The Value Creation Story

Along with an overview of the value creation process, the Six Capitals that serve as inputs to the process, and Materiality that guides the process are explained.
Path of Value Creation

MC has pursued value creation, transforming its business models flexibly, in accordance with the changing business environment.

Trading Phase
From its founding until the 1980s, MC was primarily involved in the trading and distribution business. The Company supported a wide range of industries by serving as an intermediary, connecting suppliers and buyers across international borders in order to respond to market changes and customer needs. Given the underlying expansion of trading volumes for numerous industries throughout Japan’s period of rapid economic growth up to the mid-1980s, MC, with trading commissions as its primary revenue source, saw its financial performance steadily improve.

Trading Evolution Phase
In the mid-1980s, a strong yen pushed Japan into a recession, which was followed by the economic bubble and its subsequent collapse. During this period, the business environment surrounding sogo shosha became increasingly severe, as the notion was that such intermediaries were unnecessary. Under these circumstances, MC decided to step out from its role as an intermediary by striving to maintain and, where possible, expand its trading volumes by executing minority investments in upstream and downstream fields as well as by enhancing its existing functions in order to provide added value as a trader and distributor.

Business Model Transformation Phase (Acceleration of Business Investment)
Entering into the new millennium, value chain dynamics for industry as a whole began to change, and it became necessary to transform the trading business model completely. MC sought a new way forward by pursuing business models that transcended the bounds of the traditional trading business. By accelerating business investments, MC embarked upon a new course of more proactively managing businesses.

Business Management Phase
After launching Midterm Corporate Strategy 2018, MC has sought further growth in “business management” model, in which it has deeply entered into investors’ business to create values directly and proactively, beyond the previous concept just expecting “returns” from investment. In Midterm Corporate Strategy 2021, MC also introduced the Value-Added Cyclical Growth Model, and proceeded to allocate management resources to businesses whose value could be expected to increase through our business management. In the current Midterm Corporate Strategy 2024, MC will further accelerate these initiatives while promoting EX and DX, and aim for creating a new future through regional revitalization by utilizing integrated EX/DX initiatives.
MC’s businesses are underpinned by financial and other capitals which exist both internally and externally. We invest the capitals into businesses to address social challenges through our businesses and continuously create significant shared value. The created shared value strengthens the capitals and becomes a source of further value creation. By repeating this cycle, we aim to achieve sustainable growth.

Creating MC Shared Value (Outcome)
Leveraging MC Group’s unique collective capabilities, we will further accelerate addressing various social challenges through our business activities and continuously creating MC Shared Value.

The Six Capitals (Inputs)
- Stewardship Capital
- Financial Capital
- Human Capital
- External Capital
- Social Capital
- Environmental and Natural Capital

Internally Generated Capital
Business Assets
Intelligence and Industry Expertise

Creating MC Shared Value
(Outcome)

Utilizing Integrated EX/DX Initiatives/Creativity to Create a New Future
Value-Added Cyclical Growth Model
EX Task Force

The Value Creation Story

Value Creation Process

The Continuous Creation of MCSV

The Three Corporate Principles

Corporate Governance
Risk Management
Sustainability Promotion Framework

The Six Capitals (Inputs)
External Capital
Foundation for Social Needs

Stewardship Capital
Financial Capital
Human Capital

Utilizing Innovation to Address Societal Needs
Respecting Human Rights in Our Business Operations
Addressing Regional Issues and Growing Together with Local Communities

Converting and Effectively Utilizing Natural Capital
Conserving and Effectively Utilizing Natural Capital
Contributing to Decarbonized Societies

Addressing Regional Issues and Growing Together with Local Communities

Materiality related to social challenges

Addressing Regional Issues
and Growing Together with Local Communities

Utilizing Innovation to Address Societal Needs
Respecting Human Rights in Our Business Operations

Addressing Regional Issues and Growing Together with Local Communities

Converting and Effectively Utilizing Natural Capital
Conserving and Effectively Utilizing Natural Capital
Contributing to Decarbonized Societies

Addressing Regional Issues and Growing Together with Local Communities

Utilizing Innovation to Address Societal Needs
Respecting Human Rights in Our Business Operations

Conserving and Effectively Utilizing Natural Capital

Converting and Effectively Utilizing Natural Capital

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Respecting Human Rights in Our Business Operations

Conserving and Effectively Utilizing Natural Capital

Converting and Effectively Utilizing Natural Capital

Converting and Effectively Utilizing Natural Capital

Converting and Effectively Utilizing Natural Capital

Converting and Effectively Utilizing Natural Capital

Creating MC Shared Value
(Outcome)

Leveraging MC Group’s unique collective capabilities, we will further accelerate addressing various social challenges through our business activities and continuously creating MC Shared Value.
The Six Capitals

MC invests the financial and other capitals into its business operations to generate MC Shared Value (MCSV) by addressing societal challenges. The value created then flows back into the capitals, and the increased capitals lead to further value creation.

MC believes that the capitals, which form the foundation of its business operations, can largely be broken down into three types: (1) external capital, which exists outside the company and provides the foundation for societal trust required to carry out business operations; (2) stewardship capital, which the company acquires from external sources and assumes responsibility to increase its value, and (3) internally generated capital, which refers to tangible and intangible assets acquired and created internally by the company using external capital and stewardship capital. We have defined the following six types of capital categorized into each of the above types.

Stewardship Capital

Financial Capital
Receiving financial capital from its providers, increasing its value through business, and distributing the increased value is at the core of any company. In order to continuously increase the value of financial capital, capital efficiency must be improved while maintaining financial soundness. In Midterm Corporate Strategy 2024, we have set a target of double-digit ROE, which we will achieve through careful selection of quality investments and replacing assets using a Value-Added Cyclical Growth Model. With regard to the distribution of financial capital through shareholder returns, we will meet market expectations by combining flexible share buybacks while maintaining stable dividend growth through a progressive dividend scheme.

Human Capital
Human capital is the source of all value creation at MC. Over the years, our diverse and versatile workforce has created value by addressing the various challenges of society, industry and customers and incorporating independent and global perspectives into business creation and execution. It goes without saying that maximizing human capital requires the development and utilization of talent coordinated with management strategies. In addition, it is important to continue enhancing engagement, because human capital is, by definition, the individual employee who dedicates or her valuable time to work. In order to further enhance this time for each individual, it is critical to develop a comfortable work environment for employees as an organization which leads to further engagement.

Social Capital
MC values the importance of building trust with partners, customers, and other stakeholders. We have established Human Capital Management as one of the three key pillars of Midterm Corporate Strategy 2024. In order to create a comfortable working environment and promote the development of our employees, we have defined the following strategies: Strengthen Adaptability to Changes in the Business Environment, Talent Management that Leverages Individuality, and Foster a Corporate Culture that Capitalizes on Diversity.

Business Assets
With its connections in all industries, MC has created new value with a large number of highly competitive and prominent assets in Japan and overseas, including LNG, metals, salmon and trout, and renewable energy.

Mineral Resources
MC has a number of excellent assets that are among the world’s best in terms of cost competitiveness and quality. In the copper business, we participate in the management of high-quality copper mines in South American countries such as Chile and Peru, and hold the largest interest in copper production in Japan. In response to the global shift towards decarbonization, the demand for copper, which is essential for electric vehicles (EVs) and offshore wind power, is rapidly increasing, and we are working hard to secure supply. In the metallurgical coal business, Mitsubishi Development Pty Ltd. (MDP) in Australia, which engages in the exploration, development, production and sale of metal resources, is partnered with BHP in the BMA metallurgical coal business, which holds approximately 30% of the world’s maritime trade volume.

LNG
We have LNG operations all over the world, including in North America, Southeast Asia, and Australia, and we maintain a market presence as the largest LNG operator (based on production share) in Japan. We are responsible for providing a stable supply of energy while working to address environmental challenges such as climate change and air pollution.

