Sustainability at Mitsubishi Electric Group

G: Governance

Corporate Governance

Basic Corporate Governance Policy

While maintaining the flexibility of its operations and promoting management transparency, Mitsubishi Electric, as a Company with Three-committee System, works to strengthen the supervisory functions of management with the goal of realizing sustained growth. Our fundamental policy is to build and improve a corporate structure that is more able to meet the expectations of society, customers, shareholders, employees and all of its stakeholders while endeavoring to further increase corporate value.

Corporate Management Structure

In June 2003, Mitsubishi Electric became a Company with Three-committee System. Key to this structure is the separation of supervisory and executive functions: the Board of Directors plays a supervisory decision-making role and Executive Officers handle the day-to-day running of the Company.

A salient characteristic of Mitsubishi Electric’s management structure is that the roles of Chairman of the Board, who heads the supervisory function, and the President & CEO, who is head of all Executive Officers, are clearly separated. Additionally, neither is included among the members of the Nomination and Compensation Committees. The clear division of supervisory and executive functions allows the Company to ensure effective corporate governance.

The present Board of Directors is comprised of twelve members (five of whom are Outside Directors, one of whom is a woman), who objectively supervise and advise the Company’s management by executing their duties based on the objectives and authority of the Companies Act. The resolution of the Board of Directors is made by the Directors in accordance with the Companies Act.

Committees to support directors. The Audit Committee is supported by dedicated Executive Officers.

Internal Control System

For the execution of the duties of the Audit Committee, its independence is secured by assigning employees whose job is exclusively to assist the Audit Committee members.

A system for reporting to the Audit Committee is developed to report information on the Company’s financial results and financial management, reports from the Independent Auditor and Executive Officers in charge of internal control.

Committee members are established and such expenses and debt are properly processed.

The Audit Committee is made up of five members, three of whom are Outside Directors. The Committee audits the legality, adequacy, and efficiency of the execution of the duties of the Audit Committee.

Audit Committee

1. Organization, members, and procedures of the Audit Committee

The Audit Committee is made up of five members, three of whom are Outside Directors. The Committee audits the legality, adequacy, and efficiency of the execution of the duties of the Audit Committee.

2. Frequency of the Audit Committee meeting and attendance of each Audit Committee member

In fiscal 2021, Mitsubishi Electric held a regular Audit Committee meeting once a month in principle (and had special meetings). Each meeting would take about two hours. The attendance of each Audit Committee member is as shown below.

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
<th>Attendance/meetings</th>
<th>Attendance rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside Director (Chairman)</td>
<td>Hirahata H.</td>
<td>14/14</td>
<td>100%</td>
</tr>
<tr>
<td>Director (full-time)</td>
<td>Masahiko K</td>
<td>14/14</td>
<td>100%</td>
</tr>
<tr>
<td>Director (full-time)</td>
<td>Takashi S</td>
<td>11/11</td>
<td>100%</td>
</tr>
<tr>
<td>Outside Director</td>
<td>Koushiru W</td>
<td>14/14</td>
<td>100%</td>
</tr>
<tr>
<td>Outside Director</td>
<td>Nishikawa Y</td>
<td>14/14</td>
<td>100%</td>
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</table>

Audit Committee

Agenda of the Audit Committee

The main agenda of the Audit Committee include the determination of audit policies, methods, implementation status, and results of the audits of the Company that they themselves conduct, and the Company’s mid- and long-term corporate value.

Activities of the Audit Committee members

The Audit Committee members—mainly those responsible for investigation (full-time Audit Committee members)—attend Executive Officers’ meetings and other such important conferences, and conduct interviews and surveys of Executive Officers and the executive staff of Mitsubishi Electric offices and affiliates in accordance with the policies and assignments agreed upon the Committee.

Divisions in charge of internal control, including the Corporate Auditing Division, submit internal audit reports to the Audit Committee members, who hold meetings such as those to discuss internal audit policies and periodic report meetings to exchange opinions. Outside Audit Committee members visit the offices, affiliates, and other locations with the members responsible for investigation as needed and offer their opinions based on their expert knowledge at the Audit Committee meeting and other occasions.

In addition, the Audit Committee members discuss policies and methods of auditing with accounting auditors, who furnish them with reports on the status and results of the audits of the Company that they themselves conduct, and exchange opinions with them.

