

## > Corporate Governance

As corporate governance becomes more important in today's world, the roles demanded of the Board of Directors have changed and expanded. Previously, the Board's role was to oversee executive functions from the perspective of pursuing stable profits and maintaining legal compliance. Today, the Board is further called upon to take steps to broadly improve the Company's overall corporate value and strengthen its sustainability through proactive debate with corporate officers. To achieve those ends, the Board is required to 1) maintain and strengthen the diversity of experience and high level of discernment of its members, 2) engage in ongoing dialogue with corporate officers, and 3) confirm that the Company's activities are aligned with the demands of society and all stakeholders, and promote greater transparency in explaining its activities.

Duly recognizing these changes, between fiscal 2012 and fiscal 2017 MHI Group fundamentally reformed its business structure and corporate governance, effecting changes to its organization and business systems, including to its Board of Directors. In addition, the Company significantly strengthened its response to and management of emerging risks, successfully exiting from a period of stagnation caused by internal and external organizational factors.

In some quarters, however, the old way of thinking that if the Company focuses on making good products it can achieve stable operations, still persists. For this reason, there is a need for management and executives to cooperate in nurturing a corporate culture oriented to responding in good faith to the needs of global markets and customers.

Because MHI Group encompasses numerous businesses whose markets or technologies have generally matured, it is necessary to build up highly profitable niche businesses, develop businesses with future growth potential, and explore new areas of business in order for the Company to grow. This has to be balanced with focusing on our current core businesses where we have a competitive edge and considerable business scale. It will also be important to evaluate how these businesses are delivering on the expectations of our various stakeholders. We have to manage our product portfolio from a comprehensive and strategic view point, optimizing overall growth potential while satisfying each stakeholder's needs as much as possible. Also, for MHI Group—a manufacturing conglomerate with many businesses that generate returns over the long term—it is imperative that we evaluate how well our management resources (human, physical, and financial) match our short-, medium-, and long-term business strategies. I truly believe that the efforts taken to make these evaluations and management frameworks as objective and easy to understand as possible will lead to ever-higher levels of governance.

**Shunichi Miyanaga**  
Chairman of the Board

We are taking all stakeholders into consideration and working to enhance corporate governance on an ongoing basis.

**Masahiko Mishima**

Director, Executive Vice President, GC\*

\* General Counsel



## Basic Approach

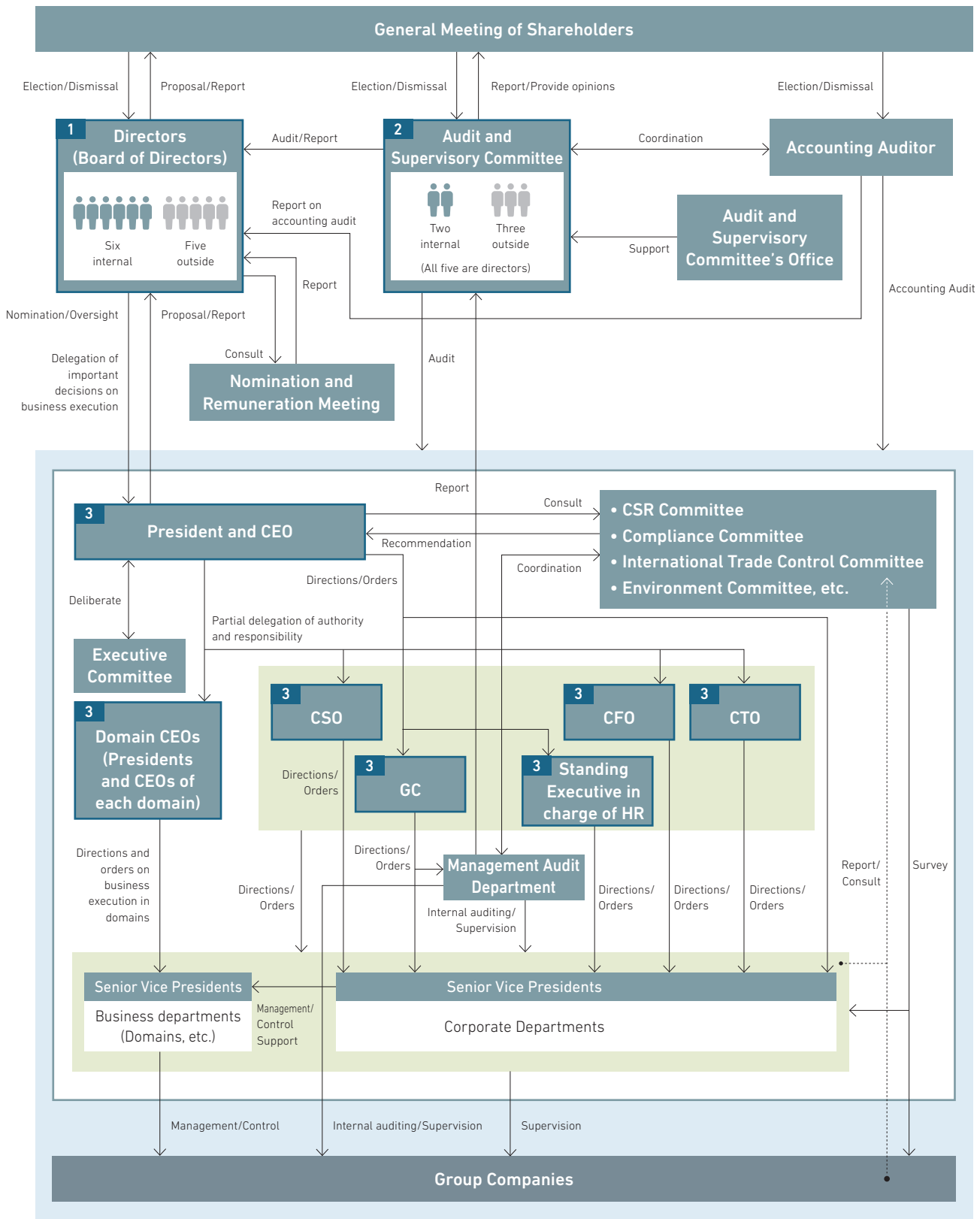
As a company responsible for developing the infrastructure that forms the foundation of society, MHI's basic policy is to execute management in consideration of all stakeholders and strive to enhance corporate governance on an ongoing basis in pursuit of sustained growth of MHI Group and improvement 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. MHI is also working to develop transparent, "Japanese-style global management" that focuses on diversity and harmony to ensure that it can continue to realize stable growth over the medium to long term.