Internally Generated Capital

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HR Policies in Midterm Corporate Strategy 2024
In order to create MC Shared Value (MCSV) in the current environment of growing uncertainty, we must remain a vibrant organization that responds promptly to management strategies as well as changes in the operating environment, while also maximizing individual capabilities and value. In the HR Policies of Midterm Corporate Strategy 2024, we have established three pillars: HR Strategy, Strengthen Engagement, and Data Utilization. We will continuously strengthen our vision of the ideal organization through strategy execution revolving around these three pillars.
Intelligence and Industry Expertise

As MC engages in a global network of business operations across all regions and industries, we have accumulated intangible assets such as “intelligence” and “industry expertise”.

- Intelligence
  Through the efficient and effective division of functions among our head office, global offices and subsidiaries, and group companies, we are constantly collaborating to enhance our ability to respond to change and generate the next source of significant growth. Through this global network developed over many years, we possess multifaceted intelligence and know-how in macroeconomics, industry and geopolitics. In order to connect this diverse intelligence and further strengthen our ability to respond to the external environment, we have newly established the Global Intelligence Committee (GI Committee) in Midterm Corporate Strategy 2024. By incorporating the analysis of the GI Committee into the MC Shared Value Forum (MCSV Forum), which discusses and formulates cross-industry companywide strategies, we will strengthen the driving force of our Business Groups and collaboration across all industries.

- Industry Expertise
  We have maintained connections with all industries for many years, and have accumulated industry expertise and know-how, by diving deep into each industry and developing a wide range of businesses. Each Business Group will strengthen the driving force of its business in each industry, and will work to provide new value by combining this physical frontline field of operations with digital technology, thereby further enhancing industry expertise.

External Capital (Foundation for Societal Trust)

Social Capital

To implement our business operations, we need to ensure that their value and significance is widely recognized not only by our customers and partners, but also by stakeholders with whom we have no direct contractual relationship. In addition to shareholders, investors, creditors, and employees, who provide the human capital, we regard our customers, partners, local communities, NGOs, governments and government agencies as our principal stakeholders, and we continuously engage both pillars to ensure business continuity. Through this engagement and our connections with diverse stakeholders and by returning the generated value appropriately, we continue to promote the circulation of value throughout society as a whole.

- Customers and Partners
  MC will contribute to the development of societies and economies by providing a stable supply of products and services that meet the needs of customers and business partners across a wide range of business areas, from upstream raw material procurement to downstream retail. This will be done by working with our customers and business partners to develop various businesses that could not have been realized alone. Moreover, as a company that handles a diverse range of products and services worldwide, MC is working to achieve a sustainable supply chain as a key issue.

- Local Communities
  MC believes in the importance of “Growing Together with Local Communities” and “Addressing the Needs of Society through Business Innovation” as well as the value of building relationships with communities for the success of its businesses. Furthermore, by growing together with communities through job creation, promoting community development and procuring raw materials from local communities, MC also strives to minimize negative impacts, including by respecting the rights of indigenous peoples. Particularly for large-scale projects where the understanding and cooperation of local communities is crucial, we hold public hearings and dialogues with local residents as needed. Growing together with local communities is equally important as advancing our businesses and generating financial return. This represents the true spirit of MC, which seeks to simultaneously generate economic, environmental and societal value.

- Governments and Local Authorities
  To achieve improvements and provide solutions to societal issues through our global business operations, we engage in collaboration, joint initiatives and dialogue with government and public organizations through our involvement in business associations, public-private sector initiatives and other forums, with the aim of contributing to societal development.

- NGOs
  We recognize NGOs as key stakeholders that function as representatives for the planet and its citizens, and we seriously consider the opinions and concerns raised through our robust communication on a day-to-day basis and seek their views to improve our initiatives. Moreover, we are promoting collaborations with NGOs to address environmental and societal challenges.

Environmental and Natural Capital

As with social capital, consideration for the environment and nature is also an indispensable element in maintaining the foundation of societal trust critical to business continuity, and we recognize the Earth as our greatest stakeholder. In order to continuously create MCSV in accordance with the aims of Midterm Corporate Strategy 2024, we have identified the following as part of our Materiality, or important societal issues to be addressed through our business:

- "Conserving and Effectively Utilizing Natural Capital", in which we strive to maintain biodiversity and conserve natural capital while reducing our environmental footprint and realizing a circular economy, and
- "Contributing to Decarbonized Societies", in which we provide products and services that contribute to decarbonization during the transition period. Using our Materiality as a guideline, we will continue to strengthen our efforts for sustainable growth.
Maximizing the Value of Human Capital
Creating a Vibrant Organization by interconnecting with members of our diverse and versatile talent pool

MC’s Approach to Human Capital
As a party to individual businesses and the industries on which they are built, MC has sincerely taken on the challenge to address societal challenges and achieve sustainable growth together with society through its business activities, while anticipating the needs of the times. Recognizing these distinctive qualities of our business, we consider the diverse and versatile human resources that have supported our growth as a source of value creation, and will continue to actively invest in our human capital.

Maximizing the Value of Human Capital: Value Creation Process
MC will achieve value creation by maximizing the value of human capital through promotion of our HR policies linked to human capital investment and management strategies. One of MC’s material issues is “Fostering Vibrant Workplaces That Maximize the Potential of a Diverse Workforce”. Therefore, we will work to create an organization in which a diverse and versatile workforce is the driving force behind the simultaneous realization of economic, societal, and environmental value and can connect and develop through shared values and mutual encouragement.

HR Policy under Midterm Corporate Strategy 2024
In recent years, societal challenges are becoming more diverse and complex than ever before. These include the transitioning to a decarbonized society, promoting sustainable societies and lifestyles, and growing together with local communities.

Creating MC Shared Value
In order to create MC Shared Value, we must continue to be a dynamic, spirited and vibrant organization that responds promptly to such changes throughout the world and in our management strategies, while connecting our versatile and diverse workforce that works with pride to address societal challenges. In terms of HR policy, we will create MC Shared Value by maximizing the value of human capital under the three pillars of HR Strategy, Strengthen Engagement, and Data Utilization, in order to sustain and fortify this ideal vision for the organization.

The Value Creation Story
1. The Value Creation Story

The Source of Value Creation

HR Strategy

Strengthen Engagement

Data Utilization

Creating a dynamic, spirited and vibrant organization

- Strategic HR Assignments/Appointments
- Strengthen Adaptable to Changes in the Business Environment
- Foster a Corporate Culture that Capitalizes on Diversity
- Talent Management that Leverages Individuality

Strengthen Engagement

- Expand Effectiveness Evaluations and Disclosure
- High aspirations
- Foresight
- Execution skills
- High moral and ethical standards

Data Utilization

- We will collect, analyze, and monitor human capital data in order to evaluate the effectiveness of the above initiatives.
- Through disclosure, we will demonstrate our commitment to internal and external stakeholders, and at the same time, we will promote various HR policies with greater effectiveness.

Base input
Investment in human capital
- Base input
- High aspirations for addressing social challenges
- Foresight to anticipate the times and derive new value
- Execution skills to quickly materialize concepts by involving stakeholders beyond national and industry boundaries
- High moral and ethical standards based on the spirit of the Three Corporate Principles

Midterm Corporate Strategy 2024

HR Policies

Creating MC Shared Value

- Midterm Corporate Strategy 2024 HR Policies
- Competitive investment in people
- Human resource training and development
- Growth opportunities and support
- Compensation and benefits
- Employment and retention

Implementation of HR policies

- Strategy execution
- Output
- Value creation

- Midterm
- Corporate Strategy 2024
- HR Policies
- Enhance engagement of human resources as a driving force

- Triple-value growth
- Creating MC Shared Value

Securing diverse human resources
- Talent portfolio (variation of a diverse and versatile talent pool)

Competitive investment in people
- Midterm
- Corporate Strategy 2024
- People
- Midterm
- Corporate Strategy 2024
- Investment in human capital

- Midterm
- Corporate Strategy 2024
- Business
- Midterm
- Corporate Strategy 2024
- Strategy
- Midterm
- Corporate Strategy 2024
- Execution
- Midterm
- Corporate Strategy 2024
**HR Strategy**

With the aim of implementing an HR strategy that responds promptly to management strategies, we will respond to rapid changes in the operating environment, promote the right people to the right positions and strengthen our ability to respond to changes in the environment so that all employees can demonstrate their capabilities.

