

## Corporate Governance

### Basic Approach to Corporate Governance

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. MHI has also established our basic framework for and approach to corporate governance in our "Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.," which is posted on our official website.

► [https://www.mhi.com/finance/management/governance/pdf/corporate\\_governance.pdf](https://www.mhi.com/finance/management/governance/pdf/corporate_governance.pdf)

### ► Recent Corporate Governance Reforms

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Corporate governance										<ul style="list-style-type: none"> <li>Introduced the Chief Officer System</li> </ul>	<ul style="list-style-type: none"> <li>Transitioned to a Company with an Audit and Supervisory Committee</li> </ul>				<ul style="list-style-type: none"> <li>Turned the Nomination and Remuneration Meeting into an advisory body for the Board of Directors</li> </ul>	
Directors										<ul style="list-style-type: none"> <li>Reduced the number of directors from 19 to 12</li> </ul>	<ul style="list-style-type: none"> <li>Increased the ratio of outside directors from 15% to 25%</li> </ul>				<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> </ul>	
Remuneration of directors											<ul style="list-style-type: none"> <li>Introduced a new stock remuneration system for officers</li> </ul>					
Engagement																

## Corporate Governance

### Corporate Governance Framework

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)

MHI's Board of Directors consists of 12 directors (of whom five are serving as Audit and Supervisory Committee Members), and six directors (of whom three are serving as Audit and Supervisory Committee Members) are outside directors. By obtaining beneficial views and frank assessments from outside directors to MHI's management from a standpoint neutral to operational divisions, MHI is enhancing its management oversight function and ensuring that the oversight function by outside directors is more effective. Accordingly, MHI ensures that the number of outside directors who meet MHI's independence criteria\*<sup>1</sup> constitutes one-third or more of all members of the Board of Directors. The Board of Directors comprises members with a variety of backgrounds, ensuring a balanced structure with which to supervise people handling business execution (we refer you to "Balance of Skills in the Board of Directors" on the following page).

Moreover, in accordance with MHI's Articles of Incorporation and a resolution by the Board of Directors, MHI delegates decisions on execution of important operations to the President (CEO), excluding matters designated by laws and ordinances as matters to be decided exclusively by the Board of Directors, business plans, and the appointment, dismissal, and remuneration of directors, chief officers, and administrative executive officers, as well as other important individual business plans and investments, etc. This approach facilitates timely decision-making and flexible business execution while also enabling the Board of Directors to focus on the oversight of those in charge of business execution.

\*1: Listed in "Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd."

#### 2 Audit and Supervisory Committee

To secure the soundness and appropriateness of MHI's management decision-making and improve transparency, MHI's Audit and Supervisory Committee conducts a range of activities as listed in the "Status of Audit and Supervisory Committee Activities" section below. The Audit and Supervisory Committee monitors the execution of duties of directors and prepares Audit Reports. It also has authorizations provided for by laws and ordinances and Articles of Incorporation, including determining the details of agenda items presented to the General Shareholders Meeting related to the appointment, dismissal, or non-reappointment of accounting auditors, and the statement of opinions related to the appointment or dismissal of Directors who are not Audit and Supervisory Committee Members.

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

MHI has introduced a chief officer system. Specifically, portions of the President (CEO\*<sup>2</sup>)'s responsibilities and authority are delegated a number of chief officers reporting to President. These chief officers consist of domain CEOs (the heads of individual business domains) as well as the CSO\*<sup>3</sup>, CFO\*<sup>4</sup>, and CTO\*<sup>5</sup>. The CEO 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 is in charge of the planning of all business strategies and the CFO takes charge of finance, accounting, and 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 CSO, CFO, and CTO have Companywide authority to give instructions and commands and provide support to business

domains. The GC\*<sup>6</sup> and standing executive in charge of HR\*<sup>7</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. Within the business execution framework consisting of the President (CEO) and primarily these chief officers, there is an Executive Committee chaired by President Seiji Izumisawa (and consisting of executive officers, including the President, chief officers, and standing executives in charge of operations). This deliberative body uses a council system to deliberate on vital items pertaining to execution of duties, thereby enabling appropriate management decision-making and execution of duties.

