013	2014	2015	2016	2017	Coverage
Number of employees laid off			0	0	0	0	0	MHI
Number of labour union-management consultations		times	0	0	0	0	0	MHI

► Occupational Health and Safety

MHI embraces a basic policy for employee health and safety founded on the following three commitments: (1) Safety is the number one priority. We will do everything in our power to protect lives; (2) We devote every effort to safety in creating outstanding products that contribute to the development of society; and (3) Our physical and mental wellbeing is fundamental to everything we do at MHI Group, and we must continue to elevate and embrace a culture of health and safety across our workplaces. This policy extends to subcontracted companies engaged in business with our employees. Based on these principles, we operate an occupational health and safety management system throughout the Company to create safe, pleasant workplaces.

As part of efforts related to occupational health and safety, the Central Production Committee, chaired by the Standing Executive in charge of HR, performs regular consultations and follow-ups on progress regarding health and safety management plans. Every month, the health and safety committee at each work location, comprising the health and general safety manager, employees, and the labour unions, meet with health and safety committees in each division. In addition, we consult with labour unions on a regular basis.

Industrial accident frequency rate

2017 **0.31** (MHI)

Manufacturing industry average

2017 **1.02**

Basic Policy for Employee Safety and Health

The MHI Group Health and Safety Policies

[Our Health and Safety Principle]

At the MHI Group, safety is the number one priority. We will do everything in our power to protect lives.

[Our Health and Safety Policies]

1. Each and every one of us across the MHI Group must join forces as one united team to maintain and heighten our health and safety standards.
2. We hold health and safety as a top priority at each of the MHI Group companies by establishing procedures, defining roles and responsibilities, and engaging in health and safety initiatives.
3. To prevent occupational accidents or illness, we work to continually enhance our health and safety initiatives by setting measureable goals and evaluating results.
4. We minimize risks at the workplace by assessing all potential issues and implementing appropriate measures to ensure a safe and secure work environment.
5. It is a responsibility of each one of us at the MHI Group to learn, understand, and comply with our health and safety policies and procedures, as well as applicable laws and regulations, through education and training programs.
6. Our physical and mental wellbeing is fundamental to everything we do at the MHI Group.
We must continue to elevate and embrace a culture of health and safety across our workplace.

Pick Up

Opening the Safety Transmission Center at Nagasaki Shipyard & Machinery Works

MHI opened a facility for providing education on work safety in October 2010. The facility, called the Safety Transmission Center at the Nagasaki Shipyard & Machinery Works, is dedicated to the Nagasaki Shipyard & Machinery Works' resolution not to let any fatal accidents occur in its production operations. The facility consists of two zones: the Accident Case Studies Zone, where videos and displays show employees how accidents happen and what to do to prevent them, and the Human Error Study Zone, where employees can learn, in a hands-on format and using real-life examples, the principles that trigger human error and how to identify risks before accidents occur.

The Nagasaki Shipyard & Machinery Works is working to cultivate in its workforce a sensitivity to hazards and a culture of safety by using the Safety Transmission Center as a place where all employees, from managers to operators, can learn nearly firsthand the horror of accidents and the pain they cause, and decide for themselves what they can and should do to prevent them.



Safety Transmission Center

Performance Data

Occupational Health and Safety

Fatalities		2013	2014	2015	2016	2017
Coverage		MHI	MHI	MHI	MHI	Consolidated (Note 1)
Employees		2	0	0	0	0
Contractors		1	0	0	0	1
LTIFR (Note 2)		2013	2014	2015	2016	2017
Coverage		MHI	MHI	MHI	MHI	Consolidated (Note 1)
Employees		0.16	0.09	0.11	0.28	0.16
Contractors		0.32	0.19	0.45	0.41	0.45
OIFR		2013	2014	2015	2016	2017
Coverage		MHI	MHI	MHI	MHI	Consolidated (Note 1)
Employees		0.05	0.04	0.02	0.02	—
Number of Industrial accidents requiring leave		2013	2014	2015	2016	2017
Coverage		MHI	MHI	MHI	MHI	Consolidated (Note 1)
Employees		57	29	34	39	68

(Note1) MHI on a non-consolidated basis and 23 Group companies in Japan.

(Note2) The accident frequency rate is the number of casualties and injuries due to occupational accidents per 1 million total working hours and represents the frequency at which disasters occur. Number of casualties due to occupational accidents of requiring 1 day or more of leave ÷ total number of working hours × 1,000,000.

