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

**TOKYO, October 20, 2022** – [Mitsubishi Electric Corporation](https://www.mitsubishielectric.com) (TOKYO: 6503) announced today that it 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, 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. 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’s 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.

So far, Mitsubishi Electric has taken a range of actions since the discovery of the improper quality control practices. 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 again expresses its sincere apologies to all customers, valued stakeholders and broader society for the impact of these incidents. 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.

### 1. Results of Investigative Committee’s investigation

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. Table 1 provides an overview.

**Table 1: Overview of newly reported incidents of improper quality control practices**

	Business Group	Improper quality control practice
①	Public Utility Systems Group	1. Itami Works: 10 cases 2. Nagasaki Works: 3 cases 3. Communication Networks Center: 2 cases ① Delayed notification of change of electrical equipment “type classification” ② Inspection conditions differing from customer specifications
②	Energy & Industrial Systems Group	1. Energy Systems Center: 1 case ① Some improper entries made in turbine generator test records 2. Transmission & Distribution Systems Center: 4 cases ① Some improper practices in test shipments of shell-type transformers ② Some improper practices in tests of accessory products Additionally, 2 other cases
③	Building Systems Group	1. Inazawa Works: 2 cases ① Partial noncompliance with the Electrical Appliances and Materials Safety Act for building equipment controllers Additionally, 1 other case
④	Electronic Systems Group	1. Communication Systems Center: 2 cases

⑤	Living Environment & Digital Media Equipment Group	1. Nakatsugawa Works: 3 cases ① Some improper entries made in test records for industrial fans ② Some improper entries made in test records for electric fans Additionally, 1 other case
⑥	Factory Automation Systems Group	1. Nagoya Works: 1 case
⑦	Automotive Equipment Group	1. Himeji Works: 33 cases ① Some improper practices in tests of pressure sensors ② Some improper practices in tests of cam angle sensors ③ Some improper practices in tests of fuel temperature/pressure sensors Additionally, 30 other cases  2. Sanda Works: 9 cases ① Some improper practices in tests of car navigation products, etc. ② Some improper practices in tests of EGR valves ③ 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.

## 2. Summary

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. 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, including by revising engineering processes, cultivating a culture of two-way communication, and establishing internal controls and governance that focus more on prevention.

### (1) Summary of cases identified in Investigative Committee's report

The Investigative Committee's report identifies 197 cases in 22 sites of the company, categorized as follows:

- ① Intentional misconducts: 112 cases in total, of which management was involved in 62 cases. Nonconformance with customer contracts comprise the majority of cases, with such incidents being particularly prevalent in certain business divisions.
- ② Improper conducts due to negligence: 85 cases in total, of which 10 involved possibilities of legal or regulatory violations.

The cases are due to lack of procedural compliance based on lack of legal and regulatory knowledge, found commonly in many sites.

## (2) Case categorizations

As a result of the Corporate Quality Assurance Reengineering Group's examination of work sites and conversations with employees based on the Investigation Committee's investigation, improper quality control practices have been categorized as below.

### ① Intentional misconducts

Intentional misconducts were prevalent in certain business divisions and can be divided mainly into two types:

- 1) Test/inspections that differed from those specified contractually and were performed to meet delivery times or to compensate for problems with test equipment that made it difficult to meet contractually obligated test/inspection processes. (Example: The contract requires inspection of all items but since the test equipment capacity was insufficient, employees performed, without notifying the customer, a sampling inspection on the assumption that process capability was high and product variability was low.)
- 2) Inadequate technical validation at the planning/conceptual stage, or when making design changes, which led to an inability to meet customer requirements due to design-related product variability, but employees provided false reports on the assumption that product quality would not be materially affected

Many of these improper quality control practices were carried out without any technical explanation being offered to customers under the justification that there would not be any material problems with product quality. The company believes that the underlying cause of such practices was a 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. Investigations also uncovered cases in which employees, having become aware of problems with certain products that had gone into mass production, proposed design changes but customers subsequently rejected them, indicating that organizational leadership did not adequately ensure that customers were provided with sufficient technical explanations.

