

## CORPORATE GOVERNANCE

### Fundamental Policy

Committed to the ethos of customer first, MHI conducts its business activities as a responsible corporate citizen based on consideration for all stakeholders.

MHI is implementing a number of initiatives to enhance management efficiency and strengthen compliance, including reforming the management system to allow faster, more effective decision-making in response to radical changes in the economic environment, and promoting fair and sound management. MHI is also working to make management more transparent by disclosing information rapidly and accurately to shareholders and other external stakeholders.

### Corporate Governance Initiatives

#### Corporate Governance Framework

MHI is a company with a Board of Statutory Auditors. The Board of Directors makes important management decisions and oversees the execution of business operations. Statutory auditors oversee the execution of director duties by attending meetings of the Board of Directors and other key meetings.

As of June 21, 2012, of the Company's 19 directors, 3 are from outside MHI. Through receiving valuable opinions and frank comments from outside directors concerning the management of the Company, MHI works to strengthen the management oversight functions. Additionally, MHI has established an Executive Committee to provide a forum for discussing important matters related to business execution. This allows for a more cohesive approach to discussion as part of the operational execution framework centered on the President, and consequently leads to more appropriate management decisions and business execution.

MHI overhauled its corporate governance framework in June 2005 to improve the soundness and transparency of management and increase efficiency and flexibility and it now implements this corporate governance framework. The main components of this reform included streamlining the Board of Directors while increasing the number of outside directors, shortening the terms of directors, and introducing an executive officer system. These modifications were aimed at enhancing the oversight functions of the Board of Directors and clearly

delineating the roles and responsibilities of directors and executive officers. Directors are responsible for general oversight of the Company's operations and making important business decisions, while executive officers are responsible for the day-to-day business and affairs of the Company.

#### Internal Audits

The Company has established a 30-member Management Audit Department, which conducts internal audits and evaluation of internal control related to financial reports to check the effectiveness of internal control systems.

As part of internal audits, each fiscal year the Management Audit Department formulates an internal audit policy, and the Management Audit Department, or the internal audit departments at each business site, conducts audits. The Management Audit Department also regularly receives reports from the internal control department concerning the status of compliance.

Concerning the internal control reporting system related to financial reports, the Company takes actions appropriately and, abiding by the Financial Instruments and Exchange Act, and as of March 31, 2012, the Company had obtained an evaluation result that the internal controls related to the company's financial reports were effective.

#### Statutory Auditors

The Company's Board of Statutory Auditors has five members, three of whom are outside appointments. In accordance with the auditing policy and auditing plan determined by the Board of Statutory Auditors, statutory auditors attend meetings of the Board of Directors, the Executive Committee and other key meetings related to business planning, enabling them to accurately assess the status of management in a timely manner. As part of the audit, statutory auditors make sure the execution of director duties complies 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 establishment and operation of internal control systems including those in relation to financial reporting.

In addition to regularly exchanging information and opinions with the Management Audit Department and accounting auditors, statutory auditors also work in close collaboration in other ways, including receiving audit results and being present for the auditing performed by the accounting auditors. The statutory auditors also regularly receive reports from the internal control department concerning the status of compliance, risk management and other activities. As a support to the statutory auditors, the Company has established a Statutory Auditors' Office with a dedicated six-member staff, which assists the statutory auditors in performing their duties more smoothly.

### Accounting Audits

MHI's accounting auditor is Ernst & Young ShinNihon LLC. Three of the firm's certified public accountants (designated and engagement partners) audit the Company's financial statements: Masayuki Ueda, Ichiro Ishii and Yoshiaki Morita.

None of these individuals have been continually auditing the Company's financial statements for longer than seven years.