\*2 Chief Executive Officer  
 \*3 Chief Strategy Officer  
 \*4 Chief Financial Officer  
 \*5 Chief Technology Officer  
 \*6 General Counsel  
 \*7 Human Resources

#### 4 Nomination and Remuneration Meeting

In January 2016, MHI established the Nomination and Remuneration Meeting. The profile of this institution and its record of meetings are indicated in the table below.

Positioning	Advisory institution* <sup>8</sup> to the Board of Directors
Objectives	Obtain the opinions and advice of outside directors and further enhancing transparency and fairness prior to deliberations by the Board of Directors on matters relating to the nomination of candidates for directors, the dismissal of directors, and the appointment and dismissal of other executives and officers, and matters relating to the remuneration of directors (excluding directors who are serving as Audit and Supervisory Committee members).
Participants	Chairman, President and all outside directors
Number of meetings held	Held six times in FY2019

\*8 In April 2019, MHI converted the Nomination and Remuneration Meeting into an advisory body to the Board of Directors and added the Chairman of the Board to its participants

#### ► Balance of skills in the Board of Directors



## Corporate Governance

### Board of Directors' Main Deliberation Items

The main items deliberated by the Board of Directors in fiscal 2019 are presented in the table below.

#### Main Deliberation Items

Shareholders Meeting	<ul style="list-style-type: none"> <li>Resolution on matters for calling Annual General Meeting of Shareholders</li> </ul>
Items related to financial results	<ul style="list-style-type: none"> <li>Financial results</li> <li>Shareholder return policy</li> </ul>
Items related to Executive and Board Member	<ul style="list-style-type: none"> <li>Board Evaluation, remuneration of Directors, and executive appointments (including chief officers)</li> </ul>
Management plan	<ul style="list-style-type: none"> <li>Status of progress on business plans</li> </ul>
Internal controls	<ul style="list-style-type: none"> <li>Status of internal control systems operation</li> </ul>
Resolutions on and status of execution of important operations	<ul style="list-style-type: none"> <li>Status of business in individual domains and segments</li> <li>Status of execution of operations by individual chief officers</li> <li>Future direction of commercial aircraft business</li> <li>Acquisition of CRJ program</li> <li>Concluding a settlement agreement pertaining to South Africa project</li> </ul>
Other	<ul style="list-style-type: none"> <li>Study of the appropriateness of strategic shareholding</li> <li>Results of periodic employee engagement surveys</li> </ul>

In addition to the above, the agenda items for the Board of Directors meetings are explained in advance to outside directors for the purpose of free and vigorous discussion and exchange of opinions at the meetings. In addition, as described in the "Board Evaluation Results and Future Initiatives," in fiscal 2019 MHI group addressed issues identified in the Board Evaluation Results, including explaining its growth strategy to outside directors and setting out a discussion forum with management.

### Board Evaluation Results and Future Initiatives

MHI has introduced an annual evaluation of the Board of Directors (hereinafter referred to the "Board Evaluation") aiming at ensuring further effectiveness of the Board of Directors by verifying its functional efficiency as an entity and being fully accountable for stakeholders, by conducting holistic analysis and evaluation of the Board. In the process of, and as a result of, our fiscal 2019 Board evaluation, the status of activity concerning the issues recognized in the Board evaluation conducted in the previous year (fiscal 2018), as well as major issues recognized this time, and future responses are as presented in the table below.

#### Process and Results of FY2019 Board Evaluation

Process	<p>Continuing on from fiscal 2018, the Board of Directors conducted an evaluation process based on the following 4 points: "Composition of the Board of Directors" "Operation of the Board of Directors" "Supervisory function of the Board of Directors" and "Structure to support outside directors."</p> <ol style="list-style-type: none"> <li>1. Self-Evaluation based on questionnaire survey of all directors including outside directors.</li> <li>2. Discussing results of the self-evaluation at the Board of Directors meeting.</li> <li>3 The results of the Board Evaluation has been resolved by the Board of Directors based on the above self-evaluation and discussions.</li> </ol>
Results	<p>The overall effectiveness of the Board of Directors in 2019 has been ensured with no major concerns.</p>

### Initiatives to Address Issues Recognized in the Previous Year (fiscal 2018)

1. We explained MHI growth strategies (evolution in machinery systems, the “Shift the Path” program for our existing businesses, etc.) to our outside directors, and set up a discussion forum with management.
2. Each domain continued to implement business status reporting for the Board of Directors, and materials of the Board of Directors were designed to have a well-defined content with a focus on longer-term scenarios and specific product businesses, as well as supplement that content through meetings between outside directors and individual domains, thereby expanding opportunities for outside directors to gather information.
3. In addition to continuing to provide prior explanations to outside directors, we prepared and explained materials that clarify the key points of deliberations, thereby enhancing deliberations at the Board of Directors.

