

Update on investigation into improper quality control practices and implementation of reform roadmap (Third Report)

May 25, 2022

Mitsubishi Electric Corporation

- Mitsubishi Electric Corporation announced today it has received **the third report of its Investigative Committee** (Chaired by Hiroshi Kimeda, Partner (Attorney-at-law), Nishimura & Asahi, announced on July 2, 2021) regarding improper quality control practices that were carried out by the company.
- The company also issued today an update **on reforms being carried out in three key areas—quality assurance, organizational culture, and governance**—including measures designed to prevent any recurrence of the improper quality control practices, as first announced on October 1.
- So far, the Investigative Committee has **completed its investigations into 1,933 out of 2,303 reports extracted from those on quality related issues which were applied, or around 80% of the total.**
- The Investigative Committee expressed the view that **the causes identified in its first and second reports are equally applicable** to the improper quality control practices newly revealed in the third report. The Investigative Committee will continue its investigation on **the remaining 14 sites**, and the company will continue to cooperate fully with the Investigative Committee in an effort to bring the investigations at all works sites to completion as early as possible.

- The committee also confirmed that **the three areas of reforms, including measures to prevent recurrence, the company has been carrying out since October 2021 appear to be based on the committee's recommendations, and that the company's directions toward the reforms and initiatives to them have been positively noted.**
- The committee also provided **new recommendations to increase the effectiveness of the measures**, including a recommendation to be mindful of any excessive burdens that the preventive measures may pose at the workplace level. As it carries out the three reforms, the company will continue to refine and enhance its efforts based on these recommendations.
- Based on the committee's final investigation results, the Governance Review Committee (Chaired by Toshiaki Yamaguchi (Attorney-at-law), Yamaguchi Toshiaki Law Office, established on October 20, 2021) intends to tender its report on the accountability of the company's Executive Officers and Board of Directors and its assessment and recommendations on the company's internal control and governance systems. The company will issue an announcement as soon as this report is available.
- Mitsubishi Electric also takes this opportunity to reiterate its sincere apologies to all customers, valued stakeholders, and broader society for the impact of these incidents, including the delay in completing the investigation.

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- The Investigative Committee, established on July 2, 2021 and chaired by an outside attorney, conducted a survey of all employees in Japan. The committee has used objective data and other information to verify the consistency of the responses it received, and it has conducted forensic investigations into Executive Officers and other relevant parties as well as carried out interviews and inquiries with relevant parties at the affected sites.
- As of the third report received today, the Investigative Committee had identified **a total of 2,303 matters requiring investigation, of which it had completed its investigation into 1,933**. The committee will continue to investigate the remaining matters.
- The findings in the third report issued today describe occurrences that have come to light since the second report was received and disclosed on December 23, 2021. (See pages 7-11 for a summary)
- Pages 12-13 summarizes the company's latest responses to improper quality control practices covered in the second report.

■ Status of company-wide investigation (as of May 25, 2022)

Completed investigations**8 works sites**

Nagasaki Works, Power Distribution Systems Center, Kamakura Works, Fukuyama Works, Air-Conditioning & Refrigeration Systems Works, Kyoto Works, Shizuoka Works, Industrial Mechatronics Systems Works
(including the LCD Div.)

Ongoing investigations**14 works sites**

Kobe Works, Itami Works, Energy Systems Center, Communication Networks Center, Transmission & Distribution Systems Center, Inazawa Works, Communication Systems Center, Nakatsugawa Works, Gunma Works, Nagoya Works, Himeji Works, Sanda Works, Power Device Works, High Frequency & Optical Device Works

■ Overview of newly reported incidents of improper quality control practices (as of May 25, 2022)

① Public Utility Systems Group

Improper quality control practice

* Kobe Works [9 cases]

- Some sequence tests not carried out on controllers or auxiliary electric relays.
- Some improper entries made in record of processing time measurements on monitoring control device.

Plus 7 other cases

* Itami Works [19 cases]

- Some vibration tests on railcar equipment not carried out.
- Some protection tests on auxiliary power supplies not carried out.

Plus 17 other cases

* Nagasaki Works [1case]

- Some improper entries made in cooling capacity deterioration diagnosis of vehicle HVAC systems.

* Communication Networks Center [4 cases]

- Some inspections of radio equipment, etc., carried out improperly.

Plus 3 other cases

■ Overview of newly reported incidents of improper quality control practices (as of May 25, 2022)

② Energy & Industrial Systems Group

Improper quality control practice

* Energy Systems Center [2 cases]

- Some analog input/output confirmation tests on instrumentation control devices not carried out.
- Some sudden three-phase tests on turbine generators carried out improperly.

* Transmission & Distribution Systems Center [4 cases]

- Some improper practices in shipping tests on shell-type transformers.
- Designs that fall partially short of internal design standards for shell-type transformers.
- Some improper practices in shipping tests on core-type transformers.
- Designs that fall partially short of internal design standards for core-type transformers.

