

Establishing Corporate Governance Appropriate to a Global Enterprise

Enhancing corporate governance to a level appropriate to a truly global company is necessary to enable the MHI Group to win out over competitors in the global market and ensure trust among its stakeholders. MHI is therefore conducting ongoing reforms to its corporate governance aimed at improving the soundness and transparency of management, as well as the efficiency and flexibility of business execution.

MATERIAL ISSUE 1

► An Optimal Governance Structure Based on Our Corporate Culture

Recent Corporate Governance Reforms

Internal control and governance	Business execution and executive and compensation systems	Composition and other information concerning directors and statutory auditors
<p>2005</p> <ul style="list-style-type: none"> Established the Internal Audit Department <p>2006</p> <ul style="list-style-type: none"> Established departmental compliance committees and a Compliance Liaison Conference <p>2007</p> <ul style="list-style-type: none"> Formulated "Compliance Promotion Regulations" in the Company rules <p>2011</p> <ul style="list-style-type: none"> Established the Management Audit Department by reorganizing and strengthening the Internal Audit Department Opened an external whistleblower hotline <p>2012</p> <ul style="list-style-type: none"> Integrated the Risk Management Committee and the Compliance Committee (established in 2001), forming the Risk Management & Compliance Committee <p>2013</p> <ul style="list-style-type: none"> Established the Business Compliance Committee <p>2014</p> <ul style="list-style-type: none"> Established the Risk Solution Department Appointed a chief administrative officer / chief risk officer (CAO/CRO) <p>2015</p> <ul style="list-style-type: none"> Enacted the MHI Group Global Code of Conduct Integrated the Risk Management & Compliance Committee and the Business Compliance Committee to form the Compliance Committee 	<p>2005</p> <ul style="list-style-type: none"> Shortened the term of office for directors from two years to one Introduced an executive officer system <p>2006</p> <ul style="list-style-type: none"> Abolished the system of director retirement allowances and bonuses, switching to compensation tied to Company performance, including monthly salary, stock options, and bonuses Introduced a stock option system for directors, except outside directors <p>2011</p> <ul style="list-style-type: none"> Integrated a matrix structure of Business Headquarters and Works into the Business Headquarters Structure <p>2013</p> <ul style="list-style-type: none"> Restructured and reinforced the corporate divisions Consolidated and restructured the nine Business Headquarters, transitioning to the Business Domain Structure (full transition by April 2014) <p>2014</p> <ul style="list-style-type: none"> Introduced the Chief Officer System <p>2015</p> <ul style="list-style-type: none"> Abolished stock options and introduced a new stock compensation system for directors (excluding outside directors and directors who are Audit and Supervisory Committee members) and executive officers (Directors who are Audit and Supervisory Committee members receive base compensation only.) Formulated the Corporate Governance Guidelines of MHI 	<p>2005</p> <ul style="list-style-type: none"> Increased the number of outside directors from one to two and outside statutory auditors from two to three Reduced the number of directors from 28 to 17 <p>2007</p> <ul style="list-style-type: none"> Increased the number of outside directors from two to three <p>2014</p> <ul style="list-style-type: none"> Reduced the number of representative directors from 12 to 6 Decreased the number of directors from 17 to 12 <p>2015</p> <ul style="list-style-type: none"> Shifted to a company with an Audit and Supervisory Committee. Directors now number 14, including five Audit and Supervisory Committee members. (Prior to the transition, the Board of Directors comprised 17 members, including statutory auditors.) Three of the five outside directors are Audit and Supervisory Committee members. (This increased the ratio of outside directors to one-third or more.)

► Response to the Corporate Governance Code

The Tokyo Stock Exchange adopted the Corporate Governance Code in June 2015. MHI believes this code is in keeping with the level of governance befitting the global enterprise the Company aims to become and will contribute to its greater sophistication in governance. Consequently, we will fundamentally comply with the principles provided in the code.

Furthermore, we are taking the introduction of this code as an opportunity to ensure our stakeholders' understanding of our stance on corporate governance. We have formulated Corporate Governance Guidelines of MHI encompassing our corporate governance efforts. These guidelines were approved at a Board of Directors meeting in August 2015 and are publicized on our website. Establishing MHI's basic framework

and stance on corporate governance, the guidelines aim to contribute to the Company's sustainable growth and increase in long-term corporate value. The guidelines comprise the following items.