4. Agenda of the Audit Committee

The main agenda of the Audit Committee include the determination of audit policies and activity planning, check on the execution of the duties by Directors and Executive Officers and the establishment and operation of the internal control system, check on methods of auditing by accounting auditors and validity of results, and evaluation of auditing auditors and decision on whether to reappoint them.

In fiscal 2021, the Audit Committee focused on checking and verifying how the Mitsubishi Electric Group has strengthened its business foundation including the internal control and compliance systems, improved its profitability and better performance, and strengthened its management and operation of the Company’s assets, developed new businesses, taken measures against problematic business as well as monitoring the progress of various initiatives such as contributions to achieve SDGs targets. This has been done to improve the Group’s mid- and long-term corporate value.

In recent years, the Mitsubishi Electric Group has identified issues of work-related, information security, and product and service quality. The Audit Committee asked questions and stated opinions after each responsible Executive Officer explained the following: with regard to work-related issues, the Company is promoting the Mitsubishi Electric Workplace Reform Program and working to prevent recurrence; with regard to information security issues, the Company is working to reinforce information security measures based on the analysis of the cause of each issue, and with regard to improve quality-related content, the Company is enhancing education to fundamentally reform quality awareness and culture, and strengthening its quality control system with the aim of ensuring compliance with relevant laws, regulations, and contractual specifications. The Audit Committee will continue to closely monitor the progress of these measures to prevent recurrence, in order to ensure their steady implementation.

Effectiveness evaluation of the Audit Committee

The Audit Committee conducts evaluation to improve performance every year. In the Audit Committee review in fiscal 2021, outside Audit Committee members concluded that the members responsible for investigation (full-time Audit Committee members) periodically report their activity results and that management information is properly shared in a timely manner in the Audit Committee. Although we believe that this evaluation in effect endorses the performance of the Audit Committee, we will continue to make efforts to improve performance.
The Corporate Auditing Division internally audits the operation and other aspects of the internal control system, evaluates the internal control related to the establishment of internal whistle-blower system and financial review, and mutually exchanges necessary information with each division in charge of internal control.

3. Mutual relationship among internal audit, the audit by the Audit Committee, and accounting audit

The Corporate Audit Unit Division reports the internal audit policies and internal audit results to the Audit Committee and exchanges opinions with the Audit Committee members on a regular basis.

The Corporate Auditing Division also reports internal audit results to the accounting auditors and continually works with them, discussing the evaluation of the internal control related to financial review as needed.

Providing Directors with Appropriate Information at the Appropriate Time, and Conducting Reviews of the Board of Directors

In fiscal 2021 we held eight Board of Directors meetings (six ordinary meetings and two extraordinary meetings) to make decisions about important matters such as basic management policy, appointment of Executive Officers, and internal control systems. In addition, we had Executive Officers’ reports on the details and progress of the fiscal year’s management plan, progress of the response to management issues in each business, and important issues deliberated on at the meeting. This year, in particular, the Board held a discussion on devising the medium-term management plan that the Company announced in June 2021. It also deliberated and reported on causes and ways to prevent the recurrence of recent issues of work-related, information security, and product and service quality.

Every year, we hold a Board of Directors review to further enhance the functioning of the Board of Directors, based on progress of the matters discussed at the meetings. This year we surveyed the Directors, and the Board of Directors held in July 2021. We then held all Board members discuss, analyze and evaluate the survey results as follows.

- Frequency, scheduling, and time spent on the meetings
  - The information supplied in relation to the discussions at the meetings (quality and quantity), and how it was provided.
  - The status of questioning and discussions at the Board
  - The configuration, size, etc. of the Board
- As a result, there were many positive reviews about the status of questioning and discussion at the Board of Directors’ meetings. Specifically, replanning has been properly carried out based on past reviews, and the Board of Directors’ meetings entertained more liberal discussions and exchanges from many angles than ever before.

The configuration and size of the Board of Directors has been evaluated as being appropriate for monitoring management at this point. Outside Directors consist of individuals with diverse skills, non-executive Directors comprise the majority of the Board, and each committee is chaired by Outside Directors, providing independence and objectivity.

Given these evaluations, we judge our Board of Directors as being appropriately managed, and that its functioning is sufficiently secure.

