# Q&A at Investor Meeting
# Financial Results for the Nine Months Ended December 2023

Date: Tuesday, February 6, 2024,17:55 to18:45

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

**<Q&A>**

**Q. Please explain the direction you are taking in terms of areas, regions, and scale of interest as you consider strategic M&A in the future. Could you also explain again your approach toward future shareholder returns?**

A.

- While I am unable to provide any further details regarding future strategic M&A, we would like to try for deals that are of a reasonable size.
- Mitsubishi Corporation ("the Company") announced the creation of MC Shared Value (MCSV) in its Midterm Corporate Strategy 2024. I can only offer you a general picture, but let me put it this way: MCSV is realized through the collective capability of numerous business groups centered around a core piece (business), which effectively makes individual business groups grow stronger. We are considering challenges to take on in such businesses and areas. In terms of geographic areas and regions, sizeable projects will more likely be outside of Japan, namely Europe or the United States. To be clear, I am not referring to a specific project, but a series of such projects that we are finally starting to see over these past two years.
- As for shareholder returns, it is a balance between investments and returns, with the status of investment being as I previously mentioned. Regarding returns, I realize that we may not have been clear enough in how we optimize the balance between dividends and share buybacks. We are discussing how we could present the idea more clearly to our stakeholders, in which process we are also asking ourselves whether our dividend is at an appropriate level considering our rising stock price.

**Q. Regarding Lawson Inc. (Lawson)'s capital policy, while we understand the background behind the selection of KDDI as a new partner, we also know that KDDI has already been involved with Lawson as a minority shareholder since 2019, and that "integration of digital and real" has been a key phrase since then. Please give us your thoughts on the speed of strategy execution.**

A.

- The speed of execution had been under question, and we came to a decision that we need a strategic partner to accelerate the strategy execution. We opt to collaborate with other companies if that is what it takes to help make a certain business grow. So this isn't a dilution, but rather a step to maximize the value of our business. In this regard, we expect to create a new form of synergy with a partner that brings a sense of speed and proven ability for rapid execution. Please consider this a new kind of collaboration.

**Q. A fair value gain of ¥123.3 billion will be recorded at the time Lawson switches from a consolidated subsidiary of Mitsubishi Corporation to an equity-method affiliate in FY2024. How do you plan to treat the non-cash valuation gain when considering the total payout ratio?**

A.

- I understand that your question is about how this relates to shareholder returns. Cash flow is, of course, taken into account when considering total payout. The current midterm corporate strategy's shareholder return policy is to target a total payout ratio of 40% on net income (including non-cash valuation gains), so there is no change there.

**Q. I highly appreciate the ¥500 billion share buyback and the transformation bringing Lawson to a new stage. I would also like to express my gratitude for the professionalism of Mitsubishi Corporation's management team as a listed company. Could you elaborate on your recognition of challenges confronting the Company when you decided to execute reorganization as announced in December 2023?**

A.

- Compared to when Midterm Corporate Strategy 2024 was made, we recognize that we have come to a new stage now, with stronger profits and cash flow generation through implementation of the Value-Added Cyclical Growth Model, and have strengthened our portfolio.
- In this context, at our Business Strategy Committee in March, we want to have a comprehensive understanding of our current situation to discuss where we want to take our business in the next four years. The current structure of 10 Business Groups and 2 divisions will be reorganized into 8 Business Groups with a broader coverage. This reorganization was aimed at increasing MC Shared Value by interconnecting those Business Groups to demonstrate our business diversity and collective capabilities.

**Q. Mitsubishi Corporation seems to be maintaining a stringent investment discipline, in contrast to other trading companies expanding their investment quotas. I assume that your investment pipeline includes a substantial number of projects, but how and in what way is this discipline strictly maintained? Furthermore, please explain if the investment projects that have already been executed can be expected to generate a high ROI, and if you, as President and CEO, are satisfied with the results.**

A.

- The ¥3 trillion investment quota was established in 2022, and there was already an investment pipeline of over ¥3 trillion at that time. Although the focus tends to be on new investment, the breakdown of the ¥3 trillion is ¥1.2 trillion allocated to energy transformation ("EX") related field, ¥0.8 trillion to digital transformation ("DX") and growth-related investments, and ¥1 trillion to the maintenance and expansion of the earnings base. Sustaining investments increase the earnings power. As for EX/DX, investments are properly approved and executed with discipline as planned.
- Going forward, given our additional cash inflows, we will work on large-scale strategic initiatives. Nonetheless, we will continue to carefully examine every potential project, including its possible returns, and make decisions within our discipline.
- Overall, the executed investments are viewed and valued positively.

**Q. I understand that Mitsubishi Corporation has grown through its "vertical" strength within individual business groups; how do you envision strengthening "horizontal" ties across business groups through organizational restructuring? Is it accurate to say that strategic M&A and other methods could contribute to earnings by fortifying these "horizontal" connections?**

A.

- Being a robust "vertically" structured organization, the Company has long been aware of the importance of strengthening "horizontal" connections. After president Nakanishi took office, we announced in our current Midterm Corporate Strategy the idea of MCSV, which is to create new profits by strengthening the "horizontal" ties on top of the strong "vertical" business groups.
- For instance, our businesses in the energy and power sector not only take part in developing specific projects but also engage in peripheral businesses. As the shift from conventional LNG-fired power generation to new energy sources is underway, new business needs are emerging in the surrounding areas. Going forward, in addition to conventional businesses, we will pursue possibilities of our business by strengthening such "horizontal" connections.