- General Provisions
- Corporate Philosophy and Management Strategy
- Dialog and Relationship with Stakeholders
 - Basic Policy
 - Dialog and Relationship with Shareholders and Investors
 - Dialog and Relationship with Employees
 - Feedback to Internal Staff and Management
- Board of Directors
- Outside Directors
- Audit and Supervisory Committee

Corporate Governance Guidelines of MHI are provided on our website.

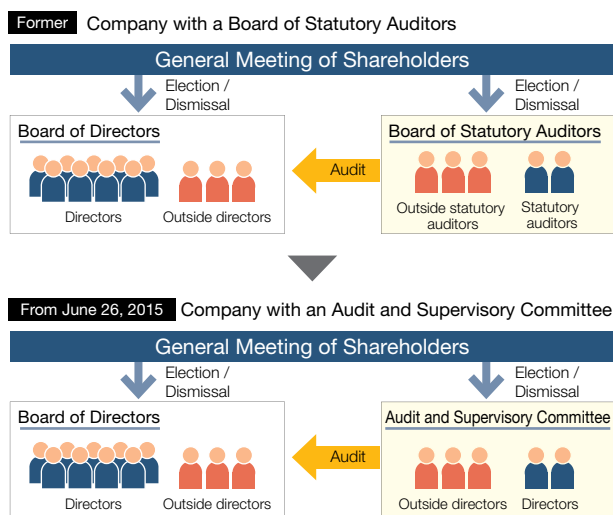
 http://www.mhi-global.com/company/aboutmhi/governance/pdf/corporate_governance.pdf

► FOCUS

Transition to a “Company with an Audit and Supervisory Committee”

Essentials of a Company with an Audit and Supervisory Committee

- 1 The Audit and Supervisory Committee, comprising three or more directors, of whom a majority are outside directors, is established.
- 2 Audit and Supervisory Committee members shall have the same voting rights as Board of Directors.
- 3 The Audit and Supervisory Committee may state opinions on the election, dismissal, remuneration, or resignation of directors who are not Audit and Supervisory Committee members at the General Meeting of Shareholders.
- 4 If provided in the Articles of Incorporation, a company with an Audit and Supervisory Committee may, by resolution of the Board of Directors, delegate all or part of decisions regarding execution of important operations to the directors.



To date, MHI has undertaken a variety of initiatives to consistently enhance the quality of its corporate governance. However, in order to rank competitively with the megaplayers in the global market, we believe that enhancing our ability to execute business efficiently and flexibly through swifter decision making is required, as is further strengthening the oversight of business execution. For these reasons, at the 90th Ordinary General Meeting of Shareholders on June 26, 2015, we transitioned to a company with an Audit and Supervisory Committee.

If provided in its Articles of Incorporation, a company with an Audit and Supervisory Committee may delegate to directors all or part of decisions regarding execution of important operations by resolution of the Board of Directors. This approach enables swifter decision making and enhances the flexibility of business execution, while also strengthening the Board of Directors' oversight of business execution (separating the business execution and supervisory functions). At its first meeting following its shift to a company with an Audit and Supervisory Committee, MHI's Board of Directors resolved to delegate decision making to the president, except for legally stipulated decisions and particularly important matters of business execution.

MHI has defined “promoting global-standard corporate governance and management processes” as one of the basic policies of its 2015 Medium-Term Business Plan. Going forward, we will continue working to increase transparency and proactively undertake measures that contribute to establishing a Japanese-style global management system that embraces both diversity and harmony.

Message from a Full-time Audit and Supervisory Committee Member

I intend to contribute to further expansion of the Company's corporate value.

After serving for three years as MHI's statutory auditor, in June I became a member of the Board of Directors and a full-time member of the Company's new Audit and Supervisory Committee.

Insofar as my auditing role is concerned, I believe that this shift in position does not engender any major changes in my approach to auditing. However, I also believe that there is a need to flexibly respond to the Company's organizational reforms of recent years by, at times, changing my approach and way of thinking while carrying out my monitoring and verifying duties. Auditing methods themselves, however, are now undergoing changes following MHI's reorganization into a system of four business domains, replacing the earlier works-based management system adopted for many years, and the growing number of Group companies effectively under independent management, which includes, for example, large business corporations, overseas companies that have become part of the Group through mergers or acquisitions, and subsidiaries listed on the stock markets.

