

A Conversation with the Chairman and Two Outside Directors

How Board of Directors Meetings Support MHI's Sustainability Management



Chairman of the Board

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Director, Audit and Supervisory
Committee Member
(Outside Director)

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MHI Group's Business Environment and Materiality

— **These days there is uncertainty about the global situation, first caused by the COVID-19 pandemic, and then exacerbated by heightened geopolitical risks, including the conflict in Ukraine. How do you each view these events?**

Miyanaga I think the current situation can be attributed to negative aspects of various changes that have taken place across the globe in the 30 years since the end of the Cold War—for example, the political turmoil accompanying the democratization of Eastern Europe, which is related to the current conflict between Russia and Ukraine, the rise of the emerging nations, uneven wealth distribution and deeply entrenched wealth inequality under globalism, energy shortages, and increasingly serious issues linked to climate change.

As the world undergoes these tremendous changes, in order to predict where global society will head in the future, I think it's important for us, today, to consider how things we have long valued are likely to change, and project what new things are likely to emerge going forward.

Unoura I agree with Mr. Miyanaga's assessment. In recent years, events previously thought unimaginable have occurred in rapid succession, including the withdrawal of the UK from the European Union, the global pandemic, and the conflict between Russia and Ukraine. Whether these developments have a shared background is something I cannot say at this point in time. But for those of us alive today, I believe it's important that we take measured steps toward achieving a world in which all people can live safe and rewarding lives.

— MHI Group redefined its Materiality in 2020 against this backdrop in order to meet the challenges faced by society today.

Unoura As an outside director, I took part in the discussions on redefining the MHI's Materiality, and I also held discussions with young employees concerning how to set the related KPIs.

The newly defined Materiality is outstandingly articulated, and when the original proposal was submitted to the Board of Directors, it was well received for its clarity in indicating the direction in which MHI Group should proceed moving forward. Our next concern was how to implement and achieve them. This was incorporated into the 2021 MTBP and eventually led to our MISSION NET ZERO announcement. In these ways, I believe MHI Group has set out a clear path for achieving its future goals.

li I teach public policy at a university, and my areas of specialization include national financial administration policy formulation and the tax code. Of the various items incorporated into MHI Group's Materiality, I take particular interest in the aim to provide energy solutions to enable a carbon neutral world. Issues related to energy and protection of the global environment are important public policy matters, and my appointment as a director at MHI enables me to learn how a private corporation is addressing the challenge of turning the resolution of these issues into viable businesses. Though the task is not an easy one, it is definitely one of great significance.

I also focus on the Materiality that calls for MHI Group to promote diversity and improve employee engagement. This is an area in which I think I can be of assistance. Through town hall meetings and similar opportunities, I have had direct contact with employees, and my impression is that MHI has many truly outstanding people. Some, however, have voiced the opinion that their work involves too much procedure—such as gaining authorization from their superiors, for example. This overly cautious approach, they say, is a hindrance to speedy decision-making. In my role, therefore, I hope to push for changes to the Company's traditional corporate culture in order

to ensure that employees can fully realize their potential, with the proper systems and work environment in place to enable this.

Miyanaga Exhaustive discussions went into reframing our Materiality, ultimately producing definitions with greater clarity that are easier to understand.

The issue concerning our aim to provide energy solutions to enable a carbon neutral world was addressed first in recognition that climate change is a fundamental issue that threatens humanity's very existence. Society today is undergoing a vast transition as we pursue Carbon Neutrality together. MHI Group has technologies that will be useful in this transition phase, including those for improving existing thermal power plants and CO₂ capture technologies. At the same time, we are also developing altogether new, advanced technologies to be applied after the transition phase has ended. We will continue adapting our product mix to the changes taking place in society, answering the call for Carbon Neutrality with technologies for both the transition and post-transition periods. As such, I am confident that MHI Group can make realistic

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— Ms. li



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and effective contributions to world's pursuit of Carbon Neutrality. This firm commitment has been incorporated into MISSION NET ZERO, which was announced in October

2021, in which we committed to achieving Carbon Neutrality Groupwide by 2040.

Supporting Carbon Neutrality with Corporate Governance

— How would you assess MHI Group's Carbon Neutrality initiatives?

