MITSUBISHI HEAVY INDUSTRIES LIMITED

GLASS LEWIS & Co.

Tokyo Stock Exchange: **7011**
ISIN: **JP3900000005**

MEETING DATE: 26 JUNE 2015
RECORD DATE: 31 MARCH 2015
PUBLISH DATE: 08 JUNE 2015

COMPANY DESCRIPTION

Mitsubishi Heavy Industries, Ltd. engineers, manufactures, and sells heavy machinery worldwide.

INDEX MEMBERSHIP: JAPAN TOPIX; TOPIX 500; NIKKEI 225; TOPIX 100
SECTOR: INDUSTRIALS
INDUSTRY: MACHINERY
COUNTRY OF TRADE: JAPAN
COUNTRY OF INCORPORATION: JAPAN
VOTING IMPEDIMENT: NONE
DISCLOSURES: NONE

OWNERSHIP | COMPANY PROFILE | REMUNERATION | PREVIOUS BOARD | VOTE RESULTS | APPENDIX

2015 ANNUAL MEETING

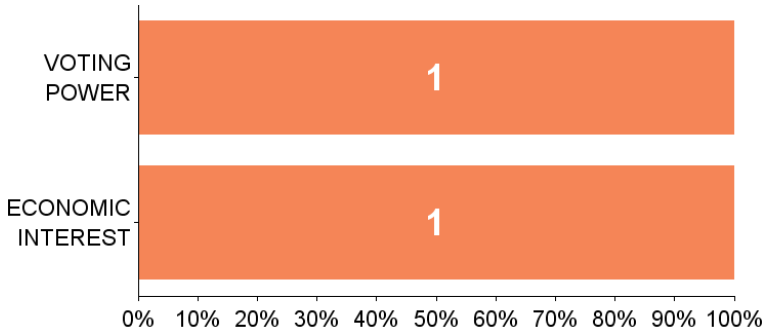
PROPOSAL	ISSUE	BOARD	GLASS LEWIS	CONCERNS
1.00	Allocation of Profits/Dividends	FOR	**FOR**	
2.00	Amendments to Articles	FOR	**FOR**	
3.00	Election of Directors (Non-Audit Committee Directors)	FOR	**SPLIT**	
3.01	Elect Hideaki Ohmiya	FOR	**AGAINST**	• **Board independence**
3.02	Elect Shunichi Miyanaga	FOR	**FOR**	
3.03	Elect Atsushi Maekawa	FOR	**FOR**	
3.04	Elect Yohichi Kujirai	FOR	**FOR**	
3.05	Elect Hisakazu Mizutani	FOR	**FOR**	
3.06	Elect Kazuaki Kimura	FOR	**FOR**	
3.07	Elect Masanori Koguchi	FOR	**FOR**	
3.08	Elect Yorihiko Kojima	FOR	**FOR**	
3.09	Elect Naoyuki Shinohara	FOR	**FOR**	
4.00	Election of Directors (Audit Committee Directors)	FOR	**SPLIT**	
4.01	Elect Eiji Isu	FOR	**FOR**	
4.02	Elect Tatsuhiko Nojima	FOR	**FOR**	
4.03	Elect Nobuo Kuroyanagi	FOR	**AGAINST**	• **Committee independence** • **Board independence**
4.04	Elect Christina Ahmadjian	FOR	**FOR**	
4.05	Elect Shinichiroh Itoh	FOR	**AGAINST**	• **Committee independence** • **Board independence**
5.00	Directors' Fees (Non-Audit Committee Directors)	FOR	**FOR**	
6.00	Directors' Fees (Audit Committee Directors)	FOR	**FOR**	
7.00	Performance-Linked Equity Compensation Plan	FOR	**FOR**	

SHARE OWNERSHIP PROFILE

SHARE BREAKDOWN

	1
SHARE CLASS	Common Stock
SHARES OUTSTANDING	3,355.6 M
VOTES PER SHARE	0.001
INSIDE OWNERSHIP	0.00%
STRATEGIC OWNERS**	0.00%
FREE FLOAT	59.70%

