

# **Update on Investigation into Improper Quality Control Practices and Implementation of Reform Roadmap (Final Report)**

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**October 20, 2022**

**Mitsubishi Electric Corporation**

- Mitsubishi Electric has taken a range of actions since the discovery of the improper quality control practices, starting with those of the HVAC for railcars and other products for railcars at the company's Nagasaki Works in Japan, which came to light in June 2021. This has included the establishment of an emergency response division led by the company president and the Investigative Committee chaired by Hiroshi Kimeda, Partner (Attorney-at-law) at Nishimura & Asahi, as announced on July 2, 2021, after which the company cooperated with the in-depth investigation into the facts and root causes underlying the improper inspection practices concerning quality control. Also, working under a new management structure, including a new company president appointed in July 2021, the company formulated in October 2021 a program of reforms in three key areas—quality assurance, organizational culture and governance—including measures designed to prevent any recurrence of improper quality control practices, along with other wide-ranging company-wide reforms.
- In addition, in October 20, 2021, the company established a Governance Review Committee composed of outside experts and chaired by Toshiaki Yamaguchi, Managing Partner (Attorney-at-Law, Certified Fraud Examiner), Yamaguchi Toshiaki Law Office. This Board-commissioned body was tasked with assessing Executive Officer and Director's responsibility and the company's overall internal controls and governance.

- **Mitsubishi Electric has received the update on the results of the investigation into improper quality control practices (Fourth and Final Report) from the company's Investigative Committee of outside experts, which has completed its investigation of improper quality control practices in all 22 sites of the company.** Today the company also received its Governance Review Committee's evaluations on the company's overall governance and internal controls as well as related recommendations, and reports on additional assessment and evaluation on Executive Officer and Director responsibility. In addition, the company announced today **its summary of the current situation, the progress of three reforms, and planned remedial measures to be implemented going forward.**
- Mitsubishi Electric again expresses its sincere apologies to all customers, valued stakeholders and broader society for the impact of these incidents over a period of approximately 16 months, starting with those of the HVAC for railcars and other products for railcars at the company's Nagasaki Works in Japan, which came to light in June 2021.

- This situation as well as the findings and recommendations of both committees are being taken very seriously by the company. Going forward, Mitsubishi Electric is determined to emerge as a new company by working to prevent any recurrence across the entire Group as well as by implementing three key reforms to regain public and stakeholder trust.
- The company's management is committed to demonstrating its earnestness to employees by fundamentally overhauling existing internal-communication practices and taking responsibility for getting involved in efforts to correct issues at the workplace level. At the same time, Mitsubishi Electric's management will resolutely forge ahead with efforts to institute company-wide systems, frameworks and other reforms needed to eradicate any improper quality-control practices.

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- The Investigative Committee, established on July 2, 2021 and chaired by an outside attorney, surveyed all company employees in Japan and then used objective data and other information to verify the consistency of the responses it received. It also conducted forensic investigations of Executive Officers and other relevant individuals and carried out interviews and inquiries with relevant individuals at the affected sites.
- Until The Fourth and Final report received today was completed, the Committee **had identified 2,362 cases** necessarily to investigate in total from results of **employee questionnaires (targeting 55,302 employees, response rate is 93%)** along with the new additional information obtained from interviews and submitted to the Committee individually, and **it had finished all the investigations across Mitsubishi Electric's 22 sites in Japan.**
- **The total number of the cases** reported from the First report through Fourth and Final report is **197.**
- The Fourth and Final report includes occurrences that came to light since the Third report was received and disclosed on May 25, 2022.(See pages 7-10 for an overview)

## ■ Overview of newly reported incidents of improper quality control practices

### ① Public Utility Systems Group [15 cases]

#### Improper quality control practice

\* Itami Works [10 cases]

\* Nagasaki Works [3 cases]

\* Communication Networks Center [2 cases]

- Delayed notification of change of electrical equipment “type classification”
- Inspection conditions differing from customer specifications

### ② Energy & Industrial Systems Group [5 cases]

#### Improper quality control practice

\* Energy Systems Center [1 case]

- Some improper entries made in turbine generator test records

\* Transmission & Distribution Systems Center [4 cases]

- Some improper practices in test shipments of shell-type transformers
- Some improper practices in tests of accessory products