### ② Improper conducts due to negligence

This type of improper conducts was common across many sites and is thought to be due to a lack of knowledge about laws and regulations as well as assumptions/preconceptions that led to a lack of attention to procedural details.

## (3) Analysis of causes

The company, having analyzed the causes of the incidents, as shown below ①, ②, and ③, understands that to eliminate such causes it cannot rely solely on the independent efforts and creativity of personnel in its work sites and business divisions. Instead, company management also must take the initiative, carefully identify

priority issues and concerns at work site and divisional levels, and then collaborate on devising solutions.

① The following direct causes of improper conduct are thought to have been present at sites and divisions where improper quality control practices occurred:

- 1) 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. Other factors included inadequate testing and evaluation environments and management of individual project progress. For instance, some tests were needlessly repeated multiple times. Such problems led to delayed deliveries or performance assessments that did not adequately validate/verify test results.
- 2) Estimates of required human resource of design engineers were inadequate, resulting in continuously high loads. Some sites also did not have enough design reviewers on site to support design personnel. At the same time, efforts to develop mechanisms and introduce digital tools to streamline the design process were inadequate. As a result, much time and many people were required to develop novel and highly sophisticated projects, after which assessments and reviews suited to conventional model designs and the application of existing technologies were insufficient, both qualitatively and quantitatively.
- 3) There also was a lack of opportunities or mechanisms to ensure that design & development offices sufficiently knew about and understood applicable laws, regulations and contracts. In addition, there were insufficient processes for providing customers with data-supported technical explanations in accordance with basic quality-control principles. As a result, in some cases employees did not carry out necessary procedures. For example, after signing contracts some customers agreed to changes in test specifications but they were not provided with updated specification documents.

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. In many cases involving issues at the design and quality-control levels mentioned in ①, departmental and work site heads were unaware of the problems. The Investigative and the Governance Review committees also pointed out that 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. Moreover, 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. 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 ②.

### **3. Progress of and path ahead for key reforms needed to prevent recurrences**

As mentioned in “(3) Analysis of causes” of “2. Summary” above, 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, the company aims to provide customers with technically correct explanations and reduce workloads by having managers communicate and negotiate with customers. The goal is to 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, the company aims to open up two-way lines of communication and cultivate a culture in which people feel comfortable in raising issues with their managers, and also in which people collaborate to solve problems.