SOURCE CAPITAL IQ AND GLASS LEWIS. AS OF 17-APR-2015



TOP 20 SHAREHOLDERS

	HOLDER	OWNED*	COUNTRY	INVESTOR TYPE
1.	Sumitomo Mitsui Trust Asset Management Co., Ltd.	5.66%	Japan	Traditional Investment Manager
2.	BlackRock, Inc.	5.04%	United States	Traditional Investment Manager
3.	The Bank of Tokyo-Mitsubishi UFJ Ltd, Retirement Benefit Trust	3.74%	Japan	Corporate Pension Plan Sponsor
4.	Meiji Yasuda Life Insurance Co., Asset Management Arm	2.38%	Japan	Traditional Investment Manager
5.	Nomura Asset Management Co., Ltd.	1.68%	Japan	Traditional Investment Manager
6.	Mitsubishi UFJ Trust and Banking Corporation, Retirement Benefit Trust	1.37%	Japan	Corporate Pension Plan Sponsor
7.	Tokio Marine Asset Management Co., Ltd.	1.31%	Japan	Traditional Investment Manager
8.	The Vanguard Group, Inc.	1.31%	United States	Traditional Investment Manager
9.	Norges Bank Investment Management	0.95%	Norway	Government Pension Plan Sponsor
10.	FIL Limited	0.87%	Bermuda	Traditional Investment Manager
11.	BNY Mellon Asset Management	0.46%	United States	Traditional Investment Manager
12.	Daiwa Asset Management Co. Ltd.	0.40%	Japan	Traditional Investment Manager
13.	Mitsubishi UFJ Asset Management Co., Ltd.	0.39%	Japan	Traditional Investment Manager
14.	State Street Global Advisors, Inc.	0.30%	United States	Traditional Investment Manager
15.	Waddell & Reed Investment Management Co.	0.29%	United States	Traditional Investment Manager
16.	Neptune Investment Management Limited	0.28%	United Kingdom	Traditional Investment Manager
17.	Teachers Insurance and Annuity Association College Retirement Equities Fund	0.24%	United States	Traditional Investment Manager
18.	Henderson Global Investors Limited	0.20%	United Kingdom	Traditional Investment Manager
19.	Delta Lloyd Asset Management NV	0.17%	Netherlands	Traditional Investment Manager
20.	GE Asset Management Incorporated	0.16%	United States	Traditional Investment Manager

**COMMON STOCK EQUIVALENTS (AGGREGATE ECONOMIC INTEREST) SOURCE: CAPITAL IQ. AS OF 17-APR-2015*
***CAPITAL IQ DEFINES STRATEGIC SHAREHOLDER AS A PUBLIC OR PRIVATE CORPORATION, INDIVIDUAL/INSIDER, COMPANY CONTROLLED FOUNDATION, ESOP OR STATE OWNED SHARES OR ANY HEDGE FUND MANAGERS, VC/PE FIRMS OR SOVEREIGN WEALTH FUNDS WITH A STAKE GREATER THAN 5%.*

SHAREHOLDER RIGHTS

	MARKET THRESHOLD	COMPANY THRESHOLD[1]
VOTING POWER REQUIRED TO CALL A SPECIAL MEETING	3.0%	3.0%
VOTING POWER REQUIRED TO ADD AGENDA ITEM	1.0%[2]	1.0%[2]

[1]N/A INDICATES THAT THE COMPANY DOES NOT PROVIDE THE CORRESPONDING SHAREHOLDER RIGHT.
[2]SHAREHOLDERS MUST OWN THE CORRESPONDING PERCENTAGE OR 300 VOTING RIGHTS FOR AT LEAST SIX MONTHS.

1.00: ALLOCATION OF PROFITS/DIVIDENDS

PROPOSAL REQUEST:	Allocation of profits for the past fiscal year	**RECOMMENDATIONS & CONCERNS:**	
PRIOR YEAR VOTE RESULT (FOR):	N/A	**FOR-**	NO CONCERNS
BINDING/ADVISORY:	Binding		
REQUIRED TO APPROVE:	Majority		

SUMMARY

in JPY	FY 2015	FY 2014
Interim Dividend	5	4
Final Dividend	6	4
TOTAL DIVIDENDS FOR THE YEAR	**11**	**8**
Basic Earnings Per Share	32.90	47.81
DIVIDEND PAYOUT RATIO	**33.4%**	**16.7%**

GLASS LEWIS ANALYSIS

With limited exceptions, Glass Lewis will generally support the dividend policy proposed by a company. Here, we believe that the dividend payout is reasonable and we do not see any cause for concern in terms of the board's process in making this determination.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

2.00: AMENDMENTS TO ARTICLES

PROPOSAL REQUEST:	Approval to amend the Company's articles of incorporation	**RECOMMENDATIONS & CONCERNS:**	
PRIOR YEAR VOTE RESULT (FOR):	N/A	**FOR-**	NO CONCERNS
BINDING/ADVISORY:	Binding		
REQUIRED TO APPROVE:	67%		

