

# Reinforcing Corporate Governance with a View to Sustainable Growth

In June 2005, MHI launched proactive corporate governance reforms to enhance soundness and transparency as well as efficiency and maneuverability. We will introduce governance measures on an ongoing basis as appropriate to our aim, as a truly global company, of earning the trust of a wide range of stakeholders and continuing to grow while responding to changes in the operating environment.

## Recent Corporate Governance Reforms

2005 Increased the number of outside directors from one to two and outside statutory auditors from two to three **A**

Reduced the number of directors from 28 to 17 **B**

Shortened the term of office for directors from two years to one

Introduced an executive officer system, splitting management oversight / decision making and business execution into two separate roles

Established the Internal Audit Department and strengthened internal controls

2006 Abolished the system of director retirement allowances, switching to compensation tied to Company performance, including monthly salary, stock options, and bonuses

2007 Increased the number of outside directors from two to three **A**

2011 Transitioned to the Business Headquarters Structure, clarifying responsibilities and speeding up decision making through the integration of business operations

Established the Management Audit Department by reorganizing and strengthening the Internal Audit Department, enhancing audits of management and product quality control processes of existing operational auditing functions and risk management functions

2013 Consolidated and restructured the nine Business Headquarters, transitioning to the Business Domain Structure **C**

Reorganized the management audit, accounting, procurement, IT, and other functions at individual works, placing them under direct Head Office control, thereby enhancing corporate functions and making them more efficient

2014 Introduced the Chief Officer System **D**  
Reduced the number of representative directors to six **B**

Decreased the number of directors to 12, raising the ratio of outside directors to 25% **A**

## A Enhancing the Management Decision-Making and Supervisory Functions

Increasing the Ratio of Outside Directors (June 30, 2004 → June 30, 2014)

4% (One of 28) ⇒ 25% (Three of 12)

Management risks have increased and grown more diverse as our business has become more global. In response, we enhanced the Board of Directors' decision-making and supervisory functions capabilities, as well as bolstered management transparency, by leveraging the specialties and knowledge of outside directors.

## B Increasing the Flexibility and Transparency of Decision Making

Slimming the Board of Directors  
(June 30, 2004 → June 30, 2014)

28 ⇒ 12 directors

Reducing the Number of Representative Directors  
(June 30, 2004 → June 30, 2014)

11 ⇒ 6 directors

We are reducing the number of directors with a view toward a highly efficient and transparent management system. We have also revised our thinking on the granting of representative status. Accordingly, we have made the chairman of the Board of Directors a non-representative position, with the chairman focused on supervising business execution by chairing the Board, thereby reducing the total number of representative directors.

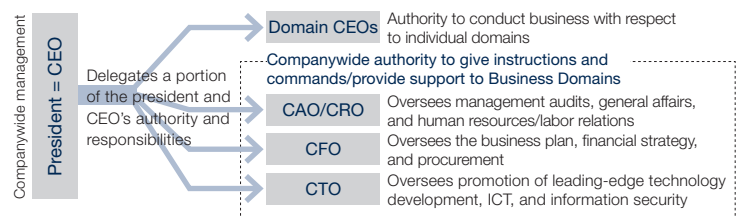
## C Utilizing Management Resources More Flexibly and Producing Synergies

9 Business Headquarters ⇒ 4 Business Domains

In 2011, MHI went from a matrix structure of Business Headquarters and Works, integrating into the Business Headquarters Structure. From 2013 to 2014, we consolidated and restructured, transitioning to the Business Domain Structure based on such perspectives as customers and market characteristics, and creating individual domains capable of competing in global markets.

## D Separating Roles in and Clarifying Corporate Functions

Introduction of the Chief Officer System



By introducing the Chief Officer System, we aim to clarify authority and responsibilities, further reinforce governance, and strengthen and raise the efficiency of business support for domains.

Enhanced Soundness and Transparency,  
Efficiency, and Maneuverability

## Interview with an Outside Director

We asked one of our outside directors, Christina Ahmadjian, who specializes in corporate governance, to share with us her impressions about governance at MHI and the issues that we need to address as we work to enhance our corporate value.



