Q&A at Investor Meeting
Financial Results for the Six Months Ended September 2023

Date:	Thursday, November 2, 2023,14:15 to15:00	
Presenters:	Katsuya Nakanishi:	Representative Director, President and Chief Executive Officer
	Yuzo Nouchi:	Representative Director, Executive Vice President, Chief Financial Officer
	Kenji Kobayashi:	Senior Vice President, Chief Stakeholder Engagement Officer
	Yoshihiro Shimazu:	Senior Vice President, General Manager, Corporate Accounting Department

＜Q&A＞

Q. What caused the decrease in profit in the MDP business in the second quarter compared with the first? Also, given that you have not changed the full-year forecast for the Mineral Resources Group despite the recent increase in metallurgical coal prices, to the extent that you can, could you tell us about your price and volume assumptions?

A.

- The main reason that profit was down in the second quarter (July to September) from the first quarter (April to June) was a decline in production volume mainly attributable to planned plant maintenance. Although metallurgical coal index prices have recently been rising, they were relatively low through the first half of the fiscal year. We took into consideration these price and production volume conditions in setting the assumptions for our full-year forecast.
- The MDP business often sees a decline in revenues from the first quarter to the second. One reason for this is a major planned maintenance in BMA mines usually conducted in the second quarter (July to September), resulting in lower production.
- This maintenance had already been factored into our initial plan, but there was also an unexpected temporary stoppage in one of the mines. On top of lower production, rising costs also affected in weaker financial results for the second quarter compared to the first. However, overall performance for the first half is basically on track toward our forecast for this fiscal year.

Q. According to the slide explaining the progress of Value-Added Cyclical Growth Model, the single-year profit improvement will reach approx. ¥100.0 billion by the final year of Midterm Corporate Strategy 2024. Will it be achieved mostly by reducing deficits, or by improving earnings in businesses you continue to hold? Could you name a business which was sold or whose earning was improved for the ¥30.0 billion improvement in the fiscal year ended March 2023?

A.

- The objective of this management system is to increase capital efficiency by improving earnings from negative-EVA businesses (including those presenting accounting losses) or divesting those businesses where improvement opportunities are limited. As for the breakdown of the resulting profit improvement, approximately half of the ¥30.0 billion improvement in the year ended March 2023 was from reducing accounting losses through divestment, while the other half was mainly from improving earnings. We refrain from naming specific businesses that were divested under this plan.
- As for the Value-Added Cyclical Growth Model, we have been holding progress review meetings since the start of Midterm Corporate Strategy 2024. From this fiscal year, we have intensified monitoring the progress of each Business Group's initiatives by setting up a specialized team and letting them manage the progress on a monthly basis.
- Toward the single-year profit improvement of ¥100.0 billion, we will work to increase earnings from the businesses we continue to hold, by reviewing the business plans annually and examining effective measures to secure positive-EVA. As a result, we expect an increase in the portion that comes from improving earnings in businesses we continue to hold.

Q. Regarding the ¥30.0 billion upward revision to the forecast for annual consolidated net income, you explained that the impact of foreign exchange would be approximately ¥50.0 billion, but how great will the impact of foreign exchange be across all currencies, including Australian dollar cross rates?
In the "Others" segment, what is the nature of provisions for concerns over possible future losses? Are they proactive provisions for the possible loss related to the Value-Added Cyclical Growth Model, or are they a response to the accelerated deterioration of existing assets resulting from a worsening external environment?

A.

- The aforementioned ¥50.0 billion is the estimate of the total impact of foreign exchange, including that of the Australian dollar.
- In the "Others" segment, we have taken into account all currently expected factors, including provisions set aside due to changes in the external situations in multiple businesses, and the possible loss that should be considered as we advance the Value-Added Cyclical Growth Model. We will maintain our stance of securing provisions as appropriate in light of concerns over possible future losses.

Q. The progress of the Value-Added Cyclical Growth Model seems to be the most important indicator for understanding the result of management efforts without the effect of the changes in external environment. Assuming this year's progress review meeting has already been concluded, I'd like to ask for Mr. Nakanishi's takeaway from the last two reviews. Also, one of your graphs shows annual profit improvement of ¥30.0 billion in the fiscal year ended March 2023 and ¥100.0 billion in the fiscal year ending March 2025;

quantitively speaking, what level of improvement do you expect for the year ending March 2024?

A.

