

Mitsubishi Heavy Industries, Ltd. (2020 Green Bond)

Type of Engagement: Annual Review

Date: 28 November 2024

Engagement Team:

Akshay Chandrakapure, akshay.chandrakapure@morningstar.com

Tomya Sardana tomya.sardana@morningstar.com

Anjansingh Bist, anjansingh.bist@morningstar.com

Introduction

In November 2020, Mitsubishi Heavy Industries, Ltd. ("MHI") issued a green bond (the "2020 Green Bond")¹ raising JPY 25 billion to refinance renewable energy and clean energy projects. In 2024, MHI engaged Sustainalytics to review the projects financed with proceeds from the 2020 Green Bond (the "Nominated Expenditures") and provide an assessment as to whether they meet the use of proceeds criteria and whether MHI complied with the reporting commitments in the Mitsubishi Heavy Industries, Ltd. Green Bond Framework (the "Framework"). Sustainalytics provided a Second-Party Opinion on the Framework in October 2020.² This is Sustainalytics' fourth annual review of allocation and reporting of the instruments issued under the Framework, following previous reviews in June 2021, March 2023 and February 2024.^{3,4,5}

Evaluation Criteria

Sustainalytics evaluated the Nominated Expenditures and MHI's reporting based on whether they:

1. Meet the use of proceeds and eligibility criteria defined in the Framework; and
2. Reported on at least one key performance indicator (KPI) for each use of proceeds category defined in the Framework.

Table 1: Use of Proceeds Categories, Eligibility Criteria and Associated KPIs

Use of Proceeds Category	Eligibility Criteria	Key Performance Indicators
Renewable Energy/ Clean Energy	Expenditures for, and refinancing of, the Group's renewable energy/clean energy business (such as R&D funds, business development and operation funds, and working capital) that meet the following criteria: • Hydrogen power generation businesses and/or projects for 100% hydrogen combustion; • Geothermal power generation businesses and/or projects that emit less than 100g CO₂/kWh; • Investments in corporations that are exclusively engaged in the renewable energy/clean energy	• Annual power generation (MWh) and annual CO₂ reduction (tonnes) of renewable energy/clean energy facilities related to the funded business and information on progress in R&D (such as the outline of projects participated in)

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

² Sustainalytics, "Second-Party Opinion, MHI Green Bond Framework", (2020), at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/mitsubishi-heavy-industries-ltd.-green-bond-second-party-opinion.pdf?sfvrsn=32b13063_3

³ Sustainalytics, "MHI Annual Review", (2021), at: https://www.mhi.com/finance/stock/esg/greenbond/pdf/36gb_review2020.pdf

⁴ Sustainalytics, "MHI Annual Review", (2023), at: https://www.mhi.com/finance/stock/esg/greenbond/pdf/36gb_review2021.pdf

⁵ Sustainalytics, "MHI Annual Review", (2024), at: https://www.mhi.com/finance/stock/esg/greenbond/pdf/36gb_review2022.pdf

	business or generate at least 90% of their sales from renewable energy/clean energy related business; · The expenditure for the business and/or project was made within 7 years preceding the green bond issuance date	
--	---	--

Issuer's Responsibility

MHI is responsible for providing accurate information and documentation relating to the details of the projects, including descriptions, amounts allocated and 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,⁶ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the Nominated Expenditures do not conform with the use of proceeds criteria and reporting commitments in the Framework. MHI has disclosed to Sustainalytics that the proceeds from the 2020 Green Bond were fully allocated as of March 2024.

⁶ 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.

Detailed Findings

Table 2: Detailed Findings

Framework Requirements	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the Nominated expenditure to determine alignment with the use of proceeds criteria outlined in the Framework.	The Nominated Expenditures comply with the use of proceeds criteria.	None
Reporting Criteria	Verification of the Nominated Expenditure or assets to determine if impact was reported in line with the KPIs outlined in the Framework.	MHI reported on at least one KPI per use of proceeds category.	None

Appendices

Appendix 1: Allocation Reporting

Table 3: Allocation of proceeds from the 2020 Green Bond

Use of Proceeds Category	Overview of Project	Amount Allocated (JPY million)
Renewable Energy/ Clean Energy	Refinancing of an investment in MHI Vestas Offshore Wind A/S, which is exclusively engaged in offshore wind power facilities business ⁷	24,893
Total Net Proceeds Allocated		24,893
Total Unallocated Proceeds		0
Total Net Proceeds Raised ⁸		24,893

⁷ MHI Vestas Offshore Wind A/S ("MVOW") is MHI's joint venture with Vestas Wind Systems A/S ("Vestas").

