Earnings Briefing Q&A
FY2023 Results and FY2024 Forecast

Date and Time: Thursday, May 2, 2024; 14:15 to 15:05

Presenters:
Katsuya Nakanishi: Representative Director, President and Chief Executive Officer
Yuzo Nouchi: Representative Director, Executive Vice President, Chief Financial Officer
Kenji Kobayashi: Senior Vice President, Chief Stakeholder Engagement Officer
Yoshihiro Shimazu: Senior Vice President, General Manager, Corporate Accounting Department

Q. Despite gains on the revaluation of Lawson and capital gains from metallurgical coal, the current term's profit plan is flat, and the figures seem weak. You told us that increased pre-stripping affects the metallurgical coal business, but it was not clear if this factor was being considered in the profit plan. Does this mean that costs are expected to rise this fiscal year, while volume is expected to remain at a similar level as in FY2023?

A.
- Regarding the metallurgical coal operation, the point I would like to convey is that it will take some time for production volume to recover. I cannot give you specific figures for FY2024 and beyond, but the actual production volume for FY2023 was just over 37 million tons, excluding the two mines that we have divested. FY2024 production levels [for the remaining five mines] will remain about the same as FY2023, as we will focus on stabilizing operations until FY2025. Production volume shall gradually recover thereafter. However, one of our main challenges is finding ways to compensate for this shortfall through other businesses during this period.

Q. Is it correct to assume that production volume is expected to remain at a similar level excluding the two mines that were divested, and that the sharp decline in profit can be attributed to these divestments?

A.
- In addition to the decline in profit resulting from divesting these two mines, production levels for the remaining five coal mines will be about the same as FY2023.

Q. You mentioned during the Q3 results presentation that profit levels would rise.

This time, however, it sounds like profit levels would only start increasing towards the latter half of the next midterm plan. Is it correct to assume that the timing has been pushed back a bit because the recovery in the quantity of metallurgical coal would take longer than expected?

A.

- Your assumption is correct.

Q. Smart-Life Creation (S.L.C.) Group's forecasted profit seems low, despite the gain from the sale of the 0.1% stake of Lawson Inc. While the amount of one-time profit included in the previous year is not clear, the forecasted profit looks to be about ¥60 billion, excluding the gain on the sale of Lawson. Is this based on the assumption that the profit from Lawson and other S.L.C. businesses will decrease? Please provide any additional details.

A.

- In FY2023 there was a gain of approximately ¥37 billion from the sale of affiliates under the former Food Industry Group. This gain is recorded on the S.L.C Group's P&L due to the Company's recent reorganization. As for Lawson, there was a one-time gain from the reversal of past impairment losses in FY2023, representing a net increase in profit of only ¥82.3 billion. On an ongoing basis, profits in the S.L.C. Group are expected to be stable or slightly up.

Q. I understand that the cash flow allocation has not changed substantially since Q3, but if we add the ¥950 billion in FY2024 to the ¥2.5 trillion in underlying operating cash flow for the past two years, the total will be ¥3.4 trillion, slightly under the plan's goal of ¥3.5 trillion. On the other hand, cash flow from divestments has grown to ¥1.5 trillion, with ¥500 billion remaining against the plan. Deducting the ¥147.3 billion in cash from the sale of the two metallurgical coal mines, the remaining ¥350 billion gives the impression that cash flow from divestments will be higher than expected. From the perspective of increasing capital efficiency, please explain how you plan to use the remaining cash.

A.

- Regarding the remaining ¥500 billion in cash flow from divestments in FY2024, there is a possibility that we will come in above our original target. With regards to our cash flow allocation, we are looking at ¥950 billion of underlying operating cash flows in FY2024, which means that the three year total could be a slight decrease against the previous forecast of ¥3.5 trillion. However, we believe that we will make up for this.
- In addition, investments have already reached ¥1.9 trillion compared to the current plan of ¥3 trillion, and it is highly likely that we will reach the target we originally set. We are considering future growth areas and have not yet determined whether to use all of any surplus cash coming in, however as we continue to consider potential investment opportunities, there is a possibility that we will invest this

additional cash.

- While the immediate future plays a role in considering capital efficiency, we believe that it is necessary to make investments that will increase overall returns. When making investment decisions, we will carefully and rigorously examine if those investments would contribute to increasing future capital efficiency. Moreover, we will not rule out the possibility of using excess cash for additional shareholder returns.

Q. The total payout ratio of 42% in FY2024 is unchanged from the current midterm plan assumption, but from the perspective of strengthening returns, are you considering aiming for a higher ratio than 40% for the next midterm plan, since you show confidence in your ability to generate cash? Please explain how you plan to use the remaining cash during the current midterm period from a capital efficiency perspective and how you will increase capital efficiency in the long-term.

A.

- I cannot say for certain whether there has been any discussion about raising the total payout ratio from 40%, but of course that is always under consideration. This time around, we will raise the dividend per share to ¥100, bringing total shareholder return to 42%. Since we have a progressive dividend policy in place, we may consider further increases in the future.

