MC will capitalize on the entire Group’s collective capabilities to create unique shared value while collaborating closely with stakeholders to address challenges facing society and industry.

MC’s Value Creation

My name is Katsuya Nakanishi and I was appointed President and CEO of MC in April 2022. Mitsubishi Corporation (MC) has a long history of contributing to economic development and improving quality of life for all by creating new businesses and overcoming challenges to capture the needs of the times, in line with its “Three Corporate Principles.” The driving forces behind our value creation is the ability to respond appropriately to changes in the external environment, develop strong business relations across diverse industries and regions and leverage our industry knowledge and intelligence accumulated over many years. All this is underpinned by our integrated corporate strength.

Looking at the external environment, over the past several years, rising tension between the US and China has resulted in opposing national ideologies and a decoupling of economic activities, and we now see various disruptions shaking the international community, foremost of which is the situation between Russia and Ukraine. Growing geopolitical risks, including prolonged tensions between the US, Russia and China and the increasing polarization and fragmentation of the international community, which has led to political conflicts spilling over into economic activities. Consequently, the world economy is experiencing intense changes amidst ongoing uncertainty. In addition, one of the outcomes of the COVID-19 pandemic was an acceleration of change in products and services, which we expected in the distant future. Advancements in technology and innovation are expected to result in cross-segment and cross-industry competition and fusion occurring in a discontinuous manner in the future. The operating environment surrounding MC is also undergoing substantial change, symbolized by the restructuring of the global supply chain, concerns over tightening supply-demand conditions for energy, food and other resources, and ensuing inflationary pressures and energy security issues.

Given these major changes, I feel keenly aware of the need for MC to address change and uncertainty with an even greater degree of foresight. In May 2022, we released Midterm Corporate Strategy 2024—Creating MC Shared Value. This strategy capitalizes on our industry expertise and insight, global intelligence, transformative business portfolio, financial soundness and diverse workforce. It maximizes our collective capabilities organically linking these strengths to generate greater value in each of our businesses.

Looking Back on Midterm Corporate Strategy 2021

Following Midterm Corporate Strategy 2021’s goal of “Achieving growth through business management model,” MC ushered in large-scale organizational reforms, and at the same time revamped its HR system for the first time in nearly two decades, the goal of which was to continuously produce highly skilled management professionals. As a result, MC worked on company-wide and cross-functional initiatives including the development and promotion of management professionals, well-balanced compensation following a review of evaluation and remuneration systems, personnel assignments beyond fields of expertise and the establishment of company-wide task forces.

As for our business portfolio, we made progress in the downstream and service businesses related to Energy Transformation (EX) and Digital Transformation (DX). These include our acquisition of Eneco, our investment in HERE International and our participation in a smart city project on the outskirts of Jakarta, as well as other activities in the energy/electricity sector. Additionally, we bolstered upstream businesses related to electrification, including the development of the Quellaveco copper mine in Peru and acquisition of interests in the Aurukun Bauxite Project in Australia. In terms of the Value-Added Cyclical Growth Model, which we have established as our growth mechanism, we
Message from the President and CEO

made favorable progress in our asset replacement plans. This included reviewing low growth and low efficiency assets such as MC-UBSR, and transferring these to more suitable business owners. Moreover, we enhanced management of our asset replacement policy and efforts to turnaround loss-making companies as a response to reinforcing our business foundation following the COVID-19 pandemic.

In October 2021, we established the Roadmap to a Carbon Neutral Society. Under this Roadmap, we will halve our GHG emissions by the fiscal year ending March 31, 2031, and achieve net zero by 2050. We will also invest ¥2 trillion in EX-related fields by the fiscal year ending March 31, 2031. The Roadmap establishes “Integrated EX/DX initiatives to create the future through regional revitalization” as a companywide theme for business promotion. We have seen steady results so far, including winning bids for three offshore wind power projects in Japan utilizing the knowledge of Eneco and promotion of industry DX centered on MC Digital and Industry One.

