

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 over-

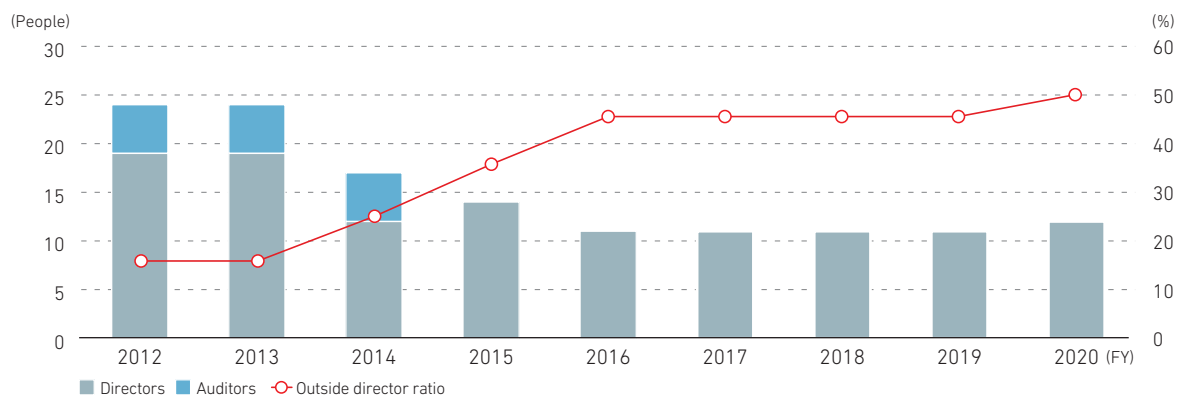
sight and execution and the inclusion of outside directors. MHI is building a Japanese-style global management model that places priority on sounder, more transparent management, diversity and harmony. MHI has also established our basic framework for and approach to corporate governance in our "Corporate 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

▶ Actions Taken to Strengthen Corporate Governance

	Action	Composition of Board of Directors Total directors/outside directors (outside director ratio)	Other (Officer remuneration, engagement)
2012			• Commenced shareholder relations (SR) visits for overseas institutional investors
2014	• Introduced Chief Officer System	12/3 (25%)	
2015	• Transitioned to company with Audit and Supervisory Committee	14/5 (35.7%)	• Introduced new stock remuneration system for officers
2016	• Established Nomination and Remuneration Meeting • Commenced Board Evaluation • Commenced meetings of independent outside directors	11/5 (45.5%)	
2019	• Turned Nomination and Remuneration Meeting into advisory body for the Board of Directors • Abolished Advisor System		
2020		12/6 (50%)	

▶ Board seats and outside director ratio*



*Auditor seats were eliminated when MHI became a company with an Audit and Supervisory Board from FY2015.

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^{*1} 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 "5 Director Skills Matrix" 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 activi-

ties 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 CEO^{*2} (President)'s responsibilities and authority are delegated a number of chief officers reporting to CEO. These chief officers consist of domain CEOs (the heads of individual business domains) as well as the CSO^{*3}, CFO^{*4}, and CTO^{*5}. 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 Company-wide authority to give instructions and commands and provide support to business domains. The GC^{*6} and standing executive in charge of HR^{*7} 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 CEO (President) 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

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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 ^{*8} 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 twice in FY2020

*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

5 Director Skills Matrix

MHI Group has adopted Our Principles as a fundamental management philosophy and objectives and periodically formulates business plans to steadily progress toward their realization. Under its current plan, the 2021 Medium-Term Business Plan (MTBP), the Group has embraced a Mission of integrating cutting-edge technology into expertise built up over many years to provide solutions to some of the world's most pressing issues and provide better lives. We believe that oversight of MHI's management in pursuit of such a Mission requires knowledge of

and experience and expertise in societal and economic issues, risk management, compliance, global corporate management, digital and other technologies, marketing, finance, accounting and HR development. Our Board of Directors must possess a well-balanced mix of such knowledge, experience and expertise.

Individual directors' knowledge, experience and expertise are tabulated below. We believe our Board as a whole is adequately endowed with knowledge, experience and expertise in the aforementioned areas.

	Members of the Board	Audit and Supervisory Committee Members	Tenure in years (as of end of Shareholders' Meeting on June 29, 2021)	Knowledge, experience and expertise						
				Socio-Economic Issues	Risk Management/ Compliance	Global Enterprise Management	Technology/ Digitalization	Marketing	Finance Accounting	Human Resource
Shunichi Miyanaga			13	●	●	●		●		
Seiji Izumisawa			4	●	●	●	●	●		
Hisato Kozawa			1	●	●				●	
Hitoshi Kaguchi			New	●	●		●	●		
Naoyuki Shinohara	outside		6	●	●				●	
Ken Kobayashi	outside		5	●	●	●		●		
Nobuyuki Hirano	outside		2	●	●	●			●	
Koji Okura		●	1	●	●				●	
Setsuo Tokunaga		●	New	●	●		●			
Hiroo Unoura	outside	●	2	●	●	●		●		●
Noriko Morikawa	outside	●	1	●	●	●			●	●
Masako Ii	outside	●	New	●	●					●

Note: The black dots in the seven rightmost columns do not indicate the entire range of knowledge, experience and expertise that the given director possesses.