**Strategic HR Assignments/Appointments**

- **Shifting human resources to focus areas and promoting the placement of the right people to the right positions**
  
  We will flexibly structure the organization in response to advancements in the Value-Added Cyclical Growth Model and management strategies such as EX, DX and Creating a New Future, as well as dynamically shift and appoint human resources across organizations. Cross-organizational transfers increased significantly during the period of Midterm Corporate Strategy 2021. These included transfers between corporate and Business Groups and the company-wide cross-functional Food Industry DX Task Force and Power & Retail DX Task Force. In Midterm Corporate Strategy 2024, we will promote collaboration broadly across organizations by allocating and appointing talent from various groups across the company, including the newly established Industry DX Group and the EX Task Force.

In order to further ensure the placement of the right people in the right positions, we will promote the visualization of human resources with abilities and motivation to proper duties regardless of age, gender, or other factors.

**Midterm Corporate Strategy 2021**

- **Digital Strategy Department**
  - Food Industry DX Task Force
  - Power & Retail DX Task Force
  - EX Task Force

*Including concurrent postings (As of July 2022)*

**Midterm Corporate Strategy 2024**

- **Assignment/Appointment of human resources**

  *Duties performed by MC employees at the assignee companies* (As of April 2022)  

  **Duties with high importance**
  - 700 posts

  **Matching (position)**
  - Number of interviews: approx. 200 people/year

  **Utilization of references obtained from visualization for effective self reflection**
  - Regular monitoring of management job determination and distribution status
  - And utilization of quantitative and qualitative information of each duty

**Duties**

- Head Office: 40%  
- Offices: 10%  
- Seconded to Group companies: 50%

**Legend**

- Total number of companies
- Consolidated subsidiaries
- Number of employees seconded from Head Office to overseas locations*  

### Distribution status of 700 posts

- **Overseas**: 30%  
- **Japan**: 70%

### 360-degree management review

**One-on-one meetings to support the growth of team members (e-learning)**

- **Staff**
- **Managers/Group Company Section Heads**
- **Team Leaders/Group Company General Managers**
- **General Managers/Group Company Management Executives**

*Including Directors, CEOs and General Managers of MC, heads of overseas sites in Japan and overseas, as well as management executives of MC Group. Comparatives for which our employees are responsible.

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**MC Leadership Program**

**Participant acquisition effective leadership skill**

- **22 persons**
- **Approx. 130**

**Training for newly promoted managers**

- **26 persons**
- **Approx. 140**

**MC Leadership Program**

- **401 persons**
- **Approx. 1,200**

**Regional Experts**

- **Europe**: 22 persons
- **Asia**: 416 persons
- **North America**: 16 persons
- **Latin America & the Caribbean**: 27 persons
- **Oceania**: 51 persons

**The development of experts well-versed in each region as human resources who acquire “living” intelligence that contributes to MC’s business while building personal networks and relationships of trust with partners globally represents the foundation of our competitive advantages.**

**Strengthen Adaptability to Changes in the Business Environment**

**Reskilling to Adapt to Change: Leadership Development**

Through a variety of HR development programs, we are working to update leadership skills in response to changes in the business environment. We will embrace HR diversity to make the most of our diverse and versatile talent pool, and strengthen growth support skills. We believe that employees in Team Leader positions, who serve as a nodal point between management and the workplace, play a particularly important role in realizing a “dynamic, spirited and vibrant organization,” and we hold the MC Leadership Program for newly appointed Leaders across four sessions from April to December. We conduct coaching exercises to support the growth of team members while leveraging their individuality, and workshops to formulate action plans for the workplace based on the introspection of the results of 360-degree management reviews.

**Instructor Training**

- **50 persons**
- **Approx. 30**

**Bringing people and organizations together to create results**

- **140 persons**  

**360-degree management reviews**

- **66 persons**
- **Approx. 204**

**Legend**

- Total number of companies
- Consolidated subsidiaries
- Number of employees seconded from Head Office to overseas locations*  

*Number of employees seconded from Head Office to overseas locations as of March 31, 2022

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**Visualization of experiences and characteristics through interviews**

**Target: all employees**

**Growth Dialogues**

**Proactively contribute to monitoring and training**

**Foster and strengthen the mindset to take on the challenge of effecting change**

**Agree to effect change and gain the understanding and cooperation from colleagues to act accordingly**

**Data on the visualization of experiences and characteristics**

**Status of employees seconded from the Head Office to overseas locations**

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Strengthen Engagement

“Dynamic and spirited.” We aim to achieve high employee engagement, and towards this end, we will make improvements in terms of both people and organizations so that employees can work with peace of mind and feel attached to the organization and work.

Foster a Corporate Culture That Capitalizes on Diversity

Promoting Interconnections

We will encourage connections that transcend organizations, age groups, and job titles in order to foster a corporate culture that capitalizes on diversity. In order to promote active communication between executive management and employees, and interconnections between employees, we will expand dialogues and town hall meetings, as well as introduce and utilize IT infrastructure that encourages knowledge and information sharing.

Town Hall Meetings

We regularly hold town hall meetings and dialogues with the President and CEO at various opportunities in an effort to enhance communication with employees.

DEI

We are promoting and strengthening initiatives to ensure that each of our diverse and versatile employees is accepted and able to flourish.

Supporting Women’s Careers

We are expanding measures to support work-life balance beyond the level required by law to empower employees to autonomously develop their careers and to further maximize their abilities, even after life events, such as childbirth and child-rearing. Additionally, in order to increase the number of women in management-level positions (target of 15% or more by the fiscal year ending March 31, 2026) and to accelerate their appointment to key positions, we are promoting career support tailored to women such as a mentoring program for employees in managerial positions. We are also focusing on initiatives aimed at 100% utilization of childbirth-related systems by men.

Encouraging the Appointment of a Diverse Talent Pool

We are working to maintain and increase diversity by appointing employees based on their abilities and performance, ensuring to assign the right person in the right position, regardless of age, gender or nationality or any other irrelevant factors.

Talent Management That Leverages Individuality

Career autonomy

We respect the diverse work styles and values of individuals and are expanding our efforts to support career autonomy, to ensure that our diverse and versatile talent pool feels a sense of satisfaction and pride in their work, and to continue to grow and play an active role while making use of their abilities to the fullest.

Growth Dialogues

With the goal of increasing the effectiveness of employees’ autonomous growth, we conduct annual reviews focusing on employee skill development and career building, and provide opportunities for dialogue with supervisors.

Feedback Supporting Growth

Prior to Growth Dialogues, employees who lead certain organizations undergo a 360-degree management review from their superiors, subordinates, and colleagues, while other employees receive team feedback from their subordinates and colleagues. This provides opportunities for growth support leading to increased awareness and improvement of behavior.

Talent Review Program

MC has established a mechanism to encourage the development of employees’ skills and careers through observation and assessment from multiple perspectives by sharing skill growth and career aspirations of employees confirmed through Growth Dialogues with a wider population.

Machanisms that Encourage Career Autonomy

Based on individual career aspirations along with skills and qualities that employees want to develop in the future, we will promote open recruitment assignments to support the transfer of employees to positions they wish to take on and dual career initiatives that provide opportunities for skill acquisition and growth through in-house dual work. Additionally, we will implement a career development support program so that our employees can visualize their own skills, take inventory of their experiences, clarify their career vision, and establish a cycle for realizing it.

Well-being

Based on the belief that a healthy mind and body determine the success of the individual, we have compiled a Health and Productivity Management Declaration. Under this, we are promoting health and productivity management that not only ensures the safety of the workplace, but also promotes the well-being of our diverse and versatile talent pool and ensures that they can make the most of their skills and personalities.

Health Promotion

MC has put into place a system in which employees who work in environments with different languages, cultures and medical standards, as well as their families can see in-house physicians at any time with health concerns. We encourage all employees to change their behavior to improve their health through the use of health apps as well as individual health guidance and nutrition guidance that is data driven based on diverse working environments, lifestyles, and health data.

