

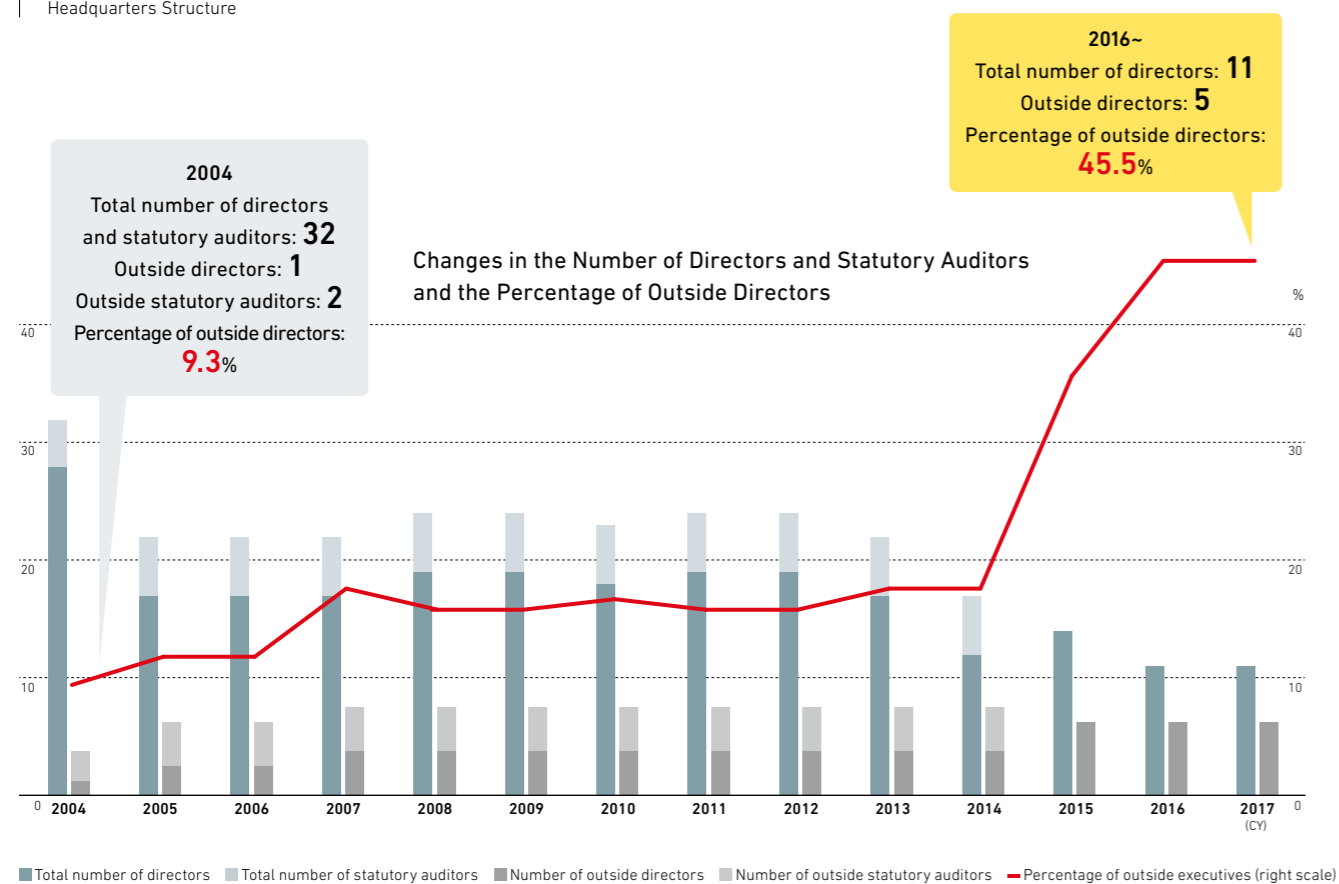
CORPORATE GOVERNANCE

Basic Approach

As a company responsible for developing the infrastructure that forms the foundation of society, MHI's basic policy is to execute management in consideration of all stakeholders and strive to enhance corporate governance on an ongoing basis in pursuit of sustained growth of MHI Group and improvement of its corporate value in the medium and long terms. In accordance with this basic policy, MHI endeavors to improve its management system, such as by enhancing its management oversight function through the separation of management oversight and execution and the inclusion of outside directors, and develop "Japanese-style global management," focusing on the improvement of the soundness and transparency of its management as well as on diversity and harmony.