Meanwhile, other views emerged. Namely, Executive Officers’ reports are becoming more detailed and discussions are deepening, prolonging meeting times, and it would be desirable to further enhance reporting from corporate divisions to the Board of Directors. As such, it may be worthwhile to hold the Board of Directors meetings more frequently. There were also views calling for better reporting on the progress of initiatives such as those on sustainability and human resource policies, and for continued progress reporting on recent issues regarding work related, information security, and product and service quality. With these in mind, we are planning to hold ordinary Board Directors meetings more frequently from fiscal 2022 and have more comprehensive reporting from the Executive Officers and discussions based on their reports. Going forward, we will continue to hold the Board of Directors reviews to further improve the Board’s functioning.

In the Mitsubishi Electric Group, the administration divisions such as the Corporate Strategic Planning Division, the Corporate Accounting Division, the Corporate Legal & Compliance Division, and the Corporate Export Control Division inspect the establishment and operation of the internal control system and regulations, etc. under their scope of responsibility for internal control. In addition, each business division has its own compliance department, which relays upcoming companywide compliance policies and ensures the compliance status in each business division.

Sustainability at Mitsubishi Electric Group

| Policies Regarding Decisions on Compensation, etc.
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<tbody>
<tr>
<td>1. Basic Policies</td>
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<tr>
<td>(1) As a Company with a Three-Committee System, the Company segregates the supervisory function and the execution function of management. The supervisory function of management is assigned to the Board of Directors and the execution function of management is assigned to the Executive Officers. The compensation scheme for Directors and the compensation scheme for the Executive Officers will be set so as to correspond to the contents and responsibilities of each of the duty and position.</td>
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<tr>
<td>(2) Directors give advice and supervise the Company’s management from an objective point of view, and therefore, the basic policy of the compensation scheme for Directors is the payment of fixed-amount compensation.</td>
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<tr>
<td>(3) The compensation scheme for the Executive Officers focuses on incentives for the realization of management policies and the improvement of business performance, and performance-based compensation will be paid in addition to the payment of fixed-amount compensation, based on the following basic policies:</td>
</tr>
<tr>
<td>a. The compensation scheme should rate awareness of the contribution to the improvement of the mid- and long-term business performance, and to the enhancement of the Group’s corporate value.</td>
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<td>b. The compensation scheme should be closely linked with the company’s performance and highly transparent and objective.</td>
</tr>
<tr>
<td>c. The compensation scheme should mainly aim at sharing of interest with shareholders and raising management awareness which places importance on the interest of shareholders.</td>
</tr>
<tr>
<td>(4) In order to form the outside objective points of view and specialized knowledge about the execution knowledge scheme, the Company will employ external compensation consultants, and deliberate the compensation level, compensation scheme, etc. with the support of such consultants, taking into consideration external external data concerning compensation in major Japanese corporations developing their businesses globally, the domestic economic environment, industry trends, management conditions, etc.</td>
</tr>
<tr>
<td>2. The System and the Policy for Determining Compensation for Directors and Executive Officers</td>
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<tr>
<td>(1) Compensation for Directors</td>
</tr>
<tr>
<td>a. The fixed-amount compensation shall be a monthly fixed amount set at a level considered reasonable, while taking into account the contents of the Directors’ duties and the Company’s conditions.</td>
</tr>
<tr>
<td>b. Performance-based compensation shall be paid as indicated below, at a certain period each year.</td>
</tr>
<tr>
<td>c. The Group strives to achieve sustainable growth and further improvement of corporate value through its threefold balanced management policy of “Growth,” “Profitability &amp; Efficiency,” and “Sustainability.” The Group has defined consolidated revenue of ¥9 trillion or more and an operating profit ratio of 8% or more as fiscal 2021 targets. The payment reference amount for performance-based compensation is based on the consolidated business performance such as net profit attributable to Mitsubishi Electric Corp. stockholders, in line with this policy and these targets.</td>
</tr>
</tbody>
</table>

Compensation for Executive Officers are set within a range of ±20% the pay- ment reference amount, reflecting business performance in their respective business segments.

With the purposes of meeting the interest of shareholders with the Executive Officers and further raising management awareness that places importance on the interest of shareholders, and increasing the incentives for the improvement of business performance from the mid- and long-term perspectives, 50% of performance-based compensation will be paid in the form of shares. Share- based compensation consists of Company stocks issued after a three-year deferment period. The Company sets a rule that the Executive Officers are required to continue to hold the Company stocks issued until 1 year has passed from resignation, in principle.