Unoura Frankly speaking, when MISSION NET ZERO was first explained to me, I was surprised at how bold it was. It sets down a convincing roadmap not only for Scope 1 and 2 emissions, but even for Scope 3 emissions—CO₂ emissions throughout the Company's value chain. So, I thought the declaration deserves high praise as a proclamation of MHI Group's firm determination to exercise leadership in this area and to fulfill its responsibility to society.

“Carbon Neutrality is a matter that must be addressed by the entire world.”

— Mr. Unoura

That said, the target set in the declaration—Carbon Neutrality—cannot be achieved singlehandedly by MHI Group alone. Moreover, I don't envision that all of the technological challenges can be overcome at once, nor do I think implementation of the many necessary measures will proceed very quickly. Carbon Neutrality will take a very long time indeed. It's a challenge that must be taken up by successive generations: not only the present generation and the next, but also by generations beyond that.

As such, MHI Group should not attempt to achieve the extremely difficult goal of Carbon Neutrality all on its own. Rather, the Company should share its awareness of the issue with its corporate customers and all other partners. Then we should work collectively to develop new technologies and make the necessary investments to bring about changes in society as a whole. In that sense, Carbon Neutrality is a matter that must be addressed by the entire world.

li In connection with what Mr. Unoura just said about collaborating with partners, clearly, energy policy isn't something that can be decided by MHI Group alone.

The Japanese government, however, says that the central role in carrying out energy policy must be filled by the private sector, and it has stated its intent to promote private investment by assuring predictability, including fiscal spending to support technology development. So, I believe that MHI Group, as a technology and market leader, should not only contribute products responding to government-generated demand as in the past, but also proactively make contributions in the ideas space. MHI should come up with its own grand design and offer it up for consideration by the government and by society at large.



Miyanaga The points you have both made are very informative. I, too, think it's important for MHI Group to make society more aware that we are aggressively developing technologies and collaborating with numerous partners to achieve Carbon Neutrality. My hope is that we can inspire other companies to follow our example, expanding the scope of and number of participants in these efforts. There is also the possibility of forging mutually beneficial relationships with startups, both domestic and international, that have ideas and technologies amazingly different from ours.

Market competition will not only lead to further advances but will also spur broad discussions, including those with our customers and governments worldwide, which in turn will encourage greater understanding and acceptance of the costs to society at large necessary for achieving Carbon Neutrality. In this way, I believe MHI Group's MISSION NET ZERO will cause a stir, in a positive sense.

Board of Directors Meetings Befitting a Global Company

— **What are your impressions of MHI Group's corporate governance framework, especially its Board of Directors meetings?**

li Board of Directors meetings always have an atmosphere conducive to free expression of opinions. In consideration of the needs of outside directors, we are given quite detailed explanations of the current status and future direction of the Company's businesses. In my case, I pay special attention to how the Company's actions will contribute to society—starting with achievement of Carbon Neutrality—and how they will raise the Company's corporate value.

As for corporate governance, I think it's important to respect the culture and history of each country and company rather than fixating on formalism. I think making Japanese companies' governance methods similar to those of American or European companies should not be a goal in and of itself. Ultimately, I think the role of governance should consist entirely of improving management performance and elevating a company's value.

Unoura I agree with Ms. li. I, too, think the Company's Board of Directors meetings have a very open and collegial atmosphere. And as outside directors, we are always given opportunities to present our views on important issues.

An integral part of MHI's governance framework is the Audit and Supervisory Committee, a system unique to Japan, and I think it's very important for the committee to function smoothly. As a committee member, I focus on monitoring for business-related risks, that is, risks affecting both current operations and new businesses. To that end, I believe my basic role is to ask questions, to exchange opinions, and, whenever possible, to offer advice.

Miyanaga Since my tenure as president—April 2013 to March 2019—I have always felt it important to be as frank and open as possible when a problem occurs. Management decisions aren't always successful, and I think it's important, especially when something has gone wrong, to provide a clear explanation of what happened and why.

When conducting Board of Directors meetings, too, instead of discussing a problem only to the minimal extent necessary to comply with relevant laws and regulations,

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I have always sought to be as forthcoming as possible to everyone, including our outside directors, in explaining what is happening in the Company and what we are planning to do. I believe that the steps taken by MHI to separate supervisory and executive functions, including our transition to the Audit and Supervisory Committee structure, have strengthened the Board's supervisory capabilities. We have arrived at a governance structure that enables management to take risks that are backed by decisions reached after careful consideration.