Accordingly, my intention is to strengthen and entrust most of the routine auditing procedures to the Management Audit Department; have the Audit and Supervisory Committee focus on issues of relatively high importance based on the department's findings; further strengthen cooperation with financial auditors and internal auditors, including supervision performed by outside auditors; and promote links with the statutory auditors of Group companies. The new Audit and Supervisory Committee today takes on a new role: exercising its right to express views concerning the election, dismissal, and resignation of directors and remuneration. Given the supreme importance of these two issues in terms of achieving sound auditing and supervision, full attention must be given to establishing methods for exercising the committee's authority. Also, although with the

current reforms there is no longer a need to approve resolutions on individual matters of business execution at Board of Directors meetings, information on business execution matters that should be shared must be coordinated, since all members of the Board have supervisory responsibilities.

Personally, I believe that going forward, continuing to focus on compliance and preventing impairment of MHI's corporate value will be of paramount importance, but at the same time I think I have a vital duty to help build up our corporate value further. In that respect, I believe that sharing Company information of the type I have knowledge of because of my full-time status, seeking the perspicacious views of our outside directors, and reflecting their opinions in Company management will make a major contribution to the enhancement of MHI's audit and supervisory functions.



Eiji Isu

Member of the Board and
Full-time Member of the
Audit and Supervisory
Committee

► Corporate Governance Framework

MHI transitioned to a company with an Audit and Supervisory Committee by approval at the Ordinary General Meeting of Shareholders in June 2015. Of the 14 directors (of whom five are Audit and Supervisory Committee members), five (of whom three are Audit and Supervisory Committee members) are appointed from outside the Company. MHI strives to enhance management oversight by seeking useful advice and objective criticism concerning the Company's management from its outside directors.

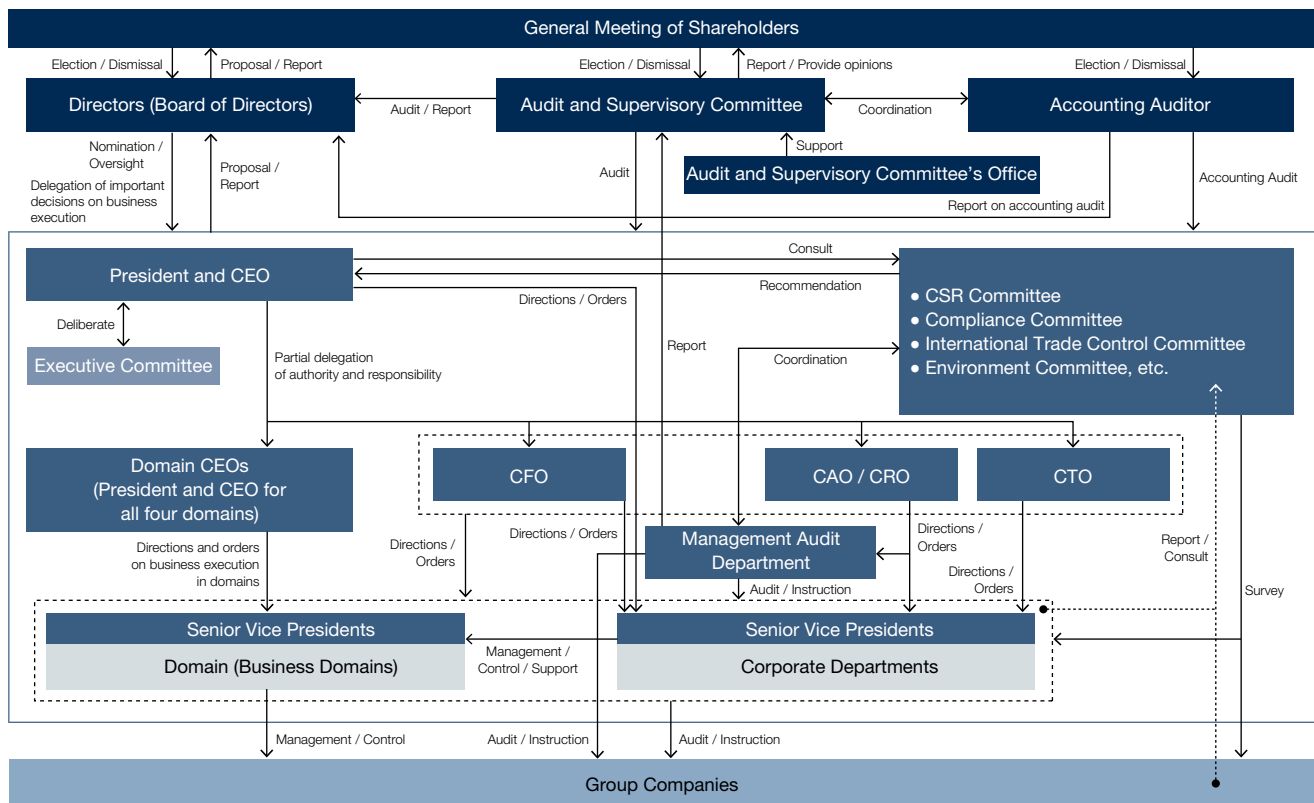
As provided in the Company's Articles of Incorporation, in accordance with a resolution by the Board of Directors, the Company delegates important decisions on business execution to the President and CEO.*¹ In addition to facilitating swift decision making and flexible business execution, this arrangement enables the Board of Directors to focus on its role of supervising business execution.