### Recent Corporate Governance Reforms

● Directors ● Remuneration of directors ● Organization ● Engagement ● Structure of corporate governance

FY	Details
2005	<ul style="list-style-type: none"> <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 and shortened the term of office for directors from two years to one</li> <li>● Introduced an executive officer system ● Established the Internal Audit Department</li> </ul>
2006	<ul style="list-style-type: none"> <li>● Commenced shareholder relations (SR) visits for domestic institutional investors</li> <li>● Abolished the system of director retirement allowances and bonuses</li> <li>● Introduced performance-linked remuneration and stock option system for directors</li> </ul>
2007	<ul style="list-style-type: none"> <li>● Increased the number of outside directors from two to three</li> </ul>
2011	<ul style="list-style-type: none"> <li>● Commenced SR visits in the United States and the United Kingdom</li> </ul>
2014	<ul style="list-style-type: none"> <li>● Reduced the number of directors from 19 to 12 ● Increased the ratio of outside directors from 15% to 25%</li> <li>● Introduced the Chief Officer System</li> </ul>
2015	<ul style="list-style-type: none"> <li>● Transitioned to a Company with an Audit and Supervisory Committee</li> <li>● Set the ratio of outside directors to more than one-third (five out of 14 total directors)</li> <li>● Introduced a new stock remuneration system for officers</li> </ul>
2016	<ul style="list-style-type: none"> <li>● Established the Nomination and Remuneration Meeting</li> <li>● Conducted Board evaluation of Board of Directors' effectiveness and carried out a meeting of independent outside directors</li> <li>● Reduced the number of directors from 14 to 11</li> <li>● Increased the ratio of outside directors from 25% to 45.5%</li> </ul>
2017	<ul style="list-style-type: none"> <li>● Restructured into three business domains</li> </ul>
2019	<ul style="list-style-type: none"> <li>● Abolished the Advisors System (includes transitional measures to be completed by the end of the 2021 Medium-Term Business Plan)</li> <li>● Turned the Nomination and Remuneration Meeting into an advisory body for the Board of Directors</li> </ul>

(As of June 27, 2019)



## Corporate Governance Structure and Roles

MHI has adopted the form of a Company with an Audit and Supervisory Committee as its corporate structure under the Companies Act. Our corporate governance structure is as follows.

### 1 Directors (Board of 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. Also, directors are classified as directors who also serve as Audit and Supervisory Committee members and those who do not, and both types are appointed at the General Meeting of Shareholders. Each director has the duty of due care of directors based on their contract of service with the Company.

In addition, in accordance with a resolution by the Board of Directors based on the Company's Articles of Incorporation, the Company delegates decisions on the execution of important operations to the president and CEO. This approach involves swifter decision-making and enhancing the flexibility of business execution while also placing the authority of highly precise oversight of business execution with the Board of Directors.

### 2 Audit and Supervisory Committee

The Audit and Supervisory Committee monitors and verifies various aspects of the Company's operations, including the execution of duties of directors, the appropriateness of business report, etc., adequacy of audits by the accounting auditor, and the effectiveness of internal control systems. The results of this monitoring and verification are provided to the Company's shareholders via audit reports. In addition, the Audit and Supervisory Committee decides on opinions pertaining to the selection of and remuneration for directors who are not Audit and Supervisory Committee members. The committee is also responsible for determining the details of agenda items related to the appointment of accounting auditors, among other duties.