Additionally, 2 other cases

## ■ Overview of newly reported incidents of improper quality control practices

### ③ Building Systems Group [2 cases]

#### Improper quality control practice

##### \* Inazawa Works [2 cases]

- Partial noncompliance with the Electrical Appliances and Materials Safety Act for building equipment controllers

Additionally, 1 other case

### ④ Electronic Systems Group [2 cases]

#### Improper quality control practice

##### \* Communication Systems Center [2 cases]

### ⑤ Living Environment & Digital Media Equipment Group [3 cases]

#### Improper quality control practice

##### \* Nakatsugawa Works [3 cases]

- Some improper entries made in test records for industrial fans
- Some improper entries made in test records for electric fans

Additionally, 1 other case



## ■ Overview of newly reported incidents of improper quality control practices

### ⑥ Factory Automation Systems Group [1 case]

#### Improper quality control practice

##### \* Nagoya Works [1 case]

### ⑦ Automotive Equipment Group [42 cases]

#### Improper quality control practice

##### \* Himeji Works [33 cases]

- Some improper practices in tests of pressure sensors
- Some improper practices in tests of cam angle sensors
- Some improper practices in tests of fuel temperature/pressure sensors

Additionally, 30 other cases

##### \* Sanda Works [9 cases]

- Some improper practices in tests of car navigation products, etc
- Some improper practices in tests of EGR valves
- Some improper practices in tests of audio units

Additionally, 6 other cases

- In cases where improper quality control practices constituted breaches of applicable laws/standards, this information was provided to the related organizational units and corrections were implemented.
  - The company is working with customers to resolve cases in which misconduct impacted contractual requirements
  - Measures to prevent any recurrence are being implemented in all cases.
  - With respect to improper quality control practices reported to the company following the Investigative Committees' third report, the company is informing customers about situations individually and taking steps to prevent any recurrence by carrying out three key reforms.
- \* Through the four investigative reports to date, no improper quality control practices have been confirmed at the five works (Shizuoka Works, Gunma Works, Kyoto Works, Industrial Mechatronics Systems Works, and High Frequency & Optical Device Works).

- Based on the Investigative Committee’s reports to date, the company newly analyzed the different types of improper quality control practices and their underlying causes, and reexamined any need to strengthen three key reforms that have been under way since October 2021.

**Result**

**Although no need for major changes in the direction of the reforms have been identified as a result, further efforts are being taken to prevent any recurrence that focus more on prevention.**

- As a result of the Corporate Quality Assurance Reengineering Group’s examination of work sites and conversations with employees, improper quality control practices have been categorized as below. **(Total 197 cases)**

Category	Number of cases	Generation status	Major Incident Categories	Background
Intentional misconducts	112 cases	Being particularly prevalent in certain business divisions.	Management was involved : 62 cases Nonconformance with customer contracts comprise the majority of cases 1) Test/inspections that differed from those specified contractually and were performed 2) Provided false reports on the assumption that product quality would not be materially affected	<ul style="list-style-type: none"> <li>Justification that there would not be any material problems with product quality.</li> <li>Lack of awareness of the need to take contracts with customer more seriously and a misguided belief that such improper quality control practices were permissible as long as product quality was maintained.</li> <li>Organizational leadership did not adequately ensure that customers were provided with sufficient technical explanations.</li> </ul>
Improper conducts due to negligence	85 cases	Found commonly in many Works	Possibilities of legal or regulatory violations : 10 cases	Lack of knowledge about laws and regulations as well as assumptions/preconceptions that led to a lack of attention to procedural details.

- The company, having analyzed the causes of the incidents, as shown below ①, ②, and ③
  - ① The following direct causes of improper conduct are thought to have been present at sites and divisions where improper quality control practices occurred
    - Work site heads and/or head office personnel **did not make necessary 4M (Man, Machine, Material, and Method) investments** because they did not properly highlight key issues, such as the size and technical/skill level of teams engaged in development & design and quality control.
    - Estimates of required human resource of design engineers were inadequate, **resulting in continuously high loads.**
    - **Did not have enough design reviewers** on site to support design personnel.
    - **Efforts to develop mechanisms and introduce digital tools to streamline the design process were inadequate.**
    - **Lack of opportunities or mechanisms to ensure that design & development offices sufficiently knew about and understood applicable laws, regulations and contracts.**
    - **Insufficient processes for providing customers with data-supported technical explanations** in accordance with basic quality-control principles.

