

# CORPORATE GOVERNANCE

## Basic Approach

As a company responsible for developing the infrastructure that forms the foundation of society, MHI's basic policy is to execute management in consideration of all stakeholders and strive to enhance corporate governance on an ongoing basis in pursuit of sustained growth of the MHI Group and improvement of its corporate value in the medium and long terms. In accordance with this basic policy, MHI endeavors to improve its

management system, such as by enhancing its management oversight function through the separation of management oversight and execution and the inclusion of outside directors, and develop "Japanese-style global management," focusing on the improvement of the soundness and transparency of its management as well as on diversity and harmony.

## MHI's Corporate Governance Characteristics

### 1. Swift Decision Making

#### Company with an Audit and Supervisory Committee

MHI has adopted the form of a company with an Audit and Supervisory Committee as its corporate structure under the Companies Act. As provided in the Company's Articles of Incorporation, in accordance with a resolution by the Board of Directors, the Company delegates important decisions on business execution to the president and CEO. In addition to facilitating swift decision making and flexible business execution, this arrangement promotes the separation of management supervision and business execution while also strengthening the Board of Directors' oversight of business execution.

#### Chief Officer System

Under this system, the CEO\*<sup>1</sup> (president and CEO) delegates part of his authority and responsibilities to various chief officers, including the domain CEOs (president and CEO for each of the domains), the CFO,\*<sup>2</sup> and the CTO.\*<sup>3</sup> The GC\*<sup>4</sup> and the standing executive in charge of HR\*<sup>5</sup> assist the CEO with his duties.

\*1. CEO: Chief Executive Officer

\*2. CFO: Chief Financial Officer

\*3. CTO: Chief Technology Officer

\*4. GC: General Counsel

\*5. HR: Human Resources

### 2. Sound Supervisory Function

#### Management Supervision Centered on Outside Directors

Of the 11 directors (five of whom are Audit and Supervisory Committee members), five (of whom three are Audit and Supervisory Committee members) are appointed from outside the Company. Accordingly, outside directors account for 45% of all directors. MHI strives to enhance management oversight by seeking useful advice and objective criticism concerning the Company's management from its outside directors.

#### Nomination and Remuneration Meeting

The Nomination and Remuneration Meeting is composed solely of all outside directors and the president and CEO. Prior to deliberation by the Board of Directors, this meeting serves as a forum for eliciting the opinions and advice of outside directors on the nomination of director candidates, the dismissal of directors, the appointment and dismissal of other executive officers, and matters related to remuneration.\*<sup>6</sup> Our aim in establishing this meeting is to further augment transparency and fairness. In fiscal 2015, the Nomination and Remuneration Meeting met twice.

\*6. Excluding directors who are serving as Audit and Supervisory Committee members

## Recent Corporate Governance Reforms

<b>2005</b>	<ul style="list-style-type: none"> <li>Shortened the term of office for directors from two years to one</li> <li>Introduced an executive officer system</li> <li>Increased the number of outside directors from one to two and outside statutory auditors from two to three</li> <li>Reduced the number of directors from 28 to 17</li> </ul>	<b>2014</b>	<ul style="list-style-type: none"> <li>Introduced the Chief Officer System</li> <li>Reduced the number of representative directors from 12 to six</li> <li>Decreased the number of directors from 17 to 12</li> </ul>
<b>2006</b>	<ul style="list-style-type: none"> <li>Abolished the system of director retirement allowances and bonuses, switching to system of monthly remuneration and performance-linked remuneration</li> <li>Introduced a stock option system for directors, except outside directors</li> </ul>	<b>2015</b>	<ul style="list-style-type: none"> <li>MHI transitioned to a company with an Audit and Supervisory Committee. The number of directors was reduced to 14, including five Audit and Supervisory Committee members. (Prior to the transition, the Board of Directors comprised 17 members, including the statutory auditors.) The number of outside directors was set at five, including three Audit and Supervisory Committee members.</li> <li>Abolished stock options and introduced a new stock remuneration system for directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members) and executive officers. (Directors who are Audit and Supervisory Committee members receive base remuneration only.)</li> <li>Formulated the Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.</li> </ul>
<b>2007</b>	<ul style="list-style-type: none"> <li>Increased the number of outside directors from two to three</li> </ul>	<b>2016</b>	<ul style="list-style-type: none"> <li>Established the Nomination and Remuneration Meeting</li> <li>Reduced the number of directors from 14 to 11 (with the number of outside directors remaining constant at five)</li> </ul>
<b>2011</b>	<ul style="list-style-type: none"> <li>Integrated a matrix structure of Business Headquarters and Works into the Business Headquarters Structure</li> </ul>		
<b>2013</b>	<ul style="list-style-type: none"> <li>Consolidated and restructured the nine Business Headquarters, transitioning to the Business Domain Structure (full transition by April 2014)</li> </ul>		