The Audit and Supervisory Committee comprises five directors, the majority of whom (three) are

outside directors. In addition, to ensure the effectiveness of the Audit and Supervisory Committee's activities, two full-time members of the Audit and Supervisory Committee are mutually selected by the committee's members. One of these full-time members has extensive work experience in accounting and financial divisions, giving him a considerable amount of insight on financial and accounting affairs.

To support auditing activities, the 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.

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

The CEO\*<sup>1</sup> takes charge of overall business operations, and the domain CEOs take control of executing businesses within their individual domains based on overall Group strategies. The CSO\*<sup>2</sup> is in charge of the planning of all business strategies and the CFO\*<sup>3</sup> takes charge of finance, accounting, and management planning. The CTO\*<sup>4</sup> 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 CSO, 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\*<sup>5</sup> 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, and legal affairs. The standing executive in charge of HR takes overall responsibility for human resources and labor relations.

\*1 Chief Executive Officer

\*2 Chief Strategy Officer

\*3 Chief Financial Officer

\*4 Chief Technology Officer

\*5 Human Resources

## Outside Directors

The Company has five outside directors (of whom three are Audit and Supervisory Committee members). Outside directors are appointed to ensure the stability and speed of management decision-making at a level that is befitting of a global corporation. To that end, the outside directors provide beneficial views and candid assessments on the Company's management from diverse and objective standpoints. These individuals have diverse experience and insight in such areas as corporate management, public finance, and corporate governance. Each of the outside directors meets MHI's independence criteria for outside directors,\* and, based on the judgment that all outside directors are independent from its internal management team, the Company has reported them as independent directors to the Tokyo Stock Exchange and other financial instruments exchanges in Japan.

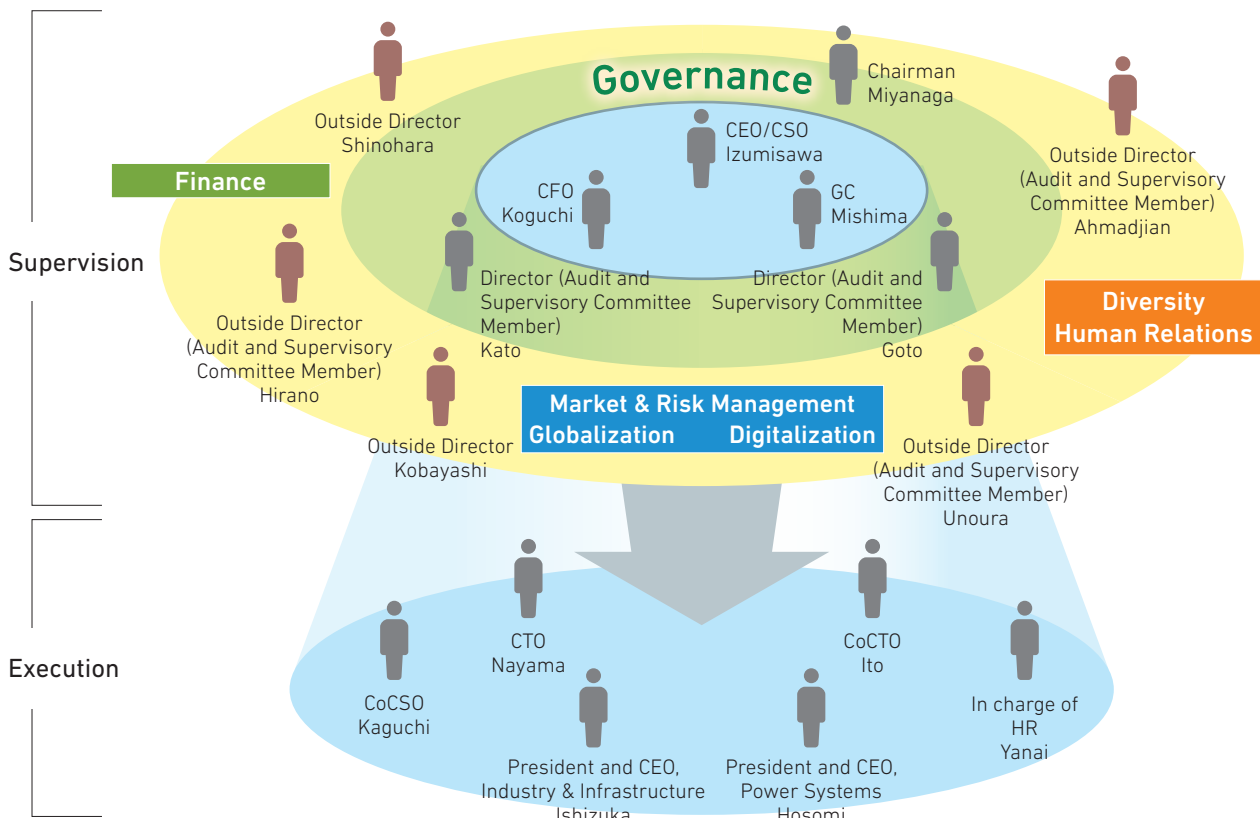
Each outside director is independent from internal management and engages in the supervision or audit of management. The outside directors receive reports on the status of the establishment and operation of internal control systems and the results of internal audits, and they state their opinions based on their respective insight and beliefs.

