

# Corporate Governance

## Basic Approach to Corporate Governance

As a company responsible for developing the infrastructure that forms the foundation of society, MHI's basic policy is to manage the company in consideration of all stakeholders and make efforts to enhance corporate governance on an ongoing basis in pursuit of sustained growth of MHI Group and improvement of its corporate value in the medium and long terms. In accordance with this basic policy, MHI

endeavors to improve its management system, such as by enhancing its management oversight function, separating management oversight and execution, and inviting outside directors onto the Board. We are focused on improving the soundness and transparency of management while building a Japanese-style global management model that values diversity and harmony.

## Corporate Governance Framework

To compete with the big players in the global market, it is essential to enable efficient and agile business execution through rapid decision-making. We also need to further strengthen the business execution supervisory function. With this in mind, we have adopted the form of a Company with an Audit and Supervisory Committee. This system enhances the oversight function of the Board of Directors by leveraging the extensive experience and broad perspectives of outside directors. It also enables us to separate the oversight and business execution functions by delegating authority to representative directors and other executive directors.

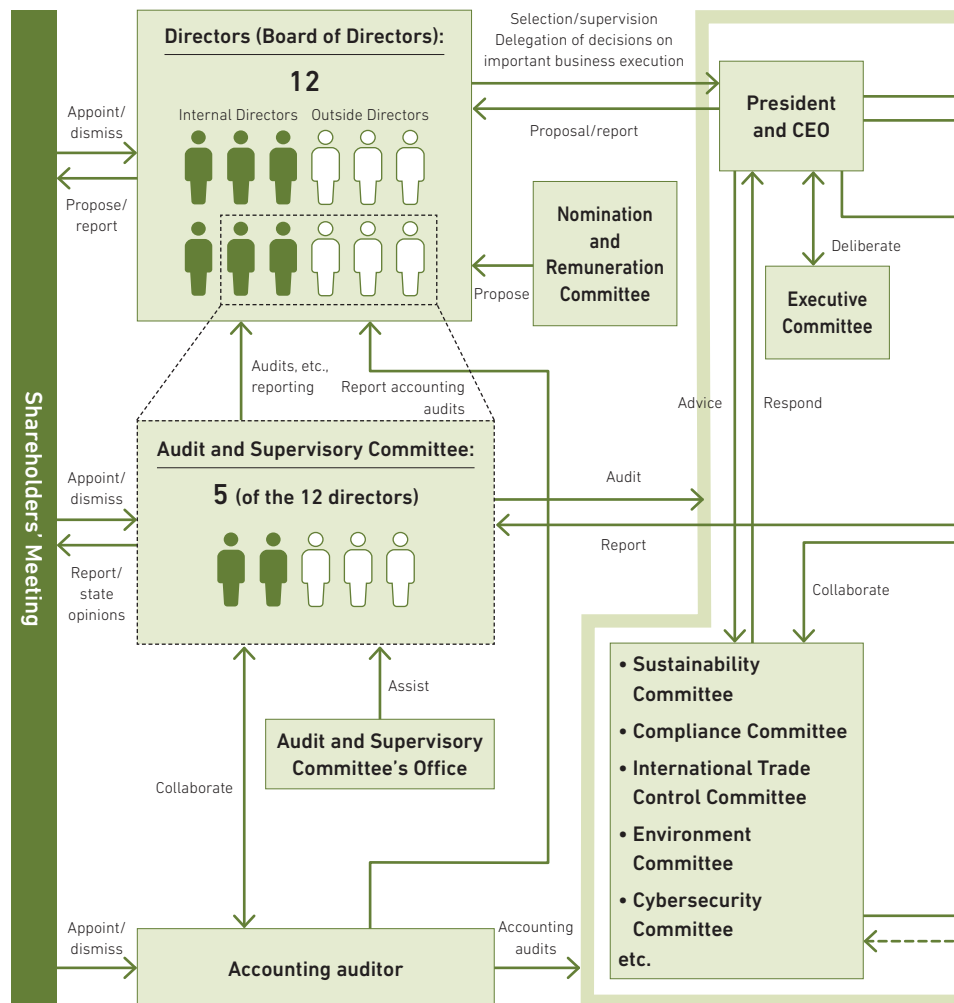
To further enhance the transparency and objectivity of the executive selection and remuneration decision-making processes, meanwhile, we revised the positioning and naming of the Nomination and Remuneration Advisory Council and reestablished it as the Nomination and Remuneration Committee in September 2024.