- ② The company believes that improper conduct occurred, and indeed was allowed to persist, because **the existing company culture did not allow or encourage employees to speak up.**
- 1) It was not routine for work site heads to grasp workplace-level issues and share insights to find solutions, or take matters to the head office if necessary. **The lack of a healthy regime for two-way communication** likely led to many improper quality control practices persisting for extended periods of time.
    - Departmental and work site heads were unaware of the issues at the design and quality-control levels. When improper quality control practices were carried out, even at multiple sites, managers were unable to properly ascertain what was going on and thus were slow to address outstanding issues.
  - 2) In other cases, work site heads were aware that improper practices existed but neglected to report to or consult with the head office, indicating that **there were major problems with communication between work site heads and both head office personnel and Executive Officers.**
- ③ The company believes there is room for further improvement, not only in terms of quality issues but also in deploying predictive indicators and preventive measures, and in incorporating external perspectives when it comes to internal controls and governance, including inspections and audits.
- **Efforts must be made to develop adequate internal controls for effective prevention**, such as systems that detect predictive indicators or failures in workplaces, raise alarms and then facilitate improvements, especially before managers and other personnel are overwhelmed by problems due to the lack of communication mentioned in.

As mentioned in Summary (Analysis of causes) in page 12 and 13, the company will conduct a fundamental review of communication between work site employees, work site heads and head office managers, based on which it will build a company-wide framework to prevent improper quality control practices from arising in the first place, with managers taking responsibility for getting involved in resolving the issues faced at the design and quality-control levels. The company, which considers such efforts to be crucial to rebuilding Mitsubishi Electric, will carry out reforms in the three key areas of quality assurance, organizational culture and governance.

### (1) Quality assurance reforms—Revising engineering processes

- ① Create an environment that facilitates reliable workplace management, for example, **by adding more personnel, streamlining work processes**, and rightsizing managerial scopes based on recognition of design and quality-control resources and loads
- ② **Frontload development and design**, for example, by assigning more reviewers where needed to improve review effectiveness, etc.
- ③ Deploy **data-driven quality control and procedures**, and have **managers communicate such actions to customers**

Based on the above ①, ②, and ③,

- Provide customers with technically correct explanations
- Reduce workloads by having managers communicate and negotiate with customers.
- Restructure **the organization so that there is no need to engage in improper quality control practices in the first place.**

## (2) Organizational culture reforms -Facilitating two-way communication-

- ① **Senior management will drive reforms** through coaching and town-hall meetings for people in leadership positions, and also through communications from Executive Officers via internal social media networks, etc.
- ② The company will **promote communication** and help people to connect with each other within and across departments to build a self-initiative organization. This will include implementing cross-workplace/department personnel rotations and one-on-one meetings, and also creating guidelines for psychological safety, casual conversations and work-related discussions.
- ③ The company will **institute behavioral changes to ensure that managers actively listen for and seek to understand workplace issues** rather than waiting for people to report them, **thus facilitating organizational solutions.**

Based on the above ①, ②, and ③,

- Open up **two-way lines of communication**
- Cultivate a **culture in which people feel comfortable in raising issues with their managers, and also in which people collaborate to solve problems.**

### (3) Governance reforms -Building a compliance system focused on prevention-

- ① Based on a review of Board of Directors composition that was conducted over the past year, mechanisms will be instituted to share important information fully, especially with outside directors, and **further strengthen the Board of Directors' monitoring functions.**
- ② Strengthen cross-organizational functions company-wide, establish internal controls to detect predictive indicators and prevent problems, and **strengthen company-wide risk-control functions.**
- ③ Consistently accelerate and enhance the three key reforms through **monitoring by the Board of Directors with a majority of outside directors, with an emphasis on stakeholder perspectives**

Based on the above ①, ②, and ③,

- Establish **more efficient and effective governance focused on identifying predictive indicators and preventing problems.**



The company will also address the recommendations of the Investigative and Governance Review committees as it strengthens and accelerates the three key reforms targeting quality assurance, organizational culture and governance.