**Christina Ahmadjian**

Professor of Hitotsubashi University  
Graduate School of Commerce and Management  
Outside Director

Ms. Ahmadjian specializes in such research themes as corporate governance, globalization, and capitalist systems. Following a position as Assistant Professor at the Columbia University Graduate School of Business, she joined the faculty at Hitotsubashi University, where she currently lectures. Ms. Ahmadjian has also held positions at U.S. and Japanese companies.

### Impression of MHI

To tell the truth, my impression of MHI was that of an “old Japanese company.” But when I met Chairman Omiya (at that time, president), I began to think that maybe I had been mistaken. When I actually joined the Board, my impression of the Company changed when I realized that MHI does operate strategically and from a global perspective. I was particularly surprised when I first heard about MHI’s business integration with the thermal power generation systems of Hitachi, Ltd. That’s not the sort of decision a typical Japanese company makes.

With regard to governance, I think we have made steady progress since I was first appointed two years ago. At first, the numerous people attending Board meetings, the detailed level of execution, and the technical topics were a little overwhelming. Recently, though, the Company has reduced the number of directors and introduced a Chief Officer System, and the talk has turned toward deliberations that befit a Board of Directors, such as global strategy and human resources, risk management, and IT.

As an outside director, I feel that I receive materials and briefings as necessary and support several days prior to Board of Directors’ meetings to fill in gaps in my knowledge. During Board meetings, as well, I sense that the opinions of outside directors and outside statutory auditors are taken into serious consideration, rather than ignored.

In terms of governance—and this may seem to be trivializing recent issues involving outside directors—I think the actual system itself is a problem. In particular, if management does not have much of an interest in corporate value, it really doesn’t matter how many outside directors a company has. I think governance at MHI functions largely due to the acute awareness that President Miyanaga has shown. MHI’s high levels of ROE for a Japanese manufacturer attest to this success.

### Issues to Address in Enhancing Corporate Value

The direction we are currently moving is appropriate; above all, we must maintain our course. As we do so, I see several points that we need to focus on if we are to win out amid the global competition.

The first item is to secure global human resources, meaning both Japanese employees who are global-minded and overseas employees. Diversity, along with the inclusion of women, will be a key focus. Unless the Company can succeed in this area, competing with global mega-players is likely to be difficult.

I would also say that progress on accelerating decision-making speed is too slow. While MHI is spending time on consensus-building, global competitors will have already made their decisions and will be moving forward.

From a corporate governance standpoint, I would suggest incorporating perspectives gained over a broader experience base. To this end, I recommend increasing the number of outside directors who are non-Japanese managers as well as Japanese managers who have extensive management experience overseas.

### Roles I Would Like to Play

Although this is hard for somebody with ties to the Company to say, I believe that the role being asked of me as an outside director is to speak frankly and encourage deliberation on points that concern me. Japanese culture tends to eschew divergent opinion; that is precisely the reason why outside directors need to adopt the vantage point of shareholders, overseas employees, and a host of other stakeholders. The experience that the Company gains in responding to the questions of outside directors serves as a sort of training in external accountability. In many cases, overseas audiences require specific explanations. Success in this area is linked with the globalization of MHI’s corporate culture. Naturally, I will continue to offer advice proactively in line with my university research theme: global human resources.

### 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.

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. In addition, MHI has established various committees to ensure thorough risk management and compliance.