⁸ Green bond issuance amount of JPY 25 billion minus issuance expenses.

Appendix 2: Reported Impact

Table 4: Reported Impact for the 2020 Green Bond

Use of Proceeds Category	Reported Impact ⁹		
	FY ¹⁰	Annual Power Generation (MWh)	Annual CO ₂ Reduction (million tonnes)
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
	2023	133,992,198	67.53

⁹ The impact results are theoretical values from FY2016 onwards, when the wind power facilities would have started operation following the completion of the development, design and manufacture. 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.

¹⁰ Each fiscal year begins on 1 April and ends on 31 March of the following year.

Disclaimer

Copyright ©2024 Sustainalytics, a Morningstar company. All rights reserved.

The information, methodologies, data and opinions contained or reflected herein are proprietary of Sustainalytics and/or content providers, and may be made available to third parties only in the form and format disclosed by Sustainalytics. They are not directed to, or intended for distribution to or use by India-based clients or users and their distribution to Indian resident individuals or entities is not permitted.

They are provided for informational purposes only and (1) shall not be considered as being a statement, representation, warranty or argument either in favor or against the truthfulness, reliability or completeness of any facts or statements that the issuer has made available to Sustainalytics for the purpose of this deliverable, in light of the circumstances under which such facts or statements have been presented; (2) do not constitute an endorsement of any product, project, investment strategy or consideration of any particular environmental, social or governance related issues as part of any investment strategy; (3) do not constitute investment advice, financial advice, or a prospectus, nor represent an “expert opinion” or “negative assurance letter” as these terms are commonly understood or defined by any applicable legislation; (4) are not part of any offering and do not constitute an offer or indication to buy or sell securities, to select a project or make any kind of business transactions; (5) do not represent an assessment of the issuer’s economic performance, financial obligations nor of its creditworthiness; (6) are not a substitute for professional advice; (7) past performance is no guarantee of future results; (8) have not been submitted to, nor received approval from, any relevant regulatory body; (9) have not and cannot be incorporated into any offering disclosure, unless otherwise agreed in writing.

These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-datedness or fitness for a particular purpose. Sustainalytics has not independently verified any such information or data. The deliverables are provided “as is” and reflect Sustainalytics’ opinion at the date of their elaboration and publication. Sustainalytics does not undertake any obligation to update or revise any of the statements in the deliverable to reflect events, circumstances, changes in expectations which may occur after the date of the opinion or any statements included in the opinion. Neither Sustainalytics/Morningstar nor their content providers accept any liability from the use of the information, data or opinions contained herein or for actions of third parties in respect to this information, in any manner whatsoever, except where explicitly required by law. Sustainalytics does not assume any responsibility shall the bond default. Any reference to content providers’ names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our content providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

Sustainalytics may receive compensation for its ratings, opinions and other deliverables, from, among others, issuers, insurers, guarantors and/or underwriters of debt securities, or investors, via different business units. Sustainalytics believes it has put in place appropriate measures designed to safeguard the objectivity and independence of its opinions. For more information, visit [Governance Documents](#) or contact compliance@sustainalytics.com.

This deliverable, in particular the images, text and graphics contained therein, and the layout and company logo of Sustainalytics are protected under copyright and trademark law. Any use thereof shall require express prior written consent. Use shall be deemed to refer in particular to the copying or duplication of the opinion wholly or in part, the distribution of the opinion, either free of charge or against payment, or the exploitation of this opinion in any other conceivable manner.

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

About Morningstar Sustainalytics

Morningstar Sustainalytics 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, which 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. For more information, visit www.sustainalytics.com.