Initiatives for Mental Health

We are promoting mental health initiatives with an emphasis on prevention and early intervention. Certified psychologists (3 full-time and 1 part-time) regularly meet with employees individually where they receive a wide range of employee consultations. By collaborating with psychologists at the in-house clinic to create an environment that supports employees and the workplace, the number of consultations has increased, leading to the prevention and early detection of mental health challenges. We are also focusing on strengthening our support system. This entails remote counseling with employees seconded overseas, regular health monitoring for young employees, and line care training for managerial staff.

Ensuring Safety

Based on MC’s Occupational Safety and Health Policy, we are promoting the development of safety and health (OSH) culture across the Group through the mitigation of occupational accidents among (1) our own employees and (2) contractor employees.

Focus on Other Employees

We aim to achieve high employee engagement, and towards this end, we will make improvements in terms of both people and organizations so that employees can work with peace of mind and feel attached to the organization and work.
HR Development and Initiatives to Promote EX and DX

Promoting EX

Expanding EX Education and Training Programs

Promoting EX requires each employee to understand the trend of decarbonization, risks and opportunities, and to recognize and be termed as to how it relates to their own work. To that end, we are working to raise the level of EX-related knowledge, skills and mindset in order to develop human resources who can contribute to increasing corporate value through EX. Specifically, based on the three themes of “proactive”, “defensive”, and “integrated initiatives with DX”, we are establishing training programs on EX-related themes within orientation training for newly hired employees, training for newly appointed managerial staff, and training for executive leadership (MC Leadership Program), regardless of Business Group or corporate department affiliation.

EX Education Themes

- **Proactive EX Education**
  - Seeing EX as an opportunity to develop and nurture new and core businesses in a new world (especially specific EX items, latest EX technology trends, business opportunities in new business development, etc.)

- **Defensive EX Education**
  - Identify short, medium- and long-term risks and costs related to climate change and strength business resilience (Response to environmental regulations and rules, requirement for ESG calculation, etc.)

- **Integrated and DX Initiatives**
  - Use industrial transformation while utilizing DX to accurately identify changes in the external environment (Integrated digital tools and technologies, etc.)

Knowledge Sharing

MC used an online chat tool to form a decarbonization business promotion platform in which any employee can participate. Approximately 850 employees from various departments and facilities in Japan and overseas are participating, sharing their own information and know-how. Employees can also post the latest information from around the world and share examples of each group’s initiatives on a daily basis. In addition, by investigating fields of high interest using questionnaires, holding study sessions, and creating a system that allows employees to immediately connect with in-house experts, we aim for this platform to serve as a stepping stone for the creation of new businesses.

Decarbonization Business Promotion Platform

- **Examples of information posted / Study session themes**
  - Renewable energy
  - CCUS
  - Hydrogen and ammonia
  - Carbon credits
  - Decarbonization/EX-related technologies
  - Decarbonization/EX-related external environment
  - ESG investment, etc.

Promoting DX

DX Training for All Executives and Employees

To accelerate DX, we have defined the areas based on the “DX Talent Type” as shown in the figure below. We have started offering the MC DX Advancement Program, an on-demand training program that allows each participant to acquire the IT digital skills required of “producers”, “business designers” and “architects” according to their individual level. All executives and employees have begun taking this program in the fiscal year ending March 31, 2023. In addition to the above, we are working to develop human resources who will lead our DX projects through other training programs, including programming training for those in charge of DX promotion and new business launch, workshops on web service launch, courses for management, CDO training courses, and innovators’ Program.

MC Innovation Lab (MIL)

In April 2021, we launched MC Innovation Lab ("MIL"), a program for employees in charge of new businesses and digital businesses to develop web services while participating in lectures on programming and product creation for business development. The results were evaluated using a contest format, with some of these web services now moving toward commercialization. A total of approximately 90 employees, including from group companies, have participated in the past three sessions.

Industry One is working on industry DX by harnessing the collective capabilities of its talented pool

- **Accelerating DX covering industry as a whole**
  - In 2021, we established Industry One through a joint investment with Nippon Telegraph and Telephone Corporation (NTT), our business partner for the promotion of industry DX. Industry One provides DX services by combining MC’s strength of extensive industry knowledge and NTT’s strength in ICT technology. Seconded employees from MC and NTT with diverse experiences are working together with Industry One employees of varying backgrounds to accelerate DX not only for group companies but also for Japanese industries as a whole, while collaborating with a wide range of partner companies.

- **Employees using career experience to tackle the challenge of DX promotion**
  - One of the seconded employees from MC participated in the launch of Industry One and is now a manager at the company. This role was made possible by their previous experiences in promoting DX in the food, apparel, and healthcare fields and also working on IoT and digital human resource development. In order to maximize the performance of Industry One as a whole by combining the skills of the company’s diverse DX human resources, we are actively playing a role of connecting management and employees in daily operations, focusing on strengthening engagement while working to improve the value of Industry One toward the realization of industry DX promotion.

Industry One Core Team Members

- **Business designers**
  - Business designers are responsible for realizing DX-driven businesses. They work to close gaps between what customers want and what businesses can do, and to quickly and accurately improve businesses. By bringing together people with diverse skills and backgrounds, we are working to create a business model that will transcend traditional industries.

- **Engineer/Programmer**
  - Engineer/Programmers are responsible for building systems that enable DX-driven businesses. They work to create tools that allow businesses to respond to changes in the market, and to continually improve the value of DX-driven businesses. The team includes people with diverse skills and backgrounds, and is working to create a variety of tools that can be used to address different types of problems.

- **Data scientist**
  - Data scientists are responsible for analyzing data and creating DX-driven businesses. They work to create tools that allow businesses to understand the needs of customers, and to continually improve the value of DX-driven businesses. The team includes people with diverse skills and backgrounds, and is working to create a variety of tools that can be used to address different types of problems.
Overview of Materiality and Identification Process

Based on the Three Corporate Principles, which have served as MC’s core philosophy since its inception, MC identified a set of Key Sustainability Issues in 2016 as mileposts for proactively realizing “triple-value growth” through the simultaneous generation of economic, societal and environmental value. While responding to the requests of all stakeholders, MC has worked to address various societal issues through its business activities and has contributed towards the sustainable development of society as well as value creation. Six years have passed since the Key Sustainability Issues were identified, and stakeholder expectations of companies regarding issues such as climate change have grown even higher, while the issues that companies must address also continue to evolve. Against this backdrop, in order to further raise our corporate value over the medium to long term, we conducted a review of our Key Sustainability Issues from the perspective of their importance to our business activities. The revised “Materiality” was announced in Midburnt Corporate Strategy 2024 as a set of crucial societal issues that we will prioritize through our business activities, towards the strategy’s goal of continuous creation of MC Shared Value.

Setting Goals for 2030

In 2019, MC formulated individual business goals so that each Business Group could autonomously promote sustainability initiatives. In 2020, MC reviewed these individual business goals to make them more specific and quantifiable, taking into account the external environment and societal demands. In 2022, these goals were aligned with the newly redefined Materiality. The main material issues and the corresponding business targets and main initiatives are as follows.

Relevance of MC’s Redefined Materiality to the SDGs

By leveraging its collective capabilities and engaging in a variety of businesses, our company will contribute to addressing a wide range of societal challenges and ensure sustainable growth. We have identified the SDGs relevant to each material issue, and believe that promoting businesses based on our Materiality will also help to achieve the Sustainable Development Goals (SDGs).

<table>
<thead>
<tr>
<th>Former Key Sustainability Issues</th>
<th>Relevance to SDGs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferring to a Low-Carbon Society</td>
<td>Contributing to Decarbonized Societies</td>
</tr>
<tr>
<td>Procuring and Supplying in a Sustainable Manner</td>
<td>Conserving and Effectively Utilizing Natural Capital</td>
</tr>
<tr>
<td>Tackling Evolving Regional Issues</td>
<td>Promoting Stable, Sustainable Societies and Lifestyles</td>
</tr>
<tr>
<td>Addressing the Needs of Society through Business Innovation</td>
<td>Using Innovation to Address Societal Needs</td>
</tr>
<tr>
<td>Conserving the Natural Environment</td>
<td>Growing Together with Local Communities</td>
</tr>
<tr>
<td>Promoting Our Employees’ Maximum Potential</td>
<td>Respecting Human Rights in Our Business Operations</td>
</tr>
<tr>
<td>Creating a Just and Diverse Workplace That Maximizes the Potential of a Diverse Workforce</td>
<td>Realizing a High-Potential, Transparent and Flexible Organization</td>
</tr>
</tbody>
</table>

* The SDGs are a set of 17 global goals adopted by the UN General Assembly in 2015 as the core of “The 2030 Agenda for Sustainable Development.”