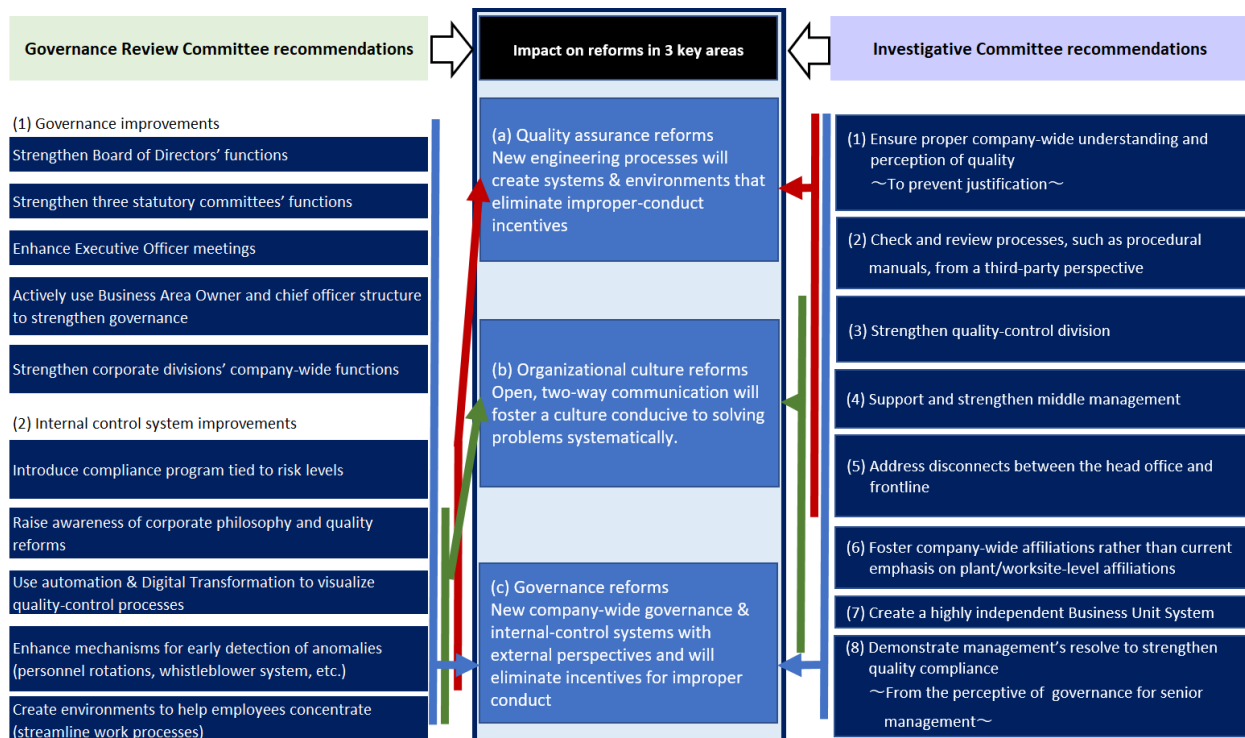
(3) Governance reforms—Building a compliance system focused on prevention

- 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, the company aims to 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).

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



The following are the details of reforms to be carried out in three key areas.

(1) Quality assurance reforms—Revising engineering processes

Table 2 shows the progress of measures set out by the Corporate Quality Assurance Reengineering Group in October 2021. In addition to efforts currently underway, the company will focus on enhancing engineering capabilities and reforming manufacturing processes by implementing priority initiatives shown in Table 3, 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 “(3) Analysis of causes” of “2. Summary” above.

**Table 2: Progress of quality assurance reforms (formulated in October 2021)**

Task	Progress as of October 2022 and efforts going forward
①Restructure control functions	<p>1) Greater independence and separation of chains of command            Since FY2023, the Corporate Quality Assurance Reengineering Group has had a staff of 224 and Quality Assurance &amp; Management Departments belonging to this Group were set up with shipping authority at all work sites 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>2) Strengthen quality assurance functions            Started conducting quality audits 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>
②Addressing technical capabilities and resources issues	<p>1) Strengthen and ensure compliance with laws, regulations and public standards            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>2) Enhance quality through IT and digitalization            The company is selecting and evaluating specific tools for the digital management of customer specifications and inspection data, starting the rollout in October 2022.            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>3) Conduct plant health checks            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>4) Train quality-control personnel            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>



③Enhance awareness of quality compliance	<p>1) Revitalize personnel rotations Candidates selections for quality assurance department rotations from across manufacturing sites to be completed, and rotations are to take place in April 2023.</p> <p>2) Instill awareness of quality compliance On the newly designated Company-wide Quality Day (July 2), the company president, business group heads and other leaders issued messages to employees.</p>
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**Table 3: Additional quality assurance reform measures (to eliminate incentives for improper quality control practices)**