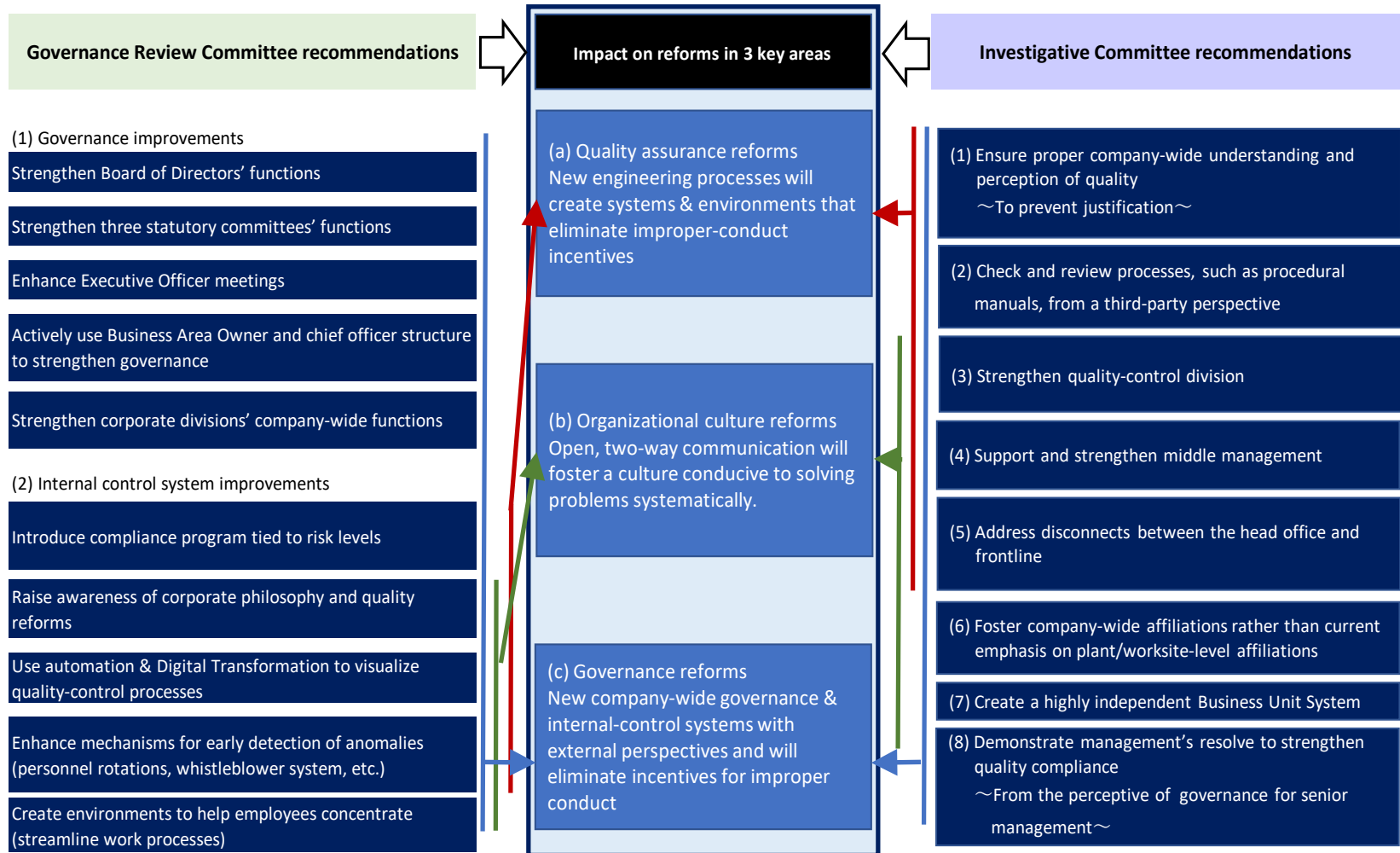


Figure 1: Recommendations by Investigative and Governance Review committees and company strategies

- Table 1 shows the progress of measures set out by the Corporate Quality Assurance Reengineering Group in October 2021.

**Table 1: Progress of quality assurance reforms (formulated in October 2021)**

Task	Progress as of October 2022 and efforts going forward
<p>① <b>Restructure control functions</b></p>	<p><b>1) Greater independence and separation of chains of command</b></p> <p>Since FY2023, the Corporate Quality Assurance Reengineering Group has had a staff of 224 and <b>Quality Assurance &amp; Management Departments belonging to this Group were set up with shipping authority at all work sites</b> and began operating (as of September 2022, Conducted 920 design and development review and 278 assessments for product shipping had been carried out).</p> <p><b>2) Strengthen quality assurance functions</b></p> <p>Started <b>conducting quality audits</b> with an emphasis on ensuring products conform to laws, standards and customer specifications, carrying them out at 10 sites as of FY2023 1H and planning to do so at all 28 sites, including branch factories, by March 2023.</p>

