

Q&A at Investor Meeting

Financial Results for the Six Months Ended September 2018

and Midterm Corporate Strategy 2021

Presentation Date: Tuesday, November 6, 2018 15:30 to 17:00

Presenters: Takehiko Kakiuchi: President and Chief Executive Officer
Kazuyuki Masu: Executive Vice President, Chief Financial Officer
Yuzo Nouchi: General Manager, Corporate Accounting Department
Hiroshi Takehisa: General Manager, Investor Relations Department

Questions and Answers

Q. Please tell us your thoughts on targeting ¥900 billion in consolidated net income under Midterm Corporate Strategy 2021.

- A.
- By selectively investing to make existing business even more competitive, Mitsubishi Corporation (MC) should be able to achieve steady growth; even if it only expands its existing businesses, it should be able to achieve ¥900 billion in consolidated net income.
 - We increased the fiscal 2018 profit forecast to ¥640 billion. Excluding one-off factors for this year, we think MC's underlying earnings power is around ¥700 billion.
 - We expect to grow profit by ¥100 billion through increased earnings in the shale gas business, increased earnings due to the start of production in the LNG business, and organic growth in existing businesses. We plan to earn the remaining ¥100 billion needed to reach ¥900 billion through returns on investments from capital that should be generated over the next 3 years, totaling approximately ¥3 trillion.
 - We regard ¥900 billion as merely a waypoint on MC's journey to further growth and thus something we can certainly achieve.

Q. What assumptions does Midterm Corporate Strategy 2021 make for natural resource prices?

- A.
- We are maintaining operations that are not unduly influenced by fluctuations in natural resource prices. The assumptions we are using do not differ much from the medium- and long-term market-based forecasts of external institutions.

Q. You have said that you aim to make a clean break from “market-follower” investment practices; what will you change, specifically?

- A. ● Under the current Midterm Corporate Strategy 2018, we managed cash flows at the business group level: the more profit a business group produced, the more it could invest. This system tended to encourage market-following investment.
- Under New Midterm Corporate Strategy 2021, rather than considering investment by business group, we will create companywide plans for investment in growth, and each business group will be allocated to generate cash by selling assets if its underlying operating cash flows are insufficient to fund its investment.

Q. It seems like MC’s ability to break from market-following investment will depend on the companywide portfolio manager—the president. Is that right?

- A. ● Yes.

Q. Could you explain in more detail MC’s investment strategy for the sectors included in the orange box of the business portfolio matrix shown on page 2 of the Midterm Corporate Strategy 2021 presentation materials?

- A. ● Six “services and downstream” sectors make up the orange box of the business portfolio matrix. Of these, the three downstream sectors are close to MC’s businesses in the upper-left six sectors, which constitute MC’s greatest strengths. We are already formulating concepts and advancing other initiatives in these sectors, separate from the three sectors in the services column.
- During the coming three years, we will decide whether MC should enter the three sectors of the services column, including the fields of communications, data assets, and e-commerce. If we determine that there are opportunities in these sectors, we will advance related initiatives targeting 2022 and onward, after Midterm Corporate Strategy 2021.
- However, we do not regard investment in any of these sectors as an absolute given.

Q. Under Midterm Corporate Strategy 2018, your policy was to consider share buybacks for the three-year period as a whole; under Midterm Corporate Strategy 2021, will you take a more flexible, year-by-year approach?

- A.
- We will consider share buybacks for the term of Midterm Corporate Strategy 2018 in light of the operating environment, investment leverage ratio, and other factors as of March 31, 2019.
 - Decisions under Midterm Corporate Strategy 2021 will reflect the results of shareholder returns under Midterm Corporate Strategy 2018, which have yet to be finalized. We will flexibly implement share buybacks when we deem them necessary in light of such considerations as the operating environment and financial discipline (managing the investment leverage ratio, etc.).

Q. What are your aims in reorganizing the business groups?

- A.
- We were aware of big silos between the existing business groups. The reorganization of all the business groups is intended to break down these walls and thereby ensure that we will be able to respond to the changes occurring in the business environment. We aim to change mindsets from “for the Group” to “for the Company,” to bring the entire Company together, and to merge operations where appropriate.
 - Our top priority is to foster reciprocal growth between the Company and its employees, so a fundamental factor behind these reorganizations was stimulating career development throughout MC.
 - We must become a very flexible organization so that we can always adapt as necessary to developments in the external operating environment or business strategies.

Q. You explained that ¥100 billion of the increase in consolidated net income needed to reach the ¥900 billion target will be generated by new investments. As you make investment decisions and allocate cash flows on a companywide basis, what business sectors will you be focusing on, specifically?

- A.
- We will focus on the downstream portion of the business portfolio, specifically, areas related to the Living, Mobility & Infrastructure and Energy & Power Generation sectors. We hope to build a solid portfolio in these sectors that will develop into future core businesses.
 - However, we believe that we can achieve ¥900 billion in consolidated net income by seizing investment opportunities to strengthen and improve the competitiveness of existing business in just the upper-left six sectors of the business portfolio matrix.

Q. Can you give us a general idea of how you plan to allocate cash flows under Midterm Corporate Strategy 2021? At about what level do you expect to maintain the investment leverage ratio?

- A. ● Over the coming three years, we expect to generate underlying operating cash flows of approximately ¥3 trillion, which will fund investment and shareholder returns. Investment will total around ¥3 trillion in maximum. As for shareholder returns, we expect to pay around ¥800 billion in progressive dividends alone, excluding any share buybacks. Any shortages in capital will be filled by selling assets or using borrowings.
- We plan to maintain an appropriate investment leverage ratio of around 30%.