Q. You explained to some extent about the S.L.C. Group and the Mineral Resources Group. However, as the Company's reorganization has made it difficult to understand each business segment's expected year-over-year performance on a normalized basis could you detail your plan for FY2024 on an actual basis excluding so-called special or non-recurring items?

A.

- We did not disclose details regarding one-time gains or losses in our forecast. However, we have disclosed material one-time gains for FY2024, including the ¥125 billion gain on revaluation from Lawson and the ¥95 billion gain from the sale of the two metallurgical coal mines.
- Other expected one-time losses and gains have been incorporated into the FY2024 profit plan to the extent that is reasonable. In addition, if you refer to page 15 of the materials and look at the figure for change in net income from FY2023 to FY2024 forecast, you will see that no other material one-time losses or profits are expected at this time.

Q. Based on your earlier explanation, I understand that the S.L.C. Group is expected to experience stable or slightly increased profit [adjusted for non-recurring items]. I also understand that the Mineral Resources Group plans a decrease in income on an adjusted basis due to increased stripping. Please explain at a high level what the expected adjusted profit is for the other business segments.

A.

- The Environmental Energy Group mainly consists of the former Natural Gas and Next Generation Energy Group businesses, but the upside due to positive market conditions in FY2023 has diminished, and dividend income, which was higher than expected in FY2023, will decline in FY2024. Dividends are not considered non-recurring, so profits will be down in this segment on an adjusted basis.
- The Power Solution Group recorded a gain of about ¥80 billion in FY2023 from the partial sale of its interest in the distributed solar power generation business [Nexamp] to bring in a new partner, but since a similarly sized divestment is not expected in FY2024, segment income is expected to decline by about ¥67 billion.
- The Urban Development & Infrastructure Group is not expected to have any material non-recurring items. The real estate business of the former Urban Development Group has been transferred to this business segment as part of the reorganization, but gains on real estate sales are expected to decrease slightly in FY2024 compared to FY2023.
- In the Mobility Group, the ASEAN automotive business has been experiencing a decline in sales volume, mainly in Thailand and Indonesia, due to a drop in overall demand since FY2023. Although we have taken measures to hedge for this, the decline in sales volume is expected to continue through FY2024.
- In the Food Industry Group, there will be a rebound from a one-time loss in FY2023. In addition, Cermaq's Chilean operation, which did not perform well in FY2023, is expected to recover in FY2024.

Q. On an adjusted basis, excluding non-recurring items, am I correct in assuming that the S.L.C. Group is the only group that will experience an increase in profit, while the others will experience a decrease?

A.

- Capital gains coming from Develop-to-Sell investments are not recorded as non-recurring items, which makes it difficult to make a proper comparison. But if we look at it in the traditional sense, profit for both the S.L.C. Group and the Food Industry Group is expected to be the same or slightly higher. The other business segments are expected to be stable or down on an adjusted basis, compared to their FY2023 performance.

Q. Do you consider the ¥730 billion in FY2024, excluding the valuation gain on Lawson and the capital gain from metallurgical coal divestments, to be the current underlying earnings power? Or do you view it as a temporary slowdown? What is your view for the next three years? Specifically, do you consider the ¥30 billion of the Power Solution Group and the ¥150 billion of the Environmental Energy Group to be the underlying earnings power?

A.

- I do not consider ¥730 billion to be the underlying earnings power. I specifically referred to our metallurgical coal production levels to elaborate on the factors contributing to the delay in pre-stripping activities. These include labor shortages due to the pandemic and adverse weather conditions, both of which will require considerable amount of time to recover from.

- In the Environmental Energy Group, LNG Canada will start up around FY2025 and contribute significantly to earnings beginning FY2026.
- For the Power Solution Group, each time a project is developed, it is partially sold off as it is completed, which means that we basically do not have non-recurring items in this segment. In FY2024, no large divestitures are expected, whereas in FY2023 we partially divested from Nexamp, a business which we developed from its early stages and grew into a unicorn. Although the gains from such divestitures vary from year to year, we expect to generate profit from FY2025 onwards. Therefore, I think you will understand that it is not reasonable to consider ¥730 billion as our underlying earning power.
- We anticipate that our metallurgical coal business will progressively increase its production levels after we implement stabilization measures throughout the FY2024/2025 period. The Environmental Energy Group expects a decline due to market factors, and the dividend can fluctuate depending on profitability and the cash flow situation. In addition, some upfront commercialization study costs should be expected.
- The Mobility Group is affected by the situation in ASEAN, where sales financing is being challenged due to several factors including the economic downturn in China. However, we expect this situation to be stabilized during the course of FY2024, so we will be able to raise earnings above current levels.

Q. A dividend of ¥100, which is a cash outflow of ¥400 billion, is not sustainable unless it stems from a reasonable net income level. Although there will be sufficient asset sales during this midterm period, what is your view of the level of income from asset sales in the next fiscal year and beyond?

A.