(1) The Company achieves the consolidated revenue of ¥9 trillion or more and the operating profit ratio of 8% or more, which are the growth targets for fiscal 2021, the basic composition of the compensation will be as follows: basic compensation (30%), and performance-based compensation (70%), of which the ratio of mid- and long-term incentive (share-based compensation in the performance-based compensation) is 30% of the total compensation. If the consolidated business performance is within the growth targets for fiscal 2021, the percentage of performance-based compensation shall fluctuate between the range of 0% to 70%

(2) Other important matters regarding the decision on details of compensation given to individual Directors, etc.:

Regarding the stock compensation of the performance-based compensation of Executive Officers, if there has been any serious breach of responsibilities by the Executive Officer, or the Board of Directors has resigned for personal reasons against the will of the Company, the Company may confiscate the rights to receive the granting of shares or demand the refund of cash equivalent to the value of the granted shares, etc., from such Executive Officer by resolution of the Compensation Committee. Additionally, if certain grounds arise that materially impact the management of the Company, the Company may reduce the fixed-amount compensation of Executive Officers by resolution of the Compensation Committee.

(3) Decision-making process, etc.:

The Company decides on compensation decisions for Directors and Executive Officers, and the compensation given to individuals based on these policies, through the Compensation Committee, a majority of which is comprised of Outside Directors. The details of the activities of the Compensation Committee are reported to the Board of Directors on a case-by-case basis. The Compensation Committee meeting was held four times in fiscal 2021.

Outside Directors

Outside Directors

The Company has five Outside Directors, each of whom has no special interest relevant to the Company. Although companies in which each of the Outside Directors holds office in or has been a Director or officer of those with trading relationships with the Company, no such relationships have an impact on the independence of each relevant Outside Directors based on the scale of nature of such trading, and thus they possess no risk of giving rise to any conflict of interest with the general shareholders of the Company. Outside Directors are expected to supervise management from a high-level perspective based on their abundant experience. Those who are comprehensively considered to possess the character, acumen, and business and professional experience relevant to the Company, the current and the future needs of independent executives specified by the Tokyo Stock Exchange and the requirements specified in Mitsubishi Electric’s Guidelines on the Independence of Outside Directors (see next page) and thus possess no risk of giving rise to any conflict of interest with the general shareholders of the company, are selected as Outside Director candidates by the Nomination Committee.

For the amount of compensation given to Directors and Executive Officers, please refer to the Annual Social Security Report.

**Independency Guideline for Outside Directors**

Mitsubishi Electric Corporation appoints individuals with experience in company management in the business world, attorneys, and specialists, who are appropriate to oversee the Company's business operations, and not falling under any of the following cases, as candidates for Outside Directors:

1. Persons who are related parties of a person or company that have material business operations with the Company or the counterparty.
2. Persons who receive more than ¥10 million of compensation from the Company.
3. Persons who are the Company's major shareholders (holding more than 10% of voting rights) or who serve as their business executers.
4. Persons who are related parties of a person or company that have material business operations with the Company or the counterparty.
5. Persons who serve as Executive Officers (Directors, etc.) of an organization to which the Company offers contribution that exceeds ¥10 million and 2% of the total revenue of the organization.
6. Persons who are the Company’s major shareholders (holding more than 10% of voting rights) or who serve as their business executers.
7. Persons who are related parties of a person or company that have material conflict of interest with the Company.

Note:

Mitsubishi Electric Corporation held eight Board of Directors meetings during fiscal 2021.