Table 1: Progress of quality assurance reforms (formulated in October 2021)

Task	Progress as of October 2022 and efforts going forward
<p>② Addressing technical capabilities and resources issues</p>	<p><b>1) Strengthen and ensure compliance with laws, regulations and public standards</b></p> <p>Since June 2022, employees have been using an external service to view up-to-date information on government revisions/abolitions of legal standards and standards documentation.</p> <p><b>2) Enhance quality through IT and digitalization</b></p> <p>The company is selecting and evaluating specific tools for the digital management of customer specifications and inspection data, starting the rollout in October 2022.</p> <p>The company determined which infrastructure needs to be strengthened for conformance with laws, standards, customer specifications and quality-assurance processes, for which some 25 billion yen is being invested in FY2023 and more than 30 billion yen in a two-year period to FY2024 1H.</p> <p><b>3) Conduct plant health checks</b></p> <p>To clarify problems (close calls and potential incidents) that tend to be overshadowed by quality issues, the company began conducting health checks at manufacturing sites. As of September 2022, checks had been conducted at 23 out of 27 eligible sites, including branch factories, illuminating the strengths/weaknesses of each site and revealing instructive examples that are now being shared broadly across the company.</p> <p><b>4) Train quality-control personnel</b></p> <p>Surveyed the skills of quality-assurance and quality-control departments at manufacturing sites to recognize the skill base, based on which weaknesses began to be addressed under an enhancement plan from July 2022.</p>

**Table 1: Progress of quality assurance reforms (formulated in October 2021)**

Task	Progress as of October 2022 and efforts going forward
<p>③ Enhance awareness of quality compliance</p>	<p><b>1) Revitalize personnel rotations</b></p> <p>Candidates selections for <b>quality assurance department rotations</b> from across manufacturing sites to be completed, and rotations are to take place in April 2023.</p> <p><b>2) Instill awareness of quality compliance</b></p> <p>On the newly designated <b>Company-wide Quality Day (July 2)</b>, the company president, business group heads and other leaders issued messages to employees.</p>

# 1. Quality assurance reforms —Revising engineering processes—

- The company will focus on enhancing engineering capabilities and reforming manufacturing processes by implementing priority initiatives shown in Table 2, aiming to create an organizational structure in which there is no incentive to engage in improper quality control practices in the first place, based on analysis of causes

**Table 2: Additional quality assurance reform measures (to eliminate incentives for improper quality control practices)**

Task	Specifics
① <b>Normalize manufacturing management</b>	<ol style="list-style-type: none"> <li>1) <b>Systematize methods for estimating required resources</b> and <b>assign additional</b> designers, design managers and testers.</li> <li>2) Use factory health checks to <b>recognize and facilitate upgrades of the 4M status at manufacturing sites.</b></li> <li>3) <b>Highlight new-product project progress</b> under the supervision of the Corporate Quality Assurance Reengineering Group.</li> <li>4) Create a company-wide <b>team of legal &amp; regulatory experts</b> within the Corporate Quality Assurance Reengineering Group.</li> </ol>
② <b>Design frontloading (enhance design and design-change validations)</b>	<ol style="list-style-type: none"> <li>1) Revise design-review (DR) methods, including and have external experts <b>introduce Quick DR<sup>(*)</sup></b> process for discovering/solving problems efficiently and quickly by focusing on changes).</li> <li>2) <b>Introduce a DR Senior Expert system</b> to foster designers.</li> <li>3) Have corporate departments <b>strengthen cross-department design functions</b> (share KPIs for design standardization, etc. with business divisions and clarify accountability and authority).</li> </ol>
③ <b>Data-driven quality control and procedures</b>	<ol style="list-style-type: none"> <li>1) <b>Use statistical quality control (SQC)</b> to conduct design studies and determine mass-production testing and inspection methods</li> <li>2) <b>Develop rules for submitting test specifications to customers</b> and closely <b>monitor</b> test specifications' adherence to customer agreements (and use this as a KPI for design and development review).</li> </ol>

(\*) Quick DR : Process to identify and solve problems efficiently in a short period of time by focusing on points of change/transformation

