

Governance

Pursuing Governance that Fosters Corporate Value Creation

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 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 engaging in various activities such as attending meetings of the Board of Directors and other key meetings.

As of June 26, 2013, three out of 19 directors are outside directors, while the male-to-female ratio is 18 to 1. MHI strives to enhance management oversight by seeking useful advice and objective criticism concerning the Company's management from its outside directors.

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 CEO, and consequently leads to more appropriate management decisions and business execution.

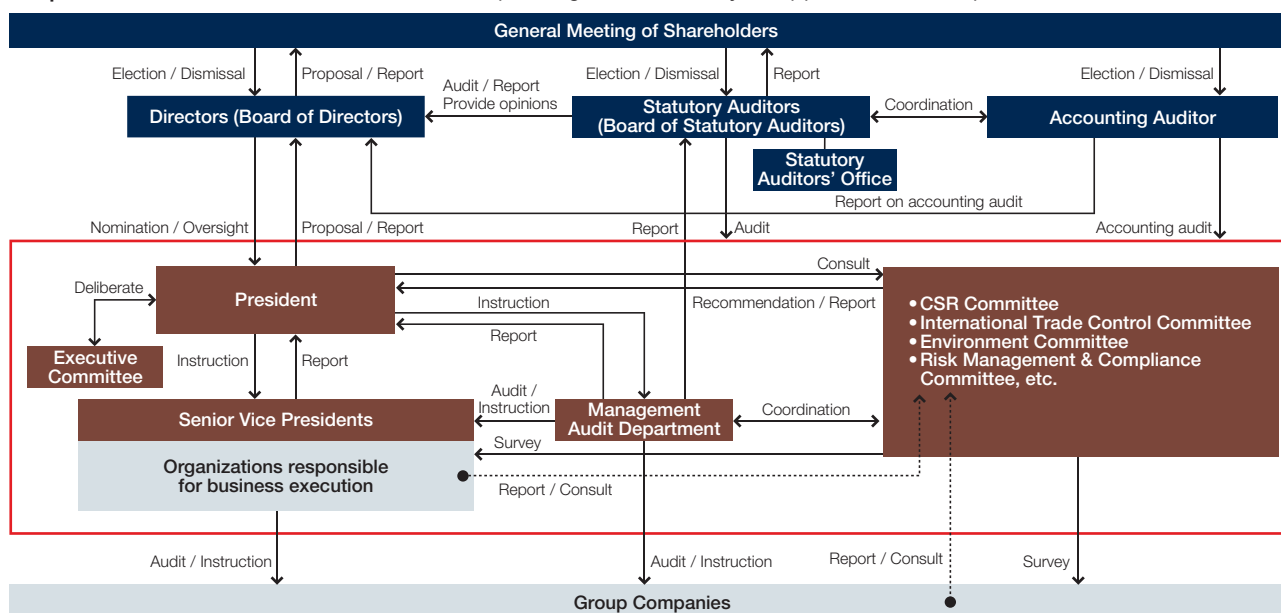
MHI overhauled its corporate governance framework in June 2005 to improve the soundness and transparency of management and increase efficiency and flexibility and it now implements this corporate governance framework. The main components of this reform included streamlining the Board of Directors while 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 Management Audit Department, which conducts internal audits and evaluation of internal control related to financial reports to check the effectiveness of internal control systems.

Internal audits are conducted annually by the Management Audit Department and as needed by internal control departments, which audit business operations within their jurisdiction. The

Corporate Governance Structure and Roles (including internal control systems) (as of June 26, 2013)



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/finance/library/governance/pdf/report20130626.pdf>

Management Audit Department also regularly receives reports from internal control departments and shares information with them whenever necessary concerning the status of internal control.

Concerning the internal control reporting system related to financial reports, the Company takes actions appropriately and, abiding by the Financial Instruments and Exchange Act, the Company had, as of March 31, 2013, 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 (as of June 26, 2013). 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 receive reports from the internal control department and other departments concerning the status of compliance, risk management and other activities on a regular basis and individually. To support the statutory auditors, the Company has established a Statutory Auditors' Office with a dedicated staff (seven members as of June 26, 2013), which assists the statutory auditors in performing their duties more smoothly.

Accounting Audits

MHI's accounting auditor is Ernst & Young ShinNihon LLC. Four of the firm's certified public accountants (designated and engagement partners) audit the Company's financial statements: Koichiro Watanabe, 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.

On January 28, 2013, Masayuki Ueda resigned from his position as a designated and engagement partner, and on March 26, 2013, Koichiro Watanabe assumed a position as a designated and engagement partner.

In addition to the above, the auditing team includes 15 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.