**Status of Stocks Held**

<table>
<thead>
<tr>
<th>Title</th>
<th>Name</th>
<th>Positions Held</th>
<th>Reasons for Nomination</th>
<th>Board Member's Role (FY2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside Director</td>
<td>Minoru Yamazaki</td>
<td>Chairman of the Nomination Committee</td>
<td>Valuer of experience and insights as an expert in international affairs cultivated through the course of his career are highly beneficial to Mitsubishi Electric. Serving as President of the company since June 2021, he oversees the Company’s business strategies and business operations, increasing the Company’s competitiveness and enhancing the sustainability of the business operations.</td>
<td>100% (8/8)</td>
</tr>
<tr>
<td>Outside Director</td>
<td>Hiroshi Onoue</td>
<td>Chairman of the Audit Committee</td>
<td>Valuer of experience and insights as a professional auditor cultivated through the course of his career are highly beneficial to Mitsubishi Electric. Serving as President of the company since June 2021, he oversees the Company’s business strategies and business operations, increasing the Company’s competitiveness and enhancing the sustainability of the business operations.</td>
<td>100% (8/8)</td>
</tr>
<tr>
<td>Outside Director</td>
<td>Masashi Obayashi</td>
<td>Chairman of the Compensation Committee</td>
<td>Valuer of experience and insights as a professional auditor cultivated through the course of his career are highly beneficial to Mitsubishi Electric. Serving as President of the company since June 2021, he oversees the Company’s business strategies and business operations, increasing the Company’s competitiveness and enhancing the sustainability of the business operations.</td>
<td>100% (8/8)</td>
</tr>
<tr>
<td>Outside Director</td>
<td>Kenji Ito</td>
<td>Member of the Nomination Committee</td>
<td>Valuer of experience and insights as an expert in corporate management and corporate strategies, internal control and governance, finance and administration, is highly beneficial to Mitsubishi Electric. Serving as President of the company since June 2021, he oversees the Company’s business strategies and business operations, increasing the Company’s competitiveness and enhancing the sustainability of the business operations.</td>
<td>100% (8/8)</td>
</tr>
<tr>
<td>Outside Director</td>
<td>Yojiro Takeuchi</td>
<td>Member of the Nomination Committee</td>
<td>Valuer of experience and insights as an expert in corporate management and corporate strategies, internal control and governance, finance and administration, is highly beneficial to Mitsubishi Electric. Serving as President of the company since June 2021, he oversees the Company’s business strategies and business operations, increasing the Company’s competitiveness and enhancing the sustainability of the business operations.</td>
<td>100% (8/8)</td>
</tr>
</tbody>
</table>

Note: Mitsubishi Electric Corporation held eight Board of Directors meetings during fiscal 2021.
Our approach to information security

Basic Policy
In fiscal 2020, the Mitsubishi Electric Group encountered another data leak incident caused by unauthorized system access, which has resulted in inconvenience and concern for customers and society. We will continue to strengthen information security measures to prevent such a situation from occurring again.

Mitsubishi Electric manages confidential corporate information relating to sales, engineering, intellectual property, and other areas, as well as information entrusted to the company by its customers and stakeholders. This is carried out based on the Declaration of Confidential Corporate Information Security Management established in February 2005. In light of past events, we will once again work to increase awareness of this declaration within the Mitsubishi Electric Group and strive to protect and manage information even more carefully.

* Information security measures: These include technical measures from the four perspectives of intrusion blocking, containment, leak prevention, and global response, as well as human resource measures such as enhancement of employee training, and organizational measures on operation quality improvement, including thorough document management and framework upgrading.

Framework and Guidelines
A new “Corporate Information Security Division” was established under the direct control of the president, to oversee all the Group’s information security management. Since April 2020, it has integrated three functions that were previously separate: management of confidential corporate information and personal data protection, information system security, and product security.

The Executive Officer in charge of Information Security is responsible for the Group’s overall information security management. Under this officer’s direction, the Corporate Information Security Division is in charge of planning and implementing the Group’s information security management structure and rules as well as activities to ensure the security of information systems. The Division is striving to ensure information security by working closely with each business group and office, which is the organization that actually utilizes and manages the data and systems.

As other companies suffered cyberattacks that affected their productivity, Mitsubishi Electric also formed a section to ensure facility security, thereby bolstering preparedness.

In addition, as part of PSIRT activities to promote product security measures, we were accredited as a CNA in November 2020 and we now assign CVE IDs to vulnerabilities that affect Mitsubishi Electric products and publish them by ourselves. This has strengthened a framework to practice efficient vulnerability handling with external stakeholders.

In the event an incident were to occur, reports and instructions would be given in keeping with this framework and appropriate responses would be taken to prevent secondary damage.

Business groups and offices (offices, branches, works [production plants])

Framework (Mitsubishi Electric Group)

Leaks of data due to unauthorized system access
On November 16, 2020, a newly deployed cloud monitoring system detected suspicious access to one of the cloud services to which Mitsubishi Electric subscribes and it was confirmed that the bank account information of our domestic suppliers was leaked. This unauthorized access to the cloud was performed at a related company in China by intruding to the network and stealing the credentials of some Mitsubishi Electric Group employees to access the cloud.

To prevent recurrence, Mitsubishi Electric strengthens the monitoring of the cloud service that was accessed illicitly and accelerates the implementation of zero-trust security measures. In addition, the Mitsubishi Electric Group as a whole strengthens security measures through comprehensive multilayered protection, such as the strengthening of domestic and overseas network access controls, endpoint security measures, and monitoring and authentication platforms. Going forward, we will continuously work to strengthen security in coordination with relevant authorities.