# 1. Quality assurance reforms —Revising engineering processes—

## Conducting quality audits (Industrial Mechatronics Systems Works)



### Quality assurance reforms at work sites

## Conducting factory health checks (Nagasaki Works)



## 2. Organizational culture reforms —Facilitating two-way communication—

- To reform organizational culture, two-way communication will be fostered with an emphasis on the following:
  - Currently working on senior management's self reformation, encouraging behavioral change among managers, and enlivening communication among all employees, etc.
  - These activities are being carried out **in harmony with efforts to renew the human resources management system** and in accord with the Robust Policies for overarching plan for organizational culture reforms created in March 2022 by the Team Sousei (Creation) company-wide transformation project, which kicked off in October 2021.
    - From May 2022, a total of 192 employees company-wide have been working on individual reform projects within each business division
    - A total of 198 meetings on the overarching plan have been held to explain these efforts to employees and to facilitate discussion.
- These organizational culture reform efforts, which have until now focused on Mitsubishi Electric, are now being expanded across the entire Group, including **affiliates launching initiatives tailored to their own particular track records**.
- Table 3 shows the progress of organizational culture reforms and efforts going forward.

**Table 3: Progress of organizational culture reforms and efforts going forward**

Task	Progress as of October 2022, efforts going forward
<b>◆Measures to improve the company's outmoded culture</b>	
<b>①Promote positive, interactive communication Group-wide</b>	<ul style="list-style-type: none"> <li>• Encouraging people to greet and thank each other and otherwise speak with respect, and rolling out guidelines on psychological safety, casual conversations and work-related discussions</li> <li>• Accelerating the rollout of executive coaching for managers</li> <li>• Trial introduction of one-on-one meetings (October 2022)</li> </ul>
<b>②Revise obsolete, burdensome work practices and emphasize productivity</b>	<ul style="list-style-type: none"> <li>• Senior managers are leading efforts to reduce workloads</li> <li>• Using DX to transform work practices</li> <li>• Issued meeting guidelines company-wide (October 2022)</li> </ul>
<b>③Trust each other and share information transparently</b>	<ul style="list-style-type: none"> <li>• Increase the use of internal social media and revamp the intranet, etc. to facilitate direct communication with employees</li> <li>• Enhance disclosures about the human resources system (evaluation standards, processes, etc.) (December 2022)</li> </ul>



**Table 3: Progress of organizational culture reforms and efforts going forward**

Task	Progress as of October 2022, efforts going forward
<b>◆Measures to build new culture</b>	
<b>④Facilitate self-initiative among individuals and units by clarifying &amp; delegating roles, authority and accountability</b>	<ul style="list-style-type: none"> <li>• Review middle manager job scopes and authority (progressive effort starting in October 2022)</li> <li>• Place greater emphasis on human resource management in managerial appointments/dismissals (October 2022)</li> </ul>
<b>⑤Collaborate across divisions to maximize Group strength</b>	<ul style="list-style-type: none"> <li>• Rotate people across different work sites/roles (2,264 rotations in April–September 2022)</li> <li>• Stimulate discussions in workshops (4 in total for all executives, 5 in total for executives and upper managers at head office, and 2 in total for Senior General Managers (Works, Centers, Branch Offices) to further problem-solving among upper managers, including executives and work site heads, from a company-wide perspective</li> </ul>
<b>⑥Increase opportunities to learn from each other and grow</b>	<ul style="list-style-type: none"> <li>• Establish the “Melcollege” learning community (October 2022)</li> <li>• Revise systems for encouraging voluntary transfers (October 2022)</li> <li>• Established Career Consulting Section to support employee’s career self-reliance development (October 2022)</li> <li>• Establish internal committee to revise systems governing the treatment of employees (June 2022)</li> </ul>
<b>◆Examples of other measures considered/underway within business divisions etc.</b>	<ul style="list-style-type: none"> <li>• Hold lectures, open-discussion sessions, etc.</li> <li>• Introduce shared-desk workplace layouts</li> <li>• Adopt the use of “thank-you cards”</li> <li>• Set up transformation projects at affiliates</li> </ul>