Changes Made in Recent Years to Improve Corporate Governance

June 2005	Outside director position added	1 → 2 directors
	Outside statutory auditor position added	2 → 3 auditors
	Board of Directors streamlined	28 → 17 directors (currently 19)
	Director term shortened	2 yrs. → 1 yr.
	Executive officer system introduced	Management oversight / decision-making and business execution split into two separate roles
	Internal Auditing Department established	Internal control enhanced in operational management reform aimed at confirming internally the "appropriateness and efficiency of operations"
June 2006	Director retirement allowance abolished	Switched to compensation tied to company performance, including monthly salary, stock options, and bonuses
June 2007	Outside director position added	2 → 3 directors
April 2011	Organization changed to business segments system	Integration of business operation strengthened, responsibilities clarified, and decision-making sped up
	Internal Auditing Department reorganized and strengthened into Management Audit Department	Audits of management and product quality control processes added to existing operational auditing functions; risk management functions enhanced

Governance

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 and three of the five statutory auditors elected are from outside the Company (as of June 26, 2013).

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.

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.

Reason for Appointment to Outside Director

Yorihiko Kojima

Mr. Yorihiko 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.

Christina Ahmadjian

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.

Hiroki Tsuda

Mr. Hiroki Tsuda was appointed to the position of outside director because of the extensive knowledge of fiscal and financial policy he has acquired as a government administrator and researcher. Based on this, he is expected to contribute to the improvement of sound and transparent decision-making processes at MHI by providing helpful advice and objective criticism on the management of MHI.

Reason for Appointment to Outside Statutory Auditor

Nobuo Kuroyanagi

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.

Haruya Uehara

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.

Shinichiro Ito

Mr. Shinichiro Ito was appointed to the position of outside statutory auditor because of his extensive experience as a business manager and other skills he brings to the table. He is expected to contribute to the sound and appropriate management of MHI through the provision of helpful advice and objective criticism.

Attendance at Meetings of the Board of Directors and Board of Statutory Auditors (FY2012)

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	—
	Christina Ahmadjian*	9 of 10	—
Statutory Auditors	Kichisaburo Nomura	13 of 14	14 of 15
	Nobuo Kuroyanagi	10 of 14	13 of 15
	Haruya Uehara	14 of 14	15 of 15

* The number of meetings attended by Christina Ahmadjian, director, differs from that of other directors as she assumed her position on June 21, 2012 (at the 87th Ordinary General Meeting of Shareholders).

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)	17	752	366	255	1,374
Statutory Auditors (Excluding Outside Statutory Auditors)	3	70	29	—	99
Outside Directors and Statutory Auditors	7	80	—	—	80

Notes

- The recipients in the table include two directors and one statutory auditor who retired during the fiscal year under review. One is 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."
- 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.
- 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.
- 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).
- 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).

Auditing Certified Public Accountant Compensation

Category	Fiscal Year 2011		Fiscal Year 2012	
	Audit Attestation Duty-Based Compensation (In millions of yen)	Non-Audit-Based Compensation (In millions of yen)	Audit Attestation Duty-Based Compensation (In millions of yen)	Non-Audit-Based Compensation (In millions of yen)
MHI	185	77	185	63
Consolidated Subsidiaries	108	—	120	—
Total	294	77	306	63

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. In fiscal 2012, 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 ¥466 million for fiscal 2012 audit attestation duty-based compensation and non-audit-based compensation.

Governance

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.

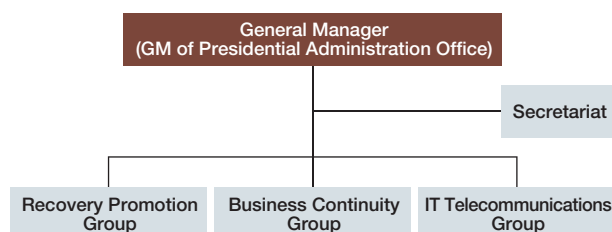
Framework

Based on our standards for producing and managing guidelines for earthquake-related business continuity plans (BCPs), we are formulating BCPs to cope specifically with major earthquakes at all business sites, and deploying these BCPs at all MHI Group companies.

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



Disclosure Principles and IR Activities

Promoting IR Activities to Facilitate a Detailed Understanding of Our Business

Through investor relations (IR), MHI strives to keep institutional and individual investors in Japan and around the world fully informed of the activities of the company.

The Corporate Communication Department, set up for the sole purpose of managing investor relations, provides useful and up-to-date information as well as briefings and meetings designed to provide opportunities for direct communication. Comments and suggestions from these meetings are incorporated into future IR programs.

Providing Accurate Information Online that Is Easy to Understand

MHI releases information in accordance with laws and regulations as mandated by the exchanges on which the Company is listed. In addition, information is constantly being updated on the Investor Relations section of the website. In an effort to communicate information that is accurate and easy-to-understand, the website also features a range of useful information and data that is not required by laws and regulations, along with charts and explanations of securities terminology. There are also videos of the General Meeting of Shareholders and other meetings such as financial results briefings and meetings on business operations for the benefit of institutional investors and analysts.

