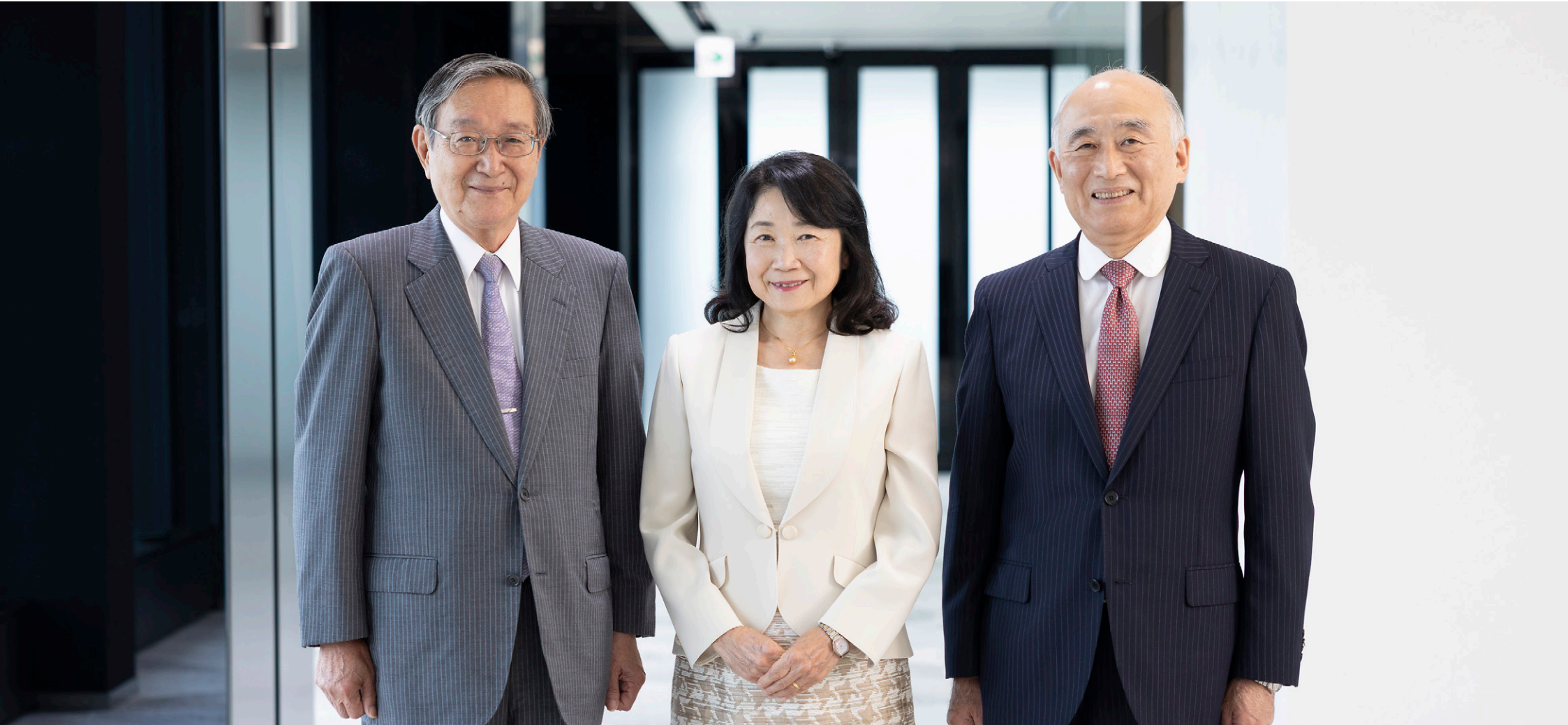


Roundtable Discussion with Outside Directors

Ten years since transitioning to an Audit and Supervisory Committee structure,
MHI continues to pursue a governance framework that supports sustained growth and the enhancement of corporate value



Hiroo Unoura

Director
Audit and Supervisory Committee Member

Noriko Morikawa

Director
Audit and Supervisory Committee Member

Mitsuhiro Furusawa

Director

Roundtable Discussion with Outside Directors

In 2015, MHI became one of the first companies to transition to the Audit and Supervisory Committee structure. Ten years on, the governance framework of MHI Group has continued to evolve. To mark this milestone, we held a roundtable with three outside directors to reflect on the journey so far, and to discuss the outlook going forward.