### Board of Directors

In accordance with MHI's Articles of Incorporation and a resolution by the Board of Directors, MHI delegates decisions on execution of operations to the President and CEO or a specially designated director, excluding matters designated by laws and ordinances as matters to be decided exclusively by the Board of Directors; business plans; the appointment, dismissal, and remuneration of directors, chief officers, and administrative executive officers; and other specific business matters, investments, etc., that are particularly important. This approach facilitates timely decision-making and flexible business execution while also enabling the Board of Directors to focus on the oversight of those in charge of business execution.

### Audit and Supervisory Committee

The Audit and Supervisory Committee consists of five directors, the majority of whom (three) are outside directors. To ensure the effectiveness of the Audit and Supervisory Committee's activities, two full-time members of the Audit and Supervisory Committee are mutually selected by the committee's members. One of these full-time members possesses substantial knowledge in finance and accounting. To support auditing activities, the Audit and Supervisory Committee's Office has been set up with its own dedicated staff of seven to facilitate the work carried out by the Audit and Supervisory Committee. The Audit and Supervisory Committee monitors and verifies the execution of business by directors, the appropriateness of business reports, the adequacy of the accounting auditor's audits, and the effectiveness of the internal control system. The results of its activities are provided to shareholders as an audit report. The Committee expresses opinions on selection and remuneration for directors who are not Committee members and determines the content of proposals regarding the appointment of the accounting auditor for the General Meeting of Shareholders.



Note: CEO (Chief Executive Officer), CSO (Chief Strategy Officer), CFO (Chief Financial Officer), CTO (Chief Technology Officer), GC (General Counsel), In charge of HR (Chief HR Officer)

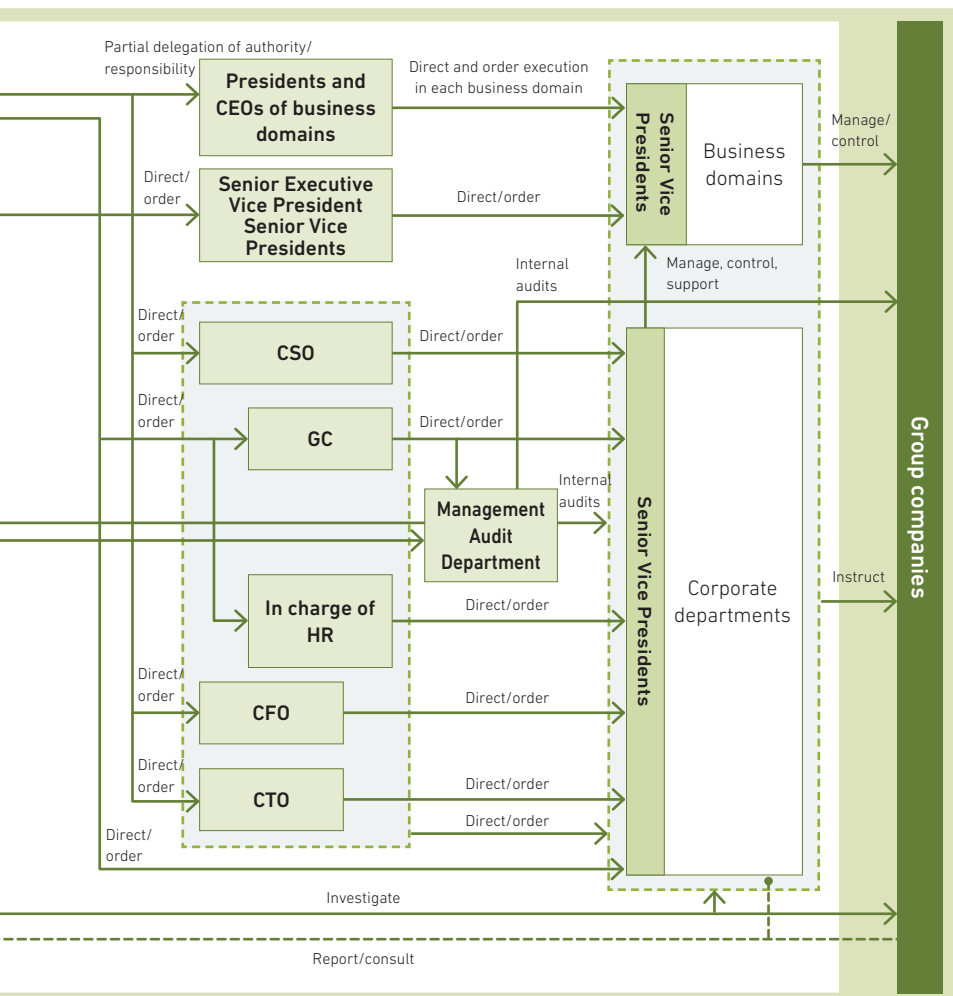
## Key Initiatives to Strengthen Corporate Governance

