

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

[Question 1]

Other companies have also declared growth strategies for decarbonization, but not many mention “Regional Revitalization”. MC emphasizes this, and in your presentation you powerfully expressed the aspiration to create an industry unique to Japan. Please share more specifically what MC can do towards this objective and direction.

[Nakanishi]

I feel strongly about creating a new future and regional revitalization. The declining national strength of Japan is detrimental to companies in Japan, and as Japan’s foundation weakens, companies like ours that operate businesses in many regions will likely face challenges. This is why Japanese business leaders must raise their voices now to make Japan better. Companies are greatly shifting their approach from the perspective of changing society through decarbonization, DX, and today’s main theme of ESG. Taking this shift as an opportunity, we are considering the possibility of taking what we have been doing overseas and realigning those businesses to fit the needs of Japan.

For example, offshore wind power can have meaning not only for EX, but also for regional revitalization. In addition to creating business profit by generating power from offshore wind, operating businesses for 30 years earns us the trust of people in the region. And by entering the region to develop a range of businesses such as creating a new supply chain, we also create new employment. We want to make the region more comfortable for residents by utilizing data, rolling out new services, and developing the communities to be more inviting to people, thus contributing to regions where populations are declining.

Regarding our salmon farming business through Cermaq in Norway, we are amassing expertise in this field. A paradigm shift may also occur between aquaculture and land-based farming, and we are harnessing our expertise and engaging in land-based salmon farming in Japan. Through businesses like this, we hope to create new industries and revitalize regions.

While MC is not involved in this, the example of TSMC in Kumamoto is a good example. With the arrival of TSMC, employment is created, people gather, hospitals are built, schools are built, towns are developed, and infrastructure is upgraded. Instead of limiting ourselves to Japan-originated service business, we will create new industries in Japan once more, and link those to regional revitalization; that regional revitalization will in turn strengthen Japan and boost GDP. MC aims to achieve this type of virtuous circle.

[Question 2]

I'd like to start by thanking you for actively disclosing Scope 3 Category 11 GHG emissions volumes. When a company like MC offers disclosure without fear of double counting for industrial emissions, I think this serves as a model example.

My question is about the 1.5°C scenario analysis. I understand that the International Energy Agency's Net Zero Emissions scenario is very stringent, with a significant emphasis on fossil fuels. What kind of knowledge can you gain by referring to and analyzing these types of scenarios? Or what type of know-how were you able to gain by tackling these challenging scenarios head-on? Or is there anything you can improve upon going forward?

[Kobayashi]

Using the IEA scenario as a base, we supplement data that is lacking to prepare a format that more appropriately matches our business to conduct the analysis. There is no one right way of doing this, so we learn as we go by considering a range of potential cases and applying scenario analysis to each business according to the operating environment.

We hope you will understand that our current stance is not to obtain a single solution through scenario analysis and take action based on that, but rather to eliminate as many unexpected risks as possible by constantly considering a variety of possible scenarios.

[Question 3]

I feel that MC's disclosure of Scope 3 Category 11 emissions is an advanced initiative that is a step ahead of other companies.

From the perspective of cooperation on decarbonization for MC-supplied products and those in product-user industries, I would like to know what kind of internal discussions have been held regarding how to be involved in emissions reduction and to what extent MC is actively addressing this.

[Nakanishi]

Regarding Scope 3 Category 11 disclosure, we have been discussing since last year the best way to announce this, given that international rules have yet to be established. We arrived at the approach of not simply identifying emissions, but also considering how to apply this information to our future. We also considered the voices of stakeholders that we should actively disclose such information, ultimately resulting in this announcement.

As Mr. Kobayashi explained, Scope 3 Category 11 emissions cannot be reduced by one company alone; this is a challenge that must be addressed together with those who use the products and services. However, at this moment, companies have different approaches, so the challenge for us is how to gain understanding for our approach under these circumstances.

Historically, *sogo shosha* such as MC have had wide industrial connections and our business has been to act as an intermediary between supply and demand while forming networks in the process. Collaboration in decarbonization may require new technologies in some areas, but we intend to take the lead by positioning ourselves between supply and demand and actively advancing initiatives for emissions reduction.

For example, there is much debate around blue hydrogen made from natural gas, such as whether there is a need for it in the first place, how to uncover such a need, and how to supply it. Another aspect is that the price will be relatively higher, so it may not be commercially feasible right away. We will keep a close eye on global developments in this space and respond accordingly.

[Question 4]

Looking at the diagram on EX-related earnings, it appears that profits from existing sources will rapidly decline, but I understood that metallurgical coal and LNG will continue as usual. Please explain why profits from existing businesses will drop. Also, what are the bottlenecks in proceeding with EX-related businesses?

[Nakanishi]

The aim of the EX-related earnings diagram is to show that EX projects will not immediately contribute to revenue but will start to do so from around 2030.

As you may be aware, the transition period will last till about 2030 or 2040. It is not possible for all industries to decarbonize in a single leap, so we are presuming that the shift to low-carbonization and decarbonization by existing industries will progress simultaneously. Thus, I don't see any need to worry about immediate revenue decline. Whether it's LNG or metallurgical coal, the issue is what to use as an alternative energy source, so I think we need to cautiously monitor the progress of technological innovations. On the other hand, we recognize that global decarbonization also brings risk to these businesses, which is why we disclosed Scope 3 Category 11 emissions.