* Power Distribution Systems Center [4 cases]

■ Overview of newly reported incidents of improper quality control practices (as of May 25, 2022)

③ Building Systems Group

Improper quality control practice

* Inazawa Works [10 cases]

- Some withstand voltage tests on elevators parts for the US market not carried out.
 - Discrepancies in location where task of attaching certification label is performed on elevators for the US market.
- Plus 8 other cases

④ Living Environment & Digital Media Equipment Group

Improper quality control practice

* Nakatsugawa Works [1case]

- Some improper entries made in test reports on commercial Lossnay products.

* Air-Conditioning & Refrigeration Systems Works [2cases]

■ Overview of newly reported incidents of improper quality control practices (as of May 25, 2022)

⑤ **Factory Automation Systems Group**

Improper quality control practice

* Nagoya Works [7cases]

- Improper entries in motor defect reports.

plus 6 other cases

* Fukuyama Works [1 case]

- Improper practices in UL periodic factory audits of low-voltage circuit breakers.

⑥ **Automotive Equipment Group**

Improper quality control practice

* Himeji Works [4 cases]

- Some manufacturing processes not carried out on inverters.
- Discrepancies in IMDS entries on rotor bobbin materials.

plus 2 other cases

* Sanda Works [32 cases]

- Some periodic sampling inspections of EGR valves not carried out.
- Some ICS development tests not carried out.

plus 30 other cases

- Overview of newly reported incidents of improper quality control practices (as of May 25, 2022)

⑦ Semiconductor & Device Group

Improper quality control practice

* Semiconductor & Device Group [1case]

In cases where the improper quality control practices listed above constitute breaches of applicable laws/standards

- This information has already been provided to the related organization units and corrections implemented.
- As for the company is working proactively with customers to arrive at a solution for cases in which misconduct impacted contractual requirements.
- Measures to prevent any recurrence are being implemented in all cases.

■ Status of responses to previously reported cases (as of May 25, 2022)

Site and details	Current status
<p>①Nagasaki Works</p> <ul style="list-style-type: none"> Improper inspection practices for HVAC systems for railcars Delayed reporting to customers and public on emergency power supply equipment. 	<ol style="list-style-type: none"> Rectifying situation with emergency power supply equipment <ul style="list-style-type: none"> Stopgap measures :99.6% (1,092/1,096 units) complete Permanent fixes :74.0% (811/1,096 units) complete To foster quality awareness that makes quality a top priority, set out implementation rules for quality self-inspections and quality declarations performed by employees (April 2022). Revised product development management rules to strengthen mechanisms for complying with customer specifications (December 2021). Created a guidance document designed to encourage active communication between managers and their reports (March 2022).
<p>②Air-Conditioning & Refrigeration Systems Works</p> <ul style="list-style-type: none"> Some inspections not carried out owing to inadequacies with commercial air-conditioning & refrigeration system inspection equipment. 	<ol style="list-style-type: none"> Progress of commercial product inspections <ul style="list-style-type: none"> Survey of product installation destinations: 97.9% (2,375/2,427 units) complete Inspections: 68.2% (1,656/2,427 units)complete Surveys/briefings, explanations and inspections are ongoing with a view to early completion. Established development/operating rules for testing machines and inspection equipment; inspection details are discussed and inspection scopes reviewed on a regular basis (October 2021). Recurrence prevention report provided to Ministry of Economy, Trade and Industry (December 2021).

■ Status of responses to previously reported cases (as of May 25, 2022)

Site and details	Current status
<p>③ Power Distribution Systems Center</p> <ul style="list-style-type: none"> Some tests not conducted on 72/84kV CGIS (cubicle-type gas-insulated switchgear) units. 	<ol style="list-style-type: none"> 1) Third-party departments attend C-GIS shipping inspections (provisional measures ongoing). 2) Revised frameworks, including for better checking of requirements imposed by law/regulations and external standards, and reviews of departmental education/training details (April 2022). 3) Digitize manual test data, create test results database, promote automated evaluations. (targeting September 2022)
<p>④ Fukuyama Works</p> <ul style="list-style-type: none"> Improper quality control practice discovered with respect to UL489-listed low-voltage circuit breakers when conducting regular factory inspections. Did not make sufficient applications under the Radio Act for CO₂ laser marker equipment. 	<ol style="list-style-type: none"> 1) Testing sections within manufacturing departments transferred to Quality Assurance Department (January 2022). 2) Continuous improvement of UL periodic factory inspections, including measures to prevent improper use of test equipment and thus prevent improper testing practices (January 2022). 3) Completed additional applications under the Radio Act to rectify missing/insufficient applications; recurrence prevention report provided to Ministry of Internal Affairs and Communications (May 2022).
<p>⑤ Kamakura Works</p> <ul style="list-style-type: none"> Improper quality control practices for ETC equipment 	<ol style="list-style-type: none"> 1) Finished product inspections performed by the quality assurance section within the IT systems department handling ETC transferred to the Quality Assurance Department (April 2022). 2) Revised development management rules to strengthen management of specifications, prescribed procedures, etc. (March 2022).