Task	Specifics
①Normalize manufacturing management	<p>1) Systematize methods for estimating required resources and assign additional designers, design managers and testers.</p> <p>2) Use factory health checks to recognize and facilitate upgrades of the 4M status at manufacturing sites.</p> <p>3) Highlight new-product project progress under the supervision of the Corporate Quality Assurance Reengineering Group.</p> <p>4) Create a company-wide team of legal &amp; regulatory experts within the Corporate Quality Assurance Reengineering Group.</p>
②Design frontloading (enhance design and design-change validations)	<p>1) Revise design-review (DR) methods, including and have external experts introduce Quick DR (process for discovering/solving problems efficiently and quickly by focusing on changes).</p> <p>2) Introduce a DR Senior Expert system to foster designers.</p> <p>3) Have corporate departments strengthen cross-department design functions (share KPIs for design standardization, etc. with business divisions and clarify accountability and authority).</p>
③Data-driven quality control and procedures	<p>1) Use statistical quality control (SQC) to conduct design studies and determine mass-production testing and inspection methods</p> <p>2) Develop rules for submitting test specifications to customers and closely monitor test specifications' adherence to customer agreements (and use this as a KPI for design development review).</p>

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

To reform organizational culture, two-way communication will be fostered with an emphasis on the following:

- Senior management will continue to drive new reforms through initiatives including coaching; active debating at workshops for executives, work site heads and other senior personnel to overcome departmental/organizational barriers; holding town-hall meetings to facilitate frank discussions with employees in workplaces; and engaging in dialogues with employees via internal social-media networks.
- To encourage behavioral change among managers, coaching is being expanded to managerial roles and one-on-one meetings, etc. are being held to actively listen to what managers have to say.
- Various measures to enliven communication among all employees are already underway, including encouraging people to greet and thank each other and otherwise speak to each other with respect; issuing

guidelines on psychological safety, casual conversations and work-related discussions; creating cross-department communities through learning opportunities; and promoting personnel exchanges across workplace and departmental lines.

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, and 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 4 shows the progress of organizational culture reforms and efforts going forward.

**Table 4: 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>	
①Promote positive, interactive communication Group-wide	<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>
②Revise obsolete, burdensome work practices and emphasize productivity	<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>
③Trust each other and share information transparently	<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>
<b>Measures to build new culture</b>	
④Facilitate self-initiative among individuals and units by clarifying & delegating roles, authority and accountability	<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>
⑤Collaborate across divisions to maximize Group strength	<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>

⑥ Increase opportunities to learn from each other and grow	<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>
Examples of other measures considered/underway within business divisions etc.	<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>

(3) Governance reforms—Building a compliance system focused on preventive measures

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, and based on the quality control issues raised by the Investigative Committee and the recommendations issued by the Governance Review Committee, 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

In FY2022–‘23, the company commissioned a third party (Board Advisors Japan, Inc.) to assess the Board of Directors’ effectiveness, based on which the following evaluations were received.:

<Results of evaluations by a third party>

- A number of efforts to improve the issues on Board of Directors’ effectiveness which were pointed out during last years’ assessment have been confirmed.
  - Strengthened supervisory functions by establishing a majority of independent outside directors
  - Newly appointed two people with manufacturing management experience
  - New chairperson set a more appropriate agenda and facilitated proceedings to enhance discussions
  - Meetings were made more efficient by providing reference materials in advance and sharing information
- Going forward, four specific issues for further effectiveness improvement are expected to address:
  - More advanced monitoring
  - Further enhancement of agendas and discussions
  - Further strengthening of Board of Directors Secretariat functions
  - Strengthening of Nomination Committee 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 relating to quality, labor, information breaches, legal violations, etc., and, based on the lessons learned from dealing with quality control issues, reform the internal control system to make it simpler and more effective, especially in terms of prevention.
  - Specifically, the company will develop a Compliance Program combining a wide range of measures to which all Executive Officers and employees must adhere. The program’s measures will include setting priority themes through risk assessments; strengthening mechanisms for inspections and training to eliminate low awareness; identifying predictive signs through factory health checks and engagement surveys and building systems to provide intensive support to key work sites; establishing systems that make it easier to raise issues, such as internal reporting systems, consultation systems and questionnaire surveys; and introducing systems that prevent improper conduct via digitalization.
- ③ Monitoring of the three company-wide reforms by Board of Directors with an emphasis on stakeholder perspectives
- Taking over the functions of the emergency response division established under the president in response to the quality issues that came to light in July 2021, the CSO, CRO and other relevant executives will form the Three Key Reforms Div. (Provisional) that reports directly to the company president to ensure that the company’s reforms in the key areas of quality assurance, organizational culture and governance are carried out. The Board of Directors with a majority of outside directors will monthly monitor and supervise the progress of these efforts from a broad perspective.
  - In addition, information on the progress of the three company-wide reforms will be disclosed properly to stakeholders, including shareholders, investors, employees, customers and business partners. Also, the company will pursue opportunities for dialogue through investor and shareholder relations programs, integrated reports, etc.
  - Instituting these processes will make it easier for the company to consider stakeholder opinions, continuously accelerate and improve its three company-wide reforms, and act accountably by disclosing and explaining information.