Recent Corporate Governance Reforms

- 2005**
 - Shortened the term of office for directors from two years to one
 - Introduced an executive officer system
 - 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
- 2006**
 - Abolished the system of director retirement allowances and bonuses, switching to system of monthly remuneration and performance-linked remuneration
 - Introduced a stock option system for directors, except outside directors
- 2007**
 - Increased the number of outside directors from two to three
- 2011**
 - Integrated a matrix structure of Business Headquarters and Works into the Business Headquarters Structure
- 2013**
 - Consolidated and restructured the nine Business Headquarters, transitioning to the Business Domain Structure (full transition by April 2014)
- 2014**
 - Introduced the Chief Officer System [Page 49](#)
 - Reduced the number of representative directors from 12 to six
 - Decreased the number of directors from 17 to 12
- 2015**
 - MHI transitioned to a company with an Audit and Supervisory Committee. The number of directors was reduced to 14, including five Audit and Supervisory Committee members. (Prior to the transition, the Board of Directors comprised 17 members, including the statutory auditors.) The number of outside directors was set at five, including three Audit and Supervisory Committee members. [Page 49](#)
- 2016**
 - Abolished stock options and introduced a new stock remuneration system for directors (excluding outside directors and directors who are serving as Audit and Supervisory Committee members) and executive officers. (Directors who are Audit and Supervisory Committee members receive base remuneration only.)
 - Formulated the Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.
- 2017**
 - Restructuring into three business domains
- 2016**
 - Established the Nomination and Remuneration Meeting [Page 50](#)
 - Reduced the number of directors from 14 to 11 (with the number of outside directors remaining constant at five)
 - Board Evaluation of Board of Directors effectiveness



Outside Directors

The Company has five outside directors (of whom three are Audit and Supervisory Committee members). Outside directors are expected to enhance the soundness and transparency of the Company's management decision-making by providing beneficial views and candid assessments on the Company's management from an objective standpoint that is not biased by an internal company perspective. These individuals have diverse backgrounds in such areas as corporate management, public finance, and corporate governance.

Each of the outside directors meets MHI's independence criteria for outside directors.* Accordingly, the Company judges all outside directors to be independent from its management team and has reported them as independent directors to the Tokyo Stock Exchange and other financial instruments exchanges in Japan.

All the outside directors are independent from management and supervise or audit management. At meetings of the Board of Directors, they receive reports on 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. The Audit and Supervisory Committee, a majority of whose members are outside directors, also conducts audits in collaboration with the Internal Audit Department, Management Audit Department, and accounting auditor. In addition, the Audit and Supervisory Committee shares information about the status of audits with outside directors who are not serving as Audit and Supervisory Committee members.

* Indicated in the Corporate Governance Guidelines of Mitsubishi Heavy Industries, Ltd.

Principal Activities of Outside Directors

Naoyuki Shinohara

Attended 14 of 14 meetings of the Board of Directors in fiscal 2016

Ken Kobayashi

Attended 9 of 10 meetings of the Board of Directors in fiscal 2016

Principal Activities of Outside Directors (Audit and Supervisory Committee Members)

Nobuo Kuroyanagi

13 of 14 meetings of the Board of Directors in fiscal 2016
16 of 17 meetings of the Audit and Supervisory Committee in fiscal 2016

Christina Ahmadjian

13 of 14 meetings of the Board of Directors in fiscal 2016
15 of 17 meetings of the Audit and Supervisory Committee in fiscal 2016

Shinichiro Ito

13 of 14 meetings of the Board of Directors in fiscal 2016
15 of 17 meetings of the Audit and Supervisory Committee in fiscal 2016

Board Evaluation

MHI took the enactment of Japan's Corporate Governance Code as an opportunity to analyze and evaluate the effectiveness each year of the overall Board of Directors. We seek to increase the effectiveness of the Board of Directors and ensure it is substantially fulfilling its duty of accountability to shareholders by verifying the overall effectiveness and role of the Board of Directors. In fiscal 2016, this evaluation was conducted as follows.

Key Points of Analysis and Evaluation

- Composition of the Board of Directors
- Operation of the Board of Directors
- Supervisory function performed by the Board of Directors
- Support system for outside directors

Evaluation Process

- Self-evaluation by all directors using a questionnaire survey
- Opinion exchanges in meetings among independent outside directors
- Deliberation at the Board of Directors based on questionnaire results
- Following the above, Board of Directors resolution based on the results of the Board of Directors evaluation

Evaluation Results

The Board of Directors confirms it functioned effectively in fiscal 2016

Initiatives Targeting Principal Issues Recognized in Fiscal 2015

- Ongoing consideration regarding the selection of agenda items for the Board of Directors of a company with an Audit and Supervisory Committee
- Decentralization of agenda items based on the proposed annual schedule for the Board of Directors, sending Board of Directors materials in advance
- Providing and operating an information environment in which outside directors have access to basic management data at all times

Principal Issues Recognized in Fiscal 2016 and Future Initiatives

- To ensure a more effective Board of Directors supervisory function, expand opportunities for training on changes in the environment and MHI's initiatives in response
- Enhance deliberations at the Board of Directors by providing more extensive materials in advance
- Strengthen the Board of Directors supervisory function by setting agenda items appropriately as a company with an Audit and Supervisory Committee
- Expand opportunities for communication among outside directors