Working hours	Coverage Hours	2013	2014	2015	2016	2017
		MHI	MHI	MHI	MHI	Consolidated (Note 1)
		124,186,184	104,615,169	108,164,976	89,026,326	218,665,144

Goals for reducing labour-related accidents (Note 1)

Number of fatal accidents / serious incidents	2015	2016	2017	2018
Goal	0	0	0	0
Result	0	2	2	0

(Note1) MHI on a non-consolidated basis and 23 Group companies in Japan.

Status of activities, training, and awareness regarding to occupational health and safety

As a means to realize our health and safety policies, we have developed an occupational health and safety management system that is capable of both systematically and continuously implement mechanisms related to health and safety. In order to reduce the risk of occupational accidents, an occupational safety risk assessment is carried out during planning for new projects and on a regular basis for existing projects. As part of this effort, MHI makes improvements based on the results of risk assessments implemented in each domain. These assessments are related to tasks and equipment, and are mainly focused on the safety and manufacturing sectors. We are also implementing safety education for entry-level employees and other employees. This education utilizes visual learning materials and hands-on equipment that make it possible to actually experience accidents simulations. This hands-on equipment has been installed at each works, including the Nagasaki Shipyard & Machinery Works and Kobe Shipyard & Machinery Works.

Response to emergencies

To prepare for possible disasters and accidents, prescribed measures for dealing with emergency situations have been determined for each domain, with consideration given to the characteristics of the Group's business in order to minimize damage and bring any situation that may arise under prompt control. In addition to conducting an investigation and analysis of the situation surrounding an incident and its cause, we are taking measures to prevent similar accidents from recurring.

Health Management

Health promoting program

- Actions are being implemented based on the occupational health and safety management plan, which includes targets such as days of absence from work due to illness.
- Promotion of the use of the health management promotion tool (KEMPO) in collaboration with a health insurance union
- Initiative for improving the completion rate for participating in specific health guidance, covering everything from initial interview until the end of guidance.
- Measures to prevent lifestyle diseases
(Implementing health-related guidance targeted at reducing the ratio of employees with a BMI of under 25)
- Implementation of stress checks and promotion of the use of consultation hotlines.

For Employees Traveling Overseas

We provide information to employees traveling overseas from Japan regarding prevailing illnesses at their destination, including globally prevalent illnesses, such as HIV/AIDS, tuberculosis, and malaria. When diseases can be prevented through vaccination, the Company bears the cost as a preventative measure.

► Human Resources Development

As part of its basic policy concerning human resources, MHI is working to provide a variety of training programs and place a greater emphasis on promoting self-driven career-building among its employees. MHI is taking steps to improve its training programs with the aim of improving employee capabilities. Through these actions, we aim to become a global corporation that is capable of responding to changes in the rapidly transforming market.

Based on on-the-job training (OJT) in workplaces, we are implementing various educational programs starting immediately after hiring according to job level and function. The main themes of the education according to job level include leadership and management.

As core measures for human resources development, we are concentrating on education to strengthen global responsiveness, development of MHI Group employees and of junior technicians on the forefront of manufacturing, and training activities for Group company employees.

Performance Data

Human Resources Development

Human resources management

Focus area on human resources management

Amid its efforts to accelerate globalization and revise its business model, MHI recognizes that diversity in human resources is core to its business activities. Accordingly, we are reinforcing diversity management, centering on enhancing readiness for global business, and promoting the active participation of women.

Human resources development programs

Program (1)

Education to strengthen global responsiveness

To further strengthen global responsiveness, in fiscal 2011 MHI established a system for dispatching young employees overseas (MGT: MHI Global Training).

■ Benefits

The program develops an early awareness of global human resources and enhances global response capabilities throughout the organization.

Attendance

4 employees (FY2017)

Program (2)

Development of MHI Group employees at overseas Group companies

To accelerate globalization and diversity, it is essential to augment the capabilities and skills of a variety of employees, including those located at Group companies overseas. In order to cultivate human resources supporting Group companies and reinforce regional management of MHI Group, we are enhancing training for future regional and local candidates. In fiscal 2017, we completely revamped our training program contents and target groups. As part of our new selection process, we gather exceptional human resources who are recommended by Group companies in Bangalore, India and mix them with nominators from Japan. In addition to training contents linked to one of India's top business schools, these prospects participate in fieldwork in Bangalore, a city leader in both the market and among ICT start-ups. This combination makes for a diverse and exciting program. Furthermore, we are building and upgrading the contents of an e-learning platform that can be used by overseas Group companies as well as working to create an environment that facilitates the provision of necessary training accessible at any location when required.

■ Benefits

To support the management of Group companies overseas, the program aims to provide the knowledge that management personnel require, and cultivate leadership and membership of MHI Group awareness.