Setting our budget for EX at 1.2 trillion yen, we have taken the long list of 200 projects and narrowed it to a short list, and then set the order of priority for those. We are prioritizing and considering specific prospective projects that have emerged in the fields of renewable energy, mineral resources, natural gas, and next-generation energy. I believe it is a management issue to decide priority as to when to execute and how to manage these investment projects, especially amid the uncertainty which includes that comes with bidding projects. Either way, we expect that EX-related businesses will contribute to maintaining and improving MC's profitability in the future..

As for your second question, this is a new business field, so our biggest challenge is to find the right balance between industrialization and the circumstances of regulations during the transition period, geopolitical risks, and technological innovations. I believe that all companies have the same awareness of the challenges.

On page 3 of the materials, we wrote that the EX-related scale of investment during the period of Midterm Corporate Strategy 2024 would be approximately 1.2 trillion yen. Of this, projects that we have already committed to accounts for around 600 billion yen. For the "Earnings from Committed Investments" in blue in the chart on page 4, this refers to areas where we will successively "cash out" and already anticipate a certain level of revenue stream. I would like to add one comment, regarding the "Existing Investments" in gray. This chart lists EX-related businesses only and does not include metallurgical coal. Please note that the image is only for EX-related businesses.

[Question 5]

What issues are you aware of regarding human capital? And what kinds of indicators do you think you should be monitoring to improve those issues?

Also, in promoting the Value-Added Cyclical Growth Model, exit projects will obviously emerge; I believe that one important aspect is how you consider the people who have been seconded to those. Please explain the scheme-development and mechanisms for accelerating the Value-Added Cyclical Growth Model from the angle of human capital.

[Nakanishi]

Our company is all about employees—about people, so human capital must hold top priority. This is why “dynamic and spirited” is one key phrase of the Midterm Corporate Strategy.

An issue that I recognize is that our employees have traditionally held a strong sense of belonging to their respective business groups and lack mobility. Cooperation between business groups has been an issue for years at MC and other *sogo shosha*, but I think this has become feasible in this era where the industrial world has significantly changed as a result of EX/DX and the walls between industries have lowered. To address cross-industry challenges such as decarbonization, I envision creating, at first, a taskforce across business groups for considering what type of business model would be best, successively promoting the taskforce to become its own business unit, and then promoting the business unit to become a much larger business group. In other words, we will flexibly integrate people in a trial-and-error process. We must create a system where those employees are recognized and rewarded also for their cross-collaboration efforts from the perspective of companywide optimization, and I believe that this will ultimately link to “dynamic and spirited”. I think that reskilling is also important for this.

How we instill DE&I in the company is also a major issue. With the declining population in Japan, we must prevent employees from having to leave the company because of a life event, and I strongly recognize the need to embrace DE&I to develop an environment where employees with a range of circumstances can continue to work. To address this issue, I will establish a working group that reports directly to myself to gather employees with diverse experiences from different business groups, and listen to their opinions directly to apply them to management.

With regard to the Value-Added Cyclical Growth Model, our approach is to withdraw from businesses that cannot achieve certain MC indicators of growth potential and to take on the challenge of new businesses that link to the next stage of growth. Employees on the front-lines of business sites shall strive to achieve growth indicators, while management shall oversee the entire picture, developing new businesses through new task forces as I just explained, and assigning personnel to those new businesses. Employees on the front lines that are being considered for replacement work with the belief that their business will grow and want to continue in their roles, so it is a very difficult direction to take. I recognize the challenge of where to assign these employees in the context of the Value-Added Cyclical Growth Model and how to maintain their motivation.

[Question 6]

About ESG initiatives, I would like to know if you consider these to be necessary costs, or if over the long term, investment is expected to exceed the cost of capital. E is relatively easy to consider as an investment, but S and G seem a bit more complicated.

[Nakanishi]

As you say, E is relatively clear-cut, and in this context we prepared our MC Climate Taxonomy and will conduct evaluations of our investments while analyzing risks and utilizing internal carbon pricing.

As for S, we consider regional revitalization not only as a philanthropic contribution to society, but also as a growth strategy. We have signed partnership agreements with regional municipalities to develop a range of businesses, and in doing so, we have made it clear that we are a private company that pursues profit, and these partnership agreements are signed with that understanding. We have not yet reached the point of earning profit and are now discussing with the municipalities what is possible with the partnership agreements, but we consider these businesses as investments and not costs.

Mr. Kashiwagi, who is handling this, will explain further.

[Kashiwagi]

Human resources are MC's greatest assets, so we do not consider these to be costs; we believe that investing in our people is what will generate return for the company. I recognize that an issue ahead is how we organize our various initiatives in the context/story of human capital and disclose this.

Regarding G, we constantly ask ourselves if MC's governance is acceptable as-is and discuss with our Independent Directors to improve what we can. I hope you understand that we regard such initiatives not as costs, but as steps we are taking to become a better company.