The Audit and Supervisory Committee, a majority of whose members are outside directors, also conducts audits and other activities 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.

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

## Structure for Supervision and Execution

The Board of Directors comprises members with a variety of backgrounds, ensuring a balanced structure with which to supervise people handling business execution.



(As of June 27, 2019)

## Board Evaluation

MHI took the enactment of Japan's Corporate Governance Code as an opportunity to analyze and evaluate the effectiveness each year of the overall Board of Directors'. We seek to increase the effectiveness of the Board of Directors and ensure it is substantially fulfilling its duty of accountability to

shareholders by verifying the overall effectiveness and role of the Board of Directors.

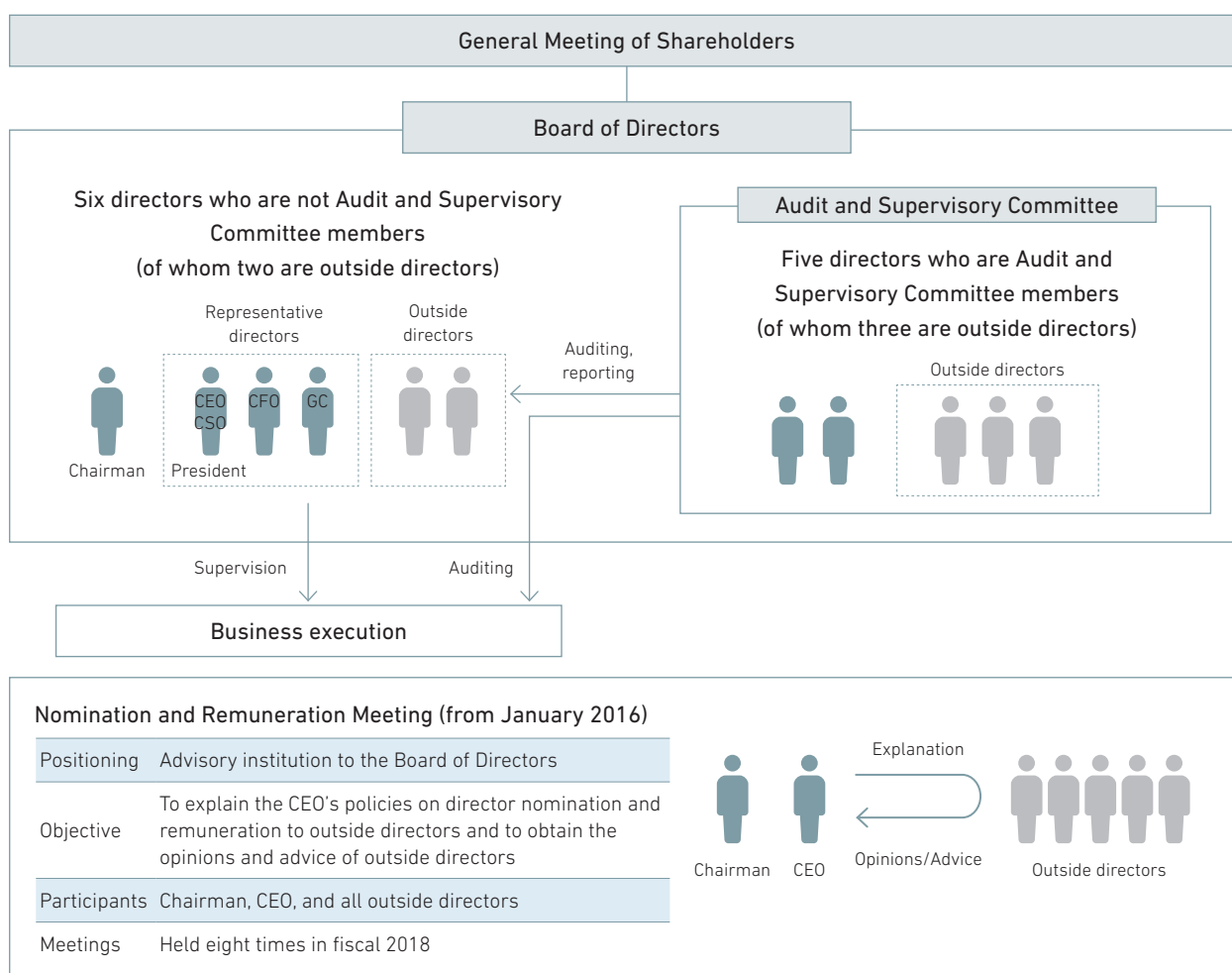
Based on a questionnaire of all directors, Board of Directors discussions, and so on, the Board of Directors confirmed that it functioned effectively in fiscal 2018.