Attendance

20 employees (FY2018)

Program (3)

Development of junior technicians on the forefront of manufacturing

MHI has prepared textbooks that are standardized for the entire company to ensure the commonality and uniformity of education. We have also made DVDs to create digital versions of Skills of the Master manuals developed by veteran technicians. These and other efforts seek to ensure the steady succession of techniques and the rapid training of junior technicians. In addition, with the aim of improving the level of expertise and energizing our junior technicians, we hold company-wide skills contests in machine assembly, lathing, welding, and other fields. MHI is also working to improve the leadership skills of employees who serve as instructors.

■ Benefits

At MHI Group, the number of junior technicians is increasing as more senior technicians retire. For that reason, there is an urgent need to train technicians who can maintain the front line of manufacturing. This organizational education program aims to ensure that the techniques of the senior technicians are passed on to the junior technicians.

Program (4)

Training activities for Group company employees

To promote human resource development that is unified throughout MHI Group, we conduct rank-based management training and business skills training as consistent programs across the Group. In fiscal 2017, we began conducting this training for the entire MHI Group and increasing educational opportunities throughout Group. At the same time, we are promoting interaction among participants that goes beyond companies and divisions, as we work to foster a sense of unity throughout the Group.

■ Benefits

This program aims to strengthen the management and business quality of the entire MHI Group.

► Talent Attraction and Retention

In order to create an environment that makes it is easy for employees to work and also have a family, MHI is making efforts to expand its various support systems that give consideration to childcare and family care.

In November 2011, MHI established a child-planning leave system, which can be used for infertility treatment, and hourly paid leave, whereby employees can use their leave in increments of one to two hours according to their circumstances for purposes such as childcare and family care. We also expanded the periods for family-care leave and family-care work shifts, so that employees can take up to one year of total family-care leave and take advantage of family-care work shifts for up to three years. In April 2016, in order to support more flexible workstyles, we introduced a telework system.

Furthermore, the periods for family-care leave and family-care work have been expanded; and each can be used for a total of up to one year. In addition, the systems for childcare leave, childcare work, family-care leave, and family-care work all now exceed statutory minimums.

Information about the systems and procedures regarding childcare and family care are available on our intranet so that employees can access it easily.

Our effort extends beyond the introduction of new support systems. With the goal of facilitating a smooth transition back to work, we also engage in activities such as regularly holding roundtable talks regarding the transition from childcare leave back to work with previously returned individuals to support members of the Group returning to work from childcare leave. We also hold seminars regarding nursing care to prevent employee resignation for elderly care.

We hold regular committee meetings regarding working hours in order to reduce overwork. Moreover, we promote improved worker productivity by aiming for efficient workstyles through means such as setting “no-overtime” days.

In addition to ensuring work–life balance for our employees, we are expanding our set of employee benefits to facilitate a diverse variety of lifestyles. To help our employees to feel more settled at our Company, we have introduced a variety of employee benefits, including measures to support housing in company residences and dormitories, property accumulation savings and employee stock ownership plans, and retirement payouts and pension plans.

As the driving force behind sustainable development and growth for MHI Group, it is crucial that, as a business, we enable all of the diverse human resources who support us to work actively. To this end, we will promote Group employee engagement and improve organizational strength. We will also concentrate on 1) internal sharing of strategies, visions, and goals, 2) reform of work practices, including more flexible delegation of authority, review of rules, and improvement of work processes and content, and 3) review of our HR systems and their operation. Through making active use of employee awareness surveys, we will implement these measures throughout the Company on a continuous basis.

Returning to work after childcare leave

2017 **97.2%**

Remaining in work after childcare leave

2017 **98.5%**

Pick Up

Nursery Operated

In April 2010, the Nagasaki Shipyard & Machinery Works opened the first MHI in-house nursery, MHI Kira Kids Nursery. All MHI Group employees in Nagasaki with pre-school-aged children can use the facility at any time between 7 a.m. and 8 p.m.

Since opening its doors, the nursery has held various events such as parent & child picnics and Christmas parties as well as English, gymnastics, and art classes.

In January 2014, a childcare facility called Sun Marina Kids, operated by the Nichii Gakkan Company, opened within our Yokohama Building. MHI has reserved all spaces at the center, which caters to children up to three years old, so that MHI Group employees can have their children cared for from 7 a.m. through 8 p.m. Sun Marina Kids reduces the number of items parents need to bring with them to the center and has also introduced educational courses including English, gymnastics, and eurhythmics.