### Outside Directors and Outside Statutory Auditors

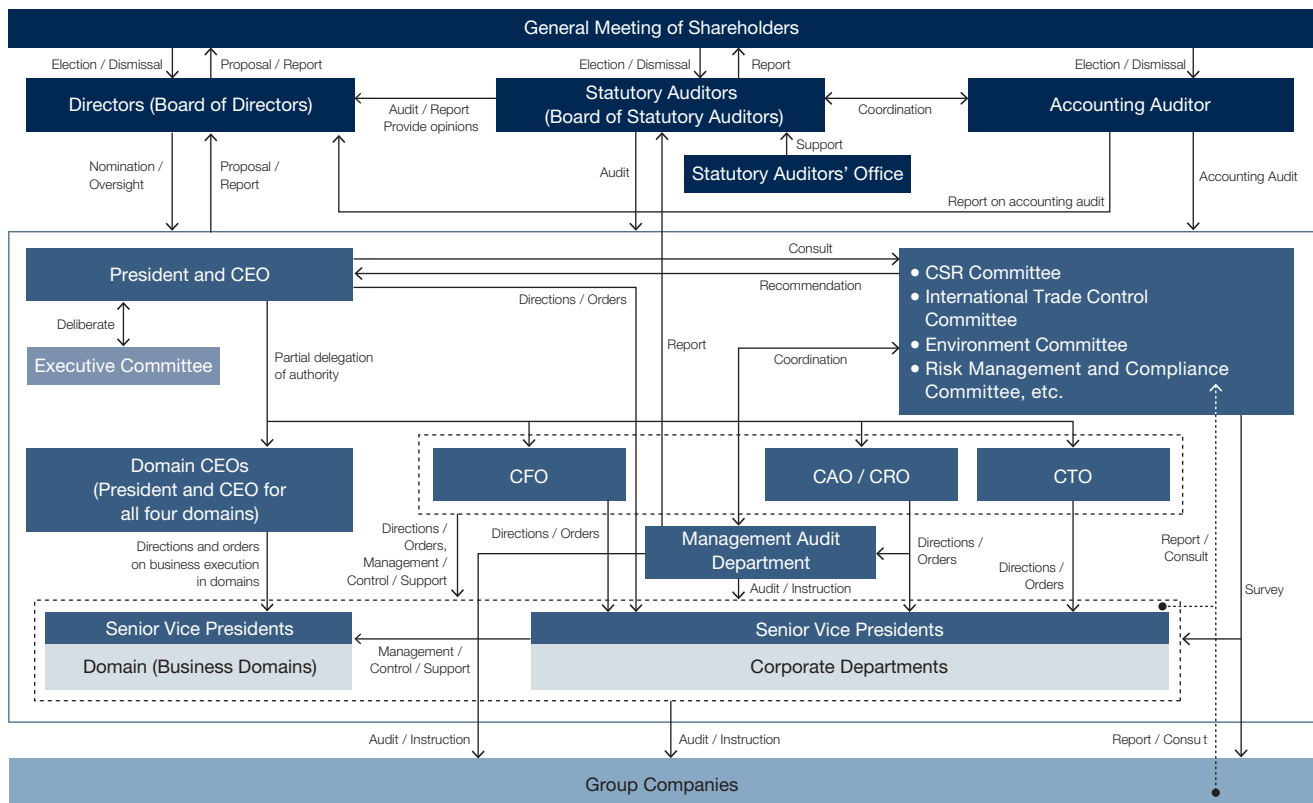
For the purpose of receiving advice and oversight of the Company’s management from an objective standpoint not biased by an internal company perspective and based on abundant experience and broad knowledge as a corporate manager, government official, or academic expert, three of the

12 directors elected and three of the five statutory auditors elected are from outside the Company (as of June 26, 2014).

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 the 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 directors/statutory auditors.

All the outside directors and outside statutory auditors are independent from management and 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

Corporate Governance Structure and Roles (Including Internal Control Systems) (As of June 26, 2014)



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/report20140626.pdf>

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.

Dedicated personnel have been assigned to serve as a Board of Directors' secretariat, supporting outside directors

### Outside Directors

#### Yorihiko Kojima

Chairman of the Board of Mitsubishi Corporation

##### Reason for Appointment:

Mr. Kojima was nominated for the position of outside director since he can 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.

**Board of Directors' Meetings in FY2013 Attended:** 12 of 18

#### Christina Ahmadjian

Professor of Hitotsubashi University Graduate School of Commerce and Management

##### Reason for Appointment:

Ms. 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 her background, 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.

**Board of Directors' Meetings in FY2013 Attended:** 18 of 18

#### Hiroki Tsuda

Former Administrative Vice Minister of Finance

##### Reason for Appointment:

Mr. 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 Company's management.

**Board of Directors' Meetings in FY2013 Attended:** 13 of 13<sup>\*1</sup>

<sup>\*1</sup> The number of meetings attended by Hiroki Tsuda, director, differs from that of other directors as he assumed his position on June 26, 2013 (at the 88th Ordinary General Meeting of Shareholders).  
<sup>\*2</sup> The number of meetings attended by Shinichiro Ito, statutory auditor, differs from that of other statutory auditors as he assumed his position on June 26, 2013 (at the 88th Ordinary General Meeting of Shareholders).

