

MC Shared Value Creation Forum~ESG Briefing~
Q&A Session (Second Half)

[Question 1]

Your explanation made it clear that MC has the knowledge, assets and know-how for EX, but I am having difficulty having a clear understanding of exactly how you will turn DX into a business or monetize it. Can you explain your understanding of the issues regarding DX at MC, and what your expectations are from the perspective of an independent director?

[Akiyama]

At our company, in addition to EX, we have also established a new organization and officer in charge of DX, in which we invest a considerable amount of time and report on the status of progress to our independent board members. We are also engaging in active discussions at Board of Directors' meetings. I believe the issue is whether we can create businesses on a scale unique to MC. One way to succeed is to be quick in adopting new technologies, engage in agile development, and be competitive through speed, but one of the characteristics of our company is that we are extremely cautious in our operations, while also being extremely bold in our decision making. So, we have been having thorough discussions at Board of Directors' meetings to make sure we don't miss out on opportunities to take on challenges due to our cautiousness. I think many new opportunities will arise going forward, so I would like everyone to stay tuned.

[Tatsuoka]

If I could add my own personal opinion on this matter, I believe DX is not our goal, but it's simply a means for us to attain our goals. We have many opportunities to discuss DX, but there is little meaning in discussing DX as an objective.

To give you an example, we engage in three business areas: upstream operations for resource development, midstream operations for trading, and downstream operations for B to C operations.

As for DX in upstream operations, I was extremely surprised by the metallurgical coal business in Australia. When I went on a site visit three years ago, port operations to transport the mined metallurgical coal at the time were only partially automated or visualized, but when I made another in autumn of last year after three years, operations had advanced significantly and were being done remotely. Thorough initiatives had been implemented for optimization, and I was surprised at the extent of progress made in just three years. I believe MC has great power in making decisions and executing them.

As for midstream operations, this is an area that MC excels in, but the company has businesses in extensive fields ranging from steel to food. If advances can be made in all these fields, I have great expectations for them to turn into DX projects on a grand scale.

The biggest issue is the B to C downstream operation. It's an area that MC does not necessary excel

in, so it will be necessary for us to further develop our skills in this area. These improvements must not be limited to matters of human resources, but must also include targeting and approaching customers, and identifying monetization points.

Overall, my impression of MC's DX is that there are both strengths and challenges. If we isolate the relevant business sectors and focus on each individual layer, we will be able to better understand our progress in DX.

[Question 2]

I have a question for Director Tatsuoka. I understand you are making continuous efforts in implementing governance reforms since your appointment as Director, but what is your understanding of the current issues as they stand?

[Tatsuoka]

I don't think there are any major issues. I have served as a Director for five years now, and I have constantly shared my understanding of the issues and strived relentlessly to make improvements. So, I personally believe the current state of governance at our company has already been optimized.

Of course, there are areas where minor improvements can still be made. For example, discussions at Board of Directors' meetings are becoming focused on themes that span different departments or even the entire company, but I think such discussions have been prompted by a variety of views and reasons. For example, opinions have been raised at Board of Directors' meetings asking for a better visualization of MC's business portfolios by categorizing our businesses into those that are strictly domestic, strictly overseas, and those that overlap between Japan and overseas countries. This resulted in the company carrying out a detailed analysis. This point was raised by our independent directors, and it was an initiative that tried to visualize the company's portfolio from a new perspective. There was also an initiative to analyze and map the risks faced by the company from financial/non-financial perspectives. But this led to the identification of further issues that needed to be discussed, such as the existence of business risks that have the potential to be both financial and non-financial risks.

So, although there are no major issues, I believe there are issues that still require further examination in order to refine and bolster our governance. I think we've made considerable progress in the last five years, and there are no more governance issues that must undergo fundamental changes.

[Question 3]

Can you tell us about the operations and role of the Governance, Nomination & Compensation Committee? In particular, I would like to know the reasons, advantages and challenges in integrating all these roles into a single committee, when other companies with nomination committees have separate committees for the different functions.

[Tatsuoka]

I think MC has strived to bolster governance even before its importance started to accelerate widely in Japan. We arrived at where we stand today as the result of our steady progress in making improvements while bolstering governance. The Corporate Governance Code was laid down during this process, and all kinds of discussions were held on the company's organizational design, including the functions/roles of voluntary committees, or whether or not we should even become a company with committees. But I think laying down these foundations and basic principles was the first important step. Having done that, there is the question of whether a committee-type structure is suitable for a company like MC which is engaged in diverse businesses and faces a variety of risks, and this led to our current organizational design.

On the other hand, compensation, nomination and governance are all interrelated, and although one may question the appropriateness of a single committee handling all three themes, I believe MC's current operation is functioning properly given the history of the reforms that have been implemented so far.

For example, during the process of appointing Mr. Nakanishi as President, we spent a long time thoroughly discussing points such as what kind of company we should be and how the selection process should be conducted. The company also provided meticulous support, and we held numerous discussions regarding the selection of candidates thanks to increased opportunities to interact with them, such as through interviews and detailed data on candidates through third party analysis.

The compensation system has also undergone bold reforms, but we held discussions on this too, including in the context of increasing corporate value and the company's current issues. For example, we are mindful that it may be beneficial to engage in discussions that integrate how our company is organized and the assignment of human resources.

So, while there are some who argue it would be better to have separate committees rather than a single body, there is also the view that having a single body actually allows for more integrated discussions. Another advantage is that the single committee can operate from a variety of perspectives depending on the theme. MC constantly reviews and improves its systems, so there is always discussion taking place as to whether the current system is appropriate or not, but based on what we have done up until the present, I believe it is functioning appropriately at this point in time.

[Akiyama]

It is true that companies that employ a three-committee system are on the rise from the perspective

of governance. On the other hand, speaking from my personal experience with three-committee systems, the committees are separated, but they still need to share information on discussions with other committees in order to deepen their own discussions. In practice, committee members usually end up having to attend the other committee meetings anyway as observers at some companies.

In that sense, I think our company has adopted an extremely practical system rather than prioritizing formality. And I would like to add that I felt it was very characteristic of our company to pursue this without hesitating to make changes to the status quo.

[Kashiwagi]

Thank you. Our policy is to strive in the constant search of appropriate governance, and to make changes whenever necessary, or maintain the status quo if no changes are required.

As for the disclosure of information, we constantly review the themes for discussion by the Governance, Nomination & Compensation Committee, and we currently hold discussions about four to five times a year on topics such as the handling of the Corporate Governance Code, executive remuneration, successor planning, and evaluation of effectiveness of the Board of Directors. We also intend to constantly review these meetings, including their frequency and issues to be discussed.