BACKGROUND

The amended Companies Act, which took effect May 1, 2015 ("2015 Amended Companies Act"), introduced a new board structure: a one-tier board with one committee, specifically, the board of directors and an audit committee ("One-Tier Board with One Committee"). Companies with the One-Tier Board with One Committee structure will not be required to establish remuneration and nomination committees. Under this new structure, at least three non-executive members of the board must serve as audit committee members. A director who serves as an audit committee member ("Audit Committee Director") and a director who does not serve as an audit committee member ("Non-Audit Committee Director") must be elected under separate resolutions at the company's general meeting of shareholders. In addition, while Non-Audit Committee Directors will be limited to a term of one year, Audit Committee Directors will have a term of two years.

This proposal is seeking shareholder approval to amend its articles of incorporation to reflect its proposed shift to the One-Tier Board with One Committee structure and to reflect its compliance with regulatory requirements as a result of the proposed change in board structure.

The following is a summary of the significant changes:

PROPOSAL SUMMARY

PROPOSED AMENDMENTS	EFFECT ON SHAREHOLDER RIGHTS	ANALYSIS
ARTICLE 4 - Change in Board Structure: The Company will establish an audit committee and will shift its board structure from two-tier to One-Tier with One Committee.	Neutral	Technical amendments relating to the Company's board structure.
ARTICLE 20 - Change in Size of the Board of Directors and Audit Committee: The maximum number of directors that may be appointed to the board will be changed from 40 to 20. Within the proposed limit, the Company will appoint up to 10 directors who will serve as audit committee members.	Neutral	Technical amendments relating to the Company's board and sub-committee sizes.
ARTICLE 21 PARAGRAPH 2 - Method of Election of the Board of Directors: Audit Committee Directors and Non-Audit Committee Directors must be put forth as separate resolutions at the general meeting of shareholders.	Neutral	Technical amendments relating to the method of the election of directors.
ARTICLE 22 - Directors' Term of Office: Non-Audit Committee Directors' term will be one year and Audit Committee Directors' term will be two years.	Neutral	Technical amendments relating to the directors' term of office.
ARTICLE 24 - Representative Director, Director with Executive Positions and Executive Officers: From among the Non-Audit Committee Directors: (i) Representative director(s), and (ii) the chairman and president shall be determined by a resolution of the board	Neutral	Technical amendments relating to the method of selecting directors' positions.
ARTICLE 25 - Delegation of Authority: Pursuant to Article 399-13, Clause 6 of the Companies Act, through its resolution, the board may delegate certain significant administrative matters to all or some of its members.	Neutral	Technical amendments relating to the delegation of authority by the board.
ARTICLE 31 - Compensation: Compensation for Audit Committee Directors and Non-Audit Committee Directors must be put forth as separate resolutions at the general meeting of shareholders.	Neutral	Technical amendments relating to the method of approving directors' compensation.

ARTICLE 33 - Limit on Non-Executive Directors' Liability: The Company may enter into agreement with a Non-Executive Director to limit their liabilities to the extent allowable under the law.	Neutral	Providing for a certain level of protection may be necessary to attract and retain qualified board members.
ARTICLE 34 - Full Time Audit Committee Director: The full time audit committee director will be elected by the audit committee during their meeting.	Neutral	Technical amendments relating to the election of the full time audit committee director.
ARTICLE 38 - Bylaws of Audit Committee: The audit committee will be granted certain authorities prescribed by the Bylaws of the Audit Committee determined by the audit committee, in addition to applicable laws, ordinanances and the Company's articles of incorporation.	Neutral	Technical amendments relating to the audit committee.

GLASS LEWIS ANALYSIS

Glass Lewis generally supports a board in its decisions relating to the Company's business and operations absent a reason for shareholder concern. Here, we believe that the proposed amendments are primarily technical in nature and intended to reflect the change in the Company's corporate structure.

However, we are concerned that the Company has chosen to bundle several amendments into one proposal. While we strongly oppose bundled proposals such as this one, we believe that the aggregate effect of the proposed amendments is in the best interests of shareholders.