## Outside Directors

The Company has five outside directors (of whom three are Audit and Supervisory Committee members). Outside directors are expected to enhance the soundness and transparency of the Company's management decision making by providing beneficial views and candid assessments on the Company's management from an objective standpoint that is not biased by an internal company perspective. Each of the outside directors meets MHI's independence criteria for outside directors.\*<sup>7</sup> Accordingly, the Company judges all outside directors to be independent from its management team and has reported them as independent directors to the Tokyo Stock Exchange and other financial instruments exchanges in Japan.

All the outside directors are independent from

management and supervise or audit management. At meetings of the Board of Directors, they receive reports on the status of the establishment and operation of internal control systems, including compliance, risk management, and other activities, and the results of internal audits, and they state their opinions when appropriate. The Audit and Supervisory Committee, a majority of whose members are outside directors, also conducts audits in collaboration with the Internal Audit Department, Management Audit Department, and accounting auditor. In addition, the Audit and Supervisory Committee shares information about the status of audits with outside directors who are not serving as Audit and Supervisory Committee members.

\*7. Indicated in the Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.

## Outside Directors

### Naoyuki Shinohara

Professor, The University of Tokyo,  
Policy Alternatives Research Institute  
(Former Deputy Managing Director of the  
International Monetary Fund (IMF))  
Appointed director in June 2015

#### Reason for appointment

A wide range of insights related to financial policy gained as a regulator and a global perspective gained as an executive of an international institution

#### Attendance

Attended 10 of 10 meetings of the Board of Directors in fiscal 2015

### Ken Kobayashi

Chairman of the Board,  
Mitsubishi Corporation  
Appointed director in June 2016

#### Reason for appointment

Extensive knowledge and experience of top management active in global markets

■ Newly appointed in fiscal 2016

## Outside Audit and Supervisory Committee Members

### Nobuo Kuroyanagi

Senior Advisor,  
The Bank of Tokyo-Mitsubishi UFJ, Ltd.  
Appointed statutory auditor of MHI in June  
2009, and director and Audit and Supervisory  
Committee member in June 2015

#### Reason for appointment

Extensive experience as a business manager

#### Attendance

12 of 14 meetings of the Board of Directors in  
fiscal 2015  
11 of 11 meetings of the Audit and  
Supervisory Committee in fiscal 2015

### Christina Ahmadjian

Professor, Hitotsubashi University Graduate  
School of Commerce and Management  
Appointed director of MHI in June 2012,  
and director and Audit and Supervisory  
Committee member in June 2015

#### Reason for appointment

Extensive knowledge and global viewpoint  
regarding the field of corporate governance and  
management acquired through her experience  
as a researcher

#### Attendance

14 of 14 meetings of the Board of Directors in  
fiscal 2015  
11 of 11 meetings of the Audit and  
Supervisory Committee in fiscal 2015

### Shinichiro Ito

Chairman of the Board, ANA Holdings Inc.  
Appointed statutory auditor of MHI in June  
2013, and director and Audit and Supervisory  
Committee member in June 2015

#### Reason for appointment

Extensive experience as a business manager

#### Attendance

14 of 14 meetings of the Board of Directors in  
fiscal 2015  
11 of 11 meetings of the Audit and  
Supervisory Committee in fiscal 2015

## CORPORATE GOVERNANCE

## Corporate Governance Structure and Roles (Including Internal Control Systems) (As of June 23, 2016)

### 1

#### Directors

Of the Company's 11 directors (of whom five are Audit and Supervisory Committee members), five (of whom three are Audit and Supervisory Committee members) are elected from outside the Company. In addition, the Company delegates decisions on the execution of important operations to the president and CEO. This approach enables swifter decision making and enhances the flexibility of business execution while also strengthening the Board of Directors' oversight of business execution.

### 2

#### Nomination and Remuneration Meeting

This meeting comprises six members, including all outside directors and the president and CEO.