## Director and Statutory Auditor Compensation

Position	No. of Recipients	Amount of Compensation by Category (Millions of yen)			Total Amount of Compensation (Millions of yen)
		Base Compensation	Performance-Linked Compensation	Stock Options	
Directors (Excluding Outside Directors)	19	727	430	229	1,387
Statutory Auditors (Excluding Outside Statutory Auditors)	2	70	47	—	118
Outside Directors and Statutory Auditors	8	74	—	—	74

#### Notes:

- The recipients in the table include six directors and one statutory auditor who retired during fiscal 2013. Five are stated under the classification "Directors (Excluding Outside Directors)" and two are stated under "Outside Officers."
- Amounts stated in performance-linked compensation include the difference between the amounts disclosed as estimated compensation in the previous fiscal year and the total amounts paid. During the year under review, this amount for directors, excluding outside directors, was ¥22 million. For statutory auditors, excluding outside auditors, this amount was ¥1 million.
- 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 amount for directors, including base and performance-linked compensation, is ¥1,200 million per fiscal year (resolution of the 81st Ordinary General Meeting of Shareholders, on June 28, 2006). The maximum amount of stock acquisition rights that may be issued per fiscal year for directors, excluding outside directors, is ¥300 million (resolution of the 82nd Ordinary General Meeting of Shareholders, on June 27, 2007).
- The maximum permitted financial compensation amount for statutory auditors, including base and performance-linked compensation, is ¥160 million per fiscal year (resolution of the 81st Ordinary General Meeting of Shareholders, on June 28, 2006).

and outside statutory auditors. This team provides materials prior to Board of Directors' meetings to ensure that outside officers are thoroughly briefed on important matters. A Statutory Auditors' Officers Office has also been established and is staffed with dedicated personnel to support statutory auditors in their auditing tasks, thereby helping to ensure that these tasks are performed smoothly.

### Outside Statutory Auditors

#### Nobuo Kuroyanagi

Senior Advisor, The Bank of Tokyo-Mitsubishi UFJ, Ltd.

##### Reason for Appointment:

Mr. 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.

**Board of Directors' Meetings in FY2013 Attended:** 14 of 18  
**Board of Auditors' Meetings in FY2013 Attended:** 14 of 15

#### Haruya Uehara

Senior Advisor of Mitsubishi UFJ Trust and Banking Corporation

##### Reason for Appointment:

Mr. 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.

**Board of Directors' Meetings in FY2013 Attended:** 17 of 18  
**Board of Auditors' Meetings in FY2013 Attended:** 15 of 15

#### Shinichiro Ito

President & Chief Executive Officer, ANA Holdings Inc.;  
 Chairman of the Board, All Nippon Airways Co., Ltd.

##### Reason for Appointment:

Mr. Ito 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.

**Board of Directors' Meetings in FY2013 Attended:** 11 of 13<sup>\*2</sup>  
**Board of Auditors' Meetings in FY2013 Attended:** 10 of 10<sup>\*2</sup>

## Auditing Certified Public Accountant Compensation

Category	Fiscal Year 2012		Fiscal Year 2013	
	Audit Attestation Duty-Based Compensation (Millions of yen)	Non-Audit-Based Compensation (Millions of yen)	Audit Attestation Duty-Based Compensation (Millions of yen)	Non-Audit-Based Compensation (Millions of yen)
MHI	185	63	187	24
Consolidated Subsidiaries	120	—	170	—
Total	306	63	358	24

### Notes:

- 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.
- In fiscal 2013, 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 ¥786 million for fiscal 2013 audit attestation duty-based compensation and non-audit-based compensation.

## Disclosure and IR Activities

MHI works to make management more transparent by disclosing information rapidly and accurately to shareholders and other external stakeholders.

### For Shareholders

We distribute General Meeting of Shareholders' convocation notices earlier than the statutory deadline (of two weeks prior to convocation). We also prepare English-language summaries of these notices, which we distribute and publish on our website. We have made the exercise of voting rights electronic, and institutional investors can make use of a platform for the electronic exercise of voting rights.