**Table 5: Progress of governance reforms and efforts going forward**

Task	Progress as of October 2022 and efforts going forward
① Strengthen supervisory functions (Board reforms)	<p>In light of the improvements made to Board of Directors—appointment of outside directors as Board chairperson and heads of the three statutory committees, appointment of two directors with manufacturing industry experience, and a majority of outside directors—the following additional improvements will be made to further strengthen the Board’s monitoring role.</p> <p>1) Set priority agenda</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</li> </ul>

	<p>(after appointment of directors).</p> <ul style="list-style-type: none"> <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>2) Set priority key themes for the three statutory committees</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>3) Strengthen functions of the Board of Directors Secretariat</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 (2 people added so far).</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>4) Continue third-party evaluations of Board’s effectiveness</p> <ul style="list-style-type: none"> <li>• Evaluate composition and operations, and improve monitoring functions.</li> </ul>
<p>② Strengthening of cross-organizational functions and improvement of internal control system by head office corporate divisions</p>	<p>1) Strengthen cross-organizational functions of head office corporate divisions</p> <ul style="list-style-type: none"> <li>• Strengthen cross-organizational initiatives 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>2) Build internal control system that emphasizes predictive indicators and prevention</p> <ul style="list-style-type: none"> <li>• Prioritization based on risk analysis Use risk analysis to identify key themes and predictive analysis to identify priority work sites (risk recognition).</li> <li>• Strengthen mechanisms for eliminating employee unawareness 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>• Expand mechanisms to prevent improper conduct Utilize DX to expand mechanisms that prevent improper conduct.</li> <li>• Institute mechanisms that make it easier to speak up 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>3) Formulate a compliance program (draft during FY2023, 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>

<p>③Monitoring of company-wide reforms by the Board of Directors with an emphasis on stakeholder perspectives</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 Three Key Reforms Div. (Provisional) , 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>
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#### 4. Executive responsibility and disciplinary action

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, 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.

#### 5. Looking ahead

While 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

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\* For details of the company’s efforts to restore trust and its roadmap for reform, visit: <https://reform.MitsubishiElectric.com/>

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.

Finally, 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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### **About Mitsubishi Electric Corporation**

With more than 100 years of experience in providing reliable, high-quality products, Mitsubishi Electric Corporation (TOKYO: 6503) is a recognized world leader in the manufacture, marketing and sales of electrical and electronic equipment used in information processing and communications, space development and satellite communications, consumer electronics, industrial technology, energy, transportation and building equipment. Mitsubishi Electric enriches society with technology in the spirit of its "Changes for the Better." The company recorded a revenue of 4,476.7 billion yen (U.S.\$ 36.7 billion\*) in the fiscal year ended March 31, 2022. For more information, please visit [www.MitsubishiElectric.com](http://www.MitsubishiElectric.com)

\*U.S. dollar amounts are translated from yen at the rate of ¥122=U.S.\$1, the approximate rate on the Tokyo Foreign Exchange Market on March 31, 2022