- The results of the progress review meeting gaveme confidence in the progress that we have made so far regarding the approximately 160 businesses under review for "replace or improve."* Negative-EVA businesses (including those presenting accounting losses) that are not meeting the internal hurdle rate will be the target of reinforced management efforts, mainly with regard to cost reduction. Loss-making businesses with limited growth potential need to be divested. Businesses that are currently profitable but seeing slowing growth are also included in this review. If the potential for MC to contribute to its growth has become limited considering the overall business life cycle, divestment with optimized capital gain may be seen as the best choice.

  * These businesses fall under the pale-yellow sectors of the Value-Added Cyclical Growth Model diagram at the top left of page 5 of our Results for the First Six Months of FY2023 Presentation Materials (hereinafter "Presentation Materials").
- The profit improvement from these initiatives was approximately ¥30.0 billion in the fiscal year ended March 2023. By further advancing the Value-Added Cyclical Growth Model, we estimate the effect of profit improvement will reach approximately ¥100.0 billion in the fiscal year ending March 2025.
- As for the profit improvement in the fiscal year ending March 2024, efforts are currently ongoing, but from dialogue with the Business Groups at the progress review meeting, we are seeing significant potential for earnings improvement through divestment or continued management efforts. As such, we expect a profit improvement on par with that of the fiscal year ended March 2023. To be clear, this profit improvement in the fiscal year ending March 2024 will be on top of that achieved in the fiscal year ended March 2023.
- The profit improvement includes capital gains from asset replacement. * It is worth mentioning that, although we expect the sale of two BMA coal mines in the fiscal year ending March 2025, these mines do not fall into the category of "businesses of which ROIC does not meet the industry standard and/or growth potential is limited," and the capital gain from this sale is not included in the expected profit improvement shown here.

  * The figure for profit improvement in the fiscal year ended March 2023 includes capital gains from asset replacement, but the figure of approximately ¥100.0 billion on page five of the Presentation Materials (the improvement for the fiscal year ending March 2025) represent profit improvement mainly from 1) reduced deficit through divestment and 2) improved earnings from businesses determined to be retained.

Q. I get the impression that Mitsubishi Corporation takes a relatively cautious stance toward investments. Have you been able to secure profitability on your investments that are currently under way? EX is becoming a red ocean field, and some potential investments offer low ROI. Do you feel that you will have to invest even in low-ROI projects?

A.

- Our investment pipeline is shown on the rightmost column on page 6 of the Presentation Materials. This column lists specific projects or business fields currently under consideration in the investment areas designated under our growth strategy as "Maintain/Expand Earnings Base," "EX-Related" and "DX/Growth-Related Investment."
- We do not move ahead with an investment if doing so means sacrificing profitability. We make investments for which we can secure profitability after considering contingencies and other factors. There may be cases in which, upon the start of operations, ROI ends up being lower than expected when the investment decision was made. In such cases, we will carefully monitor said investments in line with the Value-Added Cyclical Growth Model and work to improve profitability organically.

Q. I have two questions about the ¥30.0 billion upward revision to the annual forecast. First, it would seem like you could raise the full-year forecast for the Mineral Resources Group, given the impact of foreign exchange and other factors, but you have not. Could you explain the reason behind this in more detail? Second, were there any changes in the assumption of "Others" segment besides the new inclusion of concerns over possible future losses?

A.

- As you pointed out, we have not changed our annual forecast for the Mineral Resources Group. While metallurgical coal prices are currently rising, and the depreciation of the yen does positively affect our revenues, planned maintenance as well as some unanticipated factors negatively impacted production volume in this second quarter. We are also experiencing unfavorable conditions in the current mining area and an increase in costs. Considering these and other factors, we decided not to change the annual forecast. We will refrain from commenting on price forecasts for the second half of this fiscal year.
- As for the "Others" segment, at the start of the fiscal year we included a Company-wide risk buffer of ¥20.0 billion. We are now halfway through the year, so we have amended this to ¥10.0 billion. From there, we factored in new concerns over possible losses, resulting in net decrease of ¥29.0 billion to the annual forecast.

Q. What kind of impact on earnings do you expect from the recent U.S. dollar interest rate hikes and possible yen interest hikes going forward?

A.

- U.S. dollar interest rate hikes do affect our interest payments, but we expect a commensurate increase in earnings from the asset side, offsetting most of the impact of increased interest payments.
- However, we are wary of the possibility of an economic recession due to various industries getting negatively impacted if the U.S. dollar interest rates remain persistently high over the long term.

Q. Although there are many projects in the pipeline, investment cash-ins are currently surpassing new investments. What is your outlook for net investing cash flows, or for adjusted free cash flows going forward? Remaining cash could lead to an excessive decline in leverage, so I would like to better understand the gap between investment progress and plans.