Compliance

Strengthening Crisis-Prevention and Response Capabilities Related to Compliance

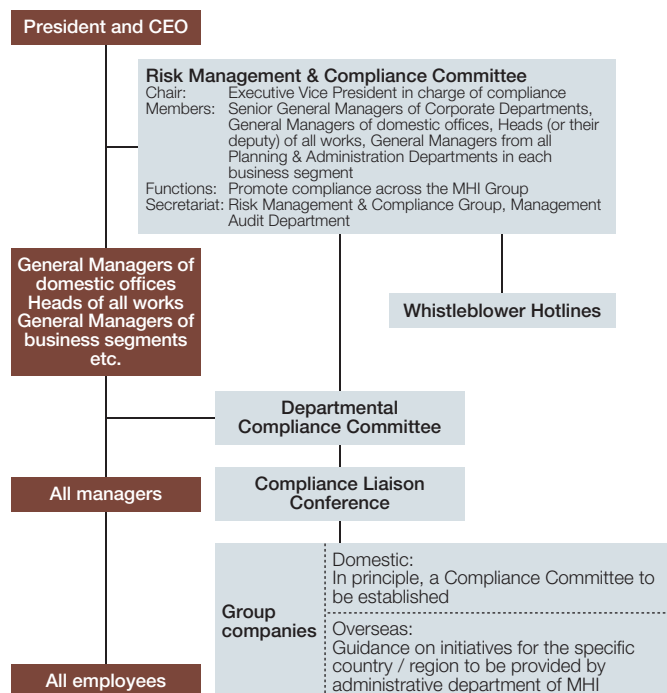
To further focus our attention on preventing compliance violations and responding promptly to whistle-blowing, in October 2012 we transferred compliance-related tasks from the General Affairs Department to the Management Audit Department, thus better positioning ourselves to centrally manage activities aimed at identifying, averting, and reducing risks before a crisis occurs.

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 (altered to the Risk Management & Compliance Committee in December 2012). This committee is chaired by the Executive Vice President in charge of compliance, and its members consist of senior general managers from relevant departments at the Head Office, general managers of domestic offices, heads of all works, and general managers from all Planning & Administration Departments at 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 member of the Risk Management & Compliance Committee in each department. 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.

Compliance Promotion System (as of April 1, 2013)



Recent Actions to Promote Compliance

FY2001	<ul style="list-style-type: none"> Established the Compliance Committee Opened an internal whistleblower hotline
FY2003	<ul style="list-style-type: none"> Began compliance training
FY2004	<ul style="list-style-type: none"> Began a measurement of levels of compliance awareness
FY2005	<ul style="list-style-type: none"> Established the Order Compliance Committee
FY2006	<ul style="list-style-type: none"> Established departmental compliance committees and a Compliance Liaison Conference
FY2007	<ul style="list-style-type: none"> Formulated "Compliance Promotion Regulation" in the Company rules Distributed a "Compliance Guidelines" pamphlet to all employees
FY2011	<ul style="list-style-type: none"> Opened an external whistleblower hotline to further promote compliance with anti-trust laws Formulated company rules in response to more stringent anti-bribery regulations in the U.K.
FY2012	<ul style="list-style-type: none"> Set up a Compliance Group in the Management Audit Department (Compliance Section in the General Affairs Department was transferred) Established the Risk Management & Compliance Committee as a company-wide organization

Governance

CSR and Environmental Management Promotion System

CSR Promotion System

In October 2006, the Company set up the CSR Committee, chaired by the President, and the CSR Department, which reports directly to the President, in order to strengthen CSR-oriented management. Following further organizational reforms in April 2011, in October 2012 these functions were moved to the Corporate Communication Department of the Presidential Administration Office in order to consolidate CSR, public relations, advertising, IR, and other stakeholder communication functions and thus promote more business-integrated CSR activities. Business-integrated CSR activities are those that not only use products and technologies to contribute to the resolution of environmental and other social issues but also prevent or reduce negative impact and increase positive impact on society via efforts to address social issues in all business processes.

The CSR Committee, which holds sessions twice yearly, sets policies for tackling social issues and also sets and focuses on six themes regarding important activity initiatives in areas such as the globalization of CSR activities and Funds for Community Engagement.

Going forward, we will work to build a more effective organizational framework and further promote CSR activities through their integration with business management.

Environmental Management Promotion System

The Environmental Committee, chaired by the director in charge of the environment, sets out the company-wide annual environmental program. Decisions are conveyed to the entire Company and all Group companies. Environmental Committees established at each works and business segments promote policies and conduct environmental management corresponding to the specific features of each works and business segments. In addition, Environmental Liaison Conferences for individuals in charge of the environment at the Head Office, each works and business segments, along with Energy Conservation Liaison Conferences, where energy and CO₂ reduction measures are discussed, are held. Furthermore, an Energy Conservation Sectional Meeting and Waste Management Information Exchange Meeting, comprising section heads and subordinates from each works and business segments, are convened.

Environmental Management Structure (as of April 1, 2013)