Please refer to pages 48 to 51 on climate change for MC’s contributions to a decarbonized society.
**Focus: Materiality Forming the Basis of the Midterm Corporate Strategy**

**MC’s Policies on Climate Change**

Our planet and its ecosystems, human beings and corporate activities are highly vulnerable to climate change. At MC, our belief is that while climate change poses significant threats, it also presents the MC Group with new business opportunities. Accordingly, MC has identified “Contributing to Decarbonized Societies,” which is part of its Materiality, as one of the key issues for management to address and respond to as MC strives to achieve sustainable growth. MC aims to fulfill its mandate to meet the demand for energy, while at the same time helping to achieve international objectives, such as the UN Sustainable Development Goals (SDGs) and the Paris Agreement. To realize that aim, MC works in collaboration with a wide range of stakeholders, including government agencies, other businesses and industry associations.

**Initiatives to Achieve Net Zero by 2050**

**GHG Emissions Reduction Targets**

In its Roadmap to a Carbon Neutral Society released in October 2021, MC has formulated medium- and long-term greenhouse gas (GHG) emissions reduction targets aligned with the Paris Agreement: to halve emissions by the fiscal year ending March 31, 2031 (fiscal year ended March 31, 2021 baseline) and to achieve net zero emissions by 2050. To reach the target of halving emissions by the fiscal year ending March 31, 2031, we will utilize every means available, including replacing assets and switching operations to renewable energy and alternative fuels. Looking toward 2050, we will leverage our collective capabilities to drive industrial transformation as well as embrace new technologies and innovations to aim to achieve the goals of the Paris Agreement and net zero emissions.

In order to ensure the achievement of the reduction targets for the fiscal year ending March 31, 2031, which are shown below, we believe it will be crucial to develop and implement our GHG emissions management processes, monitor progress in emissions reduction and disclose such efforts.

Based on this approach, in the Midterm Corporate Strategy 2024, as described below, we established and announced new specific and effective processes for confirming short- and medium-term GHG reduction plans when formulating investment plans (Investment Planning in Accordance with GHG Reduction Plans*). Furthermore, we will continue to appropriately disclose annual GHG emissions each year, as before, to inform stakeholders of our progress in reducing emissions toward the target for the fiscal year ending March 31, 2031.

Our progress as of the end of the fiscal year ended March 31, 2022 is as follows.

<table>
<thead>
<tr>
<th>FY2021 (baseline)</th>
<th>FY2022 (results)</th>
<th>Net Zero*</th>
</tr>
</thead>
<tbody>
<tr>
<td>27.9 Gt CO2e</td>
<td>15.2 Gt CO2e</td>
<td>Halved</td>
</tr>
</tbody>
</table>

\*1 The figures on the left represent the Scope 1 and Scope 2 emissions of MC and its consolidated companies, excluding emissions based on the GHG Protocol’s equity share basis. For FY2021, we adopted the formula shown in the left figure. For FY2022, we adopted the formula shown in the left figure, and corrected Scope 2 emissions based on the GHG Protocol’s equity share basis. For FY2022, we adopted the formula shown in the left figure, and corrected Scope 2 emissions based on the GHG Protocol’s equity share basis.

**GHG Emissions (Scope 3)**

MC’s reduction targets and GHG emissions above include a portion of the Scope 1 and Scope 2 emissions of its affiliates on an equity share basis, corresponding to Scope 3 Category 15 (Investment emissions). In addition, we recognize the importance of appropriately disclosing emission of Category 11 Use of Sold Products, which account for the majority of MC’s Scope 3 emissions. Looking towards this discourse, we believe emissions should be calculated in a manner that accurately reflects the actual circumstances of our business, and we will continue to diligently consider ways to disclose them.

**Midterm Corporate Strategy 2024 / Adopt Mechanism for Initiatives to Achieve the GHG Reduction Targets**

In order to achieve our GHG reduction targets in the Roadmap, in the Midterm Corporate Strategy 2024, we have adopted the mechanism for simultaneously decarbonizing and reinforcing our portfolio by classifying each business based on climate-related transition risks and opportunities. In addition to scenario analysis, which we have conducted for some time, we are introducing mechanisms such as Transform Discussion, Investment Planning in Accordance with GHG Reduction Plans, and Evaluation of New Investment Using Assumptions Under Decarbonization Scenario, and will promote various measures to fulfill our mandate to meet the demand for energy and achieve the international targets set forth in the Paris Agreement.

Please refer to page 19 for more regarding Sustainability Initiatives in the Midterm Corporate Strategy 2024.

**Disclosures in line with the TCFD Recommendations**

**Governance**

As an important management issue, the Executive Committee determines the basic policies and other important matters regarding climate change*, and reports these to the Board of Directors. In addition to seeking advice and recommendations from the external experts of the Sustainability Advisory Committee, the Sustainability & CSR Committee discusses matters thoroughly before they are brought to the Executive Committee.

**Initiatives to Date**

**2017**

Creation of a road map to respond to the Paris Agreement and net zero emissions.

**2018**

□ Start of detailed discussions on selecting climate-related risks.

**2019**

□ Formulation of policies to address climate change.

**2020**

□ Concluded analysis of transition risks and opportunities, begun comprehensive analysis of physical risks.

**2021**

□ Concluded risk analysis and opportunity estimation using TCFD screening.
□ Conducted comprehensive analysis of physical risks.
□ Consideration of the mechanisms at the Carbon Neutral Promotion Committee.

**Climate-Related Governance Framework**

- **Board of Directors**
  - Supervises MC’s climate-related actions and initiatives
  - Contributes to the monitoring of performance
- **Executive Committee**
  - Makes decisions regarding MC’s basic policy on climate change as well as important matters pertaining to climate change
  - Contributes to the monitoring of performance
- **Sustainability & CSR Committee**
  - Reports directly to the Executive Committee
  - Deliberates on MC’s basic policy on climate change and important matters therein, and reports findings to the Executive Committee
  - Contributes to the monitoring of performance
- **Sustainability Advisory Committee**
  - Offers advice and recommendations regarding MC’s basic policy on climate change and important matters therein
  - Contributes to the monitoring of performance
- **Officer in Charge**
  - Corporate Functional Officer (Corporate Sustainability & CSR)
- **Department in Charge**
  - Corporate Sustainability & CSR Department

Please refer to pages 86 to 91 for information on MC’s Sustainability Promotion Framework.

**Risk Management**

Using the mechanisms introduced in the new Midterm Corporate Strategy for simultaneously decarbonizing and reinforcing our portfolio, as shown in the workflow below, we will conduct functional risk management, from identifying businesses with high climate change risks to assessing the impacts on profitability of individual projects. Additionally, based on our current sustainability-related governance system, we will build a system that ensures that the Board of Directors is appropriately involved.

[Diagram: MC climate taxonomy, classify businesses as “Green,” “Transform” or “Worse” as the basis for various measures.]

Transform discussions / Business strategy meetings

With regard to “Transform” businesses, factors that could affect the direction of businesses are discussed in Transform Discussions, and the Business Strategy Meetings are held based on these discussions. Investment plans based on GHG reduction targets are also discussed at the Business Strategy Meetings.
### Determining Businesses to be Monitored

In addition to 2°C scenarios and opportunities, we conducted an analysis of climate-related transition risks and opportunities using the 1.5°C scenario assuming further decarbonization and incorporated these results into our business strategy.

**Step 1: Identifying Risk Scenarios**
- Scenarios such as World Energy Outlook, etc. set out by neutral third parties such as the IEA (International Energy Agency).