Facilitator

Hideo Tsukamoto

(Partner Attorney, Anderson Mori & Tomotsune)

Profile

2004: Registered as an attorney

2010–2013: Seconded to Civil Affairs Bureau of Ministry of Justice (where he was involved in drafting provisions related to companies with an Audit and Supervisory Committee as part of the planning and formulation of the 2014 amendment to the Companies Act)

2017–2022: Served as member of the Ministry of Economy, Trade and Industry's (METI's) Corporate Governance System (CGS) Study Group (Phase II and III)

2024–2025: Serves as a member of METI's Study Group on Corporate Governance toward the Enhancement of Earning Power

Early Transition to the Audit and Supervisory Committee Structure

Faster decision-making to succeed on the global stage

Tsukamoto June 2025 marks the 10th anniversary of MHI's transition to the Audit and Supervisory Committee structure. Today, among the three types of governance structure available in Japan, companies adopting the Audit and Supervisory Committee structure now make up the majority of TSE Prime Market listings. However, few companies—particularly global players like MHI—chose to make the transition at that time, which was immediately after the amended Companies Act came into effect. As such, MHI's decision had a significant impact on many Japanese companies. Could you tell us how your approach to governance has changed since then, including the background and objectives of the transition?

Morikawa Around 10 years ago, MHI Group was at a turning point, shifting from a business largely centered on the domestic market to pursuing global expansion in search of new growth opportunities. To compete on equal or better terms with domestic and international rivals, they transitioned to the Audit and Supervisory Committee structure with the primary objective of accelerating decision-making processes.

Because this was a new system that of course had no precedents, our management team at the time—together with the outside directors—was determined to become a role model for other companies. I understand they engaged in repeated discussions and, based on the new structure, formulated intelligent management decision processes, as well as an approach to auditing that differed from the conventional statutory auditor system.

Tsukamoto Under the Audit and Supervisory Committee structure, important business execution decisions may be delegated by the

Board of Directors to individual directors if stipulated as such in the Articles of Incorporation. I understand that MHI has delegated authority in this way to accelerate decision-making, preferring a monitoring model in which the Board focuses primarily on supervising management. Is that correct?

Unoura Even before making the transition to the current structure, they sought to separate supervision and execution functions while accelerating management decision-making, but there were limits to what could be achieved.

For this reason, when the transition was made in 2015, they also undertook a major revision of the criteria for matters that require Board approval. To accelerate decision-making, the Board limited its decisions to especially important matters. Contrastingly, the scope of reporting items was significantly expanded to maintain and strengthen the Board's supervisory function. Around the same time, they reduced the total number of directors while increasing the proportion of outside directors, which I believe has helped enhance the Board's effectiveness.

At Board meetings since the transition, each Chief Officer responsible for business or corporate functions provides status reports, accompanied by detailed explanations of the strategic direction of their organization. These are followed by lively discussions among the participants. Compared to six years ago when I first joined the Board, I feel that the content of the meetings has become even more substantial.

Furusawa Discussing medium- to long-term strategies and setting basic management policies remain important roles for the Board of Directors. In the process of formulating and announcing the 2024 Medium-Term Business Plan (MTBP), the key points were presented to the Board at an early stage. As an outside director, I was given several opportunities to provide my input during this process. Rather than waiting until the plan was finalized to seek approval, a rough outline was presented to the outside directors for

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discussion at the conceptual stage. Management took our views seriously and adjusted the plan accordingly. I believe this was an important part of the process.

Morikawa In line with Japan's Corporate Governance Code, which came into effect in 2015, the MHI Corporate Governance Guidelines were established and basic frameworks and rules related to governance were developed.

Based on the Corporate Governance Guidelines, we conduct annual evaluations of the effectiveness of the Board of Directors. These evaluations incorporate the views and concerns of each director, and a summary of the results is discussed by the Board. This has created an effective process whereby evaluations of the Board are used to improve its functionality.

In recent years, in addition to the main agenda items handled by the Board, topics for discussions held outside of Board meetings have been set out in an annual schedule. In addition to statutory matters, such as financial reporting and convening the General Meeting of Shareholders, each division submits regular status reports as Mr. Unoura mentioned. Other than Board meetings, there

are various opportunities for us to deepen our understanding of MHI's businesses. These include meetings attended only by independent outside directors, roundtable sessions where engineers directly explain the company's latest technological developments, and site visits in Japan and abroad. There are also numerous opportunities for in-depth discussions on key issues. When visiting domestic and overseas sites, there are opportunities for us to interact exclusively with local young employees. This allows us, as outside directors, to gain a real understanding of the situation on the ground while providing young employees with some positive encouragement in return.