Cooking lesson carried out in Nagasaki



Popular slide in Yokohama

Performance Data

Talent Attraction and Retention

Employee Performance Appraisal

	Unit	2013	2014	2015	2016	2017	Coverage
Management by objectives	%	58	57	58	63	60	MHI
Multidimensional performance appraisal	%	42	43	42	37	40	MHI

Employment

	Unit	2013	2014	2015	2016	2017	Coverage	
New hired	Total	529	536	484	589	469	MHI	
	Male	476	495	441	518	416	MHI	
		%	90.0	92.4	91.1	87.9	88.7	MHI
	Female	53	41	43	71	53	MHI	
		%	10.0	7.6	8.9	12.1	11.3	MHI
Total turnover rate	%	4.3	4.0	5.6	3.3	2.5	MHI	
Voluntary turnover rate	%	0.5	0.6	0.7	0.7	0.8	MHI	
Average length of service	years	16.1	16.3	16.1	16.2	16.4	MHI	
	Male	years				16.2	16.4	MHI
	Female	years				16.6	16.6	MHI

Employee Engagement

As the driving force that will enable our sustained growth and development, MHI must become a company where the diverse people, who support Group activities, all work with confidence. To achieve this goal, we will focus on promoting Group member engagement and enhancing our organizational strengths. Specifically, we will concentrate on 1) internal sharing of strategies, visions, and goals, 2) reform of work practices, including more flexible delegation of authority, review of rules, and improvement of work processes and content, and 3) review of our HR systems and their operation. Through making active use of employee awareness surveys, we will implement these measures throughout the Company on a continuous basis.

Work-life balance

	Number of individuals	Unit	2013	2014	2015	2016	2017	Coverage
Number of employees using programs that focus on work-life balance	Childcare leave		226	205	219	182	203	MHI
	of which are men		10	17	20	17	36	MHI
	Childcare workshift		441	456	465	444	459	MHI
	of which are men		60	61	72	99	134	MHI
	People using child planning leave		5	1	3	4	2	MHI
	Family-care leave		9	5	5	2	7	MHI
	Family-care work shift		8	13	14	13	19	MHI
	Returning to work after childcare leave	%	98.2	94.3	98.2	99.1	97.2	MHI
	Remaining in work after childcare leave	%	99.1	95.5	96.0	98.1	98.5	MHI
	Percent of employees taking annual paid leave	%	75.0	75.5	76.8	77.7	81.4	MHI

► Human Rights

MHI Group is firmly committed to respecting human rights and workers' rights of employees as per international treaties of human rights. In May 2015, we established the MHI Group Global Code of Conduct as the common standard for our Group with reference to the UN Guiding Principles on Business and Human Rights. Through this, we believe we will cultivate a single, shared corporate culture. One that is rooted in mutual trust and affords dignity and respect to all employees. The MHI Group values the individual contribution of people irrespective of race, colour, religion, political convictions, gender, age, nationality, sexual orientation, marital status, or disability. Discrimination will not be tolerated by MHI Group. In addition, we have formulated our Basic Policy on Human Rights in order to respect the human rights of the stakeholders with whom we do business, and contribute to the development of a sustainable society. Our policy stipulates that we act in line with the UN Guiding Principles on Business and Human Rights in order to avoid any acts that lead to human rights violations or promote any similar effect.

Each year, we conduct training to promote human rights awareness at the workplace. It covers the fundamentals of human rights and harassment. This training targets new recruits and newly appointed managers such as deputy managers and section managers. In fiscal 2016, we rolled this training out across 240 new recruits and 1,330 newly appointed managers and supervisors.

Furthermore, in an effort to heighten awareness of and prevent power harassment (workplace bullying and harassment), we introduced an e-learning course in fiscal 2010 that continues to be taken to this day. Harassment counselors placed at each Company location attend lectures once a year to increase their skills for handling harassment situations when they occur in an appropriate manner.

Furthermore, to work toward resolving human rights issues, a multi-faceted subject, each company of the Mitsubishi Group takes part in subcommittee activities of the Mitsubishi Human Rights Enlightenment Council, launched in 1983, to allow for mutual exchange between Mitsubishi Group companies, to learn about the foremost examples of human rights issues, and to upgrade our human rights efforts.

People undergoing human rights awareness training

2017

Approximately **1,570**

Basic Policy on Human Rights

MHI Group formulated the MHI Basic Policy on Human Rights in 2013 in order to respect the human rights of stakeholders involved in our business activities and contribute to the development of a sustainable society.

■ MHI Basic Policy on Human Rights

The Mitsubishi Heavy Industries Group endeavors to fulfill its responsibilities for the protection of human rights in order to continue contributing to social progress in accordance with the MHI creed. We act in line with the Guiding Principles on Business and Human Rights adopted by the U.N. Human Rights Council and endeavor to never act in ways that elicit or facilitate human rights violations by others or other negative actions or effects.

