

Midterm Corporate Strategy 2021

- Achieving Growth Through Business Management Model -

Today I announced both Mitsubishi Corporation's (MC's) financial report for the first half of fiscal year 2018 and its new management strategy, entitled "Midterm Corporate Strategy 2021 – Achieving Growth Through Business Management Model." I would like to outline the company's approach in devising the strategy.

Basically, it is comprised of four sections.

Section 1 covers MC's portfolio strategy which, from a historic perspective, was the first aspect that needed to be reviewed. It is our responsibility to ensure that the company adapts to the changing times, so we will reshape our portfolio accordingly.

Section 2 covers growth mechanisms. Here we clarify MC's cyclical growth model, through which we will identify Potential Growth Sources, nurture them into Core Businesses, and fundamentally review those that have reached stages where we are unable to add further value. Those reviews will include reallocating capital where necessary.

Section 3 covers MC's ongoing aim to develop management professionals. We will reform our HR system to ensure reciprocal growth between the company and its employees.

Section 4 covers financial targets. We are confident that, by successfully executing the following measures described, MC can set its fiscal year 2021 earnings target at 900 billion yen and continue with its progressive dividend scheme. We will also be aiming to increase its dividend payout ratio to 35%, which will enable a dividend of 200 yen per share.

<External Environment>

- Midterm Corporate Strategy 2021 was conceived based on a number of assumptions regarding MC's external environment in which we operate. To start, we expect to see more advances being made in digital technologies and more platform businesses emerging, trends that will likely trigger business model reforms that cut across various industries. In fact, such developments are already underway in the automotive and power industries, and it is fair to say that we are now truly in the midst of the "Fourth Industrial Revolution." It would not be a stretch to suggest that in the future, the world economy will be driven by these new businesses.
- These changes have also brought challenges, some faced by general society, such as how to better protect personal information, and others faced by corporations, such as how to adapt existing business models. Determining the best approaches to digitization and platform businesses is a crucial issue for MC as well, as our decisions there will no doubt play a big role in shaping its future.
- Another factor that demanded our attention in conceiving this strategy is the world's ever-changing geopolitical dynamics. It appears that the US and China trade tensions will not ease for some time, but despite that, it is unlikely that the world economy will enter a major recession, nor will their situation pose any threat to the fundamentals of economic development. Even with some restrictions on Chinese exports to the US, domestic demand remains robust in China and its economic influence on other countries continues to grow, so we see the possibility of a major slowdown as low. Furthermore, demand is healthy in the US and around the world, and the shift in manufacturing from China to other countries will very likely stimulate those economies. Looking forward, I am confident that changes in supply chains will create opportunities and ultimately invigorate the world economy.
- There are concerns that the friction caused by the contrasting political and economic

structures in the US and China might eventually escalate into a geopolitical confrontation, but we see very little chance of that happening anytime soon and expect the world economy to continue to growing at its current pace. That said, the company must nonetheless consider worst-case scenarios when analyzing its portfolio, and those include incidental military conflicts.

<Portfolio Strategies Aimed at Stimulating More Growth>

- As mentioned before, we have a responsibility to adapt to the changing times, and build our envisioned portfolio.
- Under the new strategy, MC will be implementing a framework of portfolio-based decision making to enable a holistic view of industry. We will then determine which fields it needs to be more proactive in and where it needs to replace its assets based on changes in the operating environment. MC's portfolio will be structured as a 12-sector matrix, with upstream, midstream and downstream areas along the vertical axis, and four categories along the horizontal axis: Living, Mobility & Infrastructure, Energy & Power Generation and Services, the last of which will include businesses in IT, logistics, finance and so on.
- Provided MC improves its performance according to its current business plan, it should generate approximately three trillion yen of capital over the next three years. Its biggest challenge over that period will be determining the allocation and management of that capital.
- MC is strong in the Living, Mobility & Infrastructure, and Energy & Power Generation categories, but from here on, developing businesses in the downstream areas where MC has yet to firmly establish itself will be a matter of urgency.
- Meanwhile, more and more heavyweights backed by large customer bases are jostling for position in the Services sectors, where market growth is accelerating due to the rapid deployment of digital technologies. Midterm Corporate Strategy 2021

will give MC a three-year window to determine whether or not it should enter those sectors.