- 2005 • Introduced an executive officer system
- 2014 • Introduced a chief officer system
- 2015 • Transitioned to company with Audit and Supervisory Committee
  - Ratio of outside directors surpassed one-third
  - Introduced new stock remuneration system for officers
- 2016 • Established Nomination and Remuneration Advisory Council
  - Commenced Board evaluations
- 2019 • Abolished advisor system
- 2020 • Outside director ratio reached 50%
- 2024 • Changed Nomination and Remuneration Advisory Council to Nomination and Remuneration Committee

### Outside Director Ratio



### Female Director Ratio



### Nomination and Remuneration Committee

In 2016, the Company established the Nomination and Remuneration Advisory Council to deliberate on matters related to the appointment and dismissal of executives (including nomination of director candidates and selection or dismissal of the CEO and other executive management), as well as executive remuneration (such as determining remuneration for directors who are not Audit and Supervisory Committee members). This council has operated as an advisory body to the Board of Directors, eliciting the opinions and advice of outside directors.

In September 2024, we changed its name to the Nomination and Remuneration Committee and positioned it as the body responsible for deciding on the aforementioned matter and formulating and submitting proposals to the Board of Directors. The Committee consists of six independent outside directors, the Chairman of the Board, and the President and CEO. The chairperson, who is selected from among the outside directors, convenes and presides over the Committee meetings.

### Chief Officers and Standing Executives in Charge of Operations

MHI has introduced a chief officer system. Specifically, portions of the responsibilities and authority of the CEO (President) are delegated to a number of chief officers reporting to the CEO. These chief officers consist of domain CEOs (the heads of individual business domains) as well as the CSO, CFO, and CTO. The CSO, CFO, and CTO have company-wide authority to give instructions and commands and provide support to business domains. The GC and standing executive in charge of HR assist the CEO with their duties by supervising and executing activities in line with the CEO's mission.

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Director Skills Matrix

MHI Group has adopted Our Principles as its fundamental management philosophy and objectives and periodically formulates business plans to steadily realize them. The Group has embraced a mission of integrating cutting-edge technology and expertise built up over many years to provide solutions to some of the world’s most pressing issues and improve people’s lives.

Overseeing the management of MHI Group as it pursues this mission requires knowledge, experience, and expertise

in socio-economic issues, risk management/compliance, global enterprise management, technology/digitalization, marketing, finance/accounting, and human resources. Our Board of Directors must possess a well-balanced mix of such knowledge, experience, and expertise.

Individual directors’ knowledge, experience, and expertise are tabulated below. We believe our Board as a whole is adequately endowed with knowledge, experience, and expertise in the aforementioned areas.