Performance Data

Respect for Human Rights

Management structure related human rights

Chief Executive

Hideaki Yanai (Executive Vice President, in charge of HR)

Committee	
Name	Committee for Raising Awareness of Human Rights
Members	Chaired by the Executive Vice President, who is in charge of HR, and composed of 25 members.
Number of meetings	As many as necessary

Grievance mechanism

Grievance mechanism	
Coverage	<ul style="list-style-type: none"> • Internal and external hotline for Corporate Compliance that employees, including contract employees, of MHI and all Group companies and business clients can use. • Internal and external Hotlines has been established to report power harassment, workplace bullying and harassment, in 2012. <p>Employees, including contract employees, of MHI and all Group companies and business clients</p>

► Corporate Philanthropy

In accordance with its CSR Action Guidelines, MHI Group promotes philanthropic activities with such focus areas as local contributions that are highly related to business activities, upbringing of the next generation, and the environmental preservation. These focus areas consider the Company's business strategy, strengths, and trends in Japan and overseas, and were determined with the goal of contributing to both corporate and social value.

With regard to local contribution, we realize that living together with local communities where MHI Group business facilities are located and building strong relationships based on mutual trust are two essential factors to sustainable business growth. With this in mind, we undertake various activities suitable for local cultures and contribute to the local development and stimulation both in Japan and overseas. With regard to upbringing of the next generation, our basic policy is to communicate "the heart of Japanese manufacturing" and "the arts of science and technology" to the next generation.

We have likewise made cultivating talent one of the priority measures of the 2018 Medium-Term Business Plan. Each of our social contribution activities center on cultivating the next generation, which in turn cultivates those involved in our initiatives to become our next generation or human resources. In addition, the 2018 Medium-Term Business Plan is aimed toward realizing the MHI FUTURE STREAM for a sustainable society, where people all over the world can live with peace of mind. Within this initiative, we will solve the complex and difficult problems faced by society both in the present and in the future by exploring areas of opportunity, retooling existing businesses, and discovering innovative technologies. To face this future head on, we will continue to transform our company to adjust to an ever-changing society.

Expenditure on social contribution activities

2017

1,668 million yen

Our Policy on Social Contribution Activities

Local contribution

Live together with communities and contribute to their development

Our basic policy is to live together with local communities of our branch offices, overseas offices, and Group companies in foreign countries and to build strong relationships based on mutual trust. With this in mind, we undertake various activities suitable for local cultures and contribute to the local development and stimulation of the communities both in Japan and overseas.

Upbringing of the next generation

Transfer "the heart of Japanese manufacturing" as well as "the arts of science and technology" to the next generation

MHI has developed and produced many types of products in its long history. With the goal of passing on both knowledge and skills of "the heart of Japanese manufacturing" and "the arts of science and technology" onto succeeding generations, MHI has a tradition of organizing educational activities such as science classes with experiments for children.

Pick Up

Results of principal philanthropic activities in fiscal 2017

Upbringing of the next generation: Inspire the future

Name of activity	Overview	Related SDGs
Science classes	MHI conducts science classes for students at elementary schools located nearby our business facilities during which the MHI Group products and technologies found at the Mitsubishi Minatomirai Industrial Museum are used as teaching materials.	Target 4

Name of activity	Overview	Related SDGs
MHI Tanegashima Space School	We accept applications from elementary school students around Japan to visit Tanegashima, a rocket launch site. During the visit, we conduct science classes and observe rocket launches.	Target 4
The Shiki Theatre Company's Kokoro no Gekijo	The Company is working through musicals to cultivate a richness of spirit among the children of the next generation. Accordingly, from fiscal 2013 we have supported the Shiki Theatre Company's Kokoro no Gekijo ("Theater of the Heart") productions. Group employees and their families have participated as volunteers in performances held near our plants.	Target 4

Local contribution: Create a more harmonious society

Name of activity	Overview	Related SDGs
MHI Miyagi Fukushima Mini-Fund	This support fund set up in fiscal 2012 backs activities at locations that connect people who moved into temporary housing or public housing for disaster recovery following the Great East Japan Earthquake, as well as other relevant local community members.	
Table For Two	Table For Two (TFT) is a social contribution initiative from Japan aimed simultaneously at alleviating poverty in developing countries and addressing obesity and lifestyle diseases in advanced countries. MHI Group upholds the initiative's philosophy and has incorporated TTFT programs in its cafeterias and vending machines within its headquarters and bases of operation.	Target 1 and 2
Tanegashima Space Art Festival	The island of Tanegashima springs to mind when Japanese people think of "space." Various activities are starting up in preparation for the annual "Space Art Festival," intended to expand the field of space art. As a company that has been involved in space development for some time, MHI has supported this event since fiscal 2013.	

