

Mitsubishi Heavy Industries, Ltd. (2020 Green Bond)

Type of Engagement: Annual Review

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Introduction

In November 2020, Mitsubishi Heavy Industries, Ltd. (“MHI”) issued a green bond aimed at financing projects related to renewable energy/clean energy (JPY 25 Billion, 5-Year Green Bond, hereinafter the “2020 Green Bond”). As of March 31, 2022, the proceeds were allocated to one project related to renewable energy/clean energy. In March 2023, MHI engaged Sustainalytics to review the project funded through the 2020 Green Bond and assess whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Mitsubishi Heavy Industries, Ltd.’s Green Bond Framework (the “Framework”). This is Sustainalytics’ second annual review of MHI’s 2020 Green Bond following the previous review in June 2021.¹

Evaluation Criteria

Sustainalytics evaluated the project funded with proceeds from November 2020 to March 2022 based on whether the project:

1. Met the Use of Proceeds and Eligibility Criteria outlined 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&D funds, business development and operation funds, and working capital) that meet the following criteria:</p> <ul style="list-style-type: none"> ▪ 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 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. 	<ul style="list-style-type: none"> ▪ Annual power generation (MWh) and annual CO₂ reduction (tons) of renewable energy/clean energy facilities related to the funded business ▪ Information on progress in R&D (such as the outline of projects participated in)

¹ Sustainalytics’ previous annual review of MHI’s 2020 Green Bond is available at: https://mstar-sustops-cdn-mainwebsite-s3.s3.amazonaws.com/docs/default-source/spos/mitsubishi-heavy-industries-ltd.-green-bond-annual-review.pdf?sfvrsn=1c342b96_1

Issuing Entity’s Responsibility

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

Independence and Quality Control

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

Sustainalytics has relied on the information and the facts presented by MHI with respect to the project in the eligible category. Sustainalytics is not responsible nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct 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 over the assessment of the review.

Conclusion

Based on the limited assurance procedures conducted,² nothing has come to Sustainalytics’ attention that causes us to believe that, in all material respects, the reviewed bond project, funded through proceeds of Mitsubishi Heavy Industries, Ltd.’s 2020 Green Bond, is not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Mitsubishi Heavy Industries, Ltd.’s Green Bond Framework. MHI has disclosed to Sustainalytics that the proceeds of the 2020 Green Bond were fully allocated as at March 31, 2022.

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 2022 to determine if the project was aligned with the Use of Proceeds Criteria outlined in the Mitsubishi Heavy Industries, Ltd.’s Green Bond 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 2022 to determine if the impact of the project was reported in line with the impact indicators outlined in the Mitsubishi Heavy Industries, Ltd.’s Green Bond Framework and above in Table 1.	The project reviewed reported on impact indicators per Use of Proceeds criteria.	None

² Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendix

Appendix 1: Allocation of Green Bond Proceeds

Use of Proceeds Category	Overview of Project	Net Bond Proceeds Allocation (Million JPY)
Renewable Energy/ Clean Energy	<ul style="list-style-type: none"> Refinancing of an investment in a corporation exclusively engaged in offshore wind power facilities business.³ 	24,893
Total Net Bond Proceeds Allocated:		24,893
Total Net Bond Proceeds Unallocated:		0
Total Net Bond Proceeds from Green Bond issuance⁴:		24,893

Appendix 2: List of impact indicators⁵

Use of Proceeds Category	Impact Indicators ⁶		
	FY ⁷ ⁸	Annual power generation (MWh)	Annual CO ₂ reduction (Million ton)
Renewable Energy/ Clean Energy	2016	981,602	49
	2017	3,176,087	160
	2018	5,499,659	277
	2019	7,610,776	384
	2020	9,772,989	493
	2021 ⁹	55,819,561	2, 813

³ MHI Vestas Offshore Wind A/S (“MVOW”), a joint venture between MHI and Vestas Wind Systems A/S (“Vestas”)

⁴ Green bond issuance amount of JPY 25 billion less issuance expenses

⁵ Impact Reporting by MHI is available at: <https://www.mhi.com/finance/stock/esg/greenbond>

⁶ 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 by MVOW after receiving investment from MHI in Fiscal year 2014.

⁷ Each fiscal year begins on 1 April and ends on 31 March of the following year.

⁸ The figures from FY2016 to FY2020 are the figure for MVOW.

⁹ In FY2021, Vestas’s figures are reported as MVOW has become a Vestas’ wholly-owned subsidiary.

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

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