### Issues Recognized This Time and Future Initiatives

#### 1. Discussion of companywide growth strategies

Amid a rapidly changing business environment, we will provide opportunities for regular discussions on MHI group’s overall medium- to long-term growth and business strategies, focusing on the development of new businesses through decarbonization, electrification, and intellectualization, as well as the growth strategies of existing businesses.

#### 2. Discussion that takes Company stakeholders into consideration

In order to incorporate opinions of various stakeholders into management improvement, we will report to the Board of Directors topics including how financial markets view MHI’s management, MHI’s ESG and SDG initiatives and external evaluation on them, and provide opportunities for discussion on the direction of future action.

#### 3. Discussion related to key risks and management processes

In light of strengthened disclosure of risk information, we will report on and provide opportunities for discussion on companywide risk management processes, and selected and specified important risks.

### Status of Audit and Supervisory Committee Activities

The Audit and Supervisory Committee comprises five directors, the majority of whom (three) are outside directors. In order to ensure the effectiveness of the activities of the Audit and Supervisory Committee, our company stipulates in its Articles of Incorporation that full-time Audit and Supervisory Committee Members shall be appointed, and in accordance with said provisions, two full-time Audit and Supervisory Committee Members have been appointed from among the Audit and Supervisory Committee 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.

Auditing by the Audit and Supervisory Committee is conducted in accordance with the auditing standards laid down by the Committee and its audit and supervisory action plan.

Moreover, in order to support the duties of the Audit and Supervisory Committee, 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. The Audit and Supervisory Committee primarily monitors the execution of duties of directors, the appropriateness of business reports, 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 fiscal 2019, the Audit and Supervisory Committee took action on designated “priority points,” namely those measures planned in the 2018 Medium-Term Business Plan that are deemed to require the Committee’s attention as well as the status of response to individual matters that have substantial impact on management.

Full-time Audit and Supervisory Committee members attend important meetings such as Executive Committee meetings, business plan meetings, and compliance committee meetings, and endeavor to

## Corporate Governance

identify and monitor how management is performing in a timely and appropriate matter, as well as conduct audits to ascertain whether the duties of the directors are being executed in compliance with laws and ordinances and the Articles of Incorporation, and whether the corporate operations are being performed properly through inspection regarding, and confirmation of, legal compliance status, and through the monitoring and verification of the preparedness and implementation of the internal control system, including internal controls over financial reporting and other relevant items.

Additionally, through the monitoring and verification of the directors' execution of duties throughout the fiscal year, the Audit and Supervisory Committee forms its audit opinion on the appropriateness of the Accounting Auditor's auditing methods and results pertaining to whether or not the financial statements in a given fiscal year present fairly the financial position and results of the Company.

Furthermore, the Audit and Supervisory Committee periodically exchanges information and opinions with the Management Audit Department and accounting auditors, and takes other such measures to achieve close coordination. Full-time Audit and Supervisory Committee members attending monthly meetings to exchange information with the Management Audit Department, through which they obtain timely confirmation of the status of the formulation and progress of the Department's auditing programs, and receive reports on the results of those audits. The Audit and Supervisory Committee and the accounting auditor regularly exchange opinions on the accounting auditor's auditing plans and results, and full-time Audit and Supervisory Committee members hold monthly meetings to exchange information with the accounting auditor.

In addition, the Audit and Supervisory Committee commented on the appointment and remuneration of directors who are not members of the Audit and Supervisory Committee at the June 26, 2020, Annual General Meeting of Shareholders. The Committee also assessed the accounting auditor KPMG AZUSA LLC on criteria including ensuring a system for the proper

execution of duties, independence, appropriateness of audits, and auditing ability and expertise. Having determined that all requirements were satisfied, the Committee resolved to reappoint KPMG AZUSA LLC as the accounting auditor.