- The table below shows the number of cases of improper quality control practices now identified, including cases identified in the investigative reports of October 1 and December 23, 2021.

- Number of improper quality control practices identified by the Investigative Committee

	In Oct	In Dec	Latest	Total
Sites investigated	2	5	22	22
Number of improper practices	2	5	15	16
* The number of sites is duplicated in October, December, and the latest one				
Number of improper quality control practices	18	29	101	148

- In the recent investigations, **no improper practices were confirmed at the Communication Systems Center, Shizuoka Works, Gunma Works, Kyoto Works, Industrial Mechatronics Systems Works, or High Frequency & Optical Device Works.**

- Several best practices issues related to quality of operations were identified at these sites as well.
→Mitsubishi Electric **recognizes the need for efforts** to improve quality levels across the entire company, and will proceed with the following initiatives.
- The Investigative Committee's third report provides specific examples of issues at a number of sites relevant to what the committee's first report identified as **the four direct causes of improper quality control practices**(①~④), and **the three characteristics of organizational culture that led to these practices**(⑤~⑦).

Direct causes

- ①Lack of emphasis on realizing quality assurance through adherence of protocols
- ②Vulnerability of the Quality Division
- ③Exhaustion of middle management
- ④Distance between head office and the front line

Organizational culture

- ⑤Closed organizational system due to independence of individual sites
- ⑥Highly independent Business Unit System
- ⑦The resolve of management

- The report also gives some recognition to the direction and steps taken so far by the company on its reforms in three key areas—quality assurance, organizational culture, and governance.
- In addition, **the Investigative Committee provided seven specific recommendations for enhancing the effectiveness of these reforms.** Mitsubishi Electric takes these recommendations seriously and will continue to carry out its reforms, adding new measures to these three areas if and as necessary.
- As to the three items identified by the Investigation Committee as problems with organizational culture that led directly to the improper practices, **Mitsubishi Electric will work to resolve these problems through its April 2022 management reforms as well.**
- Further, the company will rethink its management policies to make them more socially conscious, instill an understanding of this in all managers, and **work to raise awareness of the social responsibilities the company bears as a whole.**
- Going forward, **the company will also do a deep dive into its measures to prevent a recurrence,** including its three areas of reform, **through a detailed analysis** that includes identifying the characteristics and systematically categorizing the details of improper practices that occurred at each of its business divisions, works sites, and other organizational units, and on that basis, institute strategies tailored to each individual workplace.

Summary of measures to prevent recurrence in response to the Investigative Committee's suggestions

Investigative Committee's Recommendations

- (1) Ensure proper company-wide understanding and perception of quality
- (2) Check and review processes, such as procedural manuals, from a third-party perspective
- (3) Strengthen quality-control division
- (4) Support and strengthen middle management*
- (5) Distance between head office and the front line
- (6) Foster company-wide affiliations rather than current emphasis on plant/works-level affiliations
- (7) Highly independent Business Unit System
- (8) Demonstrate management's resolve to strengthen quality compliance

Three areas of reform

(1) Quality assurance

- Establish Corporate Quality Assurance Reengineering Group reporting to CEO
- Head office leads efforts to strengthen new quality-assurance functions
- Share knowledge and provide flexible support across business units
- Appoint Chief Quality Officer (CQO) from outside the company (April 2022)
- Establish budget of 30 billion yen for developing necessary infrastructure, etc.

(2) Organizational culture

- Establish "Team Sousei (Creation)" project for company-wide transformation
- Propose initiatives for creating a "new" Mitsubishi Electric
- Renewal of the Personnel System
- Overcome the inward-looking organizational culture, Change in behavior of senior management, Supporting middle management and those at the manufacturing sites

(3) Governance reform

- Reform Board of Directors to strengthen its management oversight functions
- Establish a Governance Review Committee

*Department managers and section managers at front line

- Below is an update on the company's progress in reforming its quality assurance, organizational culture and governance in accordance with the Investigative Committee's recommendations.

Contents of reform		Status	
(1) Quality assurance reforms	① Creating a new company-wide structure for quality assurance led by head office - Establishing a dedicated Corporate Quality Assurance Reengineering Group	Ongoing	
	② Company-wide measures for quality assurance reforms	—	
	②-1. Restructure the control functions	1) Create greater independence and separation in the chain of command for quality assurance from the manufacturing sites	Completion
		2) Strengthening of quality assurance functions	Partially implemented
	②-2. Addressing technical capabilities and resources issues	1) Strengthen and ensure compliance with laws, regulations and public standards	Partially implemented
		2) Enhance quality through IT and digitalization	Partially implemented
		3) Strengthen head office support for manufacturing sites	Ongoing
		4) Training of quality control personnel	Partially implemented
	②-3. Re-fostering an awareness of quality compliance	1) Revitalize personnel rotation	Under consideration
		2) Instill awareness of quality compliance among senior managers	Partially implemented
3) Quality Control Awareness Training		Partially implemented	
(2) Organizational culture reforms	① "Team Sousei (Creation)" company-wide transformation project	Ongoing	
	② Renewal of personnel system	1) Measures to improve the outmoded culture	Partially implemented
		2) Measures to build a new culture	Partially implemented
	③ Encouraging mindset and behavioral change	Ongoing	
(3) Governance reforms	① Strengthen management supervisory functions - Board of Directors reforms	1) Strengthen Board of Directors' functions	Ongoing
		2) Review of the composition of the Board of Directors	Review Schedule
		3) Strengthen the Board of Directors Secretariat's functions	Ongoing
		4) Strengthen the functions of the three statutory committees	Ongoing
	② Assessment of internal control system - assessment and recommendations by the Governance Review Committee	Partially implemented	
	③ Strengthen risk-management systems	Partially implemented	