### For Investors

MHI takes the initiative in creating opportunities to communicate directly with investors and promote an understanding of the Company. The chart below indicates activities we conducted in fiscal 2013.

We are augmenting website content and working to disclose information promptly. In the interest of fair disclosure, we provide videos of meetings, including the General Meeting of Shareholders, financial results briefings, and meetings on business operations, for the benefit of institutional investors and analysts. We have received awards from research companies and IR services firms giving high marks to our Web-based IR activities.

### Promoting Dialogue with Investors in Fiscal 2013

For individual investors	<ul style="list-style-type: none"> <li>Participated in seminars sponsored by securities firms and conducted our own briefing sessions: 15 times, in total</li> </ul>
For analysts and institutional investors	<ul style="list-style-type: none"> <li>Financial results briefings: Four times each quarter (At year-end financial results briefings, the president explains the state of progress on the medium-term business plan.)</li> <li>Small meetings: Once</li> <li>Factory tours: Twice</li> </ul>
For overseas institutional investors	<ul style="list-style-type: none"> <li>Generally visit Europe, the United States, and Asia semi-annually</li> <li>Participated in conferences in Japan for foreign investors: Four times</li> </ul>

## Risk Management

During fiscal 2013, the General Manager of the Management Audit Department held discussions with the heads of business segments and administrative departments. Together, they identified important risks and strengthened companywide risk control activities in response. They also introduced and operated a risk management system that combines controls centered on voluntary management and assessments by process owners\* and monitoring by the Management Audit Department.

"Serious management risks" were identified that need to be managed at a senior-management level because of their major

impact on the management operation of the Company or an emergency response is required, and a corporate director was assigned to oversee their control.

In fiscal 2014, we will follow this same risk management cycle, but due to the fiscal 2014 transition to the Business Domain Structure and our adoption of the Chief Officer System, this process will take place under the direction of the chief administrative officer / chief risk officer (CAO/CRO). We will review the response to risks important to domains, strengthening management by making the chain of responsibility clearer.

\* Organizations and/or persons responsible for establishing and executing risk management mechanisms for individual business functions

## Compliance

The Management Audit Department centrally manages activities aimed at identifying, averting, and reducing risks before a crisis occurs. The Risk Management & Compliance Committee meets twice annually to draw up companywide compliance promotion plans, confirm progress, and engage in

other activities. Individual departments have their own compliance committees, which is intended to strengthen compliance at the departmental level. A Compliance Liaison Conference is also in place for regularly exchanging compliance information with Group companies.

Compliance Promotion System (As of April 1, 2014)



### Recent Actions to Promote Compliance

FY2001	<ul style="list-style-type: none"> <li>■ Established the Compliance Committee</li> <li>■ Opened an internal whistleblower hotline</li> </ul>
FY2003	<ul style="list-style-type: none"> <li>■ Began compliance training (undertaken by 97% in FY2013)</li> </ul>
FY2004	<ul style="list-style-type: none"> <li>■ Began measurement of compliance awareness levels</li> </ul>
FY2005	<ul style="list-style-type: none"> <li>■ Established the Order Compliance Committee</li> </ul>
FY2006	<ul style="list-style-type: none"> <li>■ Established departmental compliance committees and a Compliance Liaison Conference</li> </ul>
FY2007	<ul style="list-style-type: none"> <li>■ Formulated "Compliance Promotion Regulation" in the Company rules</li> <li>■ Distributed a "Compliance Guidelines" pamphlet to all employees</li> </ul>
FY2011	<ul style="list-style-type: none"> <li>■ Opened an external whistleblower hotline to further promote compliance with anti-trust laws</li> <li>■ Formulated Company rules in response to more stringent anti-bribery regulations in the U.K.</li> </ul>
FY2012	<ul style="list-style-type: none"> <li>■ Set up a Compliance Group in the Management Audit Department (Compliance Section in the General Affairs Department was transferred)</li> <li>■ Established the Risk Management &amp; Compliance Committee as a companywide organization</li> </ul>
FY2014	<ul style="list-style-type: none"> <li>■ Established the Risk Solutions Department</li> <li>■ Appointed a chief administrative officer / chief risk officer (CAO/CRO)</li> </ul>