Notwithstanding the aforementioned, we urge the board to present amendments in separate or multiple proposals such that shareholders may review items on a case-by-case basis.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

3.00: ELECTION OF DIRECTORS (NON-AUDIT COMMITTEE DIRECTORS)

PROPOSAL REQUEST: Election of fourteen directors

ELECTION METHOD: Majority

RECOMMENDATIONS & CONCERNS:

AGAINST-	**Shinichiroh Itoh**	Insufficient audit committee independence, Board is not sufficiently independent
	Nobuo Kuroyanagi	Insufficient audit committee independence, Board is not sufficiently independent
	Hideaki Ohmiya	Board is not sufficiently independent
FOR-	**Christina Ahmadjian** **Eiji Isu** **Kazuaki Kimura** **Masanori Koguchi** **Yorihiko Kojima** **Yohichi Kujirai** **Atsushi Maekawa** **Shunichi Miyanaga** **Hisakazu Mizutani** **Tatsuhiko Nojima** **Naoyuki Shinohara**	
NOT UP-	**None**	

BACKGROUND

As discussed in our analysis in Proposal 2, the Company is seeking shareholder approval to shift its board structure from a two-tier board to a one-tier board with one committee, specifically, the board of directors and an audit committee ("One-Tier Board with One Committee"). Proposals 3 and 4 seek shareholder approval of the election of directors — of nine directors who will not serve as audit committee members ("Non-Audit Committee Directors") and five directors who will serve as audit committee directors ("Audit Committee Directors"), respectively. In order to accurately evaluate the overall board composition and independence, we have combined the nominees proposed as Non-Audit Committee Directors and Audit Committee Directors.

BOARD OF DIRECTORS: ONE-TIER WITH ONE COMMITTEE

NAME	UP	AGE	GLASS LEWIS CLASSIFICATION	COMPANY CLASSIFICATION	OWNERSHIP**	COMMITTEES AUDIT	TERM START	TERM END	YEARS ON BOARD
Eiji Isu	✔	63	Insider [1]	Insider	Yes	✔	-	-	-
Kazuaki Kimura*	✔	66	Insider [2]	Insider	Yes		2014	2015	1
Masanori Koguchi*	✔	60	Insider [3]	Insider	Yes		-	-	-
Yohichi Kujirai*	✔	64	Insider [4]	Insider	Yes		2011	2015	4
Atsushi Maekawa*	✔	64	Insider [5]	Insider	Yes		2011	2015	4
Shunichi Miyanaga* *·CEO*	✔	67	Insider [6]	Insider	Yes		2008	2015	7
Hisakazu Mizutani*	✔	64	Insider [7]	Insider	Yes		2011	2015	4
Tatsuhiko Nojima	✔	63	Insider [8]	Insider	Yes	✔	2012	2015	3
Hideaki Ohmiya *·Chairman*	✔	69	Insider [9]	Insider	Yes		2002	2015	13
Shinichiroh Itoh*	✔	65	Affiliated [10]	Independent	Yes	✔	-	-	-
Yorihiko Kojima	✔	74	Affiliated [11]	Independent	Yes		2010	2015	5
Nobuo Kuroyanagi	✔	74	Affiliated [12]	Independent	Yes	✔	-	-	-
Christina Ahmadjian	✔	56	Independent	Independent	Yes	✔	2012	2015	3
Naoyuki Shinohara	✔	62	Independent	Independent	Yes		-	-	-

C = Chair, * = Public Company Executive, ⊖ = Withhold or Against Recommendation

1. Proposed internal audit committee director. Incumbent internal statutory auditor.
2. Representative director and managing officer.
3. Proposed representative director, managing officer and CFO. Incumbent executive officer.
4. Representative director and vice president.
5. Representative director and vice president.
6. Representative director, president and CEO.
7. Representative director and managing officer.
8. Proposed internal audit committee director. Incumbent representative director, managing officer and CFO.
9. Inside chairman.
10. Representative director and chairman of ANA Holdings Inc., whose subsidiary maintains a business relationship with the Company.
11. Inside chairman of Mitsubishi Corporation with which the Company maintains a business relationship.
12. Special adviser of one of the Company's major lenders.

***Percentages displayed for ownership above 10%, when available*

NAME	ATTENDED AT LEAST 75% OF MEETINGS	ADDITIONAL PUBLIC COMPANY DIRECTORSHIPS
Eiji Isu	N/A	None
Kazuaki Kimura	N/A	None
Masanori Koguchi	N/A	None
Yohichi Kujirai	N/A	None
Atsushi Maekawa	N/A	None
Shunichi Miyanaga	N/A	(1) Mitsubishi Motors Corp
Hisakazu Mizutani	N/A	None
Tatsuhiko Nojima	N/A	None
Hideaki Ohmiya	N/A	(1) Seiko Epson Corp.
Shinichiroh Itoh	N/A	(1) ANA Holdings Inc.
Yorihiko Kojima	Yes	(2) Mitsubishi Corporation; Takeda Pharmaceutical Company
Nobuo Kuroyanagi	N/A	(3) Mitsubishi Research Institute Inc.; Honda Motor Co., Ltd.; Tokyo Kaikan Company Limited
Christina Ahmadjian	Yes	(1) Japan Exchange Group, Inc.
Naoyuki Shinohara	N/A	None