Name	Gender	Inside/ outside	Audit and Supervisory Committee Members	Tenure in years <sup>1</sup>	Number of shares owned (100 shares)	Knowledge, experience and expertise <sup>2</sup>						
						Socio-economic Issues	Risk Management/ Compliance	Global Enterprise Management	Technology/ Digitalization	Marketing	Finance/ Accounting	Human Resources
Shunichi Miyanaga	Male	Inside		16	6,352	●	●	●		●		
Seiji Izumisawa	Male	Inside		7	2,438	●	●	●	●	●		
Hitoshi Kaguchi	Male	Inside		3	748	●	●		●	●		
Hisato Kozawa	Male	Inside		4	718	●	●				●	
Ken Kobayashi	Male	Outside		8	233	●	●	●		●		
Nobuyuki Hirano	Male	Outside		5	341	●	●	●			●	
Mitsuhiro Furusawa	Male	Outside		1	29	●	●				●	
Setsuo Tokunaga	Male	Inside	●	3	650	●	●		●			
Masayuki Fujisawa	Male	Inside	●	Newly appointed	520	●	●			●	●	
Hiroo Unoura	Male	Outside	●	5	429	●	●	●		●		●
Noriko Morikawa	Female	Outside	●	4	58	●	●	●			●	●
Masako Ii	Female	Outside	●	3	72	●	●					●

1 As of the end of the General Meeting of Shareholders on June 27, 2024

2 The dots in the seven rightmost columns do not indicate the entire range of knowledge, experience, and expertise that the given director possesses.

Knowledge, experience and expertise	Reasons knowledge, experience and expertise are thought to be important
Socio-economic Issues	Because knowledge, experience and expertise on constantly changing social and economic trends and the issues MHI Group should prioritize for medium- to long-term growth are essential for supervising the management of MHI Group, which has a mission to provide solutions to some of the world’s most pressing issues and provide better lives.
Risk Management/ Compliance	Because knowledge, experience and expertise on risk management and compliance in general corporate management including business risks are essential for supervising the management of MHI Group through the preparedness and implementation of internal control systems and the management of serious risks in management.
Global Enterprise Management	Because knowledge, experience and expertise on global enterprise management are necessary for supervising the management of MHI Group in operating diverse businesses globally amid accelerating global competition.
Technology/ Digitalization	Because understanding of the latest technology including digitalization, in addition to knowledge, experience and expertise on technology and digitalization such as the applications and trends thereof are necessary for supervising the management of MHI Group in strengthening its technology base to provide solutions to socio-economic issues.
Marketing	Because knowledge, experience and expertise on marketing for ascertaining the needs of diverse customers and stakeholders including growth areas are necessary for supervising the management of MHI Group in operating diverse businesses globally.
Finance/Accounting	Because knowledge, experience and expertise on finance and accounting are necessary for supervising the management of MHI Group including checking the appropriateness of various measures such as allocation of management resources and strengthening of the financial base.
Human Resources	Because knowledge, experience and expertise on human resource development and cultivation are necessary for supervising the management of MHI Group including confirmation of the appropriateness of measures to strengthen the human resource base such as cultivation of management personnel contributing to sustained growth and development of MHI Group, promotion of diversity and improvement of engagement.

## Board of Directors' Main Deliberation Items

The main items deliberated by the Board of Directors in FY2023 are presented in the table below.

General Meeting of Shareholders	•Resolution on matters for calling the Annual General Meeting of Shareholders	
Items related to financial results	•Financial results	•Shareholder return policy
Items related to executives and Board members	•Board Evaluation •Remuneration of directors, and executive appointments (including chief officers)	•Director and officer liability (D&O) insurance policies
Internal controls	•Status of internal control systems operation	
Resolutions on and status of execution of important operations	•Status of business in individual domains and segments	
	•Status of execution of operations by individual chief officers	•Status of progress of growth strategy
	•Acquisition of a U.S. company in the electrification business	•Sustainability initiatives
Others	•Key-risk identification and management process	•Cybersecurity strategy
	•Strategic shareholding reduction status and plan	

## Providing Support for Outside Directors

The Company has assigned dedicated staff to serve as the secretariat for the Board of Directors. Prior to Board meetings, they send out materials in advance and provide explanations on important matters to outside directors. They also conduct tours of manufacturing sites to help outside directors gain a deeper understanding of our business.