**Step 2: Selecting Industries Based on TCFD Sector Classifications**
- Industries in which MC is involved where financial and non-financial factors have significant impacts, as well as industries expected to be significantly affected by climate change according to the TCFD recommendations are identified.

**Step 3: Assessing Financial Impacts and Opportunities**
- Financial significance written here represents MC’s understanding of the main scenarios disclosed by International organizations such as the IEA, and do not represent MC’s understanding of the main scenarios disclosed by International organizations such as the IEA.

**Step 4: Identifying Businesses to be Monitored**
- As a result of Step 3, 3 identified businesses with a high impact from both opportunity and risk perspectives as businesses to be monitored. Such businesses for the fiscal year ended March 31, 2022, are as follows.
  - High Impact on opportunity: Financial generation (fossil fuel-related, carbon capture, technology, LNG), automobile (passenger cars, pickup trucks), ships, and others (renewable energy, efficient electricity generation)
  - Low Impact on opportunity: Combustion (thermal power, hydrogen)

### Physical Risks

Physical climate risks (e.g., floods, droughts and temperature increases) can affect the operations of some of the MC Group’s businesses. In order to comprehensively understand the potential physical risks that climate change poses to the MC Group’s businesses, MC has conducted a physical risk analysis according to the process below.

#### Comprehensive Analysis Process

**Phase 0**
- Identification of Material Assets
- Scoring the severity of each hazard* to which each asset will be exposed by 2030 in order to identify high-risk assets that should be analyzed in detail.

**Phase 1**
- Detailed Analysis
- On the basis of Phase 1 results, for assets with high overall scores (high risk), conduct a detailed analysis of the hazards to which each of these assets can be exposed by 2080.

**Phase 2**
- Consideration of Future Adaptation Strategies
- Based on the assessment results, confirm current measures and future adaptation strategies for high-risk assets.

### Assessment Results

The current measures and future adaptation strategies for the two businesses with assets that are likely to be affected by the physical risks identified via the above process are as follows.

**Phase 0**
- **Environmental**
  - **Net zero GHG emissions by 2050**, and a new FY2030 target with a detailed reduction plan.
  - **Emissions halved by FY2030** through portfolio replacement driven predominantly by divestment of thermal power plants.
  - **Net zero emissions by 2050**, and a new FY2030 target with a detailed reduction plan.
  - **Emissions halved by FY2030** through portfolio replacement driven predominantly by divestment of thermal power plants.

### Metrics and Targets

MC has set the following climate-related targets to capitalize on opportunities and mitigate risks on a consolidated basis. In addition, manage progress toward achieving our GHG emissions reduction targets through annual disclosure of GHG emissions results.

**GHS Emissions Reduction Targets**
- **Net zero GHG emissions by 2050**, and a new FY2030 target with a detailed reduction plan.
- **Emissions halved by FY2030** through portfolio replacement driven predominantly by divestment of thermal power plants.

**Renewable Energy**
- **Double MC’s renewable energy generation capacity compared to the fiscal year ended March 31, 2020 levels by the fiscal year ending March 31, 2031**.

### Decarbonization Projects

MC is considering transitioning to a low-carbon society to be one of the key issues for management to address and respond to. Through its businesses, MC is working to reduce and eliminate carbon in a variety of fields. In particular, under the name of Energy Transformation (ET), we are taking on the challenge of reforming the energy field with a view of a decarbonized society, and evolving our energy-related business portfolio in the process. By addressing the complex issue of decarbonization across all industries in this way, we aim to both meet environmental challenges and fulfill our social mission of providing a stable supply of energy, which will lead to the sustainable growth for MC over the medium- to long-term.

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*In addition to the risks of climate change, the latest port berth infrastructure installed has been designed to withstand a 1 in 1000 year wave event factoring in rises in sea levels and cyclone impacts due to climate change. An additional project is currently underway to upgrade an older berth to the same design standard.*
Message from the CAO (Chief Administrative Officer)

We will implement initiatives based on our redefined Materiality to maintain and enhance our corporate value over the medium to long term.

Yutaka Kashiwagi
Representative Director, Executive Vice President, Corporate Function Officer, IT, CAO, Corporate Communications, Corporate Sustainability & CSR

Initiatives Based on Materiality (Management)

Based on our corporate philosophy, The Three Corporate Principles, we have been promoting our sustainability efforts by setting forth our commitment to creating sustainable corporate value in Midterm Corporate Strategy 2012, and simultaneously generating economic, societal, and environmental value in Midterm Corporate Strategy 2019. Also, in 2016 we identified our Key Sustainability Issues that must be proactively addressed to ensure sustainable growth. Meanwhile, six years have passed since the formulation of our Key Sustainability Issues, and expectations for companies, including measures to address climate change, have increased, while the societal challenges to be addressed have also changed. Midterm Corporate Strategy 2024, announced in May of this year, aims for the continuous creation of significant shared value, or “MCSV” in order to address societal challenges. In line with this, we have redefined our Key Sustainability Issues as eight material issues (Materiality), a set of crucial societal issues that we will prioritize through our business activities. This redefinition focused on three points: fulfilling our responsibility to provide a stable supply of energy to support the transition to a decarbonized society, promoting businesses that respect human rights as a company that helps to enrich society, and providing a solid foundation, including human resource and organizational development as the bedrock of these efforts.

Among the initiatives based on our Materiality, I will address in detail the following: ① Contributing to Decarbonized Societies, ② Addressing Regional Issues and Growing Together with Local Communities, and ③ Fostering Vibrant Workplaces that Maximize the Potential of a Diverse Workforce as representative examples.

As societal challenges that need to be addressed such as climate change and human rights issues become increasingly diverse and complex, it is essential for companies to address these issues through their core business activities. In response to drastic changes in the external environment, policies, laws, and regulations are being developed, international initiatives are being created, and the flow of private-sector funds and the behavior of investors are undergoing major changes.

Specifically, in addition to addressing climate change, we are now in an era in which non-financial initiatives have a significant impact on corporate value, such as whether a governance structure is set in place to respond to a rapidly changing business environment and whether employees, who are responsible for maintaining and improving competitiveness, are provided with appropriate training. We believe that insufficient commitment to sustainability is detrimental to a company, while the active pursuit of sustainability is essential for mid- to long-term growth. In addition, damage to ecosystem services and the natural environment, which are prerequisites for a company’s existence, will directly affect company operations and indirectly affect its supply chain, posing a significant risk to the company. Therefore, we believe that working to address societal challenges constitutes both risk management as well as the pursuit of business opportunities.

Based on the recognition that building relationships with communities is essential for the successful execution of our business, we have also identified “Addressing Regional Issues and Growing Together with Local Communities” as another of our material issues. In addressing this issue, we conduct our business based on relationships of trust with diverse stakeholders, regions, and communities. Specifically, we strive to minimize negative impacts on local communities, including respecting the rights of indigenous peoples, in addition to sharing prosperity together with local communities throughout the value chain as well as promoting businesses that respect human rights and organizational development as the bedrock of these efforts.

MC has identified “Contributing to Decarbonized Societies” as a material issue for realizing a carbon neutral society. In October 2021, in our “Roadmap to a Carbon Neutral Society,” we have formulated medium- and long-term GHG emissions reduction targets aligned with the Paris Agreement to halve emissions by FY2030 (FY2020 baseline) and to achieve net-zero emissions by 2050. In addition, in the Midterm Corporate Strategy 2024, we also laid out a range of measures toward achieving international objectives, such as those of the Sustainable Development Goals (SDGs) and the Paris Agreement, while fulfilling our mandate to meet the demand for energy. Under the MC Climate Taxonomy concept, each of our businesses is classified based on climate-related transition risks and opportunities, and in accordance with such classification, the following four mechanisms are implemented: 1.5°C scenario analysis, Transform Discussion, Investment Planning in accordance with GHG Reduction Plans, and the Evaluation of New Investment Using Assumptions Under Decarbonization Scenario. By promoting these mechanisms, we aim to contribute to the realization of decarbonized societies through the steady decarbonization and strengthening resilience of our business portfolio and advancing EX (energy transformation) on a global scale.