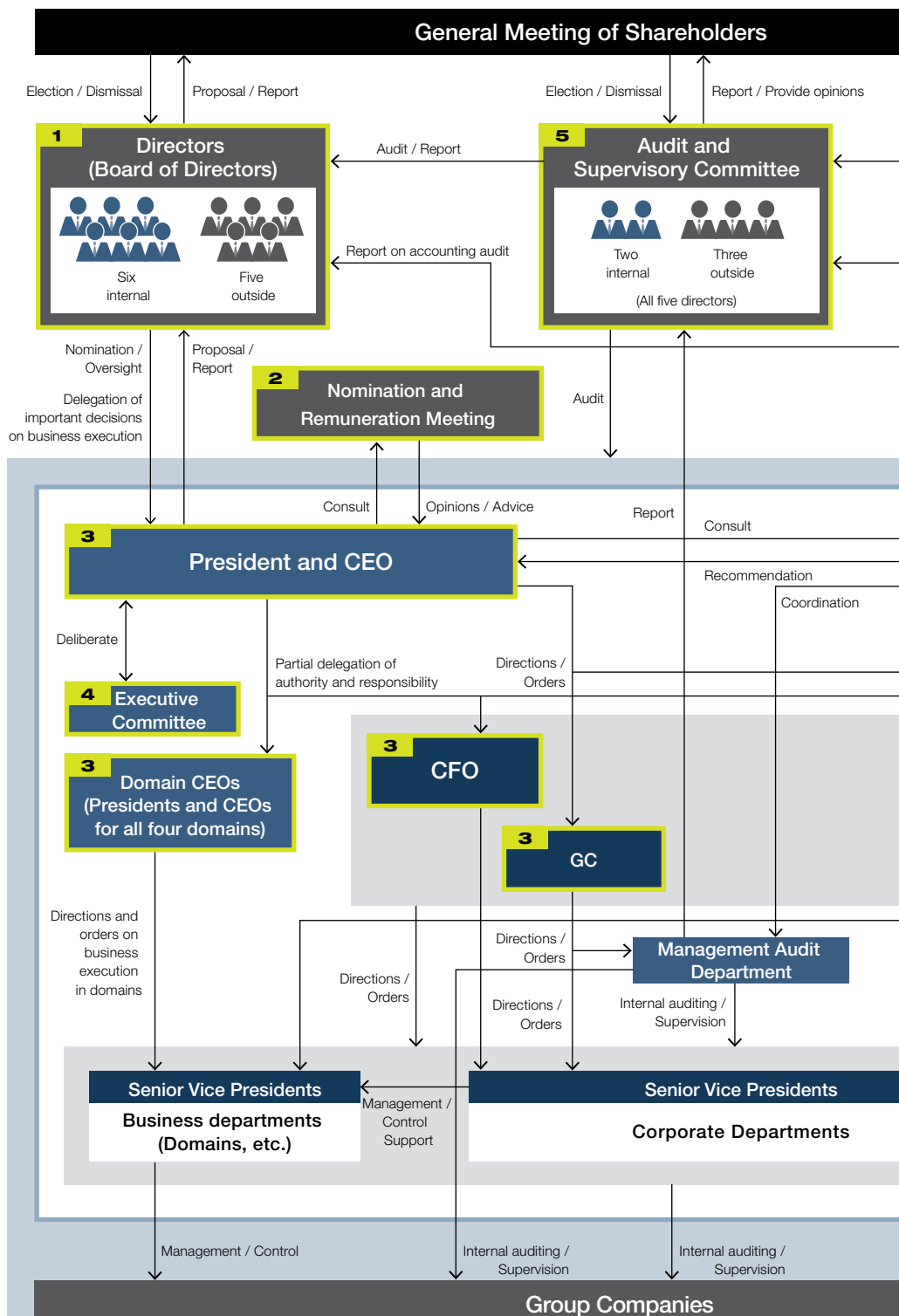
(Please see page 46 for information on specific functions.)