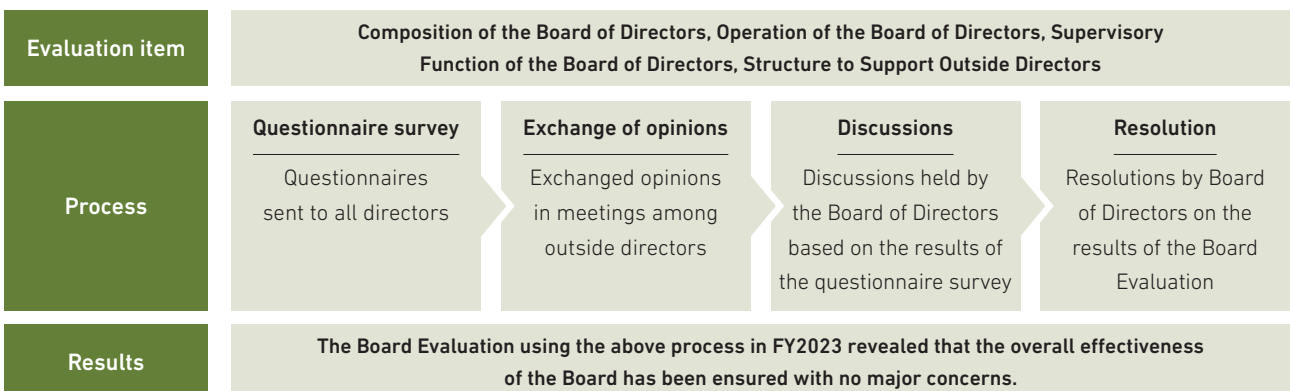
Manufacturing site visit by outside directors

## Board Evaluation Results and Future Initiatives

MHI conducts an analysis and evaluation of the effectiveness of the Board of Directors as a whole (hereinafter referred to as "Board Evaluation") once a year for the purpose of further improving the effectiveness of the Board and ensuring that it is fully accountable to its

stakeholders. The process and results of the FY2023 Board Evaluation, the status of activity based on the results of the Board Evaluation conducted in the previous fiscal year (FY2022), and future responses based on this year's evaluation results are as presented in the table below.

### Process and Results of FY2023 Board Evaluation



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**FY2023 Initiatives**

- 1 In addition to discussions on the formulation of the next business plan, we discussed our long-term vision for MHI Group. We also held discussions on our growth strategy, personnel strategy, and commitment to sustainability.
- 2 We continued working on ways to prepare materials to enhance the efficiency of Board meetings. We also enhanced agenda item explanations, including through pre-meeting briefings, to address time constraints and clarify discussion points, thus enhancing Board discussions.
- 3 To foster a deeper understanding of our business, we continued conducting visits to our production sites and increased opportunities for communication through dialogues with executive officers and employees.
- 4 In the Nomination and Remuneration Advisory Council, we established opportunities to discuss the composition of the Board of Directors, etc.

**Planned Actions for FY2024**

- 1 **Initiatives aimed at enhancement of discussion**  
We will provide timely updates on the progress of the 2024 Medium-Term Business Plan (MTBP) to the Board of Directors. We will also incorporate matters of particular interest to the directors into the annual agenda for explanation and discussion.
- 2 **Create opportunities for outside directors to exchange information and share awareness of issues**  
In addition to various meetings scheduled throughout the year, we will continue providing opportunities to hold separate meetings when deemed necessary by the outside directors.
- 3 **Provide opportunities to help outside directors understand our business**  
We will continue providing opportunities for outside directors to visit production sites and engage in dialogue with executive officers and employees.

**Status of Audit and Supervisory Committee Activities**

In FY2023, the Audit and Supervisory Committee focused on priority areas, such as the progress of the 2021 MTBP, the formulation of the 2024 MTBP, our sustainability efforts, and our risk management.

Directors who are Audit and Supervisory Committee members attend Board meetings as directors. In addition, the full-time Audit and Supervisory Committee members participate in important meetings, such as Executive Committee meetings, MTBP meetings, and Compliance Committee meetings. They also engage in discussions with the representative directors, conduct hearings with business and corporate departments, and arrange site visits to domestic and international business locations.