Environment: Care for the planet

Name of activity	Overview	Related SDGs
Tanegashima Loggerhead Turtle Survey	MHI Group offered its support for the Tanegashima Loggerhead Turtle Survey, an event sponsored by the authorized NPO EarthWatch Japan. Tanegashima is a key location for our rocket launch business, and the launch market is expected to expand as demand for satellite use grows around the world. In this activity, employee volunteers participate in local surveys. Although Tanegashima, which is home to an important MHI Group business site, is a spawning ground for the loggerhead turtle, few individual identification surveys have been conducted to date. We anticipate that conducting such surveys in Tanegashima beach areas will help to clarify the ecology of the loggerhead turtles and contribute to the preservation of the species as it faces extinction.	Target 14 and 15
Forest Conservation Programs (forest preservation activities)	MHI Group employees and their families participate in various forest conservation programs led by individual Japanese prefectures to address the many problems affecting forests in locations around Japan and contribute to the development of ecologically diverse forests, in addition to forest preservation activities led by governmental and non-profit organizations.	Target 15
Environmental Action Furusato Cleanup	Each year throughout Japan, we conduct the Furusato Cleanup events as a cleanup activity in regions where we are active on a daily basis. For our cleanup activity in Shiga Prefecture, we conduct activities aimed at eliminating invasive fish species in Lake Biwa. Such cleanup activities are aimed at enhancing awareness among individual Group employees and family members of environmental preservation and local conservation. In fiscal 2017, 144 of these activities were conducted, and 6,000 people have participated.	Target 14 and 15

More detailed information about philanthropic activities is available on our website and CSR Facebook.

■ CSR News <https://www.mhi.com/news//kind/csr.html>

■ CSR Facebook <https://www.facebook.com/mhi.csr.en/>

Performance Data

Corporate Philanthropy

Corporate Philanthropy policy and focus areas

Focus area (1)

■ Relevance to business

Upbringing of the next generation

MHI regards scientific technology as a source of growth; therefore issues such as children's loss of interest in and capacity for understanding science and a reluctance engage in science may become challenges to the Company's ability to secure and cultivate human resources for the future. Because of this danger, creating activities that spark children's interest in science and promote it as a field of study comprises an important part of maintaining a sustainable business.

Focus area (2)

■ Relevance to business

Local contribution

As MHI executes business all over the world. It is a critical aspect for business continuity to live in harmony and establish high confidence with every local communities where we operate.

Focus area (3)

■ Relevance to business

Environment

As MHI business activities are global and encompasses developing/emerging economies, environmental consideration in business operation is critical for our business continuity.

Social contribution input

Social contribution input		Unit	2013	2014	2015	2016	2017
	Coverage		Group	Group	Group	Group	Group
Total amount		Millions of yen	1,478	1,899	2,053	2,542	1,668 ✓
Category	Academic research	Millions of yen	143	428	452	491	438 ✓
	Education	Millions of yen	494	596	636	1,115	627 ✓
	Community	Millions of yen	125	135	295	108	94 ✓
	Health, medicine, sports	Millions of yen	149	177	100	134	90 ✓
	Others	Millions of yen	566	563	570	693	419 ✓
Type	Cash contributions	Millions of yen	373	770	1,027	856	783
	Time contributions	Millions of yen	489	490	819	1,126	283
	In-kind giving	Millions of yen	90	105	40	22	31
	Management overheads	Millions of yen	526	534	167	538	571
Ratio of contribution input to ordinary income		%	0.8	0.7	0.75	2.1	1.46 ✓

Social contribution benefit

KPIs-Focus area (1)		2013	2014	2015	2016	2017
Cumulative total number of science classes ✓	Number of participants	8,936	4,864	9,350	58,578	62,898
	Coverage	MHI	MHI	Group	Group	Group

KPIs-Focus area (2)		Unit	2013	2014	2015	2016	2017
Records of natural disaster affected area assistance programs ✓	Number of assistance		2	1	2	6	5
	Contributed amounts	Millions of yen	33	10	6	45	43
	Coverage		MHI	MHI	Group	Group	Group

Benefits to business

- Experience of teaching science classes facilitates employees to develop their presentation and communication capacity and motivates them.
- Early recovery of business regions critical to MHI Group through assistance to areas affected by natural disasters.

Contributing to society through business

To promote sustainable business practices, MHI Group believes that it is important to contribute to the development of the countries and regions where we operate and to build good relationships founded on mutual trust. At each overseas location, we promote management that is respectful of the culture and practices of each region of operation. At the same time, we create employment by expanding our business while actively recruiting suppliers and working toward better procurement.