## 2. Organizational culture reforms —Facilitating two-way communication—

### 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

#### Measures by “Team Sousei”, a company-wide transformation project



Discussion with President Uruma on transformation



Meeting on measures of communication

## 2. Organizational culture reforms —Facilitating two-way communication—

**Briefing Seminar to Employees  
at Kamakura Works**



**Briefing Seminar to Employees  
at Living Environment Systems Laboratory**



**Transformation projects within each business division and affiliates**



**Discussion on transformation projects  
(Mitsubishi Electric Building Solutions)**



**Round table discussion by working parents**

- Governance reforms are a top priority that management must commit to when the company is to restore public trust and continue building corporate value. As such, **the company will build systems for governance and internal control that incorporate external perspectives and eliminate any incentive to act improperly.** Specifically, the company pledges to take the following three steps (①—③):
  - ① **Board of Director reforms to strengthen management supervisory functions**
    - Based on these results of evaluations and recommendations of the Governance Review Committee, the Board of Directors is now working on improvement of its operations, including setting more appropriate priorities and further strengthening its monitoring functions based on external perspectives.
  - ② **Strengthen cross-organizational functions company-wide and build an internal control system that emphasizes predictive indicators and prevention**
    - The CRO will supervise company-wide risk-control functions
    - Reform the internal control system to make it simpler and more effective, especially in terms of prevention.
  - ③ **Monitoring of the three company-wide reforms by Board of Directors with an emphasis on stakeholder perspectives**
    - Form a Three Key Reforms Div. (Provisional) that reports directly to the company president、 strengthen monitoring and supervision by the Board of Directors
    - Disclose information on the progress of the three company-wide reforms to stakeholders properly
- Progress of governance reforms and efforts going forward are mentioned in Table 4

Table 4: Progress of governance reforms and efforts going forward

Task	Progress as of October 2022 and efforts going forward
<p>① Strengthen supervisory functions (Board reforms)</p>	<p>In light of the improvements made to Board of Directors—<b>appointment of outside directors as Board chairperson and heads of the three statutory committees, appointment of two directors with manufacturing industry experience</b>, and a majority of outside directors—the following additional improvements will be made to further strengthen the Board’s monitoring role.</p> <p><b>1) Set priority agenda</b></p> <ul style="list-style-type: none"> <li>• Review the Board’s agenda and decide on important items to discuss, including the company’s vision and reforming organizational culture: from July 2022 (after appointment of directors).</li> <li>• In the Board’s agenda, include the top-priority task of monitoring the progress and execution of the three reforms including recurrence-prevention of improper quality control practices.</li> </ul> <p><b>2) Set priority key themes for the three statutory committees</b></p> <ul style="list-style-type: none"> <li>• Nomination Committee: Leads succession planning for outside directors and supervises company president succession planning.</li> <li>• Compensation Committee: Operates the newly introduced executive officer compensation system.</li> <li>• Audit Committee: Strengthen coordination with Board and Executive Officers to monitor key reforms.</li> </ul> <p><b>3) Strengthen functions of the Board of Directors Secretariat</b></p> <ul style="list-style-type: none"> <li>• Increase the number of full-time personnel and number of nonbusiness division personnel concurrently in the Secretariat</li> <li>• Improve effectiveness including effective monitoring by strengthening collaboration between the Board of Directors Secretariat and Audit Committee Secretariat</li> <li>• Hold regular open discussions with Executive Officers to improve information sharing with outside directors, and also step up on-site inspections.</li> </ul> <p><b>4) Continue third-party evaluations of Board’s effectiveness</b></p> <ul style="list-style-type: none"> <li>• Evaluate composition and operations, and improve monitoring functions.</li> </ul>

Table 4: Progress of governance reforms and efforts going forward

Task	Progress as of October 2022 and efforts going forward
<p>② <b>Strengthening of cross-organizational functions and improvement of internal control system by head office corporate divisions</b></p>	<p><b>1) Strengthen cross-organizational functions of head office corporate divisions</b></p> <ul style="list-style-type: none"> <li>• Corporate divisions provide checks and balances on business divisions' activities. Also, the CRO, Corporate Risk Management Div. and Corporate Legal &amp; Compliance Div. guide corporate-related divisions in properly fulfilling their checks-and-balances roles and formulating/implementing company-wide strategies for internal controls that emphasizes predictive indicators and prevention.</li> </ul> <p><b>2) Build internal control system that emphasizes predictive indicators and prevention</b></p> <ul style="list-style-type: none"> <li>• Use risk analysis to identify key themes and predictive analysis to identify priority work sites (risk recognition).</li> <li>• Reevaluate self-inspection activities and introduce risk-response audits to eradicate improper conduct due to unawareness and negligence and reduce/simplify unproductive work practices.</li> <li>• Utilize DX to expand mechanisms that prevent improper conduct.</li> <li>• Nurture an organizational culture as well as mechanisms that make it easier for employees to speak up, facilitating such behavioral changes by communicating the Code of Conduct, strengthening the internal whistleblower system and conducting timely surveys.</li> </ul> <p><b>3) Formulate a compliance program</b> (trial from FY2024)</p> <ul style="list-style-type: none"> <li>• Formulate a Compliance Program that embodies internal controls focused on prevention and implement it as a common framework across the Group, and encourage all Executive Officers and employees to work to prevent improper conduct before it occurs.</li> </ul>