The Audit and Supervisory Committee fully utilizes the results of the comprehensive and regular audits conducted by the Management Audit Department. Full-time Audit and Supervisory Committee members hold regular information exchange meetings (generally once a month) with this department to confirm the formulation and progress of audit plans by the department and receive reports on audit results in a timely manner.

The Audit and Supervisory Committee and the accounting auditor regularly exchange opinions on the accounting auditor’s auditing plans and results, and full-time Audit and Supervisory Committee members hold

monthly meetings to exchange information with the accounting auditor to ensure close communication.

Furthermore, full-time Audit and Supervisory Committee members regularly hold information exchange meetings attended by the full-time auditors of MHI Group companies to confirm the status of creation and implementation of internal control systems in major subsidiaries.

As a result of these activities, the Audit and Supervisory Committee submitted an audit report to the General Meeting of Shareholders held on June 27, 2024, stating the following:

- (1) The business report and the related supplementary schedules fairly represent the status of the Company in accordance with applicable laws and ordinances and the Company’s Articles of Incorporation.
- (2) With respect to the Directors’ execution of duties, there are no material facts of violation of applicable laws, ordinances, and the Company’s Articles of Incorporation.
- (3) The contents of the resolutions of the Board of Directors regarding internal control systems are appropriate, and there are no matters that need to be pointed out in its operation.
- (4) The methods and results of the accounting auditor’s audit concerning the non-consolidated and consolidated financial statements are appropriate.

## Officers' Remuneration Structure

### Remuneration of Directors Who Are Not Audit and Supervisory Committee Members (excluding outside directors)

Remuneration for directors who are not Audit and Supervisory Committee members (excluding outside directors) consists of base remuneration, performance-linked remuneration, and stock-based remuneration from the viewpoint of reflecting business performance and sharing value with shareholders.

The remuneration standard for the Company's President is set at roughly 30% base remuneration, 40% performance-linked remuneration, and 30% stock-based remuneration (assuming that consolidated profit from business activities reaches ¥200 billion). This is calculated based on the fair value of stock award points granted during FY2018, making for a remuneration structure in which the higher a director's position is, the greater his or her performance-linked remuneration will be. To promote MHI stock ownership that better aligns with the interests of shareholders, once profit from business activities exceeds ¥200 billion, stock-based remuneration increases as a medium- to long-term incentive. At the same time, performance-linked

remuneration's rate of increase progressively tapers off before plateauing once profit from business activities exceeds ¥400 billion.

The benchmark used to calculate performance-linked remuneration is profit from business activities. Profit from business activities was chosen to reflect the results of business operations in performance-linked remuneration. (However, there may be a partial adjustment in terms of remuneration computation based on assessment of the impact of changes in accounting principles; the same applies below.)

The benchmark used to calculate stock-based remuneration is profit from business activities. Profit from business activities was chosen to reflect the results of business operations in stock-based remuneration. In FY2023, we changed the key relevant indicator from profit before income taxes to profit from business activities to increase the linkage with the MTBPs and other business plans.

### Methods for Calculating Each Type of Remuneration (remuneration for directors who are not Audit and Supervisory Committee members (excluding outside directors))

	Base remuneration	Performance-linked remuneration	Stock-based remuneration
Overview	Monthly payment based on the following formula (taking into consideration each director's position and the nature of his/her duties):	<ul style="list-style-type: none"> <li>The amount is determined based on the following formula, taking into account the consolidated business results for the fiscal year, the position of each director, and the performance and achievements of the business for which he/she is responsible.</li> <li>Paid if profit from business activities for the fiscal year (after any adjustments, if applicable) is in the black and dividends are distributed from retained earnings</li> </ul>	As a general rule, through the Board Incentive Plan (BIP) Trust, directors receive MHI shares and/or cash in an amount equivalent to MHI shares' liquidation value three years after being granted stock award points, based on stock award points granted to directors in accordance with, among other factors, the position of each director and the financial results of MHI. The calculation formula is described below.
Calculation Formula	(1) Standard amount based on position + (2) Additional amount based on performance	(3) Position-based payment coefficient x Profit from business activities for the fiscal year ÷ 10,000 x (4) Coefficient of business results	(5) Position-based standard points x (6) Coefficient of business results
Calculation Standards	(1) Standard amount based on position Based on position, duties, etc. (2) Additional amount based on performance Up to ¥500,000/month	(3) Position-based payment coefficient Based on position, duties, etc. (4) Coefficient of business results Within a range from 1.3 to 0.7, based on the performance and results of the business of which the director is in charge	(5) Position-based standard points Based on position, duties, etc. (6) Coefficient of business results Based on previous year's business profit and an external evaluation by major ESG rating agencies