MARKET PRACTICE

INDEPENDENCE AND COMPOSITION	7011*	REQUIREMENT	BEST PRACTICE
Independent Chairman	No	N/A[1]	N/A[1]
Board Independence	14%	One external director (comply or explain)[2]	Two independent directors[5]
Audit Committee Independence	20%	Majority external directors[3]	N/A[1]
Compensation Committee Independence	N/A	Majority external directors[4]	N/A[1]
Nominating Committee Independence	N/A	Majority external directors[4]	N/A[1]
Percentage of women on board	7%	N/A[1]	N/A[1]
Directors' biographies	Pages 14 through 25 of the 2015 Notice of Meeting		

** Based on Glass Lewis Classification*

1. *N/A*
2. *Companies Act (only applicable for two-tier board structures)*
3. *Companies Act (only applicable for one-tier with three committee board structures and one-tier with one committee board structures)*
4. *Companies Act (only applicable for one-tier with three committee board structures)*
5. *Japan's Corporate Governance Code*

In June 2014, the partial amendments to the Companies Act was passed by the National Diet of Japan and took effect on May 1, 2015 ("2015 Amended Companies Act"). The 2015 Amended Companies Act introduced a new board structure, One-Tier Board with One Committee. Companies with this new structure will not be required to establish remuneration and nomination committees.

Pursuant to the 2015 Amended Companies Act, the eligibility of outside directors have been amended. An individual who has not been an executive director, executive officer or employee in the last 10 years prior to his or her appointment will be eligible to qualify as an outside director. However, an individual who controls the company, or a director, executive officer or employee of the parent company or its affiliates will not qualify as an outside director.

We believe that a One-Tier Board with One Committee structure should consist of at least one-third independent outside directors. The 2015 Amended Companies Act stipulates that, where the Company has adopted this board structure, the audit committee should consist of three or more directors, with a majority of the members external to the Company. As such, we believe that a majority of the audit committee members should consist of independent outside directors who are free of any material, financial, familial or other affiliations that may cause conflicts of interest.

In cases where a company does not have a minimum level of board independence, we will, as a general rule, recommend shareholders vote against the reelection of the chairman or the most senior board member who acts as the de facto chairman, including the president and CEO. We believe that the chairman of the board bears primary responsibility for protecting shareholder interests by maintaining sufficient independent representation on the board. In addition, we will recommend shareholders vote against the election of directors in the order of affiliates and then insiders in order to satisfy the independence threshold we believe to be appropriate. However, we will always review the board structure on a case-by-case basis, and we encourage firms to explain their own structures of governance and the efficacy thereof.

GLASS LEWIS ANALYSIS

We believe shareholders should be mindful of the following:

BOARD GENDER DIVERSITY

Over the last several years, there has been significant movement on issues related to gender diversity in Japan. For example, on April 18, 2013 the TSE announced a revision to its Corporate Governance Report manual whereby it suggested that listed companies disclose information regarding the current status or future plans to ensure that women serve as executives and directors. On April 19, Prime Minister Abe urged companies to promote more women to executive roles by requesting that business leaders set a target of appointing at least one female executive at each company (Jonathan Soble. “Abe Pushes for More Women in Senior Roles.” *Financial Times*. April 19, 2013). In addition, in March 2015, the FSA released the Japan Corporate Governance Code, which became effective June 1, 2015. Principle 2.4 of this code stipulates that companies should recognize the existence of diverse perspectives and values reflecting a variety of experiences, skills, and characteristics is a strength that supports their sustainable growth and that, as such, "companies should promote diversity of personnel, including the active participation of women."

In this case, we note that the Company has appointed one woman to its board of directors. In 2015, Glass Lewis produced its most recent annual review of board gender diversity, *Mind the Gap: Board Gender Diversity in 2014*, in which we reviewed board diversity in 14 markets. We found that, on a global basis, over 72% of companies had at least one female board member. However, in Japan, where we reviewed companies listed on the Nikkei 225, we found that only 33% of companies had at least one female director and women represented only 3% of all directors in Japan. Given that regulators have recently urged companies to ensure that there are more women in corporate leadership and that empirical evidence suggests a positive correlation between higher levels of board gender diversity and corporate performance (as discussed in more detail in Glass Lewis’ *In Depth: Board Gender Diversity*), we believe the Company has taken a positive step in ensuring a diversity of thought and experience on its board.