■ Progress of governance reforms

- The Corporate Quality Assurance Reengineering Group, which was established on October 1 and reports to the CEO, is executing the company-wide measures shown. Its aims are to **strengthen new company-wide functions for quality assurance led by the head office**, and to **share knowledge and to provide flexible support across business divisions**.
- It has become clear that many of the quality matters discovered during the Investigative Committee's investigations to this point have been test deficiencies and problems due to test results not meeting required values, and these are issues that should be resolved between the initial stages of product development and the point at which preparations to produce the product have been completed. The company believes that this points to a problem in the way quality control is carried out, in the sense that quality, and communications with customers as well, are **built into products upstream (in the design and production technology phases) and visualized on that basis**.
- The quality assurance reform measures titled "**Greater independence and separation of chain of command**" and "**Strengthen quality assurance functions**" imply that the Corporate Quality Assurance Reengineering Group should coordinate with the Corporate Total Productivity Management & Environmental Programs Group and Corporate Research and Development Group to confirm whether designs are correct and production preparations are ready in all phases of manufacturing, and make improvements through the Plan-Do-Check-Act (PDCA) cycle. The company believes this will be an effective means of addressing the currently identified quality matters.
- The company also reaffirms that enhancing quality through IT and digitalization will be crucial to running the PDCA cycle efficiently. To implement detailed responses tailored to its diverse products, differing customer specifications, and the rules and requirements in different countries, and accelerate its efforts to resolve the present problems, the company will **pursue digital transformation (DX) initiatives across its quality processes** and work to eliminate human error and enhance and streamline quality control. The company also sees the need to clarify issues (close calls, potential incidents) that tend to be overshadowed by the presently pressing quality issues, and to take steps to prevent them.
- To address this, the company will **assess the health and soundness of each of its sites and production lines**,
→**Quickly find problems and implement efforts whereby all relevant employees provide support**.
- As a company, Mitsubishi Electric aims to achieve integrity through the PDCA cycle, using the **clarification of problems** to keep its activities in check and **mobilizing its entire workforce** to provide support in implementing solutions.

Task	Progress as of May 2022
① Creating a new company-wide structure for quality assurance (led by head office)	<ul style="list-style-type: none"> • In April 2022, a Chief Quality Officer (CQO) was appointed from outside the company to oversee the Corporate Quality Assurance Reengineering Group. • The Corporate Compliance Committee's quality governance subcommittee has assessed the Corporate Quality Assurance Reengineering Group's activity every two months (December 6, 2021; February 28, 2022; April 27, 2022). • The company has identified the infrastructure it needs to ensure compliance with law, standards, and customer specification and strengthen the quality assurance process, and has decided to invest ~5 billion yen in FY2022 and plans to invest 30 billion yen or more over two years.
② – 1. Restructure the control functions	<p>1) Greater independence and separation of chain of command In April 2022, Corporate Quality Assurance Reengineering Groups and Quality Assurance & Management Departments were established at all works sites, provided shipping authority, and began operating.</p> <p>2) Strengthening of quality assurance functions In FY2022, quality audits were conducted at five sites with an emphasis on ensuring products conform to laws, standards, and customer specifications. From April 2022, the auditing process will be improved to help identify issues at sites and facilitate improvements; these improved audits are planned for 28 works sites.</p>

Task	Progress as of May 2022
② – 2. Addressing technical capabilities and resources issues	<p>1) Strengthen and ensure compliance with laws, regulations and public standards</p> <ul style="list-style-type: none"> • Different from conventional management of information on laws and regulations relevant to each site, in March 2022 the company finished drafting the outline of a system via which the Corporate Quality Assurance Reengineering Group will centrally collect and manage information on laws and regulations common to all sites. Using an external organization, from June 2022 the company plans to start viewings of information on the revision/abolition of legal standards and standards documents. <p>2) Enhance quality through IT and digitalization</p> <ul style="list-style-type: none"> • In April 2022, the company decided on basic specifications clearly defining what points should be checked when assessing consistency between customer specifications and shipped products. • The company is selecting and evaluating specific tools for the digital management of customer specifications and inspection data. Details of the tools' characteristics, etc., have been shared company-wide (March 2022); they are scheduled to be introduced in October 2022. <p>3) Strengthen head office support for manufacturing sites</p> <ul style="list-style-type: none"> • The quality support team is gathering information on problems experienced in three specific workplaces. This will be used to provide support going forward. A contact center has also been set up to handle inquiries on technical issues from manufacturing sites. <p>4) Training of quality-control personnel</p> <ul style="list-style-type: none"> • A survey of the skills possessed by manufacturing sites' quality assurance and quality control departments was completed in April 2022. Internal training courses tailored to skill levels were rolled out company-wide in February 2022. The survey results will be used to visualize skills strengths and weaknesses and an enhancement plan will be formulated (June 2022). • A quality assurance and quality control department leadership training course is scheduled to start in June 2022.