#### ● Incorporating ESG Perspectives into Stock-Based Remuneration Calculation Criteria

With respect to stock-based remuneration, we have introduced a system to determine stock award points that takes into account the status of ESG-related initiatives. The system incorporates the external evaluation results from major ESG rating agencies into the calculation formula for stock-based remuneration (coefficient of business results). This enables us to objectively reflect our wide-ranging ESG initiatives in such remuneration.

#### ● Clawback System

With regard to stock-based remuneration, we have introduced a system in which, in the event that a director engages in improper conduct, the Company suspends the granting of stock award points and the issuance of shares to said director. There are also cases where the Company asks such a director to submit a payment equivalent to the number of shares that has been issued to him or her. (This is comparable to a clawback system or malus clause.)

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Remuneration for Outside Directors

The Company expects outside directors to offer their objective opinions and guidance, primarily on their vision for the Company over the medium to long term, from an

independent standpoint. Accordingly, the outside directors are only paid base remuneration, which is set at an appropriate amount.

Remuneration for Directors Who Are Audit and Supervisory Committee Members

The amount of remuneration for directors who are serving as Audit and Supervisory Committee members and the policy for deciding its calculation method are determined through discussions by those directors.

each member’s roles and responsibilities and based on whether he/she is a full-time or part-time member.

Directors who serve as Audit and Supervisory Committee members are only paid base remuneration. The amount for this base remuneration is determined in consideration of

However, the base remuneration for full-time Audit and Supervisory Committee members can be reduced in consideration of the status of the Company’s management and other factors.

Breakdown of Directors’ Remuneration (FY2023)

Classification	Number of subjects (persons)	Total amount of remuneration (Millions of yen)	Base remuneration	Performance-linked remuneration	Stock-based remuneration
Directors who are not Audit and Supervisory Committee members (excluding outside directors)	4	1,023	231	444	348
Directors who are Audit and Supervisory Committee members (excluding outside directors)	2	103	103	—	—
Outside directors	7	100	100	—	—
Total	13	1,227	435	444	348

1. The recipients include one director who was not an Audit and Supervisory Committee member who stepped down on June 29, 2023 (date of the 98th Annual General Meeting of Shareholders).  
 2. The total amount of stock-based remuneration is the amount of expenses recognized for the 557,000 stock award points granted in total during FY2023 (equivalent to 55,700 shares of MHI) under the Board Incentive Plan Trust. However, the amount recorded for expenses related to the stock award points pertains to the number of shares granted before the stock split conducted on April 1, 2024.

Policy and Trends of Strategic Shareholdings

Acquisition, Holding, and Reduction Policy

MHI acquires and holds shares necessary for the Group’s sustainable growth and value improvement with the aim of developing business strategies; creating business opportunities; and building, maintaining, and strengthening business relationships. MHI will continue investing in growth areas for the future. And at the same time, we will promote initiatives to reduce the strategic shareholding ratio to less than 15% of its total equity (consolidated) by the end of FY2025 and less than 10% by the end of FY2030.

Verification Policy and Results for Holding Individual Stocks

The Board of Directors annually reassesses all strategic shareholdings from multiple standpoints, including their compatibility with the Group’s business strategies, their actual or prospective role in creating or expanding business opportunities, their returns (whether they exceed our target capital cost (the weighted average cost of capital)), and strengthening of the Group’s business relationship with their issuer. After assessing each shareholding and taking into account the Company’s strategic shareholding reduction target, MHI makes a final decision on whether to continue holding the shares, including those deemed reasonable from all standpoints during the assessment. As a result of verification performed in FY2023, a certain

number of shares were identified as candidates for reduction mainly due to the decreased significance of holding (but this number was down from the previous year).