► Recognition from Society

The MHI Group practices management with a focus on CSR and conducts a wide range of activities, including corporate governance and risk management, to enhance its business, the environment, and society. Thanks to efforts such as these, MHI has been selected for the second consecutive year for inclusion in the Asia Pacific Index of the Dow Jones Sustainability Indices (DJSI), a representative environmental, social, and governance (ESG) index. We are also included in the FTSE Blossom Japan Index, a stock index for ESG investments adopted by the Government Pension Investment Fund (GPIF), the MSCI Japan ESG Select Leaders Index, the MSCI Japan Empowering Women (WIN) index, and the S&P/JPX Carbon Efficient Index.

MEMBER OF
**Dow Jones
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INDEPENDENT ASSURANCE STATEMENT

To: Mitsubishi Heavy Industries, Ltd.



Bureau Veritas Japan Co., Ltd. (Bureau Veritas) has been engaged by Mitsubishi Heavy Industries, Ltd. (MHI) to provide limited assurance over its sustainability information selected by MHI. This Assurance Statement applies to the related information included within the scope of work described below.

Selected information

The scope of our work was limited to assurance over the following information included within MHI Group's ESG DATA BOOK 2018 (the 'DATA BOOK') for the period of April 1, 2017 through March 31, 2018 (the 'Selected Information'):

- Greenhouse gas emissions (Scope 1 and Scope 2): CO₂ emissions from energy use through business operations of MHI and MHI Group's 66 companies within Japan (67 companies in total)
- Energy use through business operations of MHI and MHI Group's 66 companies within Japan (67 companies in total)
- Water usage by source through business operations of MHI and MHI Group's 58 companies within Japan (59 companies in total)
- Waste generation through business operations of MHI and MHI Group's 53 companies within Japan (54 companies in total)

Reporting criteria

The Selected Information included within the DATA BOOK needs to be read and understood together with the reporting criteria stated in the DATA BOOK.

Limitations and Exclusions

Excluded from the scope of our work is any verification of information relating to:

- Activities outside the defined verification period;
- Any other information within the DATA BOOK, which is not listed as the 'Selected Information'.

This limited assurance engagement relies on a risk based selected sample of sustainability data and the associated limitations that this entails. This independent statement should not be relied upon to detect all errors, omissions or misstatements that may exist.

Responsibilities

This preparation and presentation of the Selected Information in the DATA BOOK are the sole responsibility of the management of MHI.

Bureau Veritas was not involved in the drafting of the DATA BOOK or of the Reporting Criteria. Our responsibilities were to:

- obtain limited assurance about whether the Selected Information has been prepared in accordance with the Reporting Criteria;
- form an independent conclusion based on the assurance procedures performed and evidence obtained; and



- report our conclusions to the Directors of MHI.

Assessment Standard

We performed our work in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (Effective for assurance reports dated on or after December 15, 2015) issued by the International Auditing and Assurance Standards Board.

For the greenhouse gas emissions data, we undertook verification in accordance with the requirements of ISO14064-3 (2006): Greenhouse gases - Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions.

Summary of work performed

As part of our independent verification, our work included:

1. Conducting interviews with relevant personnel of MHI;
2. Reviewing the data collection and consolidation processes used to compile Selected Information, including assessing assumptions made, and the data scope and reporting boundaries;
3. Reviewing documentary evidence provided by MHI;
4. Reviewing MHI systems for quantitative data aggregation and analysis;
5. Verification of sample of data back to source by carrying out three physical site visits, selected on a risk based bases at the following locations:
 - MHI Nagasaki Shipyard & Machinery Works Koyagi Plant
 - MHI Mihara Machinery Works Main Plant
 - Mitsubishi Heavy Industries Machine Tool Co., Ltd. Head Office
6. Reperforming a selection of aggregation calculations of the Selected Information;
7. Comparing the Selected Information to the prior year amounts taking into consideration changes in business activities, acquisitions and disposals.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement.

Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Verified greenhouse gas emissions

We performed our verification work on greenhouse gas emissions data in accordance with the requirements of ISO14064-3(2006).

Verified data in greenhouse gas assertion made by MHI are as follows.

	Greenhouse gas emissions [t-CO ₂ e]	Boundary
Scope 1	151,681	CO2 emissions from energy use through business operations of MHI and MHI Group's 66 companies within Japan (67 companies in total) for the period of April 1, 2017 through March 31, 2018
Scope 2 (market-based)	433,845	



Conclusion

On the basis of our methodology and the activities described above:

- Nothing has come to our attention to indicate that the Selected Information has not been properly prepared, in all material respects, in accordance with the Reporting Criteria;
- It is our opinion that MHI has established appropriate systems for the collection, aggregation and analysis of quantitative data within the scope of our work.