Table 4: Progress of governance reforms and efforts going forward

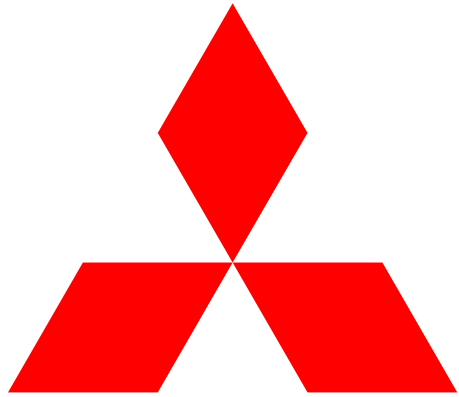
Task	Progress as of October 2022 and efforts going forward
<p>③ <b>Monitoring of company-wide reforms by the Board of Directors with an emphasis on stakeholder perspectives</b></p>	<ul style="list-style-type: none"> <li>• Taking over the functions of the emergency response division, the CSO, CRO and other relevant executive officers will form a <b>Three Key Reforms Div. (Provisional)</b>, reporting directly to the company president, to ensure that the three company-wide reforms of quality assurance, organizational culture and governance are carried out. The Board of Directors with a majority of outside directors will monitor and supervise the progress of these efforts.</li> <li>• Properly disclose information on the progress of the three company-wide reforms to stakeholders—shareholders, investors, employees, customers and business partners—and pursue opportunities for dialogue through investor relations and shareholder relations programs, integrated reports, and so forth.</li> <li>• Consider diverse opinions of stakeholders and continuously accelerate and improve the three company-wide reforms as well as disclose and explain information.</li> </ul>

- As disclosed in the October 20, 2021 press release “Mitsubishi Electric Announces Establishment of Governance Review Committee,” the Board of Directors established a Governance Review Committee comprising external experts who do not have any business relationship with Mitsubishi Electric. The committee’s activities have included assessing the company’s internal control and governance systems and clarifying the responsibility of Executive Officers and Directors regarding improper quality control practices.
- In light of the Governance Review Committee’s report on additional assessments and evaluations of Executive Officer and Director’s responsibility for improper quality control practices received today, Mitsubishi Electric takes the findings of this report seriously. At meetings of the Board of Directors and Compensation Committee today, decisions were made on disciplinary action for the Executive Officers and Directors involved.
- For details, please see press release titled “Mitsubishi Electric Announces Disciplinary Actions against Directors & Officers in Connection with Improper Quality Control Practices” dated October 20, 2022.



- **Receipt of the final report marks the completion of the Investigative Committee's investigation into improper quality control practices at Mitsubishi Electric**, which began with a questionnaire survey conducted by the Investigative Committee of external experts in July 2021.
- **The company will continue to pursue reforms in three key areas as a top priority.** Also, the Board of Directors will monitor the progress of these efforts and the company will provide updates to internal and external stakeholders via its website.
- Based on the lessons and insights provided by the investigation, the company's CQO has begun conducting quality assessments **at Group affiliates** as well to grasp the actual situation. Based on the results of the assessments and **depending on each Group affiliate's traits, Mitsubishi Electric will shed a light on improvement of their capabilities to prevent improper quality control practices before they manifest.** Improvements tailored to each company will be implemented and instructive examples will be shared across the Group as part of ongoing efforts to institute systems and frameworks that do not allow improper quality control practices to arise in the first place.

- Mitsubishi Electric again expresses its most sincere apology to all stakeholders for the impact the Investigative Committee's investigation over a period of approximately 16 months.
- Drawing on the lessons of these incidents, the entire Group is dedicated to reembracing its fundamental commitment to contribute to society with reliable quality and ensuring that such incidents do not recur.
- Management and employees will work as one and spare no effort to carry out reforms aimed at forging a new Mitsubishi Electric that is fully capable of earning its customers' trust and fulfilling the expectations of its stakeholders.



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