DIRECTOR ATTENDANCE

Japanese laws and regulations require public companies to disclose only outside director and external statutory auditor attendance at board meetings but not the attendance records of insiders. We believe that attendance at board meetings is one of the fundamental responsibilities of a board member, and that all directors and statutory auditors should attend meetings regularly to review the company's performance and to ensure the protection of shareholder interests. In Japan, companies typically hold board meetings on a monthly basis, if not more frequently, which may make it burdensome for outsiders to attend all board meetings. We are concerned that voting against outside directors and external statutory auditors for failing to attend such frequent board meetings may unfairly punish outside board members. However, outside board members are still a small minority on Japanese boards and given the important role that they play, their attendance at board meetings is crucial. Accordingly, if a director or statutory auditors fails to attend a minimum of 75% of the board

meetings, we will recommend voting against him/her. Additionally, we encourage companies to improve disclosure of all board members' attendance to allow meaningful shareholder review.

DESIGN FLAWS AT SAN ONOFRE NUCLEAR PLANT

As discussed in our previous Proxy Papers, in March 2013, the U.S. Nuclear Regulatory Commission ("NRC") released an analysis submitted by the Company that discussed design flaws in steam generators used in California's San Onofre Nuclear Plant. The plant was shut down in January 2013, when it was found that the large steam generators, designed and installed by the Company and the plant's operator, Southern California Edison ("SCE"), had been prematurely damaged due to excessive vibration. The Company's analysis indicated that both the Company and SCE were aware of the design problems and had not pursued further modifications to correct the problem. SCE officials disputed these reports, claiming that it had relied on assurances by the Company regarding the safety of the generators when they were installed (Eileen O'Grady. "UPDATE 1-Calif. Nuclear Owner Disputes Mitsubishi Report on Design Flaws." Reuters. March 8, 2013). Later, in October 2013, SCE filed a request for arbitration against the Company over claims that related to the defective steam generators and seeking to have the Company held responsible for the plant's shutdown ("SCE Asks for Arbitration Against Mitsubishi Heavy Industries Over Defective San Onofre Steam Generators." *Edison International*. October 16, 2013).

In July 2014, a South Korean court ordered the Company to pay compensation of 80 million won to each of five families for forced labor during Japan's colonial rule of the peninsula. The Company has called the decision "unjust" and "regrettable," and intends to appeal the ruling ("Mitsubishi Heavy Ordered to Pay for Forced Labor in Korea." *Bloomberg*. July 30, 2014).

Shareholders should be concerned with potentially weak internal control, risk management, as well as the board's lack of proper oversight. We believe the board bears the responsibility of ensuring the Company implements appropriate internal controls and pursuing risk management practices with the goal of protecting shareholder value. As of writing this report, this issue has yet to be resolved. To the extent that it affects the Company, we will monitor this issue going forward.

RECOMMENDATIONS

We recommend voting against nominees up for election as follows:

AUDIT COMMITTEE INDEPENDENCE

Nominees **Itoh** and **Kuroyanagi** are being proposed to serve as members of the audit committee, which we believe should consist of a majority of independent directors.

RESPONSIBLE FOR LACK OF BOARD INDEPENDENCE

In our view, the board does not have a sufficient number of independent directors, which raises serious concerns about its objectivity, independence and ability to perform proper oversight. In this case, we recommend that shareholders voice their concerns about this issue by voting against **Ohmiya**, who we believe should be held accountable for allowing insufficient independent representation.

BOARD INDEPENDENCE

Based on our analysis and definition of independence, in our view, the board does not have a sufficient number of independent directors. Due to the lack of a one-third independent board, we recommend voting against Messrs. **Ohmiya**, **Itoh** and **Kuroyanagi**.

Accordingly, we recommend that shareholders vote:

AGAINST: Hideaki Ohmiya; Nobuo Kuroyanagi; Shinichiroh Itoh

FOR: Atsushi Maekawa; Christina Ahmadjian; Eiji Isu; Hisakazu Mizutani; Kazuaki Kimura; Masanori Koguchi; Naoyuki Shinohara; Shunichi Miyanaga; Tatsuhiko Nojima; Yohichi Kujirai; Yorihiko Kojima

5.00: DIRECTORS' FEES (NON-AUDIT COMMITTEE DIRECTORS)

PROPOSAL REQUEST:	Approval to set the aggregate fees for the Company's non-audit committee directors	**RECOMMENDATIONS & CONCERNS:**	
PRIOR YEAR VOTE RESULT (FOR):	N/A	**FOR-**	NO CONCERNS
BINDING/ADVISORY:	Binding		
REQUIRED TO APPROVE:	Majority		

Proposals 5 and 6 are seeking shareholder approval of the fees payable to directors who do not serve as audit committee members ("Non-Audit Committee Members") and directors who serve as audit committee members ("Audit Committee Directors"), respectively.