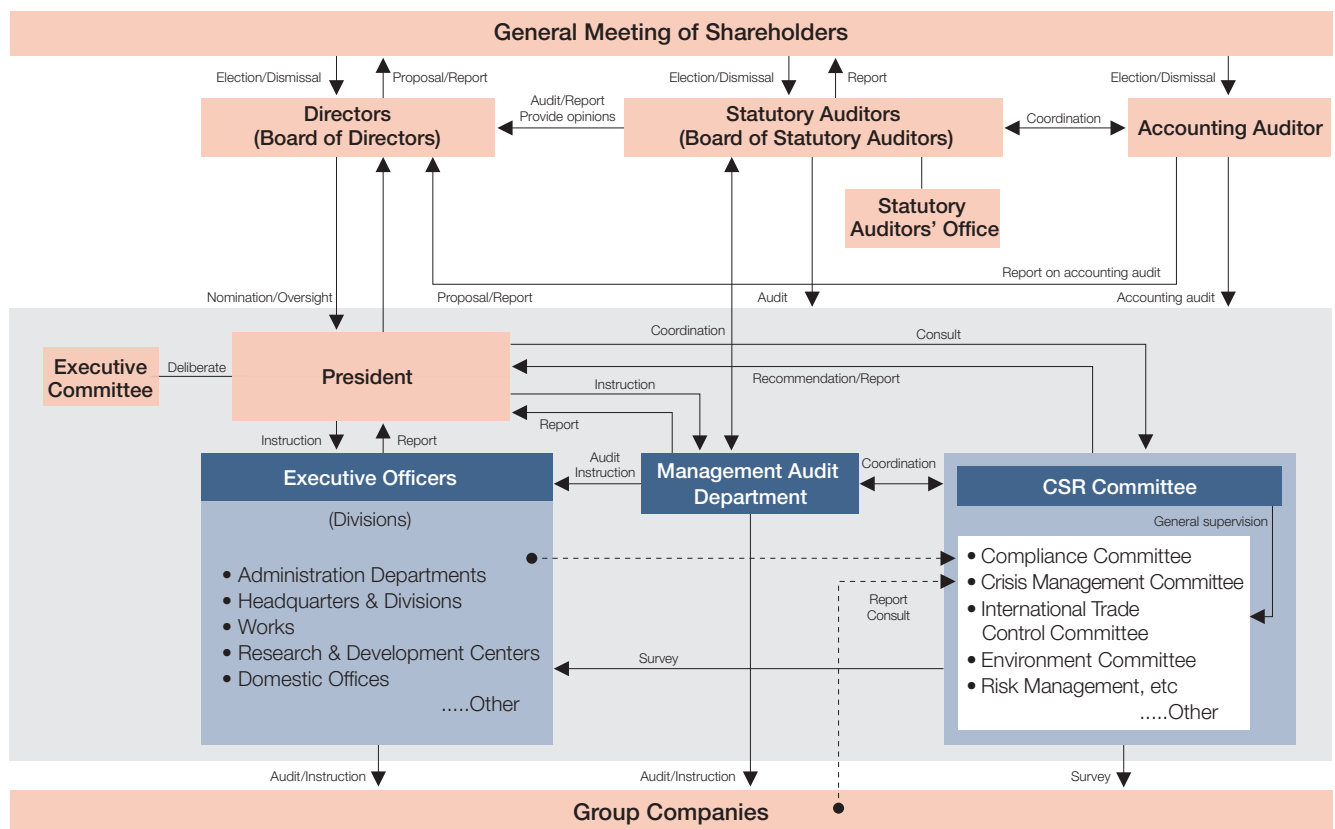
In addition to the above, the auditing team includes 16 other certified public accountants and 22 assistant accountants.

The accounting auditor regularly exchanges opinions with designated directors concerning initiatives and other matters related to corporate governance and compliance.

### Outside Directors and Outside Statutory Auditors

For the purpose of receiving advice and oversight of the Company's management from an objective standpoint not biased by an internal company perspective and based on abundant experience and broad knowledge as a corporate manager, government official or academic expert, three of the 19 directors elected (Mr. Yoshihiro Sakamoto, Mr. Yorihiro Kojima and Ms. Christina Ahmadjian) and three of the five statutory auditors elected (Mr. Kichisaburo Nomura, Mr. Nobuo Kuroyanagi

## Corporate Governance Structure (including internal control system) (as of April 1, 2012)



The "Report Concerning Corporate Governance" (Japanese only) submitted by MHI to the Tokyo Stock Exchange is available for viewing on the MHI corporate website.