Task	Progress as of May 2022
② – 3. Enhance an awareness of quality compliance	<p>1) Revitalize personnel rotation</p> <ul style="list-style-type: none"> • Candidates for quality assurance department personnel rotations have been selected from across manufacturing sites. A plan is to be formulated by June 2022. <p>2) Instill awareness of quality compliance among senior managers</p> <ul style="list-style-type: none"> • A compliance seminar for executives was held in February 2022. <p>3) Quality Compliance Awareness Training</p> <ul style="list-style-type: none"> • Improper Conduct Prevention meetings using the Kani Factory as a case study were held in all workplaces (November 15 – December 29, 2021). • July 2 is designated Company-wide Quality Day; the CEO and business division heads are slated to issue messages to employees.

■ Organizational culture reforms

- In March 2022, the “**Team Sousei (Creation)**” company-wide transformation project, comprised of employees selected through internal recruitment, set out its **Robust Policies** for reforming corporate culture with the aim of creating a new Mitsubishi Electric. The team came up with the slogan “Changes for the Better start with ME”, with “ME” signifying that everyone in the Mitsubishi Electric Group will act as driving forces for change.
- **This overarching plan was put into action from April 2022.** Briefing and discussion sessions for employees on the Robust Policies by Executive Officers, Business Group President and members of “Team Sousei (Creation)” have been implemented since the middle of April, with a total of 59 sessions having been completed.
- **With respect to initiatives that will be deployed on a company-wide basis such as personnel systems, the relevant divisions have already begun putting together appropriate measures and reviewing existing systems.**
- FY2023 marks the company’s first step toward change, with these efforts **to continue toward the goal of establishing a new culture and building a connected, self-powered organization, which the company envisions achieving by around FY2026.**
- The company will steadily carry out its efforts to **renew its human resources management system** to meet the objectives of the overarching plan as described. Specifically, the company seeks to overcome its inward-looking organizational culture, and to **drive change in the behavior of senior management and foster diversity** to facilitate open communication. The company will also take steps to reform its organizational culture and ensure its new culture takes hold. These will **include running training rotations** designed to foster independent growth and cooperation across organizational boundaries, striving to improve the working environment of middle management by ensuring that **managerial scope is appropriate and building systems for decentralized authority**, and ensuring that senior management provides appropriate support. It will also entail fostering mindfulness of the fundamental role of managers and **fleshing out the managerial education and training programs** that enable managers to fulfill their role.
- The company will **continuously monitor the progress of these measures** in an effort to gauge and enhance their effectiveness.

Task	Progress as of May 2022
<p>① Team Sousei (Creation) company-wide transformation project</p>	<p>1) Formulation of Robust Policies</p> <p>【Timeline】</p> <p>Step1 : Identify key issues and underlying causes (Oct – Dec 2021). Step2 : Work out how to address them (Dec 2021 – Feb 2022). Step3 : In March 2022, the Robust Policies were created (released on April 8, 2022).</p> <p>【Outline】</p> <ul style="list-style-type: none"> • The Robust Policies set out six objectives with the aim of taking Mitsubishi Electric “from minus to zero, and from zero to an even better tomorrow.” (See page 25) • The plan sets out the slogan: “Changes for the better start with ‘ME’ and the Mitsubishi Electric Group, so let’s do what we can, step by step, as individuals and as collective members of the Mitsubishi Electric Group!” <p>2) Progress and future plans</p> <ul style="list-style-type: none"> • In addition to the company-wide transformation project established in October 2021, departmental transformation projects will be set up in each business division to help the company achieve the Robust Policies and also look at issues specific to each organizational unit (a total of 148 people are engaged in reform projects across the business divisions). • The Robust Policies are being widely explained and discussed, from the level of executives through to employees at each of the company’s sites (a total of 59 sessions held as of May 2022).