SUMMARY

NON-AUDIT COMMITEE DIRECTORS' FEES

In JPY	PROPOSED CAP	AVERAGE FEE PER YEAR
Non-Audit Committee Directors	1,200,000,000 per year	133,333,333
Notes	Breakdown of fees payable to insiders and outsiders was not disclosed by the Company. The proposed cap will include performance-linked benefits to internal non-audit committee directors.	

AUDIT COMMITEE DIRECTORS' FEES

In JPY	PROPOSED CAP	AVERAGE FEE PER YEAR
Audit Committee Directors	300,000,000 per year	60,000,000
Notes	Breakdown of fees payable to insiders and outsiders was not disclosed by the Company.	

The board states that the reason for the change in the Company's compensation policy is due to its shift to a one-tier with one committee board structure. The board additionally states that the proposed compensation plan will place greater emphasis on performance-linked benefits, and is intended to incentivize and compensate inside directors for taking on greater management risks and to achievement certain performance goals pursuant to the newly adopted 2015 business plan (mid-term management plan).

GLASS LEWIS ANALYSIS

Glass Lewis generally supports a proposal to change the aggregate amount of fees payable to directors so long as the proposed fees are not excessive relative to the Company's peers.

Japanese companies are required to seek shareholder approval when changing the aggregate amount of fees that are payable to directors. In Japan, only the aggregate amount of compensation is disclosed, and frequently, the details regarding the compensation packages for directors or the remuneration policies for executives are not. Further, under the amended Companies Act, which took effect May 1, 2015 ("2015 Amended Companies Act"), companies with the one-tier board with one committee structure are required to put forth the compensation for their Non-Audit Committee Directors and Non-Audit Committee Directors as separate resolutions at the general meetings of shareholders.

In this case, we find the proposed fees to be in line with compensation paid by the other Japanese companies we have reviewed.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

6.00: DIRECTORS' FEES (AUDIT COMMITTEE DIRECTORS)

PROPOSAL REQUEST:	Approval to set the aggregate fees for the Company's audit committee directors	**RECOMMENDATIONS & CONCERNS:**	
PRIOR YEAR VOTE RESULT (FOR):	N/A	**FOR-**	NO CONCERNS
BINDING/ADVISORY:	Binding		
REQUIRED TO APPROVE:	Majority		

Please refer to our analysis in Proposal 5.

7.00: PERFORMANCE-LINKED EQUITY COMPENSATION PLAN

PROPOSAL REQUEST:	Approval to adopt the proposed performance-linked equity compensation plan	**RECOMMENDATIONS & CONCERNS:**	
PRIOR YEAR VOTE RESULT (FOR):	N/A	**FOR-**	NO CONCERNS
BINDING/ADVISORY:	Binding		
REQUIRED TO APPROVE:	Majority		

This Proposal seeks shareholder approval to adopt the following trust-type performance-linked equity compensation plan (the "Plan") to the Company's internal non-audit committee directors. Contingent upon shareholder approval of Proposals 5 and 6, non-audit committee directors and audit committee directors may receive up to aggregate fees of ¥1,200 million and ¥300 million in fees, respectively.