It was in 2019, when those reforms were being implemented, that we invited Mr. Unoura to become an outside director. Mr. Unoura comes from a field entirely different from ours, and in his capacity as leader of an extremely large, global corporate group, he has confronted various challenges and carried out various reforms. Based on his experience and expertise, since he joined us, we have received a great deal of valuable advice on matters such as how an organization must continuously evolve amid changing times and the kind of values a company such as ours should embrace.

Ms. Ii is an expert in public policy. Throughout our history, MHI Group has undertaken public and socially beneficial projects of great variety. Today, in response to our changing times, as new solutions are being called for, we eagerly welcome Ms. Ii's close monitoring of our operations and her views. Particularly we are eager to hear her views concerning whether management has grown complacent, or whether, in the name of public benefit, we are pursuing projects that lack business viability. We also welcome her very valuable advice concerning our business operations.

Unoura MHI Group engages in a broad spectrum of businesses, which means that there is always the possibility of diverse risks. I agree with what Mr. Miyanaga said about the fundamental importance of management always maintaining a stance that shuns concealment and provides full, coherent explanations.

For corporate governance to be effective, it should not just be the head of an organization preaching about it. All employees need to approach the Company's various

challenges, such as safety management, quality enhancement, compliance, and corporate culture reforms, with the same intensity of awareness as management and see these issues as their own.

To achieve this, in my position as outside director, I hope to continue to have opportunities to engage in discussions with employees across the spectrum. I would like to speak casually with them about their aspirations so that I can actively offer advice and assistance based on an awareness of the people who are personally involved in the Company's daily operations.

Ii In connection with governance, it's been pointed out that enabling employees to speak freely with each other in an open environment is very important from the standpoint of preventing wrongdoing on the job. I think MHI Group needs to consciously promote dialogue and personal connections across organizational units.

From discussions I've had with today's university students, I sense they aren't very interested in spending their entire lives at one company, organization, or group. Today, a career path should be available that permits an individual to break away from the organization or entity they belong to, accumulate diverse experience at other companies or by starting their own company, and then, at some point, return to their original place of employment. If MHI communicates its openness to people wishing to pursue such a career path, it might gain an advantage in acquiring highly skilled human resources.



—— **Mr. Miyanaga, what are your thoughts after hearing the views expressed today by Mr. Unoura and Ms. Ii concerning corporate governance and the Board of Directors meetings?**

Miyanaga I am very happy to hear how positively they view our corporate governance. At the same time, although we have taken important steps to strengthen our governance and we are now actively responding to issues such as ESG and the SDGs, I strongly feel that much remains to be done.

Over the next 20 to 30 years, if not longer, I believe MHI Group will face extremely challenging but also—provided the proper approach—very rewarding times.

We are blessed with many employees who perform their jobs with great dedication—men and women who faithfully carry out the tasks before them. Thanks to this, we have enjoyed remarkable stability for such a large organization. Also, the supportive way in which we treat our employees, together with our system for nurturing their long-term development, cultivates their ability to endure hardship, which is one of our Group's foremost strengths. It is this strength that underpins our sustainability as a corporate organization.

In the years ahead, however, in order to respond to our rapidly changing business environment, we cannot merely content ourselves with the stability of the status quo. We must also boldly take on new challenges. I would like to see MHI Group become an organization that allows its employees to go out into the world beyond the Company—and then welcomes back those who may choose to return later in their career.

Also, as a company that conducts business worldwide, MHI Group must be an organization that welcomes diversity—an organization that seeks commonalities with countries or communities with values different from our own as a framework for working together.

At the same time, we need to win the understanding of our many different stakeholders – shareholders, investors, and many others – for the principles and ideas which we hold dear by explaining our thinking to them. And to ensure that those principles and ideas, as well as our explanations of them, are never self-centered or self-serving, we hope that our outside directors will carry out their supervisory functions and offer us objective advice based on their wealth of experience.

Thanks to the participation of our outside directors, our Board of Directors meetings invite extremely lively discussions of the issues before us, and I wish to express our sincere appreciation for their valuable contributions. Going forward, we will continue to exercise corporate governance led by the Board of Directors in order to ensure sustained, sound, and transparent management and continuously increase our value as a corporation that contributes to resolving diverse societal issues.

“We will boldly take on new challenges to respond to our rapidly changing business environment.”

—— **Mr. Miyanaga**