MHI introduced a chief officer system in April 2014. Under this system, the CEO (President and CEO) delegates part of his authority and responsibilities to various chief officers, including the Domain CEOs (President and CEO for each of the domains),

the CFO,*² CAO/CRO,*³ and the CTO.*⁴ Under this arrangement, the CEO takes charge of overall business strategies and issue-response initiatives, and the Domain CEOs take control of executing businesses within their individual domains based on overall Group strategies. The CFO takes charge of finance, accounting and procurement, and sourcing, including management planning; the CAO/CRO handles administration, including management audit, general affairs, legal affairs, personnel, and risk management; and the CTO handles technology, innovation, and information and communication technologies. In addition, the CFO, CAO/CRO, and CTO have companywide authority to give instructions and commands and provide support to business domains.

In this business execution structure that focuses on the CEO (President and CEO) and other chief officers, the Executive Committee has been established as a forum for discussing important matters related to business execution. This move allows for a more cohesive approach to discussion as part of the operational execution framework and consequently leads to more appropriate management decisions and business execution.

Corporate Governance Structure and Roles (Including Internal Control Systems) (As of June 26, 2015)



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

The Company's Audit and Supervisory Committee is composed of five directors, of whom a majority of three are outside directors. To ensure the effectiveness of the Audit and Supervisory Committee's activities, two full-time members of the Audit and Supervisory Committee are mutually selected by the committee's members. The full-time members of the Audit and Supervisory Committee attend meetings of 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, Audit and Supervisory Committee members make sure the execution of directors' duties comply 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 the establishment and operation of internal control systems, including those in relation to

financial reporting. Furthermore, one member of the Audit and Supervisory Committee has extensive knowledge of finance and accounting from many years of business experience in the accounting and finance departments.

The Audit and Supervisory Committee periodically exchanges information and opinions with the Management Audit Department and accounting auditors, and it collaborates closely with them in other ways, including receiving audit results and attending accounting audits. Audit and Supervisory Committee members 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 auditing activities, an 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.

*1. CEO: Chief Executive Officer

*2. CFO: Chief Financial Officer

*3. CAO/CRO: Chief Administrative Officer/Chief Risk Officer

*4. CTO: Chief Technology Officer

► Outside Directors

MHI has appointed five outside directors (three of whom are Audit and Supervisory Board members) in the expectation that they will contribute to the improvement of sound and transparent decision-making processes by providing beneficial views and candid assessments on the Company's management. The Company judges all its outside directors and the companies in which they serve or have served as executives or employees to be free of personal relationships, capital relationships, trading relationships involving particularly large amounts of money, or other conditions that would impair their independence. Accordingly, the Company has notified the Tokyo Stock Exchange and other listed financial instrument exchanges that these members are independent executives. Corporate Governance Guidelines of MHI formulated and made public in August 2015 establish new standards for independence exceeding those provided by the financial instrument

exchanges, and the Company judges all its outside directors to be independent according to these standards as well.

All the outside directors are independent from management and supervise or audit management. At meetings of the Board of Directors, they receive reports of the status of the 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 addition, outside directors who are Audit and Supervisory Committee members regularly exchange opinions with directors who are not Audit and Supervisory Committee members while conducting effective auditing through collaboration with the full-time Audit and Supervisory Committee members, the internal audit department, and the accounting auditor.