SUMMARY OF THE PLAN

Participants	Contingent upon shareholder approval of Proposals 2, 3 and 4, the internal non-audit committee directors of the Group will be eligible to participate in the Plan (the "Recipients").
Award Type	Ordinary shares of the Company and cash, free of charge.
System	Trust type. The Company will contribute money which will be used to acquire the Company's stock and set up a trust for the Recipients who meet the beneficiary criteria. The trust will acquire the Company's stock through the stock market or through the disposal of treasury shares.
Term	Three fiscal year periods, which commences in fiscal year 2016 and expires in fiscal year 2018 ("First Applicable Period"). The board may be authorized to extend the term of the Plan by another three fiscal years.
Amount of Company's Capital Contribution	The Company will contribute up to ¥1,200 million for the First Applicable Period. The Company will make additional contributions of up to ¥1,200 million for each extended period. However, when additional contributions are to be made, any stock or money left over in the trust estate ("Residual Stock etc."), not including the number of shares equivalent to the points granted to the directors which has yet to be granted, will be appropriated to the next applicable period's capital contribution. Hence, the Company's additional capital contribution will be equivalent to; *¥1,200 million - Amount of Residual Stock etc.*
Calculation Method	The number of shares grantable to the Recipients will be based on the accumulated number of points for each Recipient. The points will be allocated by considering the Recipient's base points determined by his/her position in the Company/and or respective boards ("Base Points") as well as the Company's performance objective attainment for the fiscal year ("Performance Coefficient"). The number of points to be assigned to a director will be calculated as follows: *Base Points × Performance Coefficient* One point shall be converted to one share of the Company.
Plan Limit	The maximum limit of grantable points is 500,000 points per year.
Adjustment	Necessary adjustments will be made when the Company conducts stock splits, share allotment without contribution and reverse stock splits in the future.
Granting of Shares	Recipients, who meet the eligibility criteria, will be entitled to receive 50% of their accumulated points in ordinary shares, and the remaining 50% of the accumulated points in cash at the equivalent value if issued in ordinary shares.
Voting Rights Attached to Acquired Stock	The voting rights of the acquired stock, under the direction of the trust administrator, will not be exercised to ensure the neutrality of the Company's management.

RATIONALE

The board states that the Plan is intended to link internal non-audit committee directors' compensation to the Group's performance in the mid- to long-term and to strengthen the board's relationship with shareholders.

GLASS LEWIS ANALYSIS

Glass Lewis recognizes the value of performance- and equity-based incentive programs. When used appropriately, they can provide a vehicle for linking an employee's pay to a company's performance, thereby aligning their interests with those of shareholders. Tying a portion of an employee's compensation to the performance of the Company provides an incentive to maximize share value. In addition, equity-based compensation is an effective way to attract, retain and

motivate key employees.

However, Glass Lewis has the following concerns regarding the structure of the Plan:

POOR DESCRIPTION OF HURDLES

The Company has failed to disclose a clear description of relevant performance hurdles and measurements, if any, that will be used to determine the allocation of points. We believe that clearly defined performance targets and achievement objectives are essential for shareholders in fully understanding and evaluating an incentive payment. However, we note that a lack of disclosure is common in Japan and therefore do not believe that this issue alone warrants voting against the proposed payment.

CONCLUSION

While we do not believe these concerns are sufficiently grave to warrant voting against this plan at this time, we do urge the Company to carefully review its incentive plan.

Accordingly, we recommend that shareholders vote **FOR** this proposal.

VOTING RESULTS FROM LAST ANNUAL MEETING (JUNE 26, 2014)

RESOLUTIONS

NO.	RESOLUTION	FOR	AGAINST	ABSTAIN	FOR %	RESULT	GLC REC
1.00	Allocation of Profits/Dividends	2,401,057	22,296	2,730	98.13%	Pass	For
2.01	Elect Hideaki Ohmiya	2,312,206	110,007	4,685	94.50%	Pass	Against
2.02	Elect Shunichi Miyanaga	2,354,929	67,285	4,685	96.24%	Pass	For
2.03	Elect Atsushi Maekawa	2,365,266	55,207	6,424	96.67%	Pass	For
2.04	Elect Yohichi Kujirai	2,365,210	55,263	6,424	96.66%	Pass	For
2.05	Elect Hisakazu Mizutani	2,365,299	55,174	6,424	96.67%	Pass	For
2.06	Elect Tatsuhiko Nojima	2,392,734	27,739	6,424	97.79%	Pass	For
2.07	Elect Takashi Funato	2,392,739	27,734	6,424	97.79%	Pass	For
2.08	Elect Toshio Kodama	2,392,784	27,689	6,424	97.79%	Pass	For
2.09	Elect Kazuaki Kimura	2,388,612	31,861	6,424	97.62%	Pass	For
2.10	Elect Yorihiko Kojima	1,668,175	752,406	6,315	68.18%	Pass	Against
2.11	Elect Christina Ahmadjian	2,405,671	18,933	2,298	98.32%	Pass	For
2.12	Elect Hiroki Tsuda	2,404,434	20,170	2,298	98.27%	Pass	For

Source: Governance Vision. For, Against, Abstain results displayed in units

APPENDIX

Questions or comments about this report, GL policies, methodologies or data? Contact your client service representative or go to www.glasslewis.com/issuer/ for information and contact directions.

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LEAD ANALYSTS

Governance: Moeko Porter