

MC Shared Value Creation Forum ~ESG Briefing~  
Dialogue with Independent Board Members

[Kashiwagi]

I would now like to begin the dialogue session with the President and CEO and our Independent Directors. Today, we are joined by Director Tsuneyoshi Tatsuoka and Director Sakie Akiyama.

Director Tatsuoka previously held key posts at Japan's Ministry of Economy, Trade and Industry. As a result of his many years of experience working with economic and industrial policies, he brings deep knowledge about industry as a whole, along with insight into sustainability, including environmental and energy policies. He has been advising and overseeing MC's management since becoming an Independent Director in June 2018.

After working as an international business consultant at what is now Accenture, Director Akiyama founded a firm specializing in robotic inspection systems for electronic assembly markets and proceeded to grow the company into a global enterprise. She possesses in-depth knowledge about digital and IT fields, and also offers insight into innovation. She has served as an Independent Director at MC since June 2020. Thank you both for joining us here today.

Let's jump right in and begin our discussion of the first item on our agenda, "Governance Initiatives in Recent Years". I would like to ask Director Tatsuoka to start us off. Almost five years have passed since you became a Director at MC. Could you please share your thoughts about governance at MC based on your experiences during that time?

[Tatsuoka]

Since taking up my post, I feel there has truly been a large shift in the Board of Directors, from a management style to a monitoring style. We conducted a review of agenda items discussed by the Board and raised the monetary threshold standards for investment and loan proposals. In addition to deliberating important individual projects, we also engage in repeated deliberations for the purposes of monitoring progress on the current midterm corporate strategy and formulating the next strategy, as well as addressing themes related to sustainability. In addition, we conduct analysis of financial risks and non-financial risks, and in light of intensifying geopolitical risk in recent years, we engage in discussions on regional strategy. We also regularly monitor the situation regarding MC's overall asset efficiency. From time to time, we check up on the Value-Added Cyclical Growth Model, presented in our midterm corporate strategies, and bring the model up for discussion after having its progress presented in a visual format.

In addition, we make changes to the way the Board operates based on the results of annual effectiveness evaluations, and we are striving to make Board meetings a place for substantive deliberations. As stated in the Integrated Report, in FY2017, around 5.5 hours were spent throughout the year on briefing sessions held before meetings of the Board, but in FY2021, the amount of time for these sessions increased fivefold to 28.3 hours. The operation of the Board has been changed so

that the basic confirmation of facts is dealt with ahead of time. As such, we can readily enter into substantive deliberations at meetings after being presented with a brief summary of projects and an overview of discussions during internal management meetings. The way we allocate time has been reformed to make more functional use of the role that Independent Directors play in asking good questions.

In addition, the amount of total time spent in meetings of the Board has declined from 24.8 hours in FY2017 to 16.2 hours in FY2021. This is the result of reforms to the way meetings are conducted. Business execution reports from each Business Group, which took around 1.5 hours, are now conducted separately from Board meetings. During FY2021, I personally spent a total of 57 hours in briefings on business execution reports outside of Board meetings. In other words, briefings that previously took 8 hours during Board meetings are conducted separately and we now spend close to 60 hours engaged in separate briefing-related discussions. As a result, the amount of information we receive has increased dramatically. We are able to receive progress reports about developments within each business, and individually ask questions about the degree to which corporate policies are taking root and being implemented. In this way, the allotment of time has been changed so that we can understand the individual circumstances for each business, which is necessary for the Board to successfully achieve its monitoring role. As such, I feel the Board is functioning in a very meaningful manner.

Naturally, we also deliberate individual projects at Board meetings. In 2021, for example, we engaged in discussions about an offshore wind power project in the Netherlands. In addition to new projects, the Board also makes time throughout the year to deliberate projects that require careful, continuous follow-ups. While there haven't been any visible changes to the organizational framework, I feel that the internal operation of the Board has changed so as to allow substantive discussion in a way that accommodates MC's expansive operations.

[Kashiwagi]

Thank you. President Nakanishi, while reflecting on the year that has passed since you became President, could you please tell us your impressions about the deliberations at the Board of Directors?

[Nakanishi]

As of today, exactly one year has passed since I became President, and as I look back, MC has ties to all kinds of industries and the breadth of its business activities is vast. In light of this, we seek input from a diverse range of perspectives through our Board of Directors.

