

ESG Day 2021 Q&A (Panel discussion: Governance Systems)

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[Speaker]

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<Q1>

I think External Members' awareness of the issues is important to enhance the effectiveness of the Board of Directors and the governance system. Do you see any points that should be changed regarding Mitsui's governance?

<Matsuyama>

Since our company has a very wide range of businesses and many investment projects that require a large amount of money, there are many proposals that require a resolution of the Board of Directors under the Companies Act. As a result, we find it's getting harder to find time to discuss the overall business portfolio and management strategy. However, when participating in discussions as an External Member, it is not possible to discuss the overall strategy without understanding the contents of the individual proposals and the contents of each of the businesses. We strive to discuss both individual agenda items and overall strategies at the meeting of the Board of Directors, but in the long run, I feel that it is necessary for the Board of Directors to further deepen discussions on overall strategies such as business portfolios.

In addition, under the restrictions of the Companies Act, proposals of projects submitted to the Board of Directors must be of a certain size and many of them are related to resources and energy. On the other hand, it is difficult to have proposals from other areas, such as healthcare and new industries, which Mitsui intends to expand. We believe that it is necessary for the members of the Board of Directors to discuss the future potential of areas that do not meet the threshold criteria of the Board of Directors but are extremely important to the Company. In this regard, we are making efforts to follow up on these issues through Free Discussions and other means which are separate from the Board of Directors' meetings.

<Egawa>

I agree with the above two points. In addition to the above, I have heard that Mitsui introduced ROIC last year and that discussions within Mitsui are progressing, but Mitsui has not yet firmly incorporated it into the system of the entire company and discussed it at the Board of Directors. I think there is room for the Board of Directors to deepen discussions on ROIC.

I also think that discussions on sustainability initiatives have deepened considerably, but it remains to be a very big issue for the company, including the recomposition of our portfolio,

and how to systematically proceed with it based on more sophisticated standards and processes. I think that further deepening such discussions will lead to the optimization of the portfolio.

<Q2>

I would like to ask two of you, both of whom are External Members. There are many companies that do not have a Governance Committee, but Mitsui has an independent Governance Committee separate from the Nomination and Remuneration Committee. How does the Governance Committee function and how does it make differences from other companies?

<Matsuyama>

The Governance Committee is indeed very unique and is not seen in many other companies. The Nomination Committees and Remuneration Committees of other companies are places to deepen individual discussions on nomination and remuneration as required by the Corporate Governance Code and the Companies Act, and it is difficult to secure time to discuss other matters such as the status of the governance system. I personally feel that by having the Governance Committee, we are able to discuss things that are not discussed in most companies. Due to the demands of the Corporate Governance Code in recent years, the number of matters that are required to be discussed at the Board of Directors meetings has increased enormously. There is a need to discuss not only the resolutions required by the Companies Act, but also various overall policies of the company, but as a prerequisite, I believe that the most important consideration for the Board of Directors is agenda-setting. The Governance Committee discusses what should be discussed at the Board of Directors and how to improve the structure of the governance system itself. For example, the committee discusses various issues such as that there may be too many resolutions to be submitted to the Board of Directors and there is not enough time for discussions of other matters, how to review the agenda criteria, how to allocate time at the Board of Directors, and so on. I feel that it is very meaningful to have a forum to discuss frankly on how to create a system to aim for the ideal form of the Board of Directors from various perspectives including External Members.

<Egawa>

The Governance Committee discusses agenda setting such as what should be discussed at the Board of Directors meetings and Free Discussions, governance system design issues, and what to do about Cross-Shareholdings in response to the Corporate Governance Code. Other companies do not have such opportunities, so although there are opportunities to provide feedback from External Directors through individual interviews, etc., I sometimes feel that there are relatively few processes for further discussions among External Members. I think the most significant feature of Mitsui's governance system is that we have opportunities to deepen discussions in this way. In terms of governance system design, by having an independent Governance Committee, Mitsui has the advantage of having regular opportunities to think about whether the current status quo is really optimal from a zero-based perspective, even if the current status quo is to be maintained as a result.

<Q3>

I would like to ask some additional questions on the status of discussions at the Board of Directors. At the opening speech, the CEO mentioned that the company is considering incorporating ESG into the evaluation system for executive compensation. I would like to know what the opinions of External Members are regarding this topic and other matters including succession plan of the top management and the further pursuit of diversity among Internal Directors.

<Matsuyama>

The points of incorporating ESG into the remuneration system and the succession plan for top management are discussed primarily by the Remuneration Committee and the Nomination Committee, and then reported to the Board of Directors for discussion. In our company, the chair of each advisory committees reports to the Board of Directors on the progress of discussions in each committee in a very concrete manner. As was mentioned earlier, our company's Audit & Supervisory Board members participate in each committee, and they also participate in the Remuneration Committee and the Nomination Committee. I am an External Audit & Supervisory Board member and receive reports on the status of discussions from the other Audit & Supervisory Board members who participate in each committee as needed, and our opinions are feedbacked to them and reflected in the discussions of each committee.

Diversity among the Internal Directors is a major issue being discussed, although I think it is an issue for many Japanese companies. We are discussing the human resource development issue of when and how to promote diverse human resources, including women, foreign nationals hired worldwide, and mid-career hires, to senior management. We have yet to come up with the right answer on how to do this, but it is a major theme for the Board of Directors. Since we have many women and non-Japanese employees, I have expressed my opinion that we should promote human resource development at the earliest and promotion of those employees.

<Egawa>

I have been informed that the Nomination Committee, chaired by Director Kobayashi, has been discussing the succession plan for the top management for quite some time. Last year, when the decision was made to change the CEO, the Nomination Committee reported the succession plan as a result of repeated discussions, with considerable involvement of External Members, and the Board of Directors ultimately approved it.