Robust Policies

Measures to reform
the negative
corporate culture

Promote positive, interactive communication as part of our culture

Prioritize productivity by eliminating unproductive work

Trust each other and share information transparently

Measures to create
an even better
tomorrow

Facilitate self-initiative among individuals and units through clarification and delegation

Collaborate across divisions to maximize Group strength

Increase opportunities to learn from each other and grow spontaneously

“Team Sousei (Creation)” company-wide transformation project



Briefing session of company-wide Transformation Project Step 2 (February 8, 2022)



Briefing session for Executive Officers and Senior Executive Officers (February 18, 2022)

Task	Progress as of May 2022
②Renewal of the personnel system	<p>1) Measures to improve the outmoded culture —Creating a culture that enables open communication—</p> <ul style="list-style-type: none"> • Change in behavior of senior management aimed at creating an open culture <ul style="list-style-type: none"> (a) Executive officer coaching aimed at effecting behavioral change from the top <ul style="list-style-type: none"> • Coaching is being carried out for all Executive Officers since November 2021. • Coaching also slated for Executive Officers and Executive Officers (Associate) newly appointed in FY2023. (b) Reform of Executive Officer compensation system <ul style="list-style-type: none"> • Implemented reforms including those with a view to reflecting employee engagement in compensation (announced May 25, 2022). • Promoting diversity to overcome the inward-looking organizational culture <ul style="list-style-type: none"> (a) Promote women’s participation and recruit experienced people with an emphasis on different types of experience (b) Promote interaction/exchanges with overseas employees. <ul style="list-style-type: none"> • Formulate guidelines premised on receiving employees seconded from overseas locations and trialing remote working schemes (scheduled for September 2022).

Task	Progress as of May 2022
② Renewal of the personnel system	<p>2) Measures to build a new culture</p> <p>—Creating a culture of independent growth and cooperation across departments—</p> <ul style="list-style-type: none"> • Consider a new development programs aimed at expanding the careers of younger employees <ul style="list-style-type: none"> Currently looking at facilitating experience in other workplaces according to the individual's wishes, strengthening career consulting functions, etc. (trial introduction from October 2022). • Personnel rotations designed to break down inter-departmental barriers <ul style="list-style-type: none"> Guidelines for the cross-department rotation of employees at all levels, including management, rolled out company-wide (March 2022). • Supporting middle management and optimizing the organization <ul style="list-style-type: none"> (a) Create/deploy requirements for appointing managers with more emphasis on human resources management (trial introduction from October 2022). (b) Formulate standards for distributing authority and rightsizing managerial scope of control to reduce the burden on middle management (scheduled for October 2022). (c) Enhance training programs to foster consciousness of managerial roles/functions. <ul style="list-style-type: none"> • Started management enhancement training for newly appointed managers (from October 2021) • Video content to be provided to incumbents (scheduled for first half of 2022).

Task	Progress as of May 2022
③ Encouraging mindset and behavioral change	<ul style="list-style-type: none"> Continues to convey the CEO's thoughts on reforms and continuously arrange opportunities for dialogue between the CEO and personnel at company sites to facilitate the two-way exchange of views. Sessions held at all 42 sites in FY2022. To intend for deeper discussion in FY2023, the sessions will be held in a town-hall format—small-scale meetings for the different employee levels (total of 42 sessions planned, nine held so far). Holding Executive Officer workshops to deepen mutual understanding and facilitate shared recognition of issues and plans (from November ;2021. 3 sessions have been held).

Town-hall meeting by CEO



**Held at Power Device Works
(April 12, 2022)**



**Held at Communication Systems Center
(April 15, 2022)**

■ Progress of governance reforms

- To strengthen the company's management oversight functions and realize sustainable medium- to long-term growth in its corporate value, Mitsubishi Electric has initiated a reform of its Board of Directors. On October 20, 2021, it established the Governance Review Committee comprising third-party lawyers **to begin assessing the company's internal-control and governance systems in order to identify problems and provide recommendations for improvement.**
- Going forward, **the company plans to devise and implement further improvements to its internal-control and governance systems, with reference to the committee's recommendations.**
- On the issue of governance reform, the Board of Directors, including the three statutory committees, is working toward an appropriate vision of governance and oversight in a way that builds on the fundamental separation of execution and oversight by structuring the "Company with a Nomination Committee, etc" while also taking note of trends in governance across the world at large.
- To strengthen risk management, **in January 2022 the company set up a specialist panel reporting directly to the CEO and appointed a new Chief Risk Officer (CRO).**

Task	Progress as of May 2022
<p>① Strengthen management supervisory functions (Board of Directors reforms)</p>	<p>1) Strengthen the functions of the Board of Directors The Board of Directors' agenda was reviewed, and the Board decided on key issues to discuss, including what the company should be like and organizational reform measures (March 31, 2022, board meeting). To be applied from July 2022 (after directors have been appointed).</p> <p>2) Review of the composition of the Board of Directors</p> <ul style="list-style-type: none"> • Appointed an independent outside director as chairman of the Board of Directors (October 2021). • Decided on director candidates to be submitted to this year's general meeting of shareholders (announced on May 25, 2022). Planning to invite managers with manufacturing industry experience to serve, and to have a majority of independent outside directors. <p>3) Strengthen the functions of the Board of Directors Secretariat</p> <ul style="list-style-type: none"> • Strengthened cooperation between corporate-related divisions and the Board of Directors Secretariat by having selected personnel serve on the Secretariat and corporate departments concurrently (November 2021). • Corporate Strategic Planning Division also to participate in the Board of Directors Secretariat to ensure the Board of Directors handles important agenda items (October 2022). • One experienced person appointed to strengthen the functions of the Secretariat (May 2022). <p>4) Strengthen the functions of the three statutory committees</p> <ul style="list-style-type: none"> • Nomination Committee: Review of positioning and role (Nomination Committee rules revised; November 25, 2021 Board meeting). • Compensation Committee: Introducing new executive officer compensation system (announced May 25, 2022). • Audit Committee: To be reviewed as necessary based on the results of the Governance Review Committee's assessment.