Q. Have you set a specific scale or policy for growth investments in order to realize a value-added cyclical growth model targeting capital gains?

- A. ● Infrastructure and power generation are some of the main areas where we have secured capital gains by reshuffling assets. Our other businesses, however, tend to hold onto assets much too long; this is a pattern we need to break free of.
- In the past, we developed potential growth sources into core businesses over time frames of 10 to 20 years. Going forward, while remaining mindful of the needs of this process, it will be important to speed up the cycle. Doing so through M&A may be an option in some cases.

Q. One of your goals is to grow corporate value; did you consider defining this goal in terms of EPS or other indicators?

- A. ● We recognize the importance of EPS. However, we are using ROE, which is widely understood, and the investment leverage ratio, which expresses the ratio of equity to liabilities and the extent to which equity covers risk, as our indicators. Managing our businesses with these two indicators in mind should cause EPS to go up, so I think that expressing our target in terms of ROE and the investment leverage ratio, rather than EPS itself, is clearer for investors.

Q. Why did you include digital strategies in Midterm Corporate Strategy 2021?

- A. ● Part of the Digital Strategy Department's role will be creating new businesses, but we are seeing examples of operations that do not digitize being left behind in existing businesses, so we expect the department to provide support on that front, as well. We took this approach not so much to secure new returns through digitization; the main driver was our belief that unless we advance digitization on a companywide basis, our existence in the market will fade out.

Q. I'd like to hear President Kakiuchi's thoughts on the goal of "Improved ROE," as shown on page 4 of the Midterm Corporate Strategy 2021 presentation materials. Also, do you have any concrete targets in mind with regard to maintaining and improving ROE?

- A. ● ROE is impacted by both profit and equity, so it is difficult to set specific targets. At the very least, we aim to increase ROE from the current level of 11%, but we hope to aim higher.
- We chose the goal of "improved ROE" based on the understanding that working to ensure that our share price reflects our businesses' true strength is part of our responsibility to shareholders.

Q. Page 5 of the Midterm Corporate Strategy 2021 presentation materials shows 10 post-reorganization business groups. Of these, four (Industrial Materials, Petroleum & Chemicals, Industrial Infrastructure and Urban Development) are charged with missions of identifying and developing Potential Growth Sources. What role do you expect these four business groups to play?

- A. ● The four business groups you mentioned will have difficult missions, such as identifying potential growth sources by redefining their position in the industries, generating growth by integrating businesses from fresh perspectives and rearranging or restructuring businesses in which further growth is unlikely.

Q. Regarding shareholder returns, as mentioned on page 9 of the Midterm Corporate Strategy 2021 presentation materials, if MC achieves net income of ¥900 billion in fiscal 2021, can we expect a dividend payout ratio of 35%, for a per share dividend of ¥200?

- A. ● We want to achieve both ¥900 billion in consolidated net income and a payout ratio of 35%; taken together, that would work out to a per share dividend of ¥200 yen.
- Based on the understanding that steadily increasing dividends is positive for our share price, we have maintained a progressive dividend scheme for the past three years, and we promise to do the same over the coming three years.

Q. Are there any examples of past initiatives that fit into the value-added cyclical growth model of Midterm Corporate Strategy 2021?

- A. ● In the past, we made one company a consolidated subsidiary, but later, we determined that MC's potential to support it through greater involvement was limited and reduced our stake, making it an equity-method affiliate again. There are many examples like this, in which MC has adjusted the degree of its involvement over time according to the extent to which it could meaningfully support the company.
- Ultimately, whether or not MC can contribute to the growth of the company is the key factor.

Q. MC has recorded one-off losses related to Chiyoda Corporation of ¥55 billion in the first half of fiscal 2018. Can we expect that there will be no more similar losses from now onwards?

- A. ● Chiyoda Corporation is a publicly listed company, so please direct inquiries there.

Q. Chiyoda Corporation's net assets will be negatively impacted by large one-off losses. Is there any possibility that MC will provide support in this area?

- A. ● MC will decide how to proceed after learning about the causes of the losses in more detail.

Q. Are construction and other aspects of the Cameron LNG Project progressing as planned?

- A. ● We plan to commence production and shipments in 2019.

Q. As MC's liabilities have decreased and its equity increased, its WACC has risen. You mentioned that MC will maintain its investment leverage ratio at around 30% under Midterm Corporate Strategy 2021; should we interpret that you will not reduce liabilities any further?

- A. ● We believe that 25% to 35% is an appropriate level for the investment leverage ratio, so we will manage between these levels.

Q. Regardless of whether or not the consolidated net income target of ¥900 billion is achieved, I hope that MC will maintain its investment discipline and pursuit high yield profit.

- A. ● MC exercises strict investment discipline, and we do not intend to change this approach. The ¥900 billion figure is what MC should be able to achieve earning ¥100 billion from investments if it has around maximum of ¥3 trillion cash allocation for investment.

Q. Regarding HR system reforms, as shown on page 8 of the Midterm Corporate Strategy 2021 presentation materials, the systems for providing incentives to employees seem attractive, but what kinds of problems, specifically, are you trying to solve with these changes?

- A. ● Growing numbers of mid-level and young employees are being assigned to work at operating companies. In some cases, such employees are participating in management while still in their 30s, so the situation on the ground is beyond what our present systems provide for.
- We are thus aware that our existing systems are not up to the job of adequately evaluating such employees. Going forward, by implementing mechanisms to evaluate employees as objectively as possible, factoring in such things as the difficulty of specific duties, we aim to better promote employee growth.