<http://www.mhi.co.jp/company/governance/pdf/report20120621.pdf>

and Mr. Haruya Uehara) are from outside the Company.

The Company judges all of these outside directors and outside statutory auditors to be independent from its management team on the basis that there are no circumstances that compromise independence from the Company. Specifically, there are no personal relationships, capital relationships, trading relationships or other special interests between the individuals and the Company. In addition, there are no circumstances that compromise independence of these individuals from the Company as there are no personal relationships, capital relationships or significant trading relationships between companies to which these individuals currently belong or were employed with or belonged to. As a result, the Company has reported to the Tokyo Stock Exchange and other bourses that these individuals are independent officers.

Mr. Yoshihiro Sakamoto was nominated for the position of outside director since he will provide beneficial views and candid assessments on the management of MHI based on his extensive knowledge regarding industrial policies and corporate management gained through his experience as a government administrator and business manager; as such, he is expected to contribute to the improvement of sound and transparent decision-making processes at MHI.

Mr. Yorihiro Kojima was nominated for the position of outside director since he will provide beneficial views and candid assessments on the management of MHI based on his extensive experience as a business manager; as such, he is expected to contribute to the improvement of sound and transparent decision-making processes at MHI.

In addition, the Company and Mitsubishi Corporation, where Mr. Kojima is chairman, have relationships through outside directors. Specifically, Mitsubishi Corporation appointed MHI's chairman, Mr. Kazuo Tsukuda, as an outside director in 2008. In 2010, MHI appointed Mr. Kojima as an outside director. Both individuals still serve in those positions.

The Company has trading relationships with Mitsubishi Corporation, notably through sales of machinery and components and purchases of raw materials. Such trading volumes are minimal for both parties, however, so the Company deems that there are no impediments to Mr. Kojima making decisions on behalf of shareholders as an independent officer.

Ms. Christina Ahmadjian was nominated for the position of outside director since she has extensive knowledge as a researcher in the field of corporate governance and management. Based on this, she is expected to contribute to the improvement of sound and transparent decision-making processes at MHI by providing beneficial views and candid assessments from a global perspective on the management of MHI.

Mr. Kichisaburo Nomura was appointed as an outside statutory auditor in light of his beneficial views and candid assessments on the management of MHI based on his extensive experience as a business manager and MHI's desire that he contribute to ensuring the Company's sound and appropriate management.

The Company has a trading relationship, including for sales of machinery and components, with All Nippon Airways Co., Ltd., for which Mr. Nomura is a corporate advisor. Such trading volumes are minimal for both parties, however, so the Company deems that there are no impediments to Mr. Nomura making decisions on behalf of shareholders as an independent officer.

Mr. Nobuo Kuroyanagi was appointed as an outside statutory auditor in light of his beneficial views and candid assessments on the management of MHI based on his extensive experience as a business manager and MHI's desire that he contribute to ensuring the Company's sound and appropriate management.

The Company has a trading relationship, including through loans, with The Bank of Tokyo-Mitsubishi UFJ, Ltd., for which Mr. Kuroyanagi is a senior advisor. That bank, however, is only one of several major lenders for the Company, and would not significantly affect the Company's decision-making. As of the end of fiscal 2011, that bank accounted for about 22% of the Company's outstanding consolidated borrowings.

Mr. Haruya Uehara was appointed as an outside statutory auditor in light of his beneficial views and candid assessments on the management of MHI based on his extensive experience as a business manager and MHI's desire that he contribute to ensuring the Company's sound and appropriate management.

The Company has a trading relationship, including through loans, with Mitsubishi UFJ Trust and Banking Corporation, for which Mr. Uehara is a senior advisor. That bank, however, is

only one of several major lenders for the Company, and would not significantly affect the Company's decision-making. As of the end of fiscal 2011, that bank accounted for about 12% of the Company's outstanding consolidated borrowings.

All the outside directors and outside statutory auditors are independent from management and they supervise or audit management. In addition, at meetings of the Board of Directors, they receive reports of the status of 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. In particular, the outside statutory auditors shall regularly

exchange opinions with directors while conducting effective auditing through collaboration with the full-time statutory auditors, the internal audit department and the accounting auditor. In this way, the Company strives to ensure soundness and appropriateness of management.

