

# Mitsubishi Heavy Industries, Ltd. (2020 Green Bond)

**Type of Engagement:** Annual Review

**Date:** 27 February 2024

**Engagement Team:**

Akshay Chandrakapure, [akshay.chandrakapure@morningstar.com](mailto:akshay.chandrakapure@morningstar.com)

Sidharth P R, [sidharth.pr@morningstar.com](mailto:sidharth.pr@morningstar.com)

## Introduction

In November 2020, Mitsubishi Heavy Industries, Ltd. (“MHI”) issued a green bond to finance projects related to renewable energy/clean energy (JPY 25 Billion, 5-Year Green Bond, hereinafter the “2020 Green Bond”).<sup>1</sup> As of March 31, 2023, the proceeds were allocated to one project related to renewable energy/clean energy. In February 2024, MHI engaged Sustainalytics to review the project financed with proceeds from the 2020 Green Bond and provide an assessment as to whether the project met the Use of Proceeds criteria and the Reporting commitments outlined in the MHI’s Green Bond Framework (the “Framework”). This is Sustainalytics’ third annual review of allocation and reporting of MHI’s 2020 Green Bond following the previous review in March 2023.<sup>2</sup>

## Evaluation Criteria

Sustainalytics evaluated the project funded with proceeds from November 2020 to March 2023 based on whether the project:

1. Met the Use of Proceeds and eligibility criteria defined in the Framework; and
2. Reported on the impact indicators for each Use of Proceeds criteria outlined in the Framework.

**Table 1 lists the Eligibility Criteria and associated impact indicators for the Use of Proceeds category to which the proceeds were allocated.**

**Table 1: Use of Proceeds, Eligibility Criteria, and associated impact indicators**

Use of Proceeds	Eligibility Criteria	Impact Indicators
Renewable Energy/ Clean Energy	<p>Expenditures for, and refinancing of, the Group’s renewable energy/clean energy business (such as R&amp;D funds, business development and operation funds, and working capital) that meet the following criteria:</p> <ol style="list-style-type: none"> <li>i. Hydrogen power generation businesses and/or projects for 100% hydrogen combustion;</li> <li>ii. Geothermal power generation businesses and/or projects that emit less than 100g CO<sub>2</sub>/kWh;</li> <li>iii. Investments in corporations that are exclusively engaged in the renewable energy/clean energy business or generate at least 90% of their sales from renewable energy/clean energy-related business;</li> </ol>	<ul style="list-style-type: none"> <li>▪ Annual power generation (MWh) and annual CO<sub>2</sub> reduction (tons) of renewable energy/clean energy facilities related to the funded business</li> <li>▪ Information on progress in R&amp;D (such as the outline of projects participated in)</li> </ul>

<sup>1</sup> MHI, “Green Bond, 36th Series Unsecured Corporate Bond”, at <https://www.mhi.com/finance/stock/esg/greenbond>

<sup>2</sup> Sustainalytics, “Annual Review, MHI (2020 Green Bond)”, (2023), at:

[https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/mitsubishi-heavy-industries-ltd.-green-bond-2020-annual-review-\(2023\).pdf?sfvrsn=3778ca28\\_1](https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/mitsubishi-heavy-industries-ltd.-green-bond-2020-annual-review-(2023).pdf?sfvrsn=3778ca28_1)

	iv. The expenditure for the business and/or project was made within 7 years preceding the green bond issuance date.	
--	---	--

## Issuing Entity’s Responsibility

MHI is responsible for providing accurate information and documentation relating to the details of the funded projects, including descriptions of projects, amounts allocated and project impact.

## Independence and Quality Control

Sustainalytics, a leading provider of ESG research and ratings, conducted the verification of the Use of Proceeds from MHI’s 2020 Green Bond. The work undertaken as part of this engagement included collection of documentation from MHI and review of said documentation to assess conformance with the Framework.

Sustainalytics relied on the information and the facts presented by MHI. Sustainalytics is not responsible, nor shall it be held liable for any inaccuracies in the opinions, findings or conclusions herein due to incorrect or incomplete data provided by MHI.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight of the review.