Creation of Midterm Corporate Strategy 2024—Creating MC Shared Value

“Creating MC Shared Value”, which we set forth in Midterm Corporate Strategy 2024, represents “the continuous creation of significant shared value by elevating the MC Group’s collective capabilities in order to address societal challenges.” Amid the various societal issues we face today such as decarbonization,

Quantitatively speaking, in the fiscal year ended March 31, 2021, profitability took a substantial hit due to the COVID-19 pandemic, but consolidated net income for the following fiscal year, the final fiscal year of Midterm Corporate Strategy 2021, reached a record high of ¥937.5 billion. Furthermore, ROE stood at 15% as solid resource prices and a recovery in demand following the pandemic translated into steady profits in each business segment. With intense changes in the operating environment expected to continue, we recognize the need to steadily increase earnings regardless of fluctuations in resource prices, based on the tailwind of favorable market conditions in the fiscal year ended March 31, 2022.

One remaining issue concerns our businesses with low investment yield. The Value-Added Cyclical Growth Model is a continuous endeavor, and I believe that the key is to always maintain the mentality to look ahead to the future operating environment and take proactive steps to transform our business portfolio.

For more information on review of Midterm Corporate Strategy 2021, see p.12-19

Quantitative Targets and Shareholder Returns

Our quantitative targets include achieving a consolidated net income of ¥850 billion in the fiscal year ending March 31, 2023, and ¥800 billion in the fiscal year ending March 31, 2025. Given the major impact of market price volatility, our outlook for fiscal year ending March 31, 2025, is based on relatively conservative assumptions for resource prices. Applying the same resource price assumptions for fiscal year ending March 31, 2025, to the fiscal year ending March 31, 2023, results in a profit outlook of ¥650 billion. Growth of existing projects, asset replacement based on the Value-Added Cyclical Growth Model, and new investments will be key in raising this profit from ¥650 billion (excluding resource price factors) to ¥800 billion in the fiscal year ending March 31, 2025. Steady growth in profits, excluding price factors due to market volatility, will allow us to keep ROE at double digits and raise it further.

In terms of shareholder returns, we will maintain a progressive dividend scheme that increases dividends in line with sustained profit growth while balancing financial soundness, stable dividend growth, and market expectations for returns, and will pursue a return policy targeting a total return ratio of approximately 30% to 40%.

Accelerating EX Investment

We anticipate investment over the three-year period of Midterm Corporate Strategy 2024 will total around ¥3 trillion. While maintaining and expanding the earnings base, we will earmark cash flows generated to investments in EX, DX, and growth initiatives. With regard to EX investment, we will speed up the roughly ¥2 trillion in new spending by the fiscal year ending March 31, 2021, laid out in our October 2021 Roadmap, planning to invest approximately ¥1.2 trillion by the fiscal year ending March 31, 2025.

These investments will be made largely across three fields; namely, renewable energy such as wind power which we are already working on in Europe and Japan, such as copper and other base and rare metals to support the quickening pace of electrification, and next-generation energy such as natural gas, hydrogen and other transition energy sources.

We will expand investments in renewable energy which is the gateway for initiatives that address the societal issue of decarbonization and we will tackle these issues through our collective capabilities to create pivotal new carbon-neutral industries and promote decarbonization solutions. Natural gas, which we position as a transition energy source, will continue to be a priority from the perspective of our social responsibility to provide stable energy supplies. We will continue efforts in this area while paying careful attention to the overall balance of Japan’s energy security.

Considerable time is required for business development in energy and resources, which are representative sectors within EX. Recognizing future needs requires foresight spanning five to ten years into the future and also requires taking action ahead of others. It is for this reason that we intend to focus and accelerate investment in EX fields as a first priority. Through our business activities, we maintain contact points with various industries, and we have been involved for many years in the stable supply of resources and energy, and in building relevant supply systems on the ground. Utilizing our expertise and network of connections amassed through our broad business portfolio, we are committed to contributing to a balance between providing a stable supply and transitioning to a decarbonized society together with our trusted partners.

Additionally, by moving ahead with EX investments in this manner, we will increase the ratio of EX investments in our business portfolio from 30% at present to approximately 40% by the end of the fiscal year ending March 31, 2025, and to approximately 50% beyond that.

Initiatives to Fully Capitalize on MC’s Unique Collective Capabilities

In the new Midterm Corporate Strategy, we introduced “Growth Strategies”, “Business Management”, “Management Mechanisms”, “HR Policies” and “Sustainability policies” in order to create MC Shared Value.

Firstly, there are three growth strategies: “EX Strategy”, “DX Strategy”, and “Creating a New Future” by utilizing integrated EX/DX initiatives through to regional revitalization. “Creating a New Future” involves utilizing our strengths in local and renewable energy resources to create new carbon neutral industries and vibrant communities through solutions to community issues. I will explain this in further detail below.