<Value-Added Cyclical Growth Model & Improved ROE>

- MC's objective is to identify Potential Growth Sources, nurture them into Growth Drivers, and increase value to create next generation Core Businesses. When we are no longer able to add value in that business, we redirect capital to businesses where we can add value. This virtuous growth cycle has long defined MC's approach.
- Naturally MC will continue this cycle, but moving forward it will be even more focused on maintaining the ideal portfolio balance. Should any of its businesses reach a point when the company is no longer able to add value, then MC will not hesitate to divest from and replace those businesses, even if they are Core Businesses. MC must be financially disciplined, but at the same time forward-looking in order to identify attractive Growth Driver candidates that could represent the company's next generation Core Businesses. Asset replacements will generate capital gains, meaning that as long as MC can continue this cycle, it can expect to maintain or even grow MC's return on equity (ROE).
- MC's strengths are its holistic view of industry, its expertise in conceiving new businesses, and its depth of management talent to run them. I am confident that by applying those strengths unreservedly, the company can take its cyclical growth model to another level.

<Reorganizations>

- Most of MC's Business Groups have been around for many years, and the walls between them have gradually widened. Those walls must start coming down, and my feeling is that we must act now. So with that in mind, I decided to reorganize all of MC's Business Groups to promote companywide unity and adaptability.

- To build MC's envisioned portfolio and boost its growth potential, operations that are capable of standing on their own as Core Businesses will form new Business Groups. Furthermore, some operations will be integrated in industries where we feel MC's redefined position could leverage new business opportunities. Following these reorganizations, MC will have ten Business Groups, three more than it has at present. Its most important challenge is to foster reciprocal growth between the company and its employees, so a fundamental factor behind these reorganizations is to stimulate career development throughout MC.
- Six of the new Business Groups will represent Core Businesses: Natural Gas, Mineral Resources, Automotive & Mobility, Food Industry, Consumer Industry, and Power Solution. MC's near-term policies in all six of those Groups have been clarified, and the company's primary mission will be to build on its existing strengths. The mission in the other four Groups (Industrial Materials, Petroleum & Chemicals, Industrial Infrastructure and Urban Development) will be three-pronged and much more challenging. Firstly, these Groups will seek to identify Potential Growth Sources emerging from MC's redefined position in industry; secondly, they will generate growth by integrating businesses from fresh perspectives; and thirdly, they will rearrange or restructure businesses in which more growth is unlikely. MC's history has shown us that the more complex our operating environments are, the greater the opportunities will be for professional development, so naturally my expectations are high for our people working in these four Groups. I will be looking to them to produce MC's next generation of Growth Drivers and Core Businesses. Each of these missions was formulated based on MC's guiding philosophy, the Three Corporate Principles, and on its pledge to simultaneously generate economic, societal and environmental value.
- With all of that said, MC's structure will not be set in stone. Should any developments in the external operating environment or business strategies warrant

it, the company will adapt as necessary. We must become a very flexible organization.

- MC's Corporate Staff Section will also be rearranged to focus on the main themes of its new midterm strategy, namely its business portfolio, HR development and digital strategies. In addition to placing greater weight on the work done by its Investment Committee and Human Resources Development Committee, MC will be establishing a Digital Strategy Committee that reports directly to its Executive Committee. It will be responsible for exploring companywide strategic digital initiatives.

<Enhancement of New Business Concepts & Digital Strategies>

- When reviewing the business landscape, we will reassess MC's portfolio from top to bottom from a holistic industry viewpoint while keeping in mind industry restructuring, technical innovations and other global megatrends to identify the Potential Growth Sources.
- MC will be appointing General Managers for Business Creation to all ten of its Business Groups, which will allow it to be even more proactive in identifying Potential Growth Sources. We will also be setting up a Business Creation Office in our Corporate Strategy & Planning Department, the mission of which will be to pick up on possibilities and opportunities that may be overlooked by the Business Groups and their various divisions. Internal systems and protocols will be put in place to facilitate collaborations between this new office and the Business Groups.
- As I touched on earlier, the growing influence of platform businesses and the spread of new technologies like electronic payment and 5G mobile communications systems are evidence of how rapidly the business world is changing. We have entered a new era, when digital technologies will be essential, not only to identifying Potential Growth Sources, but also to raising the value of MC's current businesses. Part of

MC's new midterm strategy will be to address these developments via its Digital Strategy Committee, and the company will also be appointing a Chief Digital Officer (CDO) and setting up a Digital Strategy Department under the CDO's charge. General Managers for Digital Strategy will also be assigned to all of the Business Groups. The Digital Strategy Committee will work closely with the Business Creation Office and the Groups' General Managers for Business Creation to promote business model reforms at MC Group companies and new business developments in the L-shaped portion of MC's portfolio, namely that covering all of the Services sectors and downstream businesses.