Board of Directors' Main Deliberation Items

The main items deliberated by the Board of Directors in fiscal 2020 are presented in the table below.

Main Deliberation Items

Shareholders Meeting	• Resolution on matters for calling Annual General Meeting of Shareholders
Items related to financial results	• Financial results • Shareholder return policy
Items related to Executive and Board Member	• Board Evaluation, remuneration of Directors, and executive appointments (including chief officers)
Management plan	• Status of progress on 2021 MTBP
Internal controls	• Status of internal control systems operation
Resolutions on and status of execution of important operations	• Status of business in individual domains and segments
	• Status of execution of operations by individual chief officers
	• Future direction of SpaceJet business
	• Strengthening of alliance with Vestas
	• Transfer of machine tool business
Other	• Acquisition of naval ship business from Mitsui E&S Shipbuilding
	• Key-risk identification and management process
	• Determination of Material Issues of MHI Group
	• Capital markets' perception of MHI's management
	• Study of the appropriateness of strategic shareholding
	• Results of periodic employee engagement surveys

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 2020, we addressed issues identified by an evaluation of the Board's effectiveness, including by arranging periodic opportunities for the Board to discuss medium- to long-term growth and business strategies from a big-picture perspective.

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 2020 Board evaluation, the status of activity concerning the issues recognized in the Board evaluation conducted in the previous year (fiscal 2019), as well as major issues recognized this time, and future responses are as presented in the table below.

Process and Results of FY2020 Board Evaluation

Process	Continuing on from fiscal 2019, 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."
	1. Self-evaluation based on questionnaire survey of all directors including outside directors.
	2. Discussions among outside directors only
	3. The results of the Board evaluation have been resolved by the Board of Directors based on the above self-evaluation and discussions.
Results	4. The Board evaluation results were approved by the Board of Directors in light of the above self-evaluation and discussions.
	The overall effectiveness of the Board of Directors in 2020 has been ensured with no major concerns.

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Initiatives to Address Issues Recognized in the Previous Year (fiscal 2019)

1. We arranged opportunities for the Board to periodically discuss MHI Group's medium- to long-term growth and business strategies from a big-picture perspective.
2. Regarding capital markets' perception of MHI's management, the Board discussed prospective initiatives in light of feedback from institutional investors. Additionally, the Board discussed determination of Material Issues of MHI Group in light of growing societal interest in ESG and SDGs.
3. We catalogued MHI Group's business execution risks, reported to the Board on key risks identified by the Group's risk management process and arranged opportunities for the Board to discuss them.

Issues Recognized This Time and Future Initiatives

1. **Board discussions**
We will plan Board meeting agendas on an annual schedule, including discussions of themes such as company-wide growth strategy, HR strategy and sustainability. To promote more in-depth discussions, we will strive to optimize meeting-day presentations' content and time allotments for deliberations. We will also add more opportunities to facilitate a better understanding of our businesses by outside directors.
2. **Board composition**
We will discuss optimal Board composition and our director-candidate selection process.
3. **Board and Audit and Supervisory Committee's roles and configurations**
We will work on further upgrading our governance after readjusting the Board and Audit and Supervisory Committee's reciprocal roles and configurations and support staffs.

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 2020, the Audit and Supervisory Committee took action on designated priorities to lay the groundwork for the 2021 MTBP, including progress on matters deemed to require the Committee's oversight and responses to specific operationally impactful events.

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 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 29, 2021, Annual General Meeting of Shareholders. The Committee also assessed the accounting auditor KPMG AZSA 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 AZSA LLC as the accounting auditor.

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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 value 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. Once pretax profit exceeds ¥200 billion, stock-based remuneration increases as a medium- to long-term incentive

while performance-based remuneration's rate of increase progressively tapers off before plateauing once pretax profit exceeds ¥400 billion. Promoting MHI stock ownership by directors better aligns their interests with shareholders'.

The benchmark used to calculate performance-linked and stock-based remuneration is pretax profit. Pretax profit was chosen to reflect the results of business operations inclusive of finance income/costs in performance-linked and stock-based remuneration. (However, there may be partial adjustment in terms of compensation computation based on assessment of the impact of changes in accounting principles).