As was mentioned by Director Tatsuoka, in addition to Board meetings, we also devote a considerable amount of time to conducting briefings ahead of time. As all information is openly shared, there is no need for long explanations from the executive side at Board meetings. As the meetings are centered on substantive deliberations, I feel we are able to receive valuable input while engaging in candid exchanges.

In order to do things in this way, it is essential for there to be ties of trust between the executive side and the Board of Directors. Therefore, in addition to meetings of the Board, I seek other opportunities, including one-on-one interactions, to explain my thinking to our Directors. While pursuing communication in this way, we are able to get to know one another and build ties that allow us to speak candidly. In the future, I hope to further strengthen these ties of trust while continuing to receive valuable input from our Directors.

Secondly, Mr. Tatsuoka mentioned the offshore wind project in the Netherlands as an example of an individual project discussed by the Board. When we deliberated that project, the energy situation in Europe was poised for great change, as the situation between Russia and Ukraine was unfolding. Therefore, we did not just review the project as an isolated business initiative, but also engaged in expansive discussions from a broad perspective, including deliberations about how we should regard MC's energy business. Over the past year, it is my impression that we are using a considerable amount of our directors' time.

[Kashiwagi]

Thank you. My next question is for Director Akiyama. Last year, when formulating Midterm Corporate Strategy 2024, we received input from our Independent Directors and Independent Audit & Supervisory Board Members. Could you please share with us your thoughts about the process of formulating this strategy?

[Akiyama]

I became a member of the Board of Directors in June 2020. Page 27 of the briefing materials includes a section on all the reforms adopted over the past five years, which Mr. Tatsuoka mentioned. I joined the Board just after these reforms were implemented.

I concurrently serve as an independent director for a number of companies, and MC is definitely the company that requires the largest time commitment. As was explained earlier, we spend a lot of time outside of regular Board meetings talking with top executives and other members of management in offices or while having meals together. I feel like MC's emphasis on building ties of trust is very much apparent on these occasions.

After joining in 2020, I took part in meetings of the Board as well as the Evaluation of the Effectiveness of the Board of Directors and other activities. On such occasions, many of the Independent Directors and Independent Audit and Supervisory Board Members shared the opinion that, in accordance with the Corporate Governance Code, we should be firmly involved in the process of formulating the midterm strategy. I understand that this opinion was incorporated when formulating Midterm Corporate Strategy 2024. As we reviewed the previous midterm strategy, I voiced a considerable number of objective criticisms from an external viewpoint, including comments that may have been difficult to voice internally. In the processes of formulating Midterm Corporate Strategy 2024, I asked for preliminary drafts to be shared with us, even in a rough form, rather than

being presented with the completed version. This request was accepted and President Nakanishi personally joined us on several occasions for direct discussions. As a result, the current version of Midterm Corporate Strategy 2024 reflects consideration for opinions expressed by Independent Directors and Independent Audit and Supervisory Board Members.

“Monitoring” is not just about listening to reports and remarking on points that catch your attention. As our involvement starts from the process of formulating the midterm strategy, we should play a role in confirming progress towards implementing the strategy, based on our knowledge of the deliberations behind it and the assumptions upon which it was created. Regarding the activities of the various business divisions, we are also regularly granted time for discussions with those in charge, as was mentioned earlier, so I feel we are able to perform our monitoring function at a rather high level of effectiveness.

[Kashiwagi]

Thank you very much. President Nakanishi, please tell us your thoughts about the process for formulating the midterm strategy.

[Nakanishi]

Midterm Corporate Strategy 2024 was announced in May 2020. It represented the first major milestone of my work since becoming President. The midterm strategy is created based on the Business Strategy Committee, which are held in March. In the midst of this process, I felt a desire to produce a midterm strategy with a sense of unity while also receiving input from our Independent Directors and Independent Audit and Supervisory Board Members. There was a considerable amount of discussion and exchange of opinions, starting from the stages when the strategy was still a preliminary outline of ideas. In the end, we put together what is today’s Midterm Corporate Strategy 2024 while incorporating views from our Independent Directors and Independent Audit and Supervisory Board Members. In particular, I received extremely valuable input regarding the DX strategy, regional revitalization and maximizing human capital, which I feel we were able to incorporate into the strategy. Courage is needed when announcing a new midterm strategy a month or two after becoming President. In particular, it required courage to announce that MC was going to focus efforts on regional revitalization, and at that time, Ms. Akiyama provided some much needed encouragement. With regards to moving forward in a unified, companywide manner, I also received advice on the importance of having all employees implement initiatives based on the strategy after first communicating our vision internally, and I was advised to provide thorough explanations, through forums such as this, so that the strategy would be also widely understood by those outside of the company.