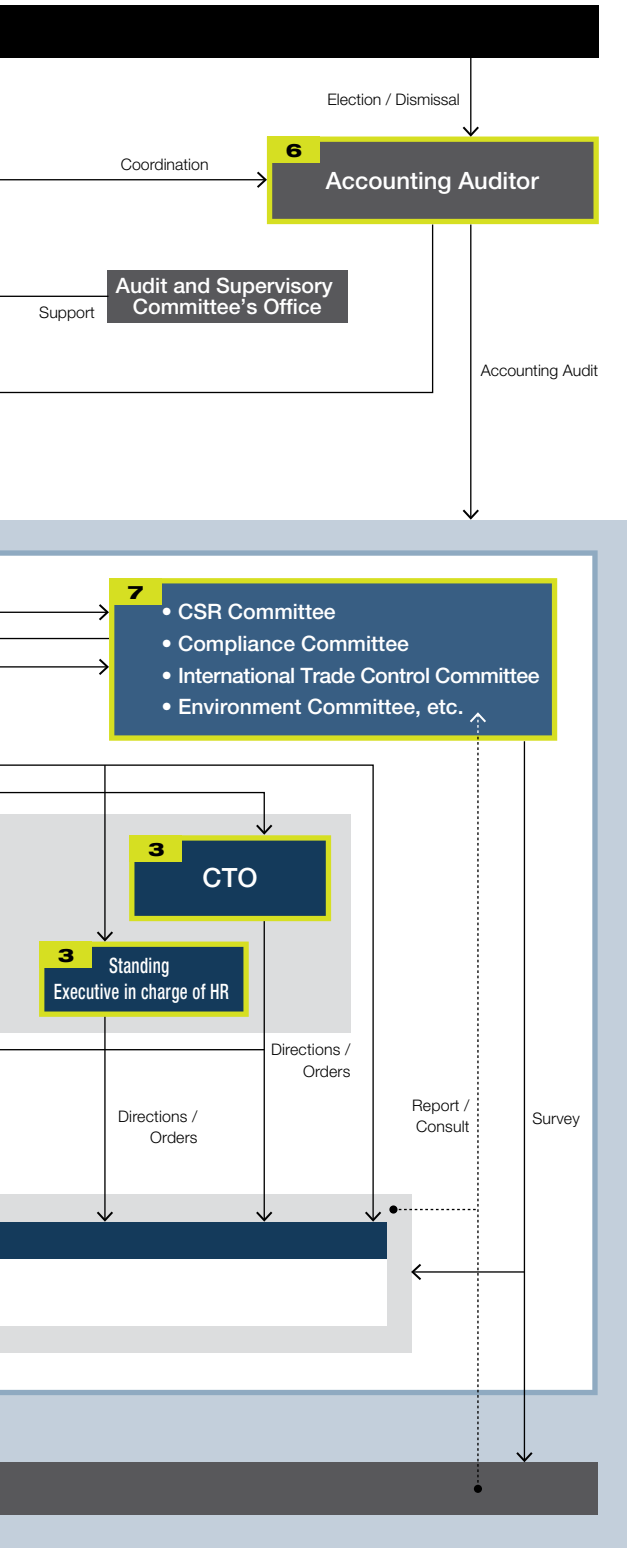
### 3

#### Chief Officers and Standing Executives in Charge of Operations

The CEO takes charge of overall business strategies and issue-response initiatives, and the domain CEOs take control of executing businesses within their individual domains based on overall Group strategies. The CFO takes charge of finance, accounting, and including management planning. The CTO is in charge of the supervision and execution of overall operations related to technology strategies, research and development of products and new technologies, ICT, value chain, marketing, innovation, and engineering in general. In addition, the CFO and CTO have companywide authority to give instructions and commands and provide support to business domains.

The GC and standing executive in charge of HR assist the CEO with his duties by supervising and executing activities in line with the CEO's mission. The GC takes overall control of management audits, general administration, legal affairs, and global base support. The standing executive in charge of HR takes overall responsibility for human resources and labor relations.





#### 4 Executive Committee

The Executive Committee has been established as a forum for discussing important matters related to business execution. This move allows for a more cohesive approach

to discussion as part of the operational execution framework and consequently leads to more appropriate management decisions and business execution.

#### 5 Audit and Supervisory Committee

To ensure the effectiveness of the Audit and Supervisory Committee's activities, the Company's Articles of Incorporation stipulate the selection of full-time members of the Audit and Supervisory Committee. Accordingly, two full-time members of the Audit and Supervisory Committee are mutually selected by the committee's members.

control systems, including those in relation to financial reporting. Furthermore, one member of the Audit and Supervisory Committee has extensive knowledge of finance and accounting from many years of business experience in the accounting and finance departments.

The full-time members of the Audit and Supervisory Committee attend meetings of the Executive Committee and other key meetings related to business planning, enabling them to accurately assess and monitor the status of management in a timely manner. As part of the audit, Audit and Supervisory Committee members make sure the execution of directors' duties comply with laws and regulations and the Articles of Incorporation and ascertain whether or not business operations of the Company are being executed appropriately by conducting spot checks and verifying compliance with relevant laws and regulations, and by monitoring the status of the establishment and operation of internal

The Audit and Supervisory Committee periodically exchanges information and opinions with the Management Audit Department and accounting auditors, and it collaborates closely with them in other ways, including receiving audit results and attending accounting audits. Audit and Supervisory Committee members also receive reports from the internal control department and other departments concerning the status of compliance, risk management, and other activities on both a regular and an individual basis. To support auditing activities, an Audit and Supervisory Committee's Office has been set up with its own dedicated staff of six to facilitate the work carried out by the Audit and Supervisory Committee.