**Q. Can we expect such business to be mainly in EX-related areas?**

A.

- I mentioned EX-related businesses as an example, but there is potential for expansion into peripheral businesses by strengthening horizontal ties in non-EX-related fields as well, such as Urban Development.

**Q. Regarding Lawsons's Capital and Business Partnership, has there been any change in the company-wide policy toward listed subsidiaries and equity-method affiliates, or is it a decision particular to Lawson? What can you currently say about your governance strategy for the upcoming fiscal year and the next midterm corporate strategy?**

A.

- The point of our decision was to invite the most appropriate partner to enhance

Lawson's corporate value, although it is consequently providing a solution to issues surrounding listed subsidiaries.

- We will refrain from discussing our policies towards individual businesses. As for listed subsidiaries and equity-method affiliates, we constantly examine whether the current situation is optimal for each individual company and consider courses of action. There has been no particular change in these overall policies.

**Q. Regarding the KDDI-Lawson Capital and Business Partnership agreement, I think it is beneficial for KDDI in terms of expanding their economic zone, but what is the future positioning of Lawson's business for Mitsubishi Corporation? Will it aim to increase the individual corporate value of Lawson, or will it also expect to expand business opportunities, such as collaboration with KDDI, in the digital field around Lawson? Is there any change in strategy to promote DX in Lawson's logistics, which is being carried out in collaboration with NTT?**

A.

- The main objective of this capital partnership is to increase Lawson's corporate value. Other business opportunities with KDDI will be considered on a case-by-case basis, but that is not the primary objective of this partnership.
- We have been considering interlinking digital and retail businesses for Lawson, but since certain aspects would be challenging for us to accomplish solely on our own, we concluded that bringing in the right partner would enhance Lawson's corporate value, which led to the capital business partnership.
- Our current collaboration with NTT will be continued regardless of our partnership with KDDI regarding Lawson.
- While the primary objective is to further enhance Lawson's corporate value and further sharpen the angle of its growth curve, the Company believes that this partnership will be the core business of the Smart Life Creation (S.L.C.) Group, which will be newly established as part of the reorganization recently announced. The group's objective is to create a new consumer-oriented business with Lawson as its foundation, while this may not exactly identical to KDDI's economic zone concept. The S.L.C. Group's business strategy will incorporate not only the enhancement of Lawsons corporate value, but also a comprehensive combination of this capital partnership and our existing business including the collaboration with NTT.

**Q. The conversion of Lawson to an equity-method affiliate will mainly reduce lease obligations, but will the appropriate range of investment leverage ratio, which was previously 25-35%, be restored to that level?**

A.

- The impact of Lawson's conversion to an equity-method affiliate will not particularly alter the appropriate level, and we acknowledge that the previously indicated range of a 40–50% investment leverage ratio is reasonable for the medium to long term. Although it may be possible to make necessary adjustments to this range, we have not settled on any specific numbers as of now.

**Q. I understand your stance on investment and the direction with the new organization, but please give us a visualization of the return on each investment. Is there a direction to show quantitative milestones for Lawson, such as the single-year profit improvement of ¥100 billion through the Value-Added Cyclical Growth Model?**

A.

- As we explained in our announcement of the first-half financial results, we expect profit improvement by promoting the Value-Added Cyclical Growth Model. For each business, we will either improve earnings of businesses to hold, or divest those of which we are no longer the natural owner.
- Although this capital policy of Lawson does not constitute an asset divestment, the results for the first nine months of FY2023 indicate a tailwind from the external environment, and the individual profitability of Lawson has improved and exceeded our required yield, for which we indirectly supported.
- This is an example of on-track improvement in profitability of our businesses via a progress review meeting. To further accelerate growth from this point, KDDI was invited on as a partner. We are steadily advancing efforts to improve asset efficiency as outlined in the current midterm corporate strategy, and going forward, we hope to show its progress as we presented in the first-half financial announcement.

**Q. The publicly announced EX-related investment pipeline gave the impression of a relatively long payback period with a notable portion being greenfield projects. On the assumption that investment discipline is maintained, are there any other measures that could be taken to achieve early recovery of returns, such as supplementing the investment pipeline with investments outside of the currently announced pipeline? How will you strike a balance between this and growing your existing businesses, and when will this be realized?**

A.

- The most dependable form of investments that will become earnings base would be expansion of existing businesses.
- As you are aware, resource development takes a long time from the final investment decision to generate returns. On the other hand, the acquisition of additional aquaculture licenses by Cermaq is an example of investment in the "horizontal expansion" of an existing business, and the timescale for investment payback is relatively short. The investment pipeline is a mix of deals with these attributes.
- Investments in renewal and expansion of existing projects will lead to relatively early enhancement in cash flow and earnings, while new projects, though requiring time, will provide future seeds of growth. We will take a balanced approach to promoting both. Investments are currently progressing as expected.

Q. **Could you provide details on the impairment losses recorded by the Food Industry Group in the third quarter?**

A.

- The Food Industry Group's ¥39.2 billion impairment resulted from a review of the overseas food industry's asset values in accordance with changes in business value. This impairment, however, is included in the forecast announced in May 2023 and has no further impact on the present full-year forecast.

**Q. You received a Statement of Objections concerning suspected violations of European competition laws with respect to Cermaq. Could you please provide us with some background information and the current status of the matter? Will it affect the company's current business?**

A.

- We will refrain from making any comments regarding the subject matter or progress of the investigation while the suspected violation of European competition laws is still under investigation. The receipt of Statement of Objections will have no impact on Cermaq's current business.