In addition, since the realization of a carbon neutral society requires GHG reductions not only by MC but throughout the value chain as well, we are committed to becoming a decarbonization solution provider by understanding the emissions reduction needs of industries, consumers, and communities. We will also continue to diligently consider the calculation and disclosure of our Scope 3 emissions (Category 11 (use of sold products), which accounts for the majority of our Scope 3 emissions), which investors and other stakeholders are increasingly requesting us to disclose.

For more information on climate change, see p. 48-51.
For more information on environmental and natural capital, see p. 37.

② Addressing Regional Issues and Growing Together with Local Communities (related capital: social capital)

Based on the recognition that building relationships with communities is essential for the successful execution of our business, we have also identified “Addressing Regional Issues and Growing Together with Local Communities” as another of our material issues. In addressing this issue, we conduct our business based on relationships of trust with diverse stakeholders, regions, and communities. Specifically, we strive to minimize negative impacts on local communities, including respecting the rights of indigenous peoples, in addition to sharing prosperity together with local communities through job creation, promoting community development, and procuring materials from local communities through our business.

For more information on social capital, see p. 36-37.
Message from the CAO (Chief Administrative Officer)

From the perspective of growing together and collaborating with diverse stakeholders, we believe it is vital to accurately grasp the demands and expectations of shareholders, investors, and other stakeholders through engagement and dialogue, and to reflect these in our Group management. MC has established a system to reflect stakeholder opinions onto company management by incorporating external perspectives at meetings of the Board of Directors and its advisory bodies (the Governance, Nomination & Compensation Committee and the International Advisory Committee), as well as the Sustainability Advisory Committee. We are committed to achieving sustainable growth through the collaboration of value by engaging our stakeholders.

Increasing Corporate Value

Materiality

Circulation through engagement

Increasing Social Capital

MC’s Primary Stakeholders

For more information on human capital, see p. 38-45.

Fostering Vibrant Workplaces That Maximize the Potential of a Diverse Workforce (related capital: human capital)

MC has achieved sustainable growth together with society through its business by anticipating the needs of the times and actively taking on the challenge of addressing societal challenges as a player in individual businesses and the industries built from them. What has supported this growth are human resources with high aspirations for addressing societal challenges, foresight to anticipate the times and derive new value, execution skills to quickly materialize concepts by involving stakeholders beyond national and industry boundaries, and high moral and ethical standards based on the spirit of the Three Corporate Principles. Our human resources have created value by conceiving and executing optimal solutions for a wide range of social, industrial, and customer issues from a proactive and global perspective. MC therefore views human resources as a source of value creation, or human capital, and has been and will continue to actively invest in them.

In order to continue creating the MCSV that we strive for, MC must continue to be a dynamic, spirited and vibrant organization with a diverse range of human resources, with diverse values and backgrounds, as well as a diverse range of experiences and abilities from many industries that meet with each other through organic connections. Therefore, we have defined one of our material issues as “Fostering Vibrant Workplaces That Maximize the Potential of a Diverse Workforce,” and have established the three pillars that constitute our human resource policies: HR Strategy, Strengthen Engagement, and Data Utilization.

Human Resource Strategy

In an environment where single events can spread and influence each other instantly around the world, it is important for us to be a flexible organization that can respond immediately to societal challenges. We will dynamically shift and appoint human resources across the organization so that all personnel can fully demonstrate their accumulated knowledge and abilities in accordance with our management strategy. To this end, we must promote cross-industry initiatives more than ever to meet the needs of society. Having reorganized our Business Group structure has led to many proposals and ideas for collaboration among the Business Groups that transcend organizational boundaries. And in the EXOD area, we have formed a companywide task force to formulate strategies to more flexibly promote and utilize human resources. In order to further accelerate the efforts of the DX Task Force, we have reorganized it into an Industry DX Group composed of personnel from various groups, with the aim of providing DX functions to the Business Groups and developing new businesses that utilize DX functions. In this way, we will consider and implement the most appropriate organizational rearrangement and allocation of human resources so that we can immediately respond to management strategies to address societal challenges. We also need to update our capabilities in response to changes in the business environment. In particular, we will work on revitalizing our human resources and organizations to strengthen their ability to respond to such changes so that they are able to take on and execute the EK, DX, and Creating a New Future strategies as set forth in Midterm Corporate Strategy 2024.

Strengthen Engagement

In order for all of our human resources to work in a safe and secure environment and to grow and create value, it is of utmost importance that they are highly engaged. We will promote and create systems for diversity, equity & inclusion, and well-being, respect the diversifying work perspectives of individuals, and expand the talent management system to encourage career autonomy, thereby creating an environment in which each individual is able to address societal challenges with a greater sense of responsibility.

Data Utilization

We will collect, analyze, and monitor data related to HR policies, human resources, and organizations, and measure and evaluate their effectiveness. By enhancing the disclosure of such data and information, we will demonstrate our commitment to internal and external stakeholders, and at the same time, more effectively promote various HR policies.

Even as we continue to adapt to and take the lead amid changing times, the need for high aspirations, foresight, execution skills, and high moral and ethical standards will remain unchanged in the future. We will maximize the value of our human capital by developing a diverse and versatile workforce as the driving force behind the creation of MCSV throughout the organization, and by creating opportunities and workplaces where people can share values and grow through friendly competition while forging connections with each other.

In Conclusion

In this way, we will maintain and enhance our corporate value over the mid- to long term by utilizing our Materiality as a guideline for the creation of MC Shared Value, incorporate the issues into our business strategies and policies, and having each and every employee put them into practice within his or her own workplace.

Since joining the company, I have worked in the energy-related business for around 20 years and in the environment-related business for around 10 years, always with the attitude of sincerely tackling the job in front of me wherever I am assigned. In 2019, as the General Manager of the GCEO Office of the Power Solutions Group, I witnessed the transformation of the electric power system based on renewable energy and digital technologies amid a period of transformation in the power business. Through my involvement in Eneco’s management, I directly experienced the decarbonization movement that originated in Europe and realized firsthand how sustainability initiatives have a significant impact on business. In addition, in 2020, to foster a better corporate culture, we held a series of discussions with members across divisions, groups, and generations regarding the goals of the company. This experience led to a strong desire to develop an environment in which a diverse range of executives and employees can work dynamically, spiritedly and vibrantly, while connecting with each other through free and open discussions. I assumed the position of CAO this year, and looking back, I believe that the numerous experiences described above have helped me recognize the importance of non-financial initiatives that are not directly expressed in financial statements. I believe that it is my mission to strengthen these efforts and to connect them to the mid- to long-term improvement of corporate value through sincere dialogue with stakeholders.

Message
Message from the CFO

Although market conditions provided a tailwind in the fiscal year ended March 31, 2022, we made steady progress in strengthening the balance sheet and ensuring its soundness by liquidating unprofitable businesses and making provisions for losses, which has provided Midterm Corporate Strategy 2024 a good starter.

Reviewing Midterm Corporate Strategy 2021, to Develop Midterm Corporate Strategy 2024

Although consolidated net income for the fiscal year ended March 31, 2022, the final year of the previous Midterm Corporate Strategy, exceeded our target of 900 billion yen, new investments did not proceed as initially expected. This was due to the need to prioritize the maintenance and improvement of our financial soundness in response to major environmental changes caused by the spread of COVID-19. Investments were executed in diligently selected projects, resulting in an outlay of 2.5 trillion yen, compared to the initial plan of 3.4 trillion yen. Cash collection through divestments was also accelerated and amounted to 1.5 trillion yen, compared to the initial plan of 0.7 trillion yen. As a result, as of the end of March 2022, Investment-Leverage Ratio, an indicator of financial soundness, improved to 41%*, where the appropriate range is supposed to be from 40% to 50%. We believe it’s a level of financial soundness appropriate for the start of Midterm Corporate Strategy 2024.