In accordance with Article 423, Paragraph 1 of the Companies Act, the Company has entered into liability limitation agreements with each of its outside directors and outside statutory auditors, which provide a limitation on their liabilities to compensate for damages, the amount of which is the higher of ¥10 million or the minimum liability amount specified in Article 425, Paragraph 1 of the Companies Act.

## Attendance at Meetings of the Board of Directors and Board of Statutory Auditors

Category	Name	No. of Board of Directors meetings attended	No. of Board of Auditors meetings attended
Directors	Yoshihiro Sakamoto	14 of 14	—
	Yorihiko Kojima	12 of 14	—
Statutory Auditors	Kichisaburo Nomura	13 of 14	16 of 16
	Nobuo Kuroyanagi	10 of 14	14 of 16
	Haruya Uehara	8 of 10	8 of 10

Statutory auditor Haruya Uehara was elected on June 23, 2011 (date of the 86th Ordinary General Meeting of Shareholders). For this reason, the maximum number of meetings of the Board of Directors and Board of Statutory Auditors differs from that of other officers.

## Director and Statutory Auditor Compensation

Position	No. of Recipients	Amounts of Compensation by Category (In millions of yen)			Total Amount of Compensation (In millions of yen)
		Base Compensation	Performance-Linked Compensation	Stock Options	
Directors (Excluding Outside Directors)	23	707	285	217	1,210
Statutory Auditors (Excluding Outside Statutory Auditors)	3	70	22	—	93
Outside Directors and Statutory Auditors	7	80	—	—	80

- Notes 1. The recipients in the table include seven directors and two statutory auditors who retired during the fiscal year under review. Seven are stated under the classification "Directors (Excluding Outside Directors)" and one is stated under "Statutory Auditors (Excluding Outside Statutory Auditors)," with the remaining officer stated under "Outside Officers."
2. Amounts stated in performance-linked compensation include the difference between the amounts disclosed as compensation in the previous fiscal year (the estimated compensation) and the actual amounts paid.
3. Amounts stated as stock options include the cost associated with the accounting of stock acquisition rights issued in a so-called stock-linked compensation scheme.
4. The maximum permitted financial compensation amounts including both base and performance-linked compensations are ¥1,200 million per fiscal year for directors and ¥160 million per fiscal year for statutory auditors (resolution of the 81st Ordinary General Meeting of Shareholders on June 28, 2006).
5. The maximum permitted total issuance price for stock acquisition rights related to stock-linked stock options is ¥300 million per fiscal year for directors excluding outside directors (resolution of the 82nd Ordinary General Meeting of Shareholders on June 27, 2007).
6. The retirement allowance program has been abolished effective the conclusion of the 81st Ordinary General Meeting of Shareholders on June 28, 2006.
7. The amount stated in "Directors (Excluding Outside Directors)" includes compensation paid to director Kazuo Tsukuda and director Hideaki Omiya of ¥143 million (base compensation of ¥84 million, performance-linked compensation of ¥33 million, and stock options of ¥26 million) each. Note that there is no compensation, etc., paid to the two individuals as directors of major consolidated subsidiaries.

## Auditing Certified Public Accountant Compensation

(In millions of yen)

Category	Fiscal Year 2010		Fiscal Year 2011	
	Audit Attestation Duty-Based Compensation	Non-Audit-Based Compensation	Audit Attestation Duty-Based Compensation	Non-Audit-Based Compensation
MHI	185	33	185	77
Consolidated Subsidiaries	114	—	108	—
Total	300	33	294	77

- Note 1. In fiscal 2010, 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 ¥400 million for fiscal 2010 audit attestation duty-based compensation and non-audit-based compensation.
- In fiscal 2011, 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 ¥431 million for fiscal 2011 audit attestation duty-based compensation and non-audit-based compensation.