### Officers' Remuneration Structure

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

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 business performance and sharing interests with shareholders.

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 position is, the greater his or her performance-linked remuneration will be. The Company has also 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. (However, there may be partial adjustment in terms of compensation computation based on assessment of the impact of changes in accounting principles).

In fiscal 2019, the Company had a loss before income taxes of ¥32.6 billion, thus missing the target (initial forecast) of a profit of ¥210.0 billion, which was set at the start of fiscal 2019.

However, in calculating performance-linked remuneration for fiscal 2019, depending on the position of each individual director, we made partial corrections for the sake of fair remuneration commensurate with

earnings for the term, such as by excluding the effect on the relevant earnings performance of write-downs on figures recorded for other fiscal years.

## Methods for Determining Each Type of Remuneration

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

### 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

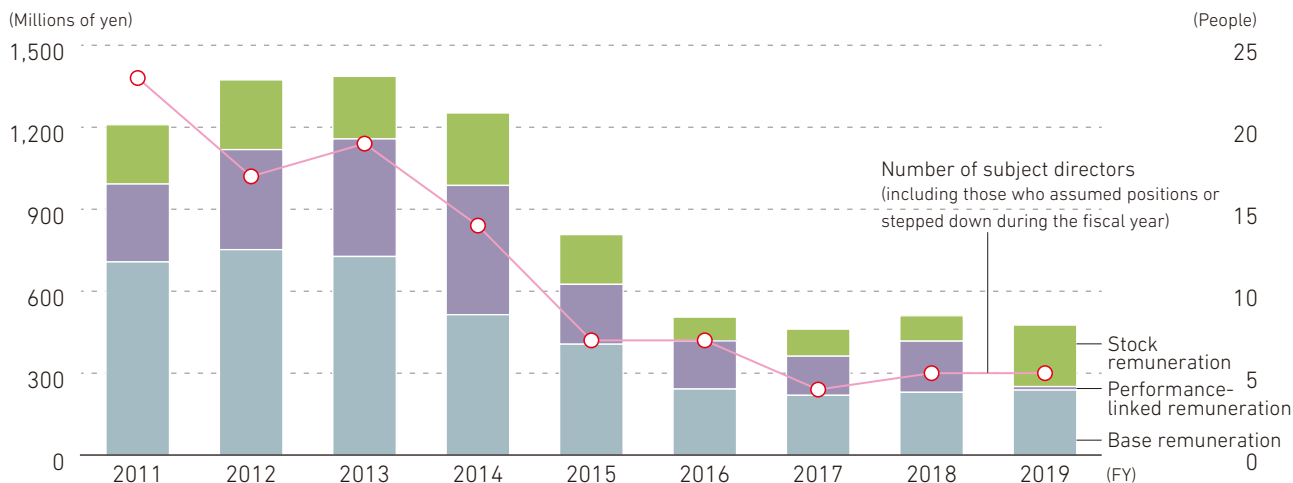
- Performance-linked remuneration is paid when the Company records a profit before income taxes (or after adjustment in the event that partial adjustments are made) and carries out dividend payments.
- The role-based payment coefficient is determined in accordance with a director's role and the details 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.

### 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

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



## Corporate Governance

### 2 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.

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

The amount of remuneration for directors who are serving as Audit and Supervisory Committee Members and the policy for deciding on its calculation method are determined through discussions by those directors.

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.

#### ► Remuneration of Directors (Fiscal 2019)

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	268	1	13	4	225	507
(Of which, outside directors)	(2)	(30)	(—)	(—)	(—)	(—)	(30)
Directors who are Audit and Supervisory Committee members	7	197	—	—	—	—	197
(Of which, outside directors)	(5)	(55)	(—)	(—)	(—)	(—)	(55)
<b>Total</b>	<b>14</b>	<b>466</b>	<b>1</b>	<b>13</b>	<b>4</b>	<b>225</b>	<b>705</b>
(Of which, outside directors)	(7)	(85)	(—)	(—)	(—)	(—)	(85)

#### Notes:

- The recipients include one director who was not an Audit and Supervisory Committee member and two directors who were Audit and Supervisory Committee members who stepped down in fiscal 2019.
- 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 519,000 stock award points granted in total during fiscal 2019 (equivalent to 51,900 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. In addition, the maximum permitted amount of stock award points is 1,000,000 points (based on resolution of the 94th Ordinary General Meeting of Shareholders on June 27, 2019) 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 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).



