Message from the Outside Directors

We interviewed three outside directors newly appointed as Audit and Supervisory Committee members in June 2015 about MHI’s directives toward corporate governance and globalization.

Nobuo Kuroyanagi
Senior Advisor, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Outside Audit and Supervisory Committee Member

Mr. Kuroyanagi joined The Mitsubishi Bank, Ltd., in 1965, later assuming various positions, including as general manager of the Americas division and general manager of the Americas business divisions. In 2004, he was appointed president and CEO of Mitsubishi Tokyo Financial Group, Inc., and president of The Bank of Tokyo-Mitsubishi, Ltd. Following the merger, he became president and CEO of Mitsubishi UFJ Financial Group, Inc., and was appointed president of The Bank of Tokyo-Mitsubishi UFJ, Ltd. After serving as an advisor to the bank, he assumed his current position in April 2014.

Christina Ahmadjian
Professor, Hitotsubashi University
Graduate School of Commerce and Management
Outside Audit and Supervisory Committee Member

Ms. Ahmadjian specializes in such research themes as corporate governance, globalization, and capitalist systems. Following a position as Assistant Professor at the Columbia University Graduate School of Business, she joined the faculty at Hitotsubashi University, where she currently lectures. Ms. Ahmadjian has also held positions at U.S. and Japanese companies.

Shinichiro Ito
Chairman of the Board, ANA Holdings Inc.
Outside Audit and Supervisory Committee Member

Mr. Ito joined All Nippon Airways Co., Ltd., in 1974. After serving as general manager of the presidential planning office, the human resources department and the sales promotion division, in 2009 he was appointed president and chief executive officer. In 2013, he became president and chief executive officer of ANA Holdings Inc. and was appointed chairman of the Board of All Nippon Airways. He assumed his present position in April 2015.

Our Ultimate Goal Is to Elevate MHI’s Brand Value

Nobuo Kuroyanagi

The six years since I became an outside director at MHI can, in a nutshell, be described as a period of changes. Top management has demonstrated an extremely strong determination to transform MHI into a global company, and we independent directors have consistently supported that determination, even as we have occasionally voiced opinions at Board of Directors meetings and in similar situations. The Company’s recent transition to a company with an Audit and Supervisory Committee was clearly decided in a focused quest to achieve swift management as necessary for a global company, while attaching great importance to local historical roots. Prior to these changes, MHI labored under sluggish growth and laggard capital efficiency—deficiencies that were reflected in its ROE and other figures. Now, in the wake of its recent changes, I believe strongly that MHI has become a company highly attractive for investors.

The pursuit of globalization, by necessitating the conduct of business in locations all around the world, inevitably engenders new risks and raises issues not encountered before. I believe this is an inescapable process whenever a company seeks to grow. MHI’s establishment of the new position of chief risk officer (CRO), part of the Company’s introduction of its new chief officer system, was carried out to enable the Company to understand what risks it bears from a companywide perspective. This broad overview is necessary to enable the Company to respond as a whole, and immediately, to risk situations, rather than attempting to resolve newly arising issues within the limited parameters of the business operations affected.

Going forward, an issue to be addressed will be how to approach globalization not only at the upper management level but throughout the corporate hierarchy, down to employees at the workplaces. As an example, when workers in the Company’s plants develop a keen awareness of what production parts are used in common worldwide, then we will be able to say that the Company’s workforce has become truly globalized. If changes of this type are carried out too swiftly, however, burden is quickly placed on the workplaces, and for this reason globalization must be pursued at an appropriate pace while duly valuing the historical background of each location. This is a point I want to continue monitoring closely in the years ahead.