As for Business Management, we accelerated our efforts toward a Value-Added Cyclical Growth Model and...
introduced a business management mechanism based on asset replacement plans, Group ROE, and a cash flow management system in order to bolster each Business Group’s autonomous management. We will improve Group ROE by having Business Groups aim for profit growth, while at the same time reducing unnecessary investments based on the asset replacement plan, and accelerating capital gains from the sale of assets whose value has peaked, which will in turn help to maintain and improve MC’s own double-digit ROE. In addition, by introducing a cash flow management system, we will promote business portfolio transformation by setting aside a portion of the cash generated by each Business Group for companywide use and investment in companywide or project-oriented projects. We will regularly conduct monitoring through “Value-Added Cyclical Growth Reviews” to enhance the effectiveness of these investments.

As for Management Mechanisms, we newly established the Industry DX Group, which is responsible for implementing our DX Strategy, and the Global Intelligence Committee, through which we will reflect changes in the external operating environment in our business strategy in a timelier manner. We will maximize our collective capabilities by increasing the resiliency of “vertical” operations that enhance the ability of each Business Group to make forward progress, as well as by collaborating “horizontally” beyond industry borders. This cross-industry, companywide strategy will be promoted through the MC Shared Value Forum based on input from the Global Intelligence Committee.

Regarding HR Policies, we will ensure that all employees play an active role and grow both personally and professionally by fostering a corporate culture where employees are encouraged to contribute to the advancement of the Group. We will promote horizontal and vertical collaboration beyond industry borders.

Creating a New Future and Regional Revitalization

We will create a new future by utilizing integrated EX/DX initiatives to promote regional revitalization as a specific measure for achieving growth. First, I would like to share our thinking behind “Creating a New Future” within MC’s growth strategy. Addressing the need for decarbonization solutions while maintaining industrial competitiveness is a shared issue facing all industries. Looking at Japan, the country has seen little in the way of GDP growth over the past three decades, and security issues are emerging such as a low self-sufficiency rate of energy and food and high dependence on foreign countries. I strongly feel that this urgent and fundamental issue must be addressed head on.

“Creating a New Future” represents a concept driven by renewable energy, one of our strengths. Renewable energy is the very source of energy that exists in local communities. We will work to create a future under the theme of “Regional Revitalization”, whereby we will increase self-sufficiency through the use of these local energy sources, create new Carbon Neutral (CN) industries, strengthen local industries, and address local challenges such as labor shortages due to a declining population.

The left side of the figure describes green electricity and green hydrogen derived from renewable energy. In addition to using this energy as electricity, we will aim to build manufacturing business using hydrogen as a raw material and establish the supply side as a new local industry. Capitalizing on our strength of close contacts with many different industries, we will work to identify needs and link them to real-world solutions.

The right side of the figure is about local communities. Firstly, renewable energy is a form of local infrastructure development itself, and renewable energy projects are expected to create jobs in the community by training personnel and attracting other related industries. These efforts will contribute to improving the quality of life for local communities under the themes of “Collaborative Communities” and “Creating Vibrant Communities.” Through DX, we will link various local data to develop new lifestyle-related services and businesses to enhance convenience for consumers.

In Closing

I believe that it is precisely in uncertain times like today, when it is difficult to foresee the future, that we can maximize our advantage by making the most of our diversity and collective capabilities. We find ourselves in a time where we have instant access to information from around the world thanks to the Internet and the spread of digitalization. Nevertheless, it remains important to gather the latest information from the frontlines of business, to capture it on a consolidated basis in a timely manner, to exercise the ability to discern authenticity, and to selectively apply it to management.

My first overseas assignment was to Colombia in the early 1990s. At the time, the political situation there was unstable, and we faced challenges due to limitations placed on our business prospects, so we scrambled to gather information with the recognition that it would still be better to accumulate information even if we were not able to secure business. Looking back on it now, it was during this assignment in Colombia that I was able to experience first-hand how the MC Group’s collective capabilities is supported by the “connection” of all the information collected with passion and intent by employees like myself scattered around the world.

During the course of my career, I have always found it important to focus on results. Of course, results will not always be positive. The key is to never give up, no matter how far short we may fall of success. If we don’t focus on the results of lessons learned, failure will only end in failure. Success requires us to continue tackling new challenges, even if it means working to transform failure into a success. The results achieved from this process will breed new confidence and result in a spirit of perseverance.