Statement of Independence, Integrity and Competence

Bureau Veritas is an independent professional services company that specialises in quality, environmental, health, safety and social accountability with over 190 years history. Its assurance team has extensive experience in conducting verification over environmental, social, ethical and health and safety information, systems and processes.

Bureau Veritas operates a certified Quality Management System which complies with the requirements of ISO 9001:2015, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Bureau Veritas has implemented and applies a Code of Ethics, which meets the requirements of the International Federation of Inspections Agencies (IFIA), across the business to ensure that its employees maintain integrity, objectivity, professional competence and due care, confidentiality, professional behavior and high ethical standards in their day-to-day business activities.

Bureau Veritas Japan Co., Ltd.
Yokohama, Japan
May 31, 2019





LRQA Independent Assurance Statement Relating to Mitsubishi Heavy Industries, Ltd.'s Social Indicators of FY2017 within ESG DATA BOOK 2018

This Assurance Statement has been prepared for Mitsubishi Heavy Industries, Ltd. in accordance with our contract but is intended for the readers of this report.

Terms of engagement

Lloyd's Register Quality Assurance Limited (LRQA) was commissioned by Mitsubishi Heavy Industries, Ltd. (MHI) to provide independent assurance on the social data in fiscal year 2017 starting from 1 April 2017 to ending at 31 March 2018 reported in ESG DATA BOOK 2018 ("the report") against the assurance criteria below to a limited level of assurance and materiality of the professional judgement of the verifier using LRQA's verification procedure. LRQA's verification procedure is based on current best practise, is in accordance with ISAE3000 – International Standard on Assurance Engagements 3000; Assurance Engagements other than Audits or Reviews of Historical Financial Information.

Our assurance engagement covered MHI's and its subsidiaries' operations and activities and specifically the following requirements:

- Verifying conformance with:
 - MHI's reporting methodologies for social data
- Evaluating the accuracy and reliability of the data for only the selected indicators listed below:¹
 - Social contribution input and Ratio of contribution input to ordinary income
 - Cumulative total number of the science class participants
 - Records of natural disaster affected area assistance programs

Note1 LRQA undertook a limited assurance engagement of the social data marked with ✓ within the ESG DATA BOOK 2018 and MHI website.

LRQA's responsibility is only to MHI. LRQA disclaims any liability or responsibility to others as explained in the end footnote. MHI's responsibility is for collecting, aggregating, analysing and presenting all the data and information within the report and for maintaining effective internal controls over the systems from which the report is derived. Ultimately, the report has been approved by, and remains the responsibility of MHI.

LRQA's Opinion

Based on LRQA's approach nothing has come to our attention that would cause us to believe MHI has not, in all material respects:

- Met the requirements above
- Disclosed accurate and reliable performance data

The opinion expressed is formed on the basis of a limited level of assurance and at the materiality of the professional judgement of the verifier.

Note: The extent of evidence-gathering for a limited assurance engagement is less than for a reasonable assurance engagement. Limited assurance engagements focus on aggregated data rather than physically checking source data at sites. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

LRQA's approach

LRQA's assurance engagements are carried out in accordance with our verification procedure. The following tasks though were undertaken as part of the evidence gathering process for this assurance engagement:

- Auditing MHI's data management systems to confirm that there were no significant errors, omissions or mis-statements in the report. We did this by reviewing the effectiveness of data handling procedures, instructions and systems, including those for internal verification. We also spoke with those key people responsible for compiling the data and drafting the report.
- Reviewing and re-calculating aggregated data, matching activity data with evidences in sampling basis.



Observations

Further observations and findings, made during the assurance engagement, are:

MHI should continue improving data accuracy by maintaining the control systems with internal self-verification.

LRQA's standards, competence and independence

LRQA implements and maintains a comprehensive management system that meets accreditation requirements for ISO 14065 Greenhouse gases – Requirements for greenhouse gas validation and verification bodies for use in accreditation or other forms of recognition and ISO/IEC 17021 Conformity assessment – Requirements for bodies providing audit and certification of management systems that are at least as demanding as the requirements of the International Standard on Quality Control 1 and comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants.

LRQA ensures the selection of appropriately qualified individuals based on their qualifications, training and experience. The outcome of all verification and certification assessments is then internally reviewed by senior management to ensure that the approach applied is rigorous and transparent.

LRQA is MHI's certification body for ISO9001, ISO14001 and OHSAS18001. The verification and certification assessments are the only work undertaken by LRQA for MHI and as such does not compromise our independence or impartiality.

Signed

Dated: 18 December 2018

Norihiko Kinoshita
LRQA Lead Verifier

Queen's Tower A, 10th Floor, 2-3-1, Minatomirai, Nishi-ku, Yokohama 220-6010, Japan

LRQA reference: YKA4005601

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