## Nomination and Remuneration Meeting

The Nomination and Remuneration Meeting is composed of five outside directors, the chairman of the Board 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 the CEO and other chief officers, and matters related to remuneration.\* The aim of this meeting is to further augment transparency and fairness. In fiscal 2018, the Nomination and Remuneration Meeting met eight times.

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



## Officers' Remuneration Structure

### Remuneration of Directors (Excluding Audit and Supervisory Committee Members and Outside Directors)

The remuneration of directors consists of base remuneration, performance-linked remuneration, and stock remuneration from the viewpoint of reflecting business performance and sharing interests with shareholders.

Performance-linked remuneration is determined based on consolidated earnings while also taking into account the roles of each director and the business performance 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 the individual role of each director and the Company's business performance, etc.

After revising the share remuneration system through a resolution passed at the 94th General Meeting of Shareholders, which was held on June 27, 2019, the standard for the remuneration of the Company's president was set at roughly 30% base remuneration, 40% performance-linked remuneration, and 30% stock remuneration (in the event that profit before income taxes reached ¥200.0 billion; calculated based on the fair value of stock award points granted during fiscal 2018), making for a remuneration structure in which the higher a director's rank is, the greater his or her performance-linked

remuneration will be. Also, the Company has established profit before income taxes as the core indicator for determining performance-linked remuneration and stock remuneration in order to reflect the results of the Company's business activities, including financial income and expenses, in these remunerations. In fiscal 2018, the Company's profit before income taxes totaled ¥182.6 billion, which more than cleared its target (initial forecast) of ¥170.0 billion, which was set at the start of fiscal 2018.

### Outside Directors

The Company expects that the outside directors offer their objective opinions and guidance, primarily on their vision for the Company over the medium to long term, from an independent standpoint. Accordingly, the outside directors are only paid a base remuneration, which is set at an appropriate amount.

### Directors Who Serve as Audit and Supervisory Committee Members

Directors who serve as Audit and Supervisory Committee members are only paid a base remuneration. The amount for this base remuneration is determined in consideration of each member's roles and responsibilities and based on whether he or she is a full-time or part-time member. However, the base remuneration for full-time Audit and Supervisory Committee members can be reduced in consideration of the status of the Company's management and other factors.

### Methods for Determining Each Type of Remuneration

#### Base remuneration: Standard amount based on role + Additional amount based on duties

- The standard amount based on role is determined in accordance with a director's role and the details of his or her duties, etc.
- The additional amount based on duties is determined within a range that shall not exceed ¥500,000 a month.

#### Performance-linked remuneration: Role-based payment coefficient × Profit before income taxes for the given fiscal year ÷ 10,000 × Coefficient of business results

- The role-based payment coefficient is determined in accordance with a director's role and the details of his or her duties, etc.
- The coefficient of business results evaluates the performance and results of a business of which a director is in charge. It is determined within a range from 1.3 to 0.7.
- Performance-linked remuneration is paid when the Company records a profit before income taxes and carries out dividend payments.

#### Stock remuneration: Role-based standard points × Coefficient of business results

- As a general rule, shares and cash are delivered to directors after three years have passed since the granting of stock award points
- Role-based standard points are determined in accordance with a director's role and the details of his or her duties, etc.
- The coefficient of business results is based on profit before income taxes in the previous fiscal year.
- In the event that a director engages in improper conduct, the Company suspends the granting of stock award points and the delivery of shares to said director. There are also cases where the Company asks such a director to submit a payment equivalent to the amount of shares that have been delivered to him or her.



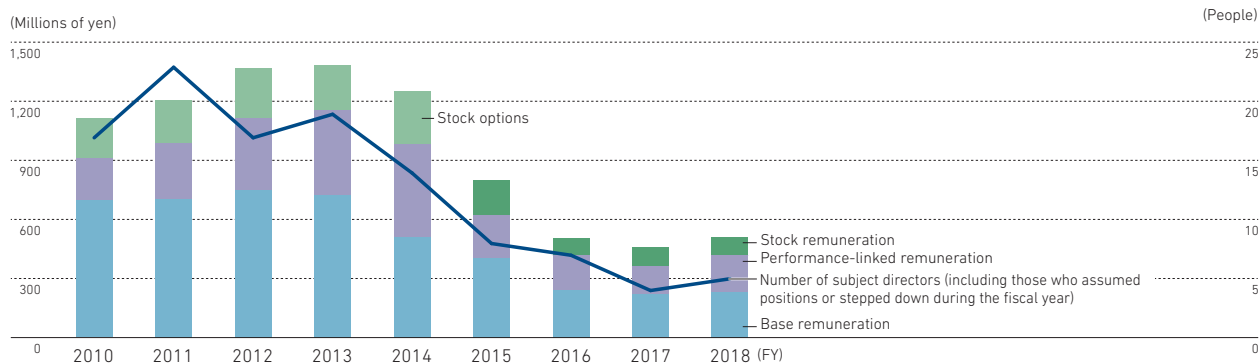
## Remuneration of Directors (Fiscal 2018)