The ultimate goal of all Company directors, both internal and external, is to elevate MHI’s brand value. Doing so involves enhancing the full complement of elements: net sales and profits, share price over the long term, compliance, etc. Good corporate governance to my mind can be equated with debating the issues of the highest importance for achieving this overriding goal from our respective positions within or outside the Company. In my career in banking, I have observed companies of all types and sizes all around the world; for a fair share of this time, I have been involved in both the management reforms of our customers and the reforms undertaken by the bank itself, especially reforms in clerical matters and systems operations. At MHI, I will fulfill my role as an outside director by applying what I have learned throughout my career.
Making MHI’s Audit and Supervisory Committee a Role Model for Other Companies to Emulate

Christina Ahmadjian

This past year, I think MHI has made further progress in terms of improving its corporate governance. At Board of Directors meetings, for example, items up for discussion have been pared down to just the major issues relating to the Company’s business strategies, so the discussions are more purposeful than before. Another important development this year has been MHI’s transition in June to a so-called company with an Audit and Supervisory Committee. The new system was adopted to improve transparency and accelerate decision making, to make a clear division between supervisory and executive functions, and to form a governance structure that can be readily understood outside the Company. I believe the discussions that led to the decision to adopt the system demonstrate that the Board’s awareness toward governance needs has clearly grown this past year.

One advantage to emerge from the recent transition to a company with an Audit and Supervisory Committee is that the outside members of the Audit and Supervisory Committee—Nobuo Kuroyanagi and Shinichiro Ito—have been given a stronger voice than before. Outside directors at MHI come from various backgrounds, they vary in age, and they bring with them varied viewpoints and ways of thinking. This diversity has at times led to heated discussions and lively debates—which is an extremely healthy situation for the Company—but one major drawback was that until this June Mr. Kuroyanagi and Mr. Ito did not have any voting rights at Board of Directors meetings. Now that they have been accorded the status of directors under the new system, this disadvantage has been eliminated.

Corporate Management Always Involves Challenges; What Is Important Is Risk Response Capability

Shinichiro Ito

Since taking up my position as an outside statutory auditor two years ago, through my visits to production sites such as the Nagasaki Shipyard & Machinery Works I have been deeply impressed by MHI’s enthusiastic dedication to manufacturing. Today, amid the broad trend toward globalization, MHI is in the process of departing from vertical integration and instead is concentrating on core competencies as a way of transforming into an aggressive company. As I have observed the Company withdraw from certain business areas, I have witnessed the efforts it takes to minimize the negative impact of such actions on its employees, suppliers, and local communities. From this caring attitude, I have come to recognize that MHI is an extremely serious and well-intentioned company.

In terms of governance as well, President Miyanaga and the internal directors always respond with sincerity to the many opinions voiced by the external directors. The recent transition to a company with an Audit and Supervisory Committee was an appropriate decision for further accelerating management momentum, and I believe the roles of the outside directors should be made clear in order to strengthen their supervisory functions. In my case, I try to separate my executive role and think of myself as one among the Company’s stakeholders, and I intend to keep to this stance and continue making statements to promote MHI’s growth and development over the long term.

A major issue to be addressed as MHI aims to become increasingly globalized will be the development of required human resources. In that respect, the establishment of Primetals Technologies, Ltd., in 2015, where the majority of workers derive from Siemens AG, is expected to set an instructive example in terms of cultivating a global workforce. Also, the way President Miyanaga aggressively participated in the competition to acquire a stake in Alstom S.A. surely served as a powerful and inspiring example to MHI employees in Japan of the Company’s strong determination to compete on the global stage.

Today, when business is robust, is an ideal time for MHI to make bold moves. Corporate management always involves challenges; while taking up challenges invariably involves risks, what is important is to acquire the capability to respond to the risks that inevitably come with business initiatives as they grow larger in scale. It is equally important for the Company to hone its ability to assess potential risks, such as its ability to reduce the frequency of “unforeseen circumstances.” The losses incurred by MHI in its cruise ships business should serve as a model case from which much can be learned. Those lessons should be compiled and shared throughout the Company.

Above all, in seeking to achieve the targets set in its 2015 Medium-Term Business Plan, especially its aim to be a highly profitable company with a business scale of more than ¥5 trillion, the Company needs to acquire the capability to overcome challenges of all types coupled with strength to win out against competitors worldwide. I am confident that as MHI acquires these necessary capabilities, they will serve as the driving force for the Company’s future growth and its successful handling of ever-larger projects all across the globe.