Task	Progress as of May 2022
① Strengthen management supervisory functions (Board of Directors reforms)	5) Other <ul style="list-style-type: none"> • Planning to consider/implement additional improvements based on the Governance Review Committee's assessment.
② Assessment of internal control system (Governance Review Committee)	Established Governance Review Committee (October 20, 2021) <ul style="list-style-type: none"> -Chair: Toshiaki Yamaguchi, Managing Partner (Attorney-at-Law, Certified Fraud Examiner), Yamaguchi Toshiaki Law Office. -Members: Junya Naito, Partner (Attorney-at-Law), Momo-o, Matsuo & Namba Takashi Kiuchi, Partner (Attorney-at-Law, Certified Public Accountant), Miura & Partners. • The company received the committee's report on Executive Officer and Director accountability, and the Board of Directors decided and disclosed disciplinary action for those involved on December 23, 2021. • The committee will continue to assess the company's internal control and governance systems and will submit its conclusions and recommendations, with reference to the results of the Investigative Committee's investigation as well. The committee also plans to assess Executive Officer and Director accountability for the improper quality control practices identified in the Investigative Committee's second report (December 2021) and thereafter.
③ Strengthen risk-management systems	<p>To respond swiftly and strengthen cross-divisional responses in times of crisis and address various risks that could affect the execution of group business, the company has set up a specialist panel and appointed a new Chief Risk Officer (CRO) in January 2022.</p>

4. Investigative Committee's specific recommendations and the company's responses

- The committee's third report contains the following seven new specific recommendations. The company takes these recommendations and will implement tangible responses, as described below, as part of its three key areas of reform.

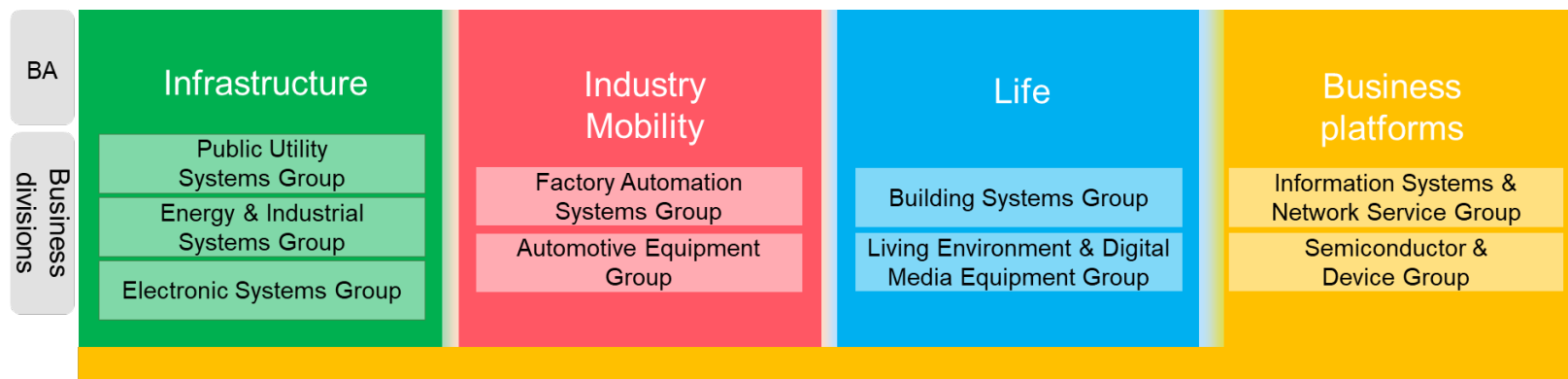
Investigative Committee's specific recommendations	Company's responses
<p>① Take steps to prevent excessive countermeasures from posing undue burden at the workplace level.</p>	<ul style="list-style-type: none"> • The head office's Quality Assurance & Management Department maintains a presence at all sites, via which it ascertains conditions at those sites and coordinates with head office. Requests company-wide support as needed. • The quality governance subcommittee periodically checks that measures are effective and that the necessary resources are deployed, and provides company-wide support as necessary.
<p>② Deploy individual workplace initiatives horizontally.</p>	<ul style="list-style-type: none"> • Through quality audits and trouble consultations, initiatives of each site are to be drawn up and deployed horizontally. • The company will work to optimize section headcounts and establish intermediate positions (deputy section chief, team leader, etc.).
<p>③ Collaborate with manufacturing sites</p>	<ul style="list-style-type: none"> • As part of the Corporate Quality Assurance Reengineering Group tours of manufacturing sites, discussions on quality assurance reform initiatives are held.