Position	Monetary remuneration				Stock remuneration		Total amount of remuneration (Millions of yen)
	Base remuneration		Performance-linked remuneration		People	Total amount (Millions of yen)	
	People	Total amount (Millions of yen)	People	Total amount (Millions of yen)			
Directors who are not Audit and Supervisory Committee members	7	260	5	187	4	93	540
(Of which, outside directors)	(2)	(30)	(—)	(—)	(—)	(—)	(30)
Directors who are Audit and Supervisory Committee members	6	185	—	—	—	—	185
(Of which, outside directors)	(3)	(55)	(—)	(—)	(—)	(—)	(55)
<b>Total</b>	<b>13</b>	<b>445</b>	<b>5</b>	<b>187</b>	<b>4</b>	<b>93</b>	<b>726</b>
(Of which, outside directors)	(5)	(85)	(—)	(—)	(—)	(—)	(85)

### Notes:

- The recipients include one director who was not an Audit and Supervisory Committee member and one director who was an Audit and Supervisory Committee member who stepped down in fiscal 2018.
- The maximum permitted monetary remuneration amount for directors who are not serving as Audit and Supervisory Committee members is ¥1,200 million per year (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 254,000 stock award points granted in total during fiscal 2018 (equivalent to 25,400 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 MHI shares 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 monetary remuneration amount is ¥300 million per fiscal year for directors who are serving as Audit and Supervisory Committee members (resolution of the 90th Ordinary General Meeting of Shareholders on June 26, 2015).

## Remuneration of Directors\*



\* Remuneration of directors who are not Audit and Supervisory Committee members (excluding outside directors)

## Abolishment of Advisors System

MHI abolished the Advisors System in June 2019. Under the former Advisors System, executives who had at one time served as Company chairman or president were appointed as open-tenure senior executive advisors or executive corporate advisors. The decision to abolish this system was made in line with recent business structure reforms, ongoing reviews of the Company's organization and systems, and the continuing evolution of MHI Group into a truly global corporation. In addition, the Company came to this decision through deliberations by the Nomination and Remuneration Meeting and the Board of Directors.

The Company will also implement the procedures listed on the right as transitional measures for Termination of the Advisors System, with the aim of completing these measures by the end of the 2021 Medium-Term Business Plan.

### Transitional Measures for Termination of the Advisors System

(Aim to be completed by the end of the 2021 Medium-Term Business Plan)

- Executives with experience serving as Company chairman or president will be commissioned to a position as senior executive advisor or executive corporate advisor for a fixed tenure. Appointments to senior executive advisor shall be limited to one officer at any given time.
- After retirement from the position of senior executive advisor or executive corporate advisor, the officer will be commissioned as an honorary advisor.
- An honorary advisor shall in principle be appointed for a period of two years, on a non-standing basis and without remuneration.

Following completion of the transitional measures, executives with experience serving as Company chairman or president shall not be commissioned as a senior executive advisor or executive corporate advisor, but only as an honorary advisory (in principle, for a period of two years, on a non-standing basis and without remuneration).



I would like to see MHI proactively convey how it can contribute to society.

**Christina Ahmadjian**

Professor, Hitotsubashi University  
Graduate School of Business Administration



**Q** What are your impressions concerning the changes in governance and management effected by MHI up to now?

**A** The situation has completely changed from what it was seven years ago when I became a director. In those days, very little real discussion took place at Board of Directors' meetings. Now, by sharing important issues we can engage in focused debates; we have a deeper understanding from hearing directly what the heads of the various domains have to say; and we talk more about Companywide strategies such as innovation, corporate value, and what it takes to be a truly global company. The discussions themselves have become more lively, and the atmosphere is much more positive, too. In my role as a member of the Audit and Supervisory Committee also, by focusing on important topics and listening to the views of the people concerned, now we are able to discuss issues on a deeper level at Board meetings.

**Q** What do you see as the major challenges facing MHI Group in the years ahead?

**A** I think human resources is truly the most important issue at hand today. This is a topic increasingly discussed at Board meetings, but I think we should talk even more about issues such as diversity, global human resources, and motivation. Attracting and developing outstanding human resources will continue to be of vital importance, as will be achieving synergies by joining forces, through communication, as united members of MHI.