## Status of Strategic Shareholding

### Shareholding Policy

MHI holds shares of other companies only when it recognizes the necessity of holding those for achieving the long-term enhancement of its corporate value. Also, for improving capital efficiency and reducing financial risk arising from share price fluctuations, MHI promotes divesting such shareholdings.

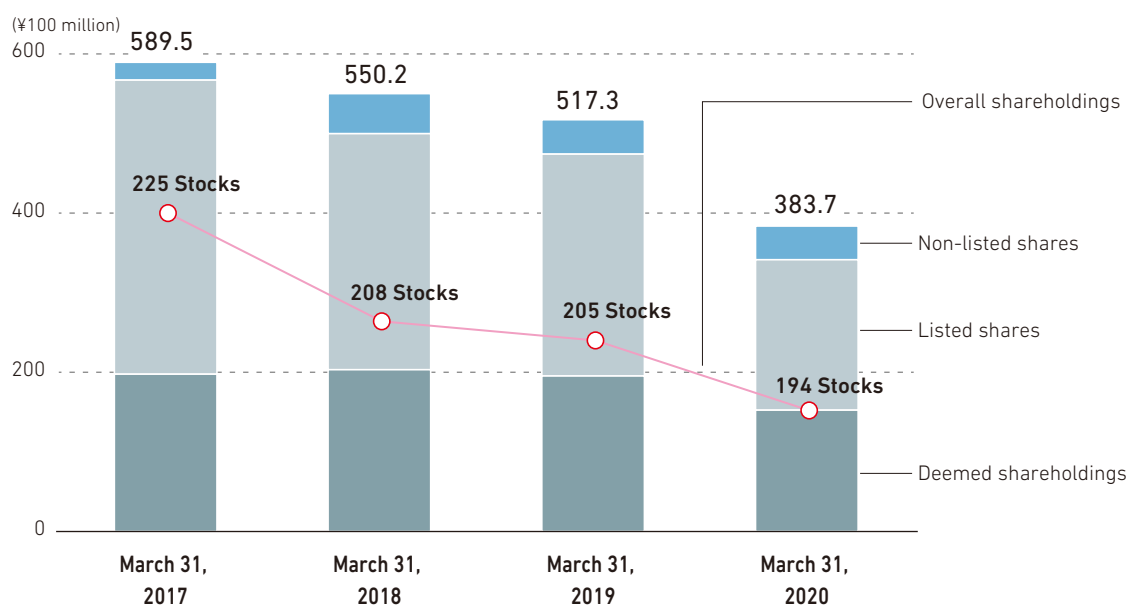
### Verification Policy for Holding Individual Stocks

The Board of Directors verifies all the listed shares held by MHI from the perspectives of consistency with its business strategies, contribution to business profits (economic rationale) and strengthening business, etc. The economic rationale is confirmed by whether or not the related earnings from each stock, such as dividends and related business profits on transactions, exceed MHI's capital cost (weighted average cost of capital).

### Verification Results at the Board of Directors and MHI's Action

Verification was conducted by the Board of Directors for all listed shares held by MHI at the meeting held in August 2019. As the result of the verification, some stocks were confirmed the decreased importance of the expected purpose. In terms of economic rationale, as a whole, the related earnings outweigh the cost of capital, but around 10% of those stocks deliver lower earnings than the cost of capital. Based on the verification result and dialogues with the companies in which we hold shares, MHI sold 14 individual stocks in FY2019 (12 stocks sold entirely, and 2 stocks sold partially).

## ► Balance of shareholdings / number of individual stocks



March 31, 2019  
205 stocks

All shares sold off  
- 12 stocks

Other\*  
+ 1 stock

= March 31, 2020  
194 stocks

\* Change in classification from equity method subsidiaries to investment stocks