In fiscal 2020, the Company had a profit before income taxes of ¥49.3 billion, thus missing the target (initial forecast) of a profit of ¥0 billion, which was set at the start of fiscal 2020.

However, in calculating performance-linked remuneration for fiscal 2020, 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.

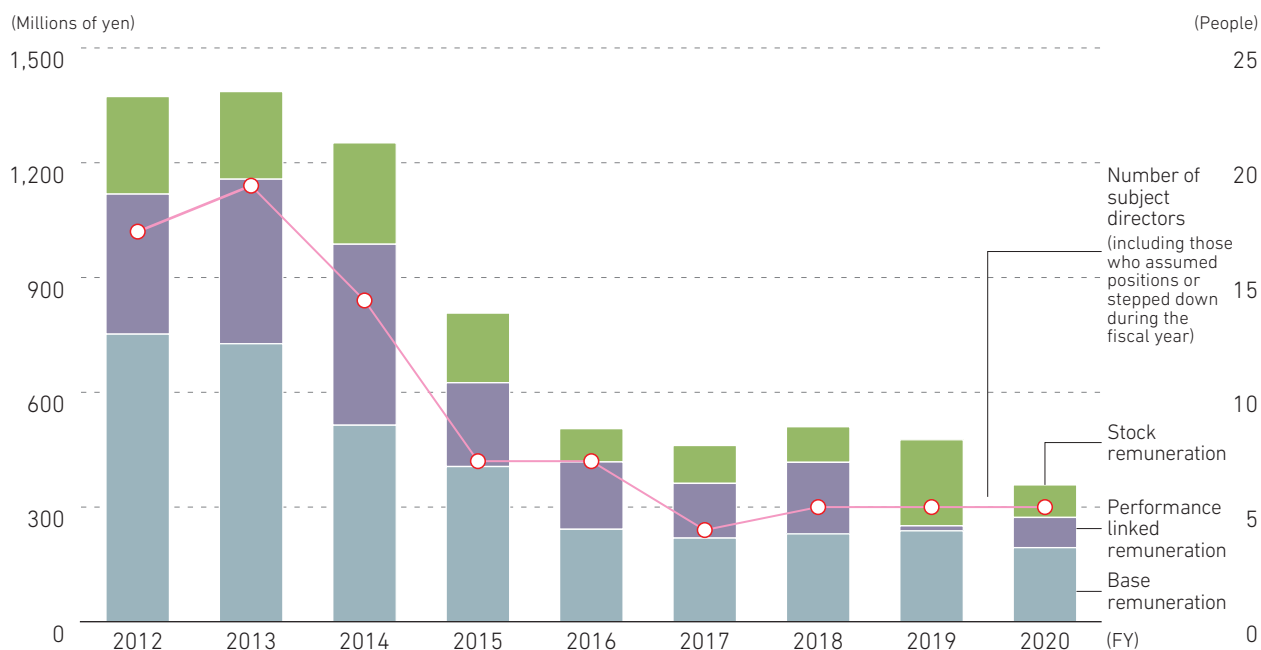
Performance-linked remuneration: $\text{Role-based payment coefficient} \times \text{Profit before income taxes for the given fiscal year} \div 10,000 \times \text{Coefficient of business results}$

- 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 \times Coefficient of business results

- As a general rule, directors receive MHI shares and cash in an amount equivalent to MHI shares' liquidation value three years after being granted 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))



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.

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► Remuneration of Directors (Fiscal 2020)

	Monetary remuneration				Stock remuneration		Total amount of remuneration (Millions of yen)
	Base remuneration		Performance-linked remuneration		People	Total amount (Millions of yen)	
Position	People	Total amount (Millions of yen)	People	Total amount (Millions of yen)			People
Directors who are not Audit and Supervisory Committee members	8	233	5	79	4	85	399
(Of which, outside directors)	(3)	(39)	(—)	(—)	(—)	(—)	(39)
Directors who are Audit and Supervisory Committee members	6	186	—	—	—	—	186
(Of which, outside directors)	(3)	(53)	(—)	(—)	(—)	(—)	(53)
Total	14	420	5	79	4	85	585
(Of which, outside directors)	(6)	(93)	(—)	(—)	(—)	(—)	(93)

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 2020.
- 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 376,000 stock award points granted in total during fiscal 2020 (equivalent to 37,600 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 annually reassesses all strategic shareholdings from multiple standpoints, including their compatibility with the Group's business strategies, their actual or prospective role in creating or expanding business opportunities, their returns, and strengthening of the Group's business relationship with their issuer. 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 September 2020. As the result of the verification, some stocks were confirmed the decreased importance of the expected purpose. In terms of economic rationale, 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 11 individual stocks in FY2020 (8 stocks sold entirely, and 3 stocks sold partially).

► Balance of shareholdings / number of individual stocks