## Conclusion

Based on the limited assurance procedures conducted,<sup>3</sup> nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed projects, funded through proceeds of MHI’s 2020 Green Bond, do not conform with the Use of Proceeds criteria and Reporting commitments outlined in the MHI’s Green Bond Framework. MHI has disclosed to Sustainalytics that the proceeds from the 2020 Green Bond were fully allocated as at March 31, 2023.

## Detailed Findings

Table 2: Detailed Findings

Evaluation Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the project funded by the 2020 Green Bond from November 2020 to March 2023 to determine alignment with the Use of Proceeds criteria outlined in the Framework and above in Table 1.	The project reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the project funded by the 2020 Green Bond from November 2020 to March 2023 to determine if the impact was reported in line with the impact indicators outlined in the Framework and above in Table 1.	The project reviewed reported on impact indicators per Use of Proceeds criteria.	None

<sup>3</sup> Sustainalytics’ limited assurance process includes reviewing documentation relating to details of projects, as provided by the issuing entity, which is responsible for providing accurate information. These may include descriptions of projects, estimated and realized costs, and reported impact. Sustainalytics has not conducted on-site visits to projects.

## Appendices

### Appendix 1: Allocation of Green Bond Proceeds

Use of Proceeds Category	Overview of Project	Net Bond Proceeds Allocation (JPY million)
Renewable Energy / Clean Energy	Refinancing of an investment in a corporation exclusively engaged in offshore wind power facilities business. <sup>4</sup>	24,893
<b>Total Net Bond Proceeds Allocated</b>		24,893
<b>Total Net Bond Proceeds Unallocated</b>		0
<b>Total Net Bond Proceeds from Green Bond issuance<sup>5</sup></b>		24,893

### Appendix 2: Reported Impact<sup>6</sup>

Use of Proceeds Category	Reported Impact <sup>7</sup>		
	FY <sup>8</sup>	Annual power generation (MWh)	Annual CO <sub>2</sub> reduction (Million tonne)
Renewable Energy / Clean Energy	2016	981,602	0.49
	2017	3,176,087	1.60
	2018	5,499,659	2.77
	2019	7,610,776	3.84
	2020	9,772,989	4.93
	2021	55,819,561	28.13
	2022	94,362,019	47.56

<sup>4</sup> MHI Vestas Offshore Wind A/S ("MVOW") is MHI's joint venture with Vestas Wind Systems A/S ("Vestas").

<sup>5</sup> Green bond issuance amount of JPY 25 billion less issuance expenses.

<sup>6</sup> The reported impact is also available at: <https://www.mhi.com/finance/stock/esg/greenbond>

<sup>7</sup> The impact results are theoretical values from FY2016 onwards, when the wind power facilities are expected to start operation following the completion of the development, design and manufacture of the facilities. The figures from FY2016 to FY2020 are based on the delivery record of MVOW, MHI's joint venture with Vestas, (MHI's stake: 50%). From FY2021, the figures are based on Vestas' delivery record (and not MHI's), because in December 2020, MHI transferred its total shareholding in MVOW to Vestas. Simultaneously, MHI acquired approximately 5 million shares in Vestas, equivalent to about 2.5% ownership.

<sup>8</sup> Each fiscal year begins on 1 April and ends on 31 March of the following year.

## Disclaimer

**Copyright ©2024 Sustainalytics. All rights reserved.**

The information, methodologies and opinions contained or reflected herein are proprietary of Sustainalytics and/or its third party suppliers (Third Party Data), and may be made available to third parties only in the form and format disclosed by Sustainalytics, or provided that appropriate citation and acknowledgement is ensured. They are provided for informational purposes only and (1) do not constitute an endorsement of any product or project; (2) do not constitute investment advice, financial advice or a prospectus; (3) cannot be interpreted as an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (4) do not represent an assessment of the issuer's economic performance, financial obligations nor of its creditworthiness; and/or (5) have not and cannot be incorporated into any offering disclosure.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

## About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit [www.sustainalytics.com](http://www.sustainalytics.com)

Or contact us [contact@sustainalytics.com](mailto:contact@sustainalytics.com)