#### 6 Auditing Certified Public Accountant Compensation

Category	Audit attestation duty-based compensation (millions of yen)	Non-audit-based compensation (millions of yen)
MHI	212	59
Consolidated subsidiaries	204	3
Total	416	63

Note: In fiscal 2015, the Company's overseas subsidiaries delegated audit attestation duties to the Ernst & Young Group, which belongs to the same network as the Company's accounting auditor, paying ¥1,241 million for fiscal 2015 audit attestation duty-based compensation and non-audit-based compensation.

#### 7 Compliance Committee

This committee meets twice annually to draw up companywide compliance promotion plans, confirm progress, and engage in other activities. Compliance Committees have been established in all departments of the Company to strengthen compliance measures for each respective department. These committees are chaired by the member of the Compliance Committee in

each department. At the same time, Compliance Liaison conferences are in place for regularly exchanging compliance information with Group companies. Through these two types of organizations, each department works to consistently implement its own compliance and to act independently and responsibly in carrying out compliance activities.

## CORPORATE GOVERNANCE

## Officers' Remuneration Structure

The remuneration of directors (excluding Audit and Supervisory Committee members and outside directors) consists of base remuneration, performance-linked remuneration, and stock remuneration from the viewpoint of reflecting earnings and sharing values with shareholders.

Performance-linked remuneration is determined based on consolidated earnings while also taking into account the roles of each director and the earnings and accomplishments of the business of which he or she is in charge, etc.

For stock remuneration, the Board Incentive Plan Trust structure is used. MHI shares are issued, and remuneration is paid based on stock award points that are

granted in accordance with return on equity (ROE) and other such indicators linked to MHI's medium/long-term earnings and stock price.

The remuneration of directors who are serving as Audit and Supervisory Committee members consists exclusively of base remuneration from the viewpoint of ensuring duties such as audit work and supervision of execution of operations are conducted appropriately.

The remuneration of chief officers and administrative executive officers who are not directors is in accordance with the foregoing.

## Director and Statutory Auditor Remuneration (FY2015)

## 1. Before the shift to a company with an Audit and Supervisory Committee

(From April 1, 2015, to the close of the 90th Ordinary General Meeting of Shareholders on June 26, 2015)

Position	No. of recipients	Amount of remuneration by category (millions of yen)			Total amount of remuneration (millions of yen)
		Base remuneration	Performance-linked remuneration	Stock options	
Directors (excluding outside directors)	8	111	55	—	167
Statutory auditors (excluding outside statutory auditors)	2	17	55	—	17
Outside directors and statutory auditors	6	18	—	—	18

## 2. After the shift to a company with an Audit and Supervisory Committee

(From the close of the 90th Ordinary General Meeting of Shareholders on June 26, 2015, until March 31, 2016)

Position	No. of recipients	Amount of remuneration by category (millions of yen)			Total amount of remuneration (millions of yen)
		Base remuneration	Performance-linked remuneration	Stock remuneration	
Directors who are not serving as Audit and Supervisory Committee members (excluding outside directors)	7	295	164	182	642
Directors who are serving as Audit and Supervisory Committee members (excluding outside directors)	2	128	—	—	128
Outside directors	5	57	—	—	57

## Notes:

- The recipients in note 2 above include one director who is not an Audit and Supervisory Committee member who retired in fiscal 2015 and who is stated under "directors who are not serving as Audit and Supervisory Committee members (excluding outside directors)."
- The maximum permitted monetary remuneration amount for directors who are not serving as Audit and Supervisory Committee members is ¥1,200 million per year, applied retroactively to April 2015 (resolution of the 90th Ordinary General Meeting of Shareholders on June 26, 2015).
- The total amount of stock remuneration is the amount of expenses recognized for the 337,000 stock award points granted in total during fiscal 2015 (equivalent to 337,000 shares of MHI) concerning the Board Incentive Plan Trust, which is a stock remuneration system that delivers or provides shares of MHI and money in the amount equivalent to the liquidation value of shares of MHI based on stock award points granted to directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members) in accordance with, among other factors, the rank of the position of each director and the financial results of MHI. The maximum permitted amount of stock award points is 500,000 points (resolution of the 90th Ordinary General Meeting of Shareholders on June 26, 2015) per fiscal year for directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members).
- The maximum permitted monetary remuneration amount for statutory auditors is ¥160 million per fiscal year (resolution of the 81st Ordinary General Meeting of Shareholders on June 28, 2006).
- The maximum permitted monetary remuneration amount is ¥300 million (resolution of the 90th Ordinary General Meeting of Shareholders on June 26, 2015) per fiscal year for directors who are serving as Audit and Supervisory Committee members.