<HR System Reforms>

- With the rapid pace of change in MC's operating environment and increasingly common industry integration, societal needs are starting to change in a big way. In order to develop our human resources to provide solutions to such developments, MC considered an overhaul to the HR system over the past three years, and will now commit to the first major reform in some 20 years.
- The overarching objective of Midterm Corporate Strategy 2021 is "Achieving Growth Through Business Management Model." To achieve that objective, MC must accelerate the development of future management professionals through varied experience, be more meritocratic, and ensure that the right people are assigned to the right positions. A key theme of MC's strategy will be utilizing its management talent more broadly throughout the MC Group.
- Becoming a management professional demands certain know-how and expertise, and up to now, MC has required its employees to have around 20 years of experience before they can be promoted to such positions. However, from here on the company will ensure that its people gain basic management competencies within their first ten years, so that they can be appointed to management positions at an appropriate

time, regardless of their ages.

- To accomplish that objective, MC will be creating broader grade categories that will enable it to appoint and utilize its human assets more flexibly. Posts and personnel above a certain level will be managed companywide rather than at the Business Group level, so as to speed up the development and deployment of management professionals throughout the company.
- Under its new strategy, MC will also be more meritocratic, and its employee remunerations will be based on the difficulty level of jobs and performance. Furthermore, MC will be including a share-based compensation in addition to the cash remuneration packages to certain employees to foster reciprocal employee-company growth.
- MC's evaluation system will also change. The basis for employee evaluations will be those made by their direct superiors, but the company will introduce a multilayered evaluation framework to ensure that employee performance is assessed by numerous perspectives, which will help MC to assign the right people to the right positions. One of the most important missions of all superiors will be to closely follow their employees' progress and support their growth.
- These reforms will ensure that employees share an ambition to grow as management professionals, and MC will do its utmost to help that happen. As a result, the entire MC and its Group companies should grow as well.

<Financial Targets & Capital Policy>

- MC's earnings targets for fiscal year 2021, the final year of its new midterm strategy, will be 650 billion yen in business-related segments and 250 billion yen in market-related segments, for a total of 900 billion yen.
- With respect to the seven sectors in the upper left quadrant of its 12-sector portfolio

matrix, namely the upstream and midstream Living, Mobility & Infrastructure and Energy & Power Generation categories, MC will be selectively investing to make its existing businesses even more competitive. I am confident that such an approach will generate steady growth for MC and, even if it only expands its existing businesses, enable it to achieve 900 billion yen in earnings over the course of Midterm Strategy 2021. With that in mind, the company will be aiming for an even higher double-digit ROE.

- However, this earnings target is merely a checkpoint on MC's journey to new growth. To make even greater progress, MC must nurture new Core Businesses in the L-shaped portion of its portfolio covering all of the Services sectors and downstream businesses.
- As for MC's capital policy, with financial discipline as a precondition, the company will be continuing its progressive dividend scheme and aiming to increase its dividend payout ratio from 30% to 35%.

<Conclusion>

That concludes my thoughts on our next midterm management strategy. MC's responsibility is to give its employees opportunities to grow, and its employees' responsibility is to seize those opportunities and use them to grow the company. MC will continue to embrace this concept of reciprocal growth as it seeks to simultaneously generate economic, societal and environmental value.

Takehiko Kakiuchi
President & CEO

(Forward-Looking Statements)

- This release contains forward-looking statements about Mitsubishi Corporation's future plans, strategies, beliefs and performance that are not historical facts. Such statements are based on the company's assumptions and beliefs in light of competitive, financial and economic data currently available and are subject to a number of risks, uncertainties and assumptions that, without limitation, relate to world economic conditions, exchange rates and commodity prices.
- Accordingly, Mitsubishi Corporation wishes to caution readers that actual results may differ materially from those projected in this release and that Mitsubishi Corporation bears no responsibility for any negative impact caused by the use of this release.

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- Consolidated net income in this presentation shows the amount of net income attributable to owners of the Parent, excluding noncontrolling interests. Equity shows the amount of equity attributable to owners of the Parent, excluding noncontrolling interests, which is a component of total equity.