**Q** How were Nomination and Remuneration Meetings conducted, and what discussions took place?

**A** For nearly two years we carried on discussions on a point of critical importance: the Company president and CEO. And instead of starting with discussions of who should be the next president, we debated what type of person is best suited to serve in MHI's top position. In the course of these discussions, the shared opinion of all outside directors was that the next leader of MHI needed to be younger, to have global experience, and to be keen on innovation. The number of meetings, along with the length of each meeting, also increased significantly. Going forward, I think two important issues will be to start early to look at candidates or likely candidates to be the next president, and to plan for succession of future outside directors.

**Q** What would you like to see President Izumisawa do most?

**A** I think MHI has a bright future in businesses such as power systems, renewable energies, mobility, and space. So what I hope President Izumisawa will do is to convey, both inside the Company and out, that the social issues the world faces today can be resolved only by companies with abundant human resources, engaging in activities of global scope, and possessing ample capital—companies like MHI.

# Compliance

MHI Group attaches importance to complying with applicable laws and social norms and is promoting fair and honest business practices. For the promotion of such practices, MHI Group established the Compliance Committee, which is chaired by the General Counsel (executive vice president). The Compliance Committee draws up and implements Groupwide compliance promotion plans and confirms their progress. In addition, the Committee works to strengthen compliance on a continuous basis through such means as sharing compliance-related initiatives and cases within the Group.

As a global organization, MHI Group employs thousands of individuals from different backgrounds, nationalities, and cultures. This diversity of talent and perspectives is one of our greatest assets. Having diverse backgrounds, it is important to work together and promote our business under a common corporate culture.

To that end, MHI Group has formulated the "MHI Group Global Code of Conduct." Through such efforts as e-learning and the distribution of booklets, we strive to disseminate this code of conduct among MHI Group employees around the world. At the same time, we have formulated the "Compliance Promotion Global Policy," clarifying basic matters and rules for promoting compliance, such as the organizational framework, roles, and administration standards. To increase awareness of compliance among individual employees, we conduct discussion-based training

every year that focuses on various compliance-related themes. We also conduct e-learning and training programs for Group employees on antitrust, anti-bribery, and export-related laws and regulations. In addition, we are striving to further enhance compliance awareness through the compliance guidebook, which targets employees engaging in technical work on the frontlines of manufacturing.

In regard to overseas, where compliance is expected to be enforced to an even greater extent, we created the role of Compliance Manager in the Americas, Europe, Asia Pacific, and China. Through compliance liaison conferences and compliance monitoring in each country and region, these managers are making efforts to reinforce compliance at overseas Group companies.

MHI Group has also set up whistleblowing hotlines in Japan and overseas in an effort to swiftly respond to various compliance-related risks, including compliance violations or actions that run the risk of becoming compliance violations.

### Number of participants in compliance training (e-learning)

Approximately **90,300** (FY2018)

	FY/cases		
	2016	2017	2018
Number of whistleblowing cases, by type			
Labor and the work environment	42	49	81
Overall discipline and breaches of manners	28	17	13
Transaction-related laws	11	11	15
Consultations and opinions	3	0	1
Other	34	36	32
Total (number of corrections and improvements)	118 (64)	113 (59)	142 (65)

## Compliance Promotion System

(as of January 1, 2019)



## 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 wields significant influence on its business results and growth potentials.

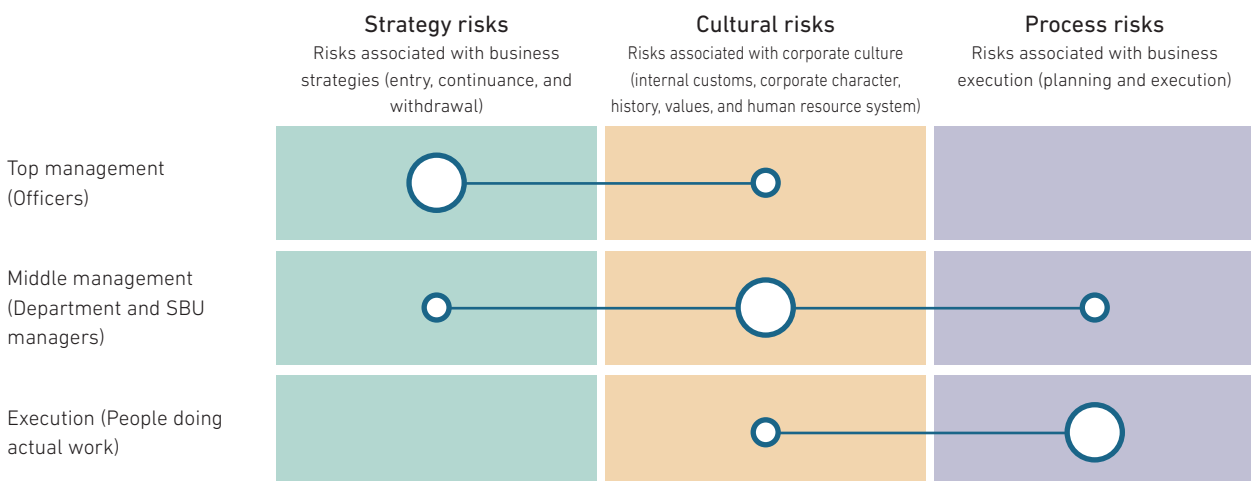
To promote challenges of this kind and prepare for the next leap into the future, MHI Group, applying its past experience and lessons learned, aims to create the mechanisms that will ensure the effective execution of business risk management. At the same time, we reinforce advanced, intelligent systems 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