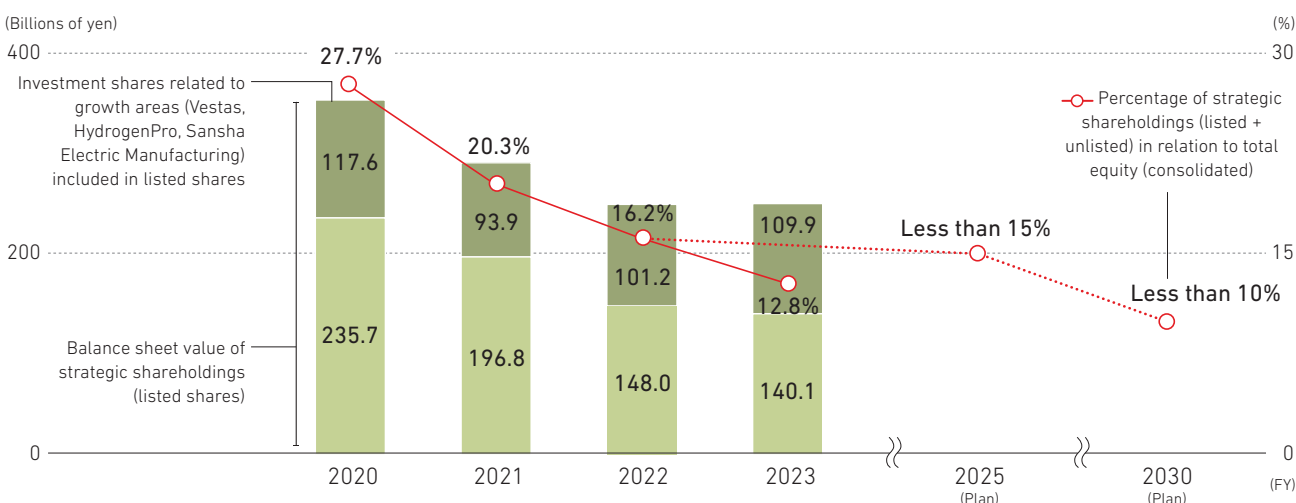
### Reduction in Strategic Shareholdings

Based on the above acquisition, holding, and reduction policy and the result of verification, MHI sold or divested 11 individual stocks in FY2023 valued at ¥58.3 billion (over 10% of total holdings), and the total value on the balance sheet at the end of the FY2023 was ¥303.2 billion (¥6 billion increase from the previous year due to a Japanese stock

market surge). Consequently, the ratio of strategic shareholdings to total equity (consolidated) fell to 12.8%. This means we achieved our target for the end of FY2025 (less than 15%) ahead of schedule.

We also have investments in growth areas (three listed shares, including in Vestas Wind Systems A/S) to promote Energy Transition aimed at realizing a carbon-neutral society. The total value of such holdings at fiscal year-end was ¥109.9 billion. MHI will continue working with strategic partners in various fields to expand renewable energy and pursue decarbonization technologies."

### Balance Sheet Value of Strategic Shareholdings and Ratio to Total Equity (Consolidated)



### Breakdown of Change in FY2023 (Number of Stocks, Value)

Number of stocks	As of March 31, 2023	Decrease <sup>1</sup>	Increase	As of March 31, 2024
Non-listed shares	142	2	9	149
Listed shares	37	4	2	35
Total	179	6	11	184

Balance sheet value (Billions of yen)	As of March 31, 2023	Decrease <sup>2</sup> (Sale value)	Increase (Acquisition value)	Changes in share prices, etc.	As of March 31, 2024
Non-listed shares	479	-12	76	-11	532
Listed shares	2,493	-571	22	556	2,500
Total	2,972	-583	98	545	3,032

<sup>1</sup> Number only shown for stocks completely sold. Five other stocks were also partially sold.

<sup>2</sup> Total value of complete sales and partial sales