Tsukamoto How would you describe the atmosphere of Board meetings?

Furusawa While the atmosphere is quite informal, outside directors offer sharp insight and questions from diverse perspectives. In response, management provides sincere and well-considered answers, maintaining a healthy sense of constructive tension.

Briefings for outside directors, held a few days before Board meetings, play an important role in enhancing the quality of discussions. For each agenda item, the proposing division provides a detailed explanation, and outside directors ask thorough questions. By the time of the Board meeting, minutes from these briefings have been shared with the relevant parties. This enables the responsible officers to provide precise answers to outside directors' questions and clarify key points, enabling the Board to focus on only the most substantive of discussions.

Our support staff provide extensive and detailed materials that fully support discussions at Board meetings. As MHI regards transparency and accountability as its core governance principles, I feel that information is shared freely with the outside directors, and efforts are continuously made to improve this process.

Strengthening governance to drive growth

Tsukamoto MHI made the transition to the Audit and Supervisory Committee structure soon after the amended Companies' Act came into effect and has since established itself as a model case for this type of governance framework. Could you tell us about what makes MHI's Audit and Supervisory Committee unique, such as the role it plays and how it operates?

Unoura The Audit and Supervisory Committee has two full-time members who were originally MHI employees, which I feel is highly significant. In addition to attending important meetings—including those of the Executive Committee—these full-time members conduct numerous hearings with business divisions and Group companies, reporting their findings at monthly Audit and Supervisory Committee meetings. As outside members, we are able to hear these detailed reports from the full-time members. This helps deepen our understanding of MHI and our awareness of the challenges it faces.

For a company like MHI—which operates multiple businesses with complex structures—full-time Committee members are indispensable for maintaining the quality of audits. I would also like to mention that the Committee is supported by dedicated support staff drawn from different departments, who provide us with thorough assistance.

Tsukamoto How does the Audit and Supervisory Committee coordinate with the internal audit departments and the accounting auditor?

Morikawa We maintain close coordination with all of the related parties. The Audit and Supervisory Committee receives regular reports from the Management Audit Department on internal audit plans and results, and full-time Committee members exchange information with them on a monthly basis. The Committee also

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receives reports on compliance and risk management from the relevant departments.

The full-time Committee members receive monthly reports from the accounting auditor, and the Committee as a whole also meets with them regularly for direct discussions. As an outside member, I find it extremely valuable to hear at length the accounting auditor's views on ongoing projects.

The Committee operates according to the annual audit plan, setting important topics each year and holding direct hearings nearly every month with the relevant departments.

Unoura At Board meetings, we tend to devote more time to growth-oriented discussions, such as the company's future vision and growth strategy, while in the Audit and Supervisory Committee, we focus more on governance matters like the monitoring of risk.

Moreover, the Board of Directors discusses issues from a broad perspective, while the Audit and Supervisory Committee examines matters from a more specific and detailed standpoint. In the case of risk management, for example, the Board identifies risks that could significantly affect the business from a management perspective and implements initiatives to enhance overall management control. Meanwhile, the Audit and Supervisory Committee delves into individual cases to assess the situation and consistently follows up on issues reported to the Board. This is just one example, but I believe these complementary roles are balanced in a way that enables MHI to take healthy risks in pursuit of sustained growth.

Nomination and remuneration process emphasizing objectivity and transparency

Tsukamoto Let's talk about the nomination and remuneration of directors. In September 2024, MHI changed the name of the Nomination and Remuneration Advisory Council—established as a non-statutory body—to the Nomination and Remuneration

Committee, reviewing the body's function. What is the significance of this change?

Unoura Under the review you mentioned, it was decided that an independent outside director would serve as chairperson of the Nomination and Remuneration Committee, who would be responsible for convening and presiding over its meetings. I was appointed as the first chairperson by consensus of the members. The Committee also has the authority to draft and submit Board proposals concerning the appointment, dismissal, and remuneration of directors and key officers.

The change from an advisory council to a committee reflects the growing demand for greater transparency and objectivity in director nomination and compensation, and I believe this action appropriately addresses those needs.

Tsukamoto Mr. Ito assumed office as President and CEO in April 2025. How was the Nomination and Remuneration Committee involved in his selection?