A.

- The investment pipeline on page six of the Presentation Materials shows businesses for which considerations have moved forward over the year and a half since we announced Midterm Corporate Strategy 2024. I feel that we are starting to see potential New Seeds of Growth emerging. Also, this pipeline is not exhaustive; we have projects under consideration in the area of "Creating MC Shared Value," on top of these projects within EX and DX strategy.
- The significant progress of investment cash-ins is partly a result of the Value-Added Cyclical Growth Model functioning as intended, but we must also maintain the balance with investment cash-outs. Having said that, we will not make it our goal to spend the amount of money that we have laid out in our investment plan. We will carefully select projects to spend our money on within our investment discipline and carry out shareholder returns as appropriate depending on our cash flow situation. This policy has not changed.

Q. I understand that, in your annual forecasts, you usually factor in the capital gains of several tens of billions of yen coming from asset recycling. Given this, how sustainable is the single-year profit improvement target of ¥100.0 billion shown on page five of the Presentation Materials? As some business models produce steady capital gains, is the ¥100.0 billion in profit improvement telling us that you will raise the average level of capital gains going forward?

A.

- Strictly speaking, capital gains from asset replacements fall into two categories, as described on page five of the Presentation Materials: "1 Strategic rebalancing of business portfolio," and "2 Increasing capital efficiency through asset replacement and earnings improvement." The former refers to strategic divestments like the two examples listed here, while the latter refers to capital gains from divestment of businesses that may still be somewhat profitable but has limited potential for further growth.
- The ¥100.0 billion profit improvement is the currently estimated effect from reducing deficits or improving the earnings of businesses whose profitability is low relative to their industry standard (including businesses that are in the red) and businesses with limited growth potential. Ensuring that businesses' returns exceed our internal requirements and strengthening the portfolio will result in fewer businesses being subject to this review, so we do not expect these improvements to continue increasing indefinitely.
- Capital efficiency improvement is one of the overarching concepts of Midterm Corporate Strategy 2024, and the Value-Added Cyclical Growth Model is a tool we have adopted to promote it. Please see this as the reflection of the Company's stance to continue working on profit improvement.

Q. Increasing business uncertainty and the depreciation of the yen are driving investment hurdles higher. Your stance of proactively setting aside provisions for risks is apparent. Given that you are still slightly less than 50% of the way toward reaching your investment target of ¥3 trillion, do you have a similarly risk-avoidant stance toward investment?

A.

- While it's true that the depreciation of the yen has been greater than expected and that CAPEX is rising, our strength for earnings has been also growing, as you can see in the accumulation of free cash flows since the previous fiscal year. We believe that both defense and offence are important, and if we find good investment opportunities, our stance is to proactively take on appropriate risks to seize them, even beyond ¥3 trillion. Again, our goal is not to spend a certain amount of money, but to spend it wisely.

Q. In the MDP business, it was reported that the Peak Downs coal mine had to temporarily halt operation in September due to problems. Has the impact of this halt already been eliminated in the first half of the year, or has it been factored into the second half plan in terms of lower volume and higher costs?

A.

- We do not disclose forecasts for production volume, but I can say that the impact from the mentioned stoppage of operations that occurred in the first half of the fiscal year has already been dealt with for the most part.

Q. In DX/Growth-related investment, you have invested approximately ¥0.1 trillion to date, compared with your planned investment of approximately ¥0.8 trillion over three years. What are your thoughts on progress in this area? Also, can you tell us about any specific examples of effects from DX-related investment that have come to fruition?

A.

- Broadly speaking, there are two types of DX-related investment. The first is digitalization to reduce costs, and the second is to create new services based on data collection and analysis.
- As for DX-related investment, we are working to improve business yields by promoting more efficient operations and leveraging our consolidated subsidiaries like MC Digital and Industry One.
- Regarding the data center business, as a major initiative for Growth-related investment, we are considering investments not only in Japan but also overseas. Our data center business has an urban development aspect, and we not only build the data center buildings, but also set them up, including handling power supply and waste heat measures. This requires development capabilities, including land acquisition, and the business itself is growing rapidly as demand for data center construction is increasing in response to the growing volume of data processing, including the recent rise of generative AI. Since this business model derives from the real estate and urban development business, which is our area of strength, we have an accumulating project

pipeline for the remaining period of Midterm Corporate Strategy 2024, and will be actively advancing this business while securing returns.

- Furthermore, in urban development, new community development-related projects that leverage digital technologies, such as smart cities and smart towns, are emerging, and we are advancing considerations of overseas projects.