### Initiatives for Revitalizing the General Meeting of Shareholders and Making It Easier to Exercise Voting Rights

1. Sending out notices of general meetings of shareholders earlier  
 The Company sends out these notices three weeks before meeting dates, which is earlier than the statutory deadline.
2. Providing a copy of the notice in English (summary version)  
 Since the June 1999 General Meeting of Shareholders, the Company has produced and sent a notice in English (summary version).
3. Exercising voting rights online  
 Since the June 2004 General Meeting of Shareholders, the Company has enabled shareholders to vote online. Since the June 2007 General Meeting of Shareholders, we have maintained an online voting platform for institutional investors.
4. Website postings of information on shareholders' meetings  
 The Company posts notices of meetings and decisions from those meetings on our website. We also disclose videos of those meetings.

### Business Continuity Plan (BCP)

#### Basic Policies

The basic policies guiding the Company's business continuity plan (BCP) are as follows:

1. Top priority is to ensure human safety  
 The Company's top priority is to ensure the safety of employees, families, customers, business partners, and other people.
2. Ensure community safety  
 The Company prevents secondary disasters and other accidents, including spills of pollutants. We adhere strictly to rules to minimize industry and social impacts and endeavor to exist harmoniously with communities.
3. Swift business recovery  
 Through rapid startup of projects that help with urban infrastructure recovery or in maintaining defense, we will minimize the adverse impact of suspended operations and reputation risks on business.  
 We aim to recover crucial head office operations within two weeks, and will deploy key elements and resources to meet that target.

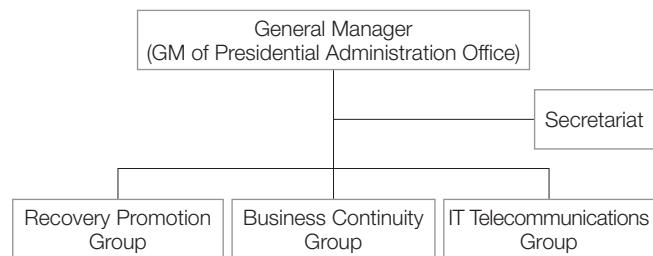
### Framework

Based on our standards for producing and managing guidelines for earthquake-related business continuity plans (BCPs), we are promoting the formulation of BCPs to cope specifically with major earthquakes at all business sites.

Our BCPs determine basic conduct for scenarios, and flexible decision-making and actions are necessary for events beyond the scope of assumptions. We will ensure that our programs are effective by providing ongoing education and training to employees.

The general manager of the Presidential Administration Office heads the BCP Headquarters at head office. To enhance its capacity to bolster business recovery efforts, the BCP Headquarters comprises the Recovery Promotion, Business Continuity, and IT Telecommunications groups.

#### BCP Headquarters Framework



### Compliance

#### Establishing the Compliance Section to Strengthen Our Ability to Respond to Crises

At MHI, enhanced systems and increased numbers of personnel are required so that we can further focus our attention on activities to prevent compliance violations, and also to respond promptly to letters we receive. In addition, reliable responses to the risks that surround MHI—such as the growing risk of cyber attacks through unauthorized network access—are becoming an increasingly important management issue. To that end, the Compliance Section was established inside the General Affairs Department on April 1, 2012.

#### Placing Persons Responsible for Compliance in All Departments and Group Companies

MHI's Compliance Committee was established in May 2001 to strictly observe applicable laws and social norms, and to promote fair and honest business practices. This committee is chaired by the director in charge of compliance, and its members consist of (1) senior general managers from relevant