## 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

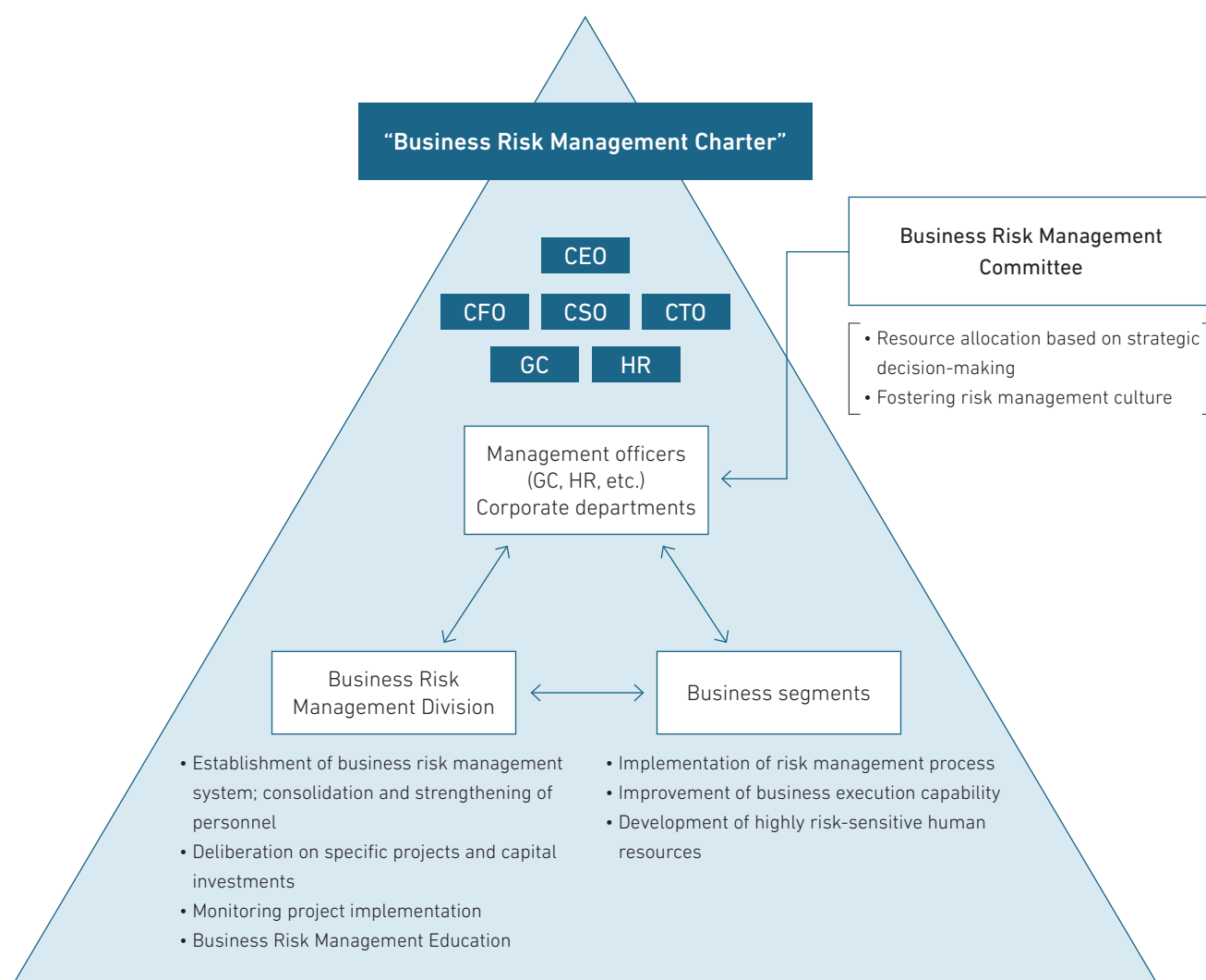
#### Observe and practice the Business Risk Management Charter as the Company's foremost set of rules

→Clarify, observe, and practice risk management targets, etc.

### 2

#### Hold meetings of the Business Risk Management Committee

→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, 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 such efforts as providing training with the involvement of the Group's management team and including special features on business risk management in the Company newsletter (April 2018).

### Business Risk Management Process