4. Investigative Committee's specific recommendations and the company's responses

Investigative Committee's specific recommendations	Company's responses
<p>④ Prioritize initiatives for branch factories.</p>	<ul style="list-style-type: none"> • Implementing integrated management and operations at main factories. • Quality audits by the Corporate Quality Assurance Reengineering Group are conducted annually at 21 works sites as well as seven branch factories.
<p>⑤ Support system to handle, e.g., negotiations with foreign certification authorities.</p>	<ul style="list-style-type: none"> • The Corporate Quality Legal Department within the Corporate Quality Assurance Reengineering Group handles this, including through the use of external organizations.
<p>⑥ Use a tangible how-to format for education and training of managers and staff, changing management mindsets.</p>	<ul style="list-style-type: none"> • Training for all new section manager company-wide will incorporate specific instructions, including examples, on how to deal with problems that are reported to them.
<p>⑦ Rigorous employee education on quality.</p>	<ul style="list-style-type: none"> • On top of the conventional quality education provided so far, the company will add content on the improper practices recently uncovered and roll out newly organized education programs to employees again. • Look at whether to revise internal rules and work to simplify them and develop specific measures in response to the improper quality control practices discovered. • In addition to the compliance education already provided to executives, the company plans to provide education programs on quality governance conducted by external lecturers.

The company also seeks to resolve the three organizational culture problems identified by the Investigative Committee as direct underlying causes of the improper practices (⑤ Closed organizational system due to independence of individual sites, ⑥ Highly independent business unit system, ⑦ The focus of management) through a **reform of management structure and a reform of management policies/guidelines**.

- As of April this year, the company has classified nine business groups into **four business areas (BAs)**: Infrastructure, Industry and Mobility, Life, and Business Platforms.
- It has also appointed **four BA Owners** tasked with implementing initiatives to maximize corporate value **over the medium/long term** based on a **high-level overview of the entire company's business** with a view to addressing social issues.
- They will work to enhance the competitiveness of the business groups' individual businesses while also helping to **reform the inward-looking organizational culture**—i.e., insular at the site and business group level—through BA-driven efforts to **strengthen cross-organizational functions**.



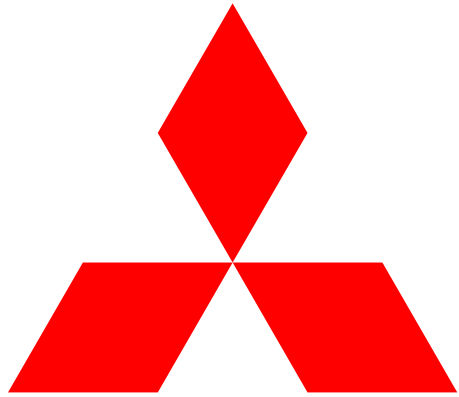
BA: Business Area

- The company will **expand the chief officer structure** in corporate divisions
⇒ Drive company-wide management from a **high-level perspective, strengthen the entire company's shared capabilities, develop infrastructure, implement effective risk management and control, and support flexible business management.**

- The company's management policies will clearly state that the **tasks of resolving social issues through the company's business and achieving sustainability are fundamental to its operations.** (May 2022)
⇒ Through internal newsletters and executive town hall meetings, this policy will be clearly communicated across the company to ensure that all executives and employees **recognize that they are part of this effort, fostering an awareness of social responsibility and norms.**

- As disclosed in the October 20, 2021 press release “Mitsubishi Electric Announces Establishment of Governance Review Committee,” **the company set up a Governance Review Committee comprising external experts who do not have any business relationship with Mitsubishi Electric.** The committee’s objectives include assessing the company’s internal control and governance systems and clarifying the accountability of Executive Officers and Directors regarding improper quality control practices.
- The committee intends to assess the accountability of Executives Officers and Directors based on the results of the Investigative Committee’s investigation, and based on the committee’s Reports, the company will also consider what executive disciplinary action should be taken to address the improper quality control practices identified in the Investigative Committee’s second report which was released and received on December 23, 2021, and thereafter.

- So far, investigations have been completed across 14 of the total of 22 sites, and the company will continue to **provide its full support to the Investigative Committee** with a view to arrive at a full picture of the improper quality control practices and root them out as the company's top priority.
- The company will **conduct detailed analyses** of the improper quality control practices identified to this point, and **implement extensive recurrence prevention measures tailored to each of its sites**.
- Under its new management structure, the company will steadily implement its three key areas of reform, which will include carrying out its responses to the Investigative Committee's specific recommendations, **as it strives to regain the trust of all stakeholders, including society at large, its customers, business partners, and employees**.



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