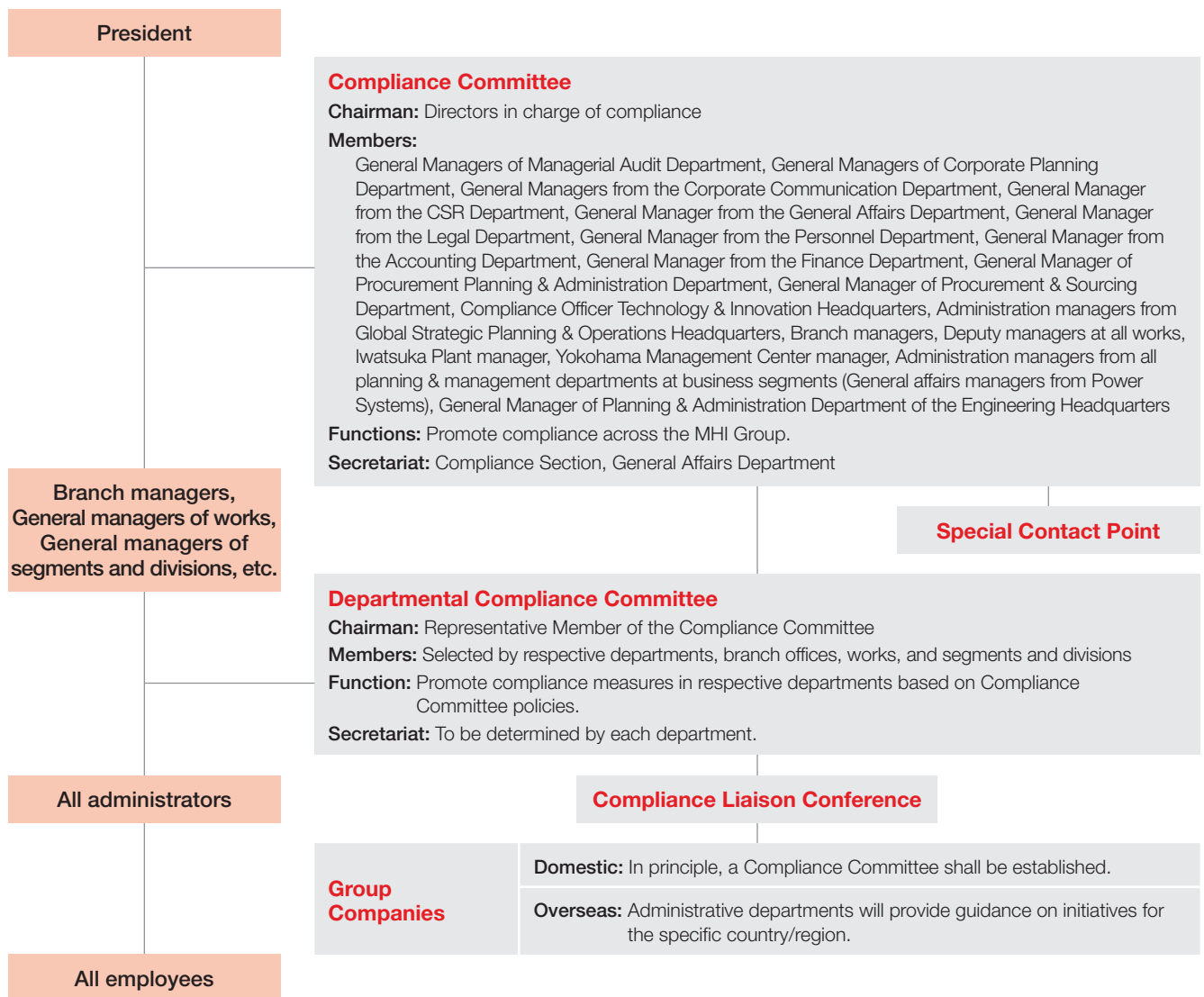
departments at the Head Office, (1) senior general managers, deputy heads of all works, and (2) directors/general managers from all Planning & Administration Departments at (3) business segments. The committee meets twice annually to draw up Company-wide compliance promotion plans, confirm progress, and engage in other activities.

In April 2006, Departmental Compliance Committees were established in all departments of the Company in order to strengthen compliance measures for each respective department. These committees are chaired by the department's respective member of the Compliance Committee. At the same time, Compliance Liaison Conferences were set up 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.

Based on the results of compliance awareness surveys and the participation rate for compliance promotion training sessions, in fiscal 2011 it was confirmed that compliance activities have become widespread and employee awareness of compliance has risen. It was also confirmed that appropriate measures are being taken, such as the inclusion of relevant themes in training sessions for issues that need improvement.

### Compliance Promotion System (as of April 1, 2012)



For more detailed information, please refer to the compliance page of MHI's corporate website.

<http://www.mhi.co.jp/en/csr/compliance/index.html>