I think monitoring will be important from here on, as we seek to confirm the progress being made on achieving the goals presented in the midterm strategy. This midterm strategy was formulated last year, but social dynamics and the business environment are constantly changing, so it was suggested

that we need to regularly monitor whether or not the assumptions upon which the strategy was based are changing. I am convinced that this is true and I believe it is necessary for us to respond carefully.

[Kashiwagi]

Thank you. I would like to move on to our second agenda item and ask about “Expectations for MC’s Future”, especially in the context of MC Shared Value, which is laid out in Midterm Corporate Strategy 2024. Mr. Tatsuoka, may I ask you to begin?

[Tatsuoka]

I would like to talk about the expectations in the area of EX. I think the question of whether a company is sustainable or not really comes down to how it is able to win people’s confidence through its ability to provide solutions to addressing societal needs across different eras. And in that sense, I understand that the Roadmap to a Carbon Neutral Society and our EX Strategy were produced as part of a process to provide answers regarding what MC can do for society and what role it should play, with a focus on the energy sector. Our handling of Scope 3 emissions and the topic of internal carbon pricing were mentioned in the previous session. We engaged in extensive deliberations about how we should approach these subjects and to what extent we should address them, and I feel we were able to engage in extensive discussions with the executive side about these topics. In particular, we encountered many difficult points regarding Scope 3 emissions, such as methods of calculation and concerns over double counting, as there is no commonly accepted way of making measurements. I felt it was a valuable step in the sense that we had to first arrive at a clear understanding of where MC stands on this. I find it extremely encouraging to have received positive comments about these efforts today.

Regarding expectations for the future, I would like to mention two thoughts I have from the Board’s EX-related deliberations. The first has to do with how we should approach carbon neutrality as a *sogo shosha*, which in many ways is an entirely unique business entity. How can a business operation that is not a maker of steel or petrochemicals or an oil refinery target progress towards carbon neutrality? It is especially complicated in MC’s case as an enterprise that began as a trading firm involved in wide-ranging fields before expanding into business investment, shifting its focus to business management, and then going on to incorporate a cyclical growth model. Of course, divestment would provide an effective means for reducing Scope 1, 2 and 3 emissions, but is just doing that really the right approach? I personally had doubts about this. Here, we have a company that is developing a remarkable range of operations and creating diverse business models. Since it is involved in supplying energy, which is indispensable for human activities, I would like to see the company be a presence that looks to fulfill its role in providing solutions to Japan and the rest of the world by utilizing all of the various means at our disposal. And by extension, I believe doing this will also contribute to MC’s sustainability in global markets. Therefore, from this perspective, I think it is vital for our company to first gain an awareness of not only our Scope 1, 2, and 3 emissions, but also to utilize “avoided

emissions”, not as an exercise in greenwashing, but to show how much we are doing to support carbon neutrality, and to then communicate this to the world. Therefore, I have continued to engage in discussions with members of the executive team while personally thinking about how we should approach initiatives for carbon neutrality in a way that makes sense for MC as a *sogo shosha*.

The second point is the difficulty of managing during the transition period. The relationship between supply and demand in new fields is a chicken and egg question and the same is true when developing government policies. It is no use generating demand at a time when supply has not yet been established, but it is effective if efforts are made when the timing is right. However, it is difficult to know when the right time will come. This is the biggest dilemma.

Regarding the state of MC’s current initiatives, we have made progress in narrowing down potential projects from a rather long list to a shorter one. We are approaching this task from a perspective of “no regrets”. In other words, we have selected projects that we will not regret working on regardless of what changes there are in the external environment, and I think this is a reasonable approach. The real problems lie ahead. Amid times of great uncertainty, I think it will be very difficult to determine when the timing is right and what moves to make.

Geopolitical risk represents one potential catalyst for sparking change in the business environment, as reflected by the situation with Russia and Ukraine. The catalyst could also be technological innovation or some sudden, unforeseen development. Reforms of government regulations and regulatory systems could also be a driver of change. I think we need to be able to detect and understand these developments while also showing foresight. At the same time, we must look to stay a half-step ahead of the curve in this respect.

In light of this, I think it is important to further enhance our intelligence gathering capabilities regarding such matters. In the current fiscal year, efforts have begun under President Nakanishi to develop a framework for acquiring, organizing, sharing and utilizing internal intelligence. I have high expectations for this initiative and I think it is necessary to closely monitor if the information produced leads to concrete actions in the area of EX.