- ¥400 billion or so is needed as a source of dividends, and to assume a total payout ratio of 40%, the Company would have to consistently generate profits on the order of ¥1 trillion for this to make sense. For our part, we are looking at how we can overcome the challenges in FY2024 and FY2025, but since we have ample cash inflow from underlying operating cash flow and cash flow from divestments, we will make investments that will lead to the next stage of growth and bring additional profit.
- The decision to raise the dividend to ¥100 is not only based on the current fiscal year`s cash flow, but also the future cash flow outlook. The Company's current financial soundness, underlying operating cash flow and cash flows from divestments are all improving, and as the Company continues to maintain this financial soundness, it is possible that we will consider using leverage in the next midterm plan or beyond. The decision to increase the dividend per share was made in consideration of the runway available for future investments.

Q. Regarding the ¥40 billion loss recorded in "Other" in the FY2024 forecast on page 9 of the disclosure materials, I assume the ¥60 billion contribution to earnings from the Value-Added Cyclical Growth Model on page 6 is net of the decrease in profits compared to the FY2023 results. Is there a slight headwind in the business environment in the non-resource sector overall compared to FY2023, or is this a conservative forecast that will be a little better than the actual situation due to the estimates of the anticipated upfront costs?

A.

- We do not intend to make conservative forecasts, and therefore, we do not expect any particular negative factors at this time. The biggest impact from FY2023 is from the gain on sale of assets (the aforementioned distributed solar power generation business) in the Power Solution segment. There is no particular deterioration expected in the business environment at this time.

Q. Based on the Value-Added Cyclical Growth Model on page 6 of the disclosure materials, I recognize that capital efficiency through asset replacement and earnings improvement is expected to contribute approximately ¥100 billion to profit in FY2024 and that progress to date has been favorable, but can we expect this to continue at the same pace in the next midterm plan?

A.

- Capital efficiency improvement through asset replacement and earnings improvement (section 2 on page 6) is not limited to Midterm Corporate Strategy 2024. It will be actively implemented in the next midterm plan as well. However, I would like to reiterate that the Value-Added Cyclical Growth Model refers not only to (section 2) improving capital efficiency through asset replacement and earnings improvement, but also to strategic rebalancing of our business portfolio (section 1) and to accelerating growth through flexible capital structuring to maximize value (section 3).
- In cases where the Company is no longer the natural owner of a business or it is more advantageous to sell the business, we would optimize our portfolio as in section 1 at the top of the page. As shown in section 2, we will steadily improve asset efficiency through asset replacement and earnings improvement, and section 3 shows a measure we have in place to bring in new partners for existing operations such as Lawson and Nexamp, etc. Together, sections 1 to 3 are all components of our Value-Added Cyclical Growth Model. This is not something that will end with this midterm plan; rather, it will continue into the next one as well.

Q. Regarding the Progress of Investments for Midterm Corporate Strategy 2024 on page 11 of the disclosure materials, Mitsubishi Corporation has assets totaling ¥23 trillion, and while I understand that it is difficult to successfully explain the increase or decrease in profits, it is difficult to see how the accumulation of growth investments connects with future expectations. Please explain your view on the

expected return on investment to "maintain and expand the earnings base," the background of the difficulty in seeing the results of investments amassed under strict investment discipline, and your view on the time frame within which the results of these investments will be reflected if they are executed as planned. I believe that the time horizon of returns for Energy Transformation (EX)-related investments will be different, but it is difficult to see the expected return and results of investments from an external perspective.

A.

- That's a difficult question. It is true that we have not been able to show the results of our investments in terms of size and timing of returns. Regarding investments to maintain and expand the earnings base, replacement investments are necessary to maintain existing operations to some extent, and investments to increase earnings of current projects also fall into this category, so these investments are exactly what support current earnings.
- In an external environment characterized by factors such as historically heavy rainfall affecting the pre-stripping activities in the metallurgical coal operations, it would be greatly appreciated if you could understand that solely looking at annual profits may suggest a decline in profits.
- In particular, EX-related investments have been carefully selected through rigorous investment discipline, not just for the sake of investment, but also from the perspective of whether the investment will increase future earnings and asset efficiency. With regards to resource-based investments, we are working to maintain our overall portfolio's resilience considering the large loss we experienced due to resource impairments in FY2015. We will continue to make efforts to increase clarity on each investment's respective return and time horizon.

Q. Regarding LNG, there is some mention of LNG expansion on page 11, but it has been a while since he final investment decision (FID) of LNG Canada in 2018, and there is concern that production levels for existing large projects will decline as they age. What is the scale of your next LNG investment? What do you envision is the Company's next move regarding LNG?

A.

- LNG Canada is expected to begin operation by mid-2025. Other projects under consideration include the expansion of Cameron LNG and the development of Australia's Browse, although a final investment decision has not been made.

Q. Is it fair to assume that the investment will be of a reasonable size if executed?

A.

- Yes, that assumption is correct.

Q. Regarding domestic offshore wind power, I understand that the start of operation is some time away, but there have been some large-scale losses due to cost overruns

in other companies' overseas projects. Once again, what is the progress of your domestic offshore business?

A.

- The three domestic projects awarded in round 1 are in the development stage. The situation is different from those in Europe.