Then, reviewing shareholder returns, under our Progressive Dividend Scheme, we paid per-share dividends of 132 yen, 134 yen, and 150 yen, respectively, for fiscal years ended March 31, 2020, 2021, and 2022. Combining the dividend and the 70 billion yen of share buyback announced in the final year of the plan, the total return for the three-year period reached 42%. While financial performance deteriorated significantly in the fiscal year ended March 31, 2021, we received significant positive feedback from the market for maintaining the Progressive Dividend Scheme as promised and sustaining the stock price. The Progressive Dividend Scheme is also reflected in the capital allocation policy of Midterm Corporate Strategy 2024.

* Including 70 billion yen of share buyback as decided in the last fiscal year

Active capital allocation for sustainable enhancement of corporate value

Reviewing the Final Year of Midterm Corporate Strategy 2021

Strong Financial Results with Record-High Net Income in the Final Year, Giving Midterm Corporate Strategy 2024 a Good Starter

Consolidated net income for the fiscal year ended March 31, 2022, was 937.5 billion yen, an increase of 764.9 billion yen from the previous fiscal year, a new record high. Seven of the ten segments showed new record high profits. This was, not only driven by the preferable performance of the resource prices, but also a result of effort that each business segment, represented by automobile-related and salmon and trout farming businesses, has seized various opportunities under the global economic recovery and grown its profit steadily throughout the year. While standing at a record high, in preparation for growing uncertainty of our business environment, we have also recognized potential losses as much as possible in advance, reviewing assets’ value more closely.

- Trends in Consolidated Net Income

Plan

<table>
<thead>
<tr>
<th>Year Ended March 31</th>
<th>Business-Related Segments</th>
<th>Market-Related Segments</th>
<th>Other Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>440.3</td>
<td>560.2</td>
<td>590.7</td>
</tr>
<tr>
<td>2018</td>
<td>535.4</td>
<td>590.7</td>
<td>726.6</td>
</tr>
<tr>
<td>2021</td>
<td>937.5</td>
<td>937.5</td>
<td>937.5</td>
</tr>
</tbody>
</table>

Actual

<table>
<thead>
<tr>
<th>Year Ended March 31</th>
<th>Business-Related Segments</th>
<th>Market-Related Segments</th>
<th>Other Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2.5</td>
<td>-1.5</td>
<td>1.0</td>
</tr>
</tbody>
</table>

- Investment Cash Flow (CF) in Midterm Corporate Strategy 2021

Plan

<table>
<thead>
<tr>
<th>Year Ended March 31</th>
<th>New and Sustaining Investments</th>
<th>Sales and Collection</th>
<th>Net Investing CF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>3.4</td>
<td>0.7</td>
<td>2.7</td>
</tr>
<tr>
<td>2018</td>
<td>2.7</td>
<td>2.7</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Actual

<table>
<thead>
<tr>
<th>Year Ended March 31</th>
<th>New and Sustaining Investments</th>
<th>Sales and Collection</th>
<th>Net Investing CF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Message from the CFO

Toward Sustainable Growth of Total Shareholder Returns

Capital Allocation Balancing Financial Soundness and Improvement of Capital Efficiency is Key

As CFO, I believe one of my key responsibilities is to control cash flows (CF) and capital allocation. Simply put, this concerns investments and shareholders return. In order to sustainably increase total shareholder return (TSR), it is necessary to both maintain financial soundness and improve capital efficiency, and I believe that the well-balanced allocation of capital, such as investments, asset replacements and returns, is the means to achieve this.

Explaining with exact numbers, during Midterm Corporate Strategy 2024, out of the 4.5 trillion yen to be generated from operating CF and CF from divestment, we intend to invest 3 trillion yen in maintaining and expanding our earnings base as well as in EX, DX, and growth investment-related and other areas, while distributing at least 700 billion yen to shareholders.

Regarding investment, our policy is to accelerate investment in EX-related fields, and although we have allocated 1.2 trillion yen out of a 3 trillion yen investment quota, this is by no means seeking for opportunities to fill out the given quota. The reality is far from it. 1.2 trillion yen is not sufficient to carry out all of the long-listed projects each business department wishes and registers. This means we need to carefully shortlist projects among the candidates, we then carefully scrutinize each project by looking at ROIC and other factors, bracing our investment discipline. In addition, since some EX-related projects require a relatively longer time to be on revenue stream, we believe it is necessary to make well-balanced investments to maintain and expand the existing revenue and profit base, which can be expected to proceed cash in a relatively short time frame.

The shareholder return of 700 billion yen or more is calculated from a lower limit based on the dividend forecast of 150 yen for the fiscal year ending March 31, 2023, as the Progressive Dividend Scheme of increasing dividends in line with sustained profit growth will continue for the three years of Midterm Corporate Strategy 2024.

While increasing value and maximizing ROE is the top priority of a company, we will also emphasize dialogue with the market to ensure that we meet shareholder expectations in terms of shareholder returns. The Progressive Dividend Scheme under Midterm Corporate Strategy 2021 has been well received, but it is difficult to always meet the market’s expectations only with the Scheme, where a certain degree of fluctuation in business performance due to movements in commodity markets is expected. With this in mind, in Midterm Corporate Strategy 2024, we introduced a capital policy of maintaining progressive dividends while meeting market expectations in terms of total payout ratio, in combination with flexible company share buybacks.

Cash Flow (CF) and Capital Allocation

- Cash Flow (CF) and Capital Allocation
- Maintain Financial Discipline
- High Single-A Credit Rating
- Cash In (Approx. 4.5 Trillion Yen over 3 Years)
- CF from Divestments: 1.5 Trillion Yen
- Investments: 3 Trillion Yen
- Maintaining/Expanding Our Earnings Base
- Investing in EX Initiatives
- Increasing Enterprise Value
- Accelerate Value Added Cyclical Growth
- Cut Off Low-Yield Operations
- Underlying Operating CF: 3 Trillion Yen
- Investments: 3 Trillion Yen
- Maintaining/Expanding Our Earnings Base
- Investing in DX/Growth Initiatives
- Shareholder Returns: More Than 700 Billion Yen
- Investment/Shareholder Returns (Allocated in Accordance with CF Fluctuations)

Creating MC Shared Value

In Midterm Corporate Strategy 2024, we set forth a policy of continuously creating MC Shared Value by elevating the MC Group’s collective capabilities in order to address societal challenges. To some, addressing societal challenges may sound idealistic, but we are now in an era in which sustainable economic value cannot be realized without the accompanying societal and environmental value. It is the basic structure of business to create value first, then earn profits by providing value and that a business will not last if there is an imbalance in the value provided and the profits earned. I would say this is what everyone understands firsthand. As the world becomes more complex, I understand that this structure is not limited to the relation between sellers and buyers, but has been extended to include a variety of stakeholders. We have firmly demonstrated our strengths through our connections with many stakeholders in areas that overlap with the needs of society, such as the supply of energy, metal resources, and food, as well as the overseas development of our business. We believe that we can continue to achieve sustainable growth together with society by addressing changing societal challenges.

Message

I have had a wide range of experiences since joining MC 35 years ago. My first job involved foreign exchange deals and my career has largely been centered on financial and accounting operations ever since. I’ve also had the opportunity to work abroad in Hong Kong and the US. I was assigned to new positions roughly every five years, and each time, I made a point of doing my best to tackle the new challenges before me. Looking back, I can see how the various stops along my career were interconnected. I feel like I was able to keep developing as a business professional by working hard to do what needed to be done with each new opportunity, and all of these experiences help to fuel my efforts today.

Over the past four years, I have been involved in companywide management as GM of MC’s Corporate Accounting Department. This has given me a greater awareness of our various stakeholders, especially our shareholders, and the high expectations they have for the MC Group. While they hope to see these expectations materialize in different ways, such as through short-term dividends, long-term growth or the strengthening of our brand, the overarching objective comes down to increasing corporate value. I do not believe that the current share price fully reflects the intrinsic value of the company. While improving capital efficiency is essential, we are also aware of the challenges regarding the cost of equity. While there are various definitions of the capital cost, I feel, for example, that one of them, the inverse of price-to-earnings ratio (P/E), is much higher than the cost of capital calculated by the Capital Asset Pricing Model and other theoretical methods. One of the reasons for this may be the difficulty of understanding, but through dialogue and communication with the stock market, we would like to explore effective ways to reduce the cost of equity.