Message from the Outside Directors

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Outside Directors

Yorihiko Kojima

Chairman of the Board, Mitsubishi Corporation

Reason for appointment

Extensive experience as a business manager

Naoyuki Shinohara

Professor, The University of Tokyo, Policy Alternatives Research Institute (Former Deputy Managing Director of the International Monetary Fund (IMF))

Reason for appointment

A wide range of insights related to financial policy gained as a regulator and a global perspective gained as an executive of an international institution

Outside Audit and Supervisory Committee Members

Nobuo Kuroyanagi

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

Reason for appointment

Extensive experience as a business manager

Christina Ahmadjian

Professor, Hitotsubashi University Graduate School of Commerce and Management

Reason for appointment

Extensive knowledge and global viewpoint regarding the field of corporate governance and management acquired through her experience as a researcher

Shinichiro Ito

Chairman of the Board, ANA Holdings Inc.

Reason for appointment

Extensive experience as a business manager

► Fiscal 2014 in Review

Major Activities of Outside Directors and Outside Statutory Auditors

Position	Name	Board of Directors meetings attended	Position	Name	Board of Directors meetings attended	Board of Statutory Auditors meetings attended
Directors	Yorihiko Kojima	13 of 15	Statutory auditors	Nobuo Kuroyanagi	12 of 15	16 of 18
	Christina Ahmadjian	15 of 15		Haruya Uehara	15 of 15	18 of 18
	Hiroki Tsuda	14 of 15		Shinichiro Ito	14 of 15	18 of 18

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)	14	514	473	265	1,253
Statutory auditors (excluding outside statutory auditors)	2	70	53	—	124
Outside directors and statutory auditors	6	72	—	—	72

Notes: 1. The recipients in the table include six directors who retired during fiscal 2014. They are stated under the classification "Directors (excluding outside directors)."

2. 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.

3. 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).

4. 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).

Auditing Certified Public Accountant Compensation

Category	Audit attestation duty-based compensation (millions of yen)	Non-audit-based compensation (millions of yen)
MHI	191	44
Consolidated subsidiaries	223	—
Total	414	44

Note: In fiscal 2014, 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 ¥1,266 million for fiscal 2014 audit attestation duty-based compensation and non-audit-based compensation.

Promoting Dialogue with Investors

For individual investors

- Participated in seminars sponsored by securities firms and conducted our own briefing sessions: 14 times, in total

For analysts and institutional investors

- Financial results briefings: Once each quarter (At year-end financial results briefings, the president explains the state of progress on the Medium-Term Business Plan.)
- Small meetings: Twice
- Factory tours: Twice

For overseas institutional investors

- Generally visit Europe, the United States, and Asia semi-annually
- Participated in conferences in Japan for foreign investors: Three times

► Compliance


MHI's Compliance Committee was established in 2001 to strictly observe applicable laws and social norms and to promote fair and honest business practices. This committee was recast as the Risk Management & Compliance Committee in December 2012. While accelerating the globalization of MHI Group business activities to reinforce its compliance activities, in April 2015 MHI integrated the Risk Management & Compliance Committee, which was charged with promoting risk management and overall compliance, with the Business Compliance Committee, which promoted compliance with antitrust/anti-bribery laws and the Construction Business Act, into the Compliance Committee. Chaired by the CAO/CRO, Compliance Committee members consist of senior general managers of Corporate Departments, the general manager of the Oil & Gas Business Development Department, and general managers from all administration departments in each headquarters and business domain. The committee meets twice annually to draw up companywide compliance promotion plans, confirm progress, and engage in other activities.

Departmental Compliance Committees have been established in all departments of the Company to strengthen compliance measures for each respective department. These committees are chaired by the member of the Compliance

Committee in each department. At the same time, Compliance Liaison Conferences are in place 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.

Furthermore, in May 2015 the Company advanced the MHI Compliance Principles set forth in 2001 by formulating the MHI Group Global Code of Conduct. As a global company, MHI employs thousands of individuals from different backgrounds, nationalities, and cultures. This diversity of talent and perspectives is one of our greatest assets. At the same time, however, MHI as a company must operate with a single corporate culture that enables it to compete successfully in the global market while maintaining its reputation as a company of high integrity and ethics. The Code of Conduct describes how MHI employees should conduct themselves.

Please visit our website for more detailed information concerning our compliance system and initiatives.

 <http://www.mhi-global.com/company/csr/esg/governance/compliance/compliance02.html>