Midterm Corporate Strategy 2024 emphasizes “connections”, and with EX as well, it is important to have an approach for addressing societal challenges that brings together various factors. I think this is the true meaning of MCSV, so I look forward to providing support for these efforts by carefully monitoring activities while embracing the perspectives I just described.

[Kashiwagi]

Thank you. Mr. Tatsuoka’s response was largely centered on EX Strategy. President Nakanishi, would you please share your thoughts with us?

[Nakanishi]

MC’s Roadmap to a Carbon Neutral Society was finalized in October 2021. The Roadmap is the product of discussions that I had with the Board for over a year when I was serving as Chairman of

the Energy Committee as an Executive Vice President. Next, as part of the process for formulating the midterm strategy, I engaged in deliberations with Board members, even as we were still working on preliminary drafts. These efforts have culminated in our disclosure of our Category 11 emissions. We were able to make this announcement only after extensive deliberations between the executive side and the members of our Board, and I would like to express my gratitude to everyone involved.

I would like to address points mentioned by Mr. Tatsuoka regarding our approach to divestment and EX strategies within the context of our Value-Added Cyclical Growth Model as well as the unique challenges presented by the transition period. It is important to target decarbonization initiatives that are suited to MC's unique qualities and its role as a *sogo shosha*. With initiatives that cannot be readily implemented in Japan, we will look to advance our efforts through projects overseas, and I have received comments about how our capacity to incorporate intelligence into our management will impact these efforts. Accordingly, I would like to proceed with an EX Strategy that is custom-made for MC, while also gaining the understanding of our Independent Directors and Independent Audit and Supervisory Board Members by seeking consultations and providing explanations from the conceptual stages.

[Kashiwagi]

Thank you. Next, I would like to ask Ms. Akiyama to tell us about her future expectations for MC.

[Akiyama]

I would like to speak about creating a new future and regional revitalization. I think that the phrase "creating a new future" is fitting for MC. It expresses a vision that is grounded, yet bold. Page 6 of the briefing materials highlights a number of specific initiatives related to both of these topics. I would like to add to those by talking about an example from overseas.

In the latter half of last year, when issues related to COVID-19 were subsiding, I began to participate in international site visits, and I toured BSD City, a greenfield-style smart city project in Indonesia. Because of my work with Japan's Cabinet Office, I have had the opportunity to survey the sites of a number of leading smart city projects around the world, but even compared to those sites, BSD City is a project of enormous scale. MC is now involved in this project and its development is progressing. In the area of renewable energy, MC is developing wind power projects in Japan after first acquiring experience in Europe, largely through Eneco and I think this kind of scenario could also be replicated in the field of smart cities too.

With regard to regional revitalization in Japan, I think we have to be prepared for some ups and downs, but we also have strengths to draw on, namely MC's capacity to develop projects that span multiple fields and its ability to bring various stakeholders together to advance projects. This is an area where MC excels as a *sogo shosha*. We also have significant advantages in terms of resources, so once we have decided to invest in an initiative, I believe we can resolutely move ahead and see the project through to fruition. I look forward to seeing MC leverages its strengths to create many never-

before-seen scenes of regional revitalization, both in Japan and around the world.

[Kashiwagi]

Thank you. President Nakanishi, would you like to add anything about creating a new future?

[Nakanishi]

Thank you. Ms. Akiyama just remarked about the smart city project in Indonesia. Several times a year, we organize visits to overseas business investees in an effort to allow our Independent Directors and Independent Audit & Supervisory Board Members gain a better understanding of MC's business operations. I think these visits serve to revitalize the discussions held at Board meetings, and we are utilizing the feedback we receive, including impressions of these on-site tours, in frontline business initiatives.

Ms. Akiyama founded her own company and has been a leader of innovation. Therefore, she is speaking based on her own experiences. One thing that left a particularly strong impression on me was when Ms. Akiyama clearly stated, "New industries don't develop without innovation. The pivotal changes in the world being driven by EX/DX will yield business opportunities." I am very grateful to have been inspired to push ahead by such persuasive words, expressed by someone who is speaking from experience.

It is very encouraging to be receiving support while engaging in lively exchanges with members of our Board of Directors, as described here today. I would like to continue to build these ties while embracing an even stronger sense of trust and urgency. Thank you for your time today.