Unoura I cannot go into detail as this concerns individual personnel matters, but even before the former advisory council was reorganized into a committee, we had been holding discussions—at the request of then-President and CEO, Mr. Izumisawa—on the qualities we should look for in a CEO. We also arranged opportunities for Committee members to have direct dialogue with prospective successors. Through this process, we reached a decision that was highly satisfactory to everyone, including the outside directors.

Furusawa I am satisfied that we devoted sufficient time and followed the necessary procedures in selecting the new CEO, ultimately appointing the best candidate. To the best of my knowledge, the process was on par with those used to appoint heads of international organizations.

Unoura I believe top management has the responsibility to identify and develop not only their immediate successor but also the



candidate who should take on the role after that. The Nomination and Remuneration Committee, led by outside directors, plays the role of appropriately monitoring whether this responsibility is being fulfilled under normal operating conditions.

At the same time, the Committee would like to make the qualities required of future outside directors a subject of discussion. As the business environment continues to change significantly, the expectations placed on MHI are also evolving. Therefore, I believe we need to discuss the skills required of the Board of Directors as well.

Enhancing governance to remain a trusted and valued company

Tsukamoto Upon assuming office, Mr. Ito announced a new management strategy, Innovative Total Optimization (ITO).

As outside directors, how do you view this approach?

Unoura I regard ITO as the culmination of a management philosophy Mr. Ito has consistently pursued since his time as CTO. ITO is a strong statement of intent that reflects his personality. It is

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not a mere concept, but rather a concrete methodology for achieving the 2024 MTBP and moving MHI forward to the next stage of growth. As outside directors, we will firmly support this strategy to ensure it is embraced throughout the company, enabling the creation of new value.

Morikawa In this era of complex, global-scale challenges, expectations for our technological capabilities and business domains have never been higher. I believe it is timely that Mr. Ito, someone who has a deep understanding of MHI's technologies, has assumed the presidency now. The essence of ITO lies in breaking down the internal barriers that remain in the organization in order to fully leverage the capabilities of each business to strengthen the Group as a whole. I appreciate Mr. Ito's approach, which seeks to drive this transformation not only from the top down but also through direct dialogue with frontline staff and younger employees.

Furusawa I also have a positive opinion of ITO. I can feel Mr. Ito's distinctive touch in the forward-looking message about "unlocking growth potential."



In today's age of growing uncertainty, leaders need the ability to communicate clearly with internal and external stakeholders about their companies' directions, inspiring their understanding and support. As outside directors, and as Board members, we intend to support Mr. Ito's leadership.

Tsukamoto Finally, after 10 years of progress, could you share your views on the essence of governance at MHI Group as you see it today, as well as your aspirations for the future?

Morikawa Over the past 10 years, both the Board of Directors and the Audit and Supervisory Committee have continued to evolve through open and honest dialogue with the executive side. The relationships of trust among the outside directors are also very strong, and there is an open atmosphere where we can immediately reach out to one another whenever needed. I believe this contributes to sound governance across the company. Looking ahead, I hope to continue supporting the new management team while serving as a conduit between external stakeholders and management, thereby assisting in the enhancement of corporate value.

Furusawa MHI Group has grown into a global organization with revenues exceeding the ¥5 trillion target set 10 years ago. Along the way, MHI has faced various headwinds—including the COVID-19 pandemic—but thanks to the governance framework established by our predecessors, MHI has overcome many challenges to become what it is today.

As a director, I aim to contribute to management by drawing from my own experience. At the same time, I hope to further enhance governance systems so that MHI Group may remain a company trusted and valued by society for many years to come.

Unoura With respect to the three types of corporate governance structure defined under the Companies Act, I do not believe any one is inherently superior to another. What is important is that each company selects the form best suited to

its circumstances and continues to evolve it in its own way.

A distinguishing feature of the Audit and Supervisory Committee structure is its simplicity and the high degree of flexibility available for organizational design. In MHI's case, with no precedents or hard and fast rules to constrain it, the company has evolved its governance systems into an optimal form. In that sense, I believe choosing the Audit and Supervisory Committee structure 10 years ago was the right decision.

I hope that MHI will continue pursuing governance practices best suited to the business environment and challenges facing management at any given moment. In so doing, the Group will ensure healthy growth and further enhancement of corporate value.

Tsukamoto Thank you very much for your time today. It has become clear that over the last 10 years, MHI has leveraged the features of the Audit and Supervisory Committee structure to build an optimal governance framework. I am confident that MHI Group's journey will provide valuable insights into the future of corporate governance in Japan.

