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Earnings Briefing Q&A
FY2024 Q2

Date and Time:	Friday, November 1, 2024; 14:00 to 14:50	
Presenters:	Katsuya Nakanishi:	Representative Director, President and CEO
	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. Although the overall full-year forecast for Mitsubishi Corporation (MC) remains unchanged, breakdown by segment has been revised. There is an impression that the forecast for FY2024 Q3 & Q4 is low, especially in the Mineral Resources segment which is projected to generate only about ¥19 billion in net income during the second half of FY2024. Could you please share the details behind this forecast? From an external perspective, it would only make sense if Mitsubishi Development Pty Ltd (MDP) is projected to fall to unprofitable levels due to deteriorating market conditions. Given that the market assumptions for metallurgical coal have not been disclosed, could you elaborate a bit more on the numbers behind the Mineral Resources segment's forecast?

A.

- As explained during the press conference, market prices for metallurgical coal are much lower than we initially anticipated. We should expect low metallurgical coal prices to continue to some extent during the second half of FY2024 due to steel exports from China. However, we do not anticipate that MDP will be unprofitable during this period.
- Copper market prices in the first half of the fiscal year exceeded our initial forecast. The market outlook for copper and iron ore is as presented in our FY2024 Q2 earnings material. We expect a certain level of profit from the copper and iron ore businesses, which we have reflected in our FY2024 Q3 & Q4 forecasts for the Mineral Resources segment, and there are no significant one-time items within this forecast.

Q. Is it correct to assume that if the current market conditions for metallurgical coal prices remain unchanged, the Mineral Resources segment will only generate net income of approximately ¥40 billion in the next fiscal year?

A.

- We cannot disclose our assumptions for FY2024 H2 metallurgical coal prices, but it is possible that profit levels will remain low based on market conditions, which could be affected by external and other factors. However, the buildup of raw coal inventory is steadily progressing, and although the return to normal production levels will still take some time, we are hopeful that these efforts towards the recovery of production volumes will progress smoothly into the next fiscal year.

Q. Regarding the investment cash in/cash out shown on page 7 of the earnings presentation, there is a significant decrease in cash due to Lawson becoming an equity method affiliate. The 2024 Midterm Corporate Strategy's latest shareholder returns forecast for the three-year period stands at ¥2.1 trillion, while the actual adjusted FCF for that same period stands at ¥2.2 trillion, which seems to indicate that there is not much room for additional shareholder returns. Is that correct?

A.

- Lawson becoming an equity method affiliate did lead to a decrease in cash, but as stated on page 7 of the earnings presentation, the latest forecast for potential additional investments and shareholder returns remains unchanged at approximately ¥0.4 trillion. Given that some investments are expected to be made in the next fiscal year, this does not necessarily mean that all excess cash will be used during the current midterm period, but as a current projection, you can understand that the excess cash allocation is approximately ¥0.4 trillion.

Q. There is apparently a significant difference in the net income for the Mineral Resources segment between H1 and H2 of this fiscal year. Even excluding non-recurring gains and losses, a significant difference exists between the ¥108 billion in H1 and the ¥20 billion in H2. How does each business, namely, copper and metallurgical coal respectively, contribute to such an imbalanced profit plan?

A.

- The metallurgical coal business posted a profit of approximately ¥130 billion in H1. If we exclude the gains from the divestiture of the two metallurgical coal mines (approximately ¥90 billion), this would be approximately ¥40 billion. We believe we cannot be optimistic for the latter half of the fiscal year as the market prices for metallurgical coal have been declining considerably, and as a result, we need to be prepared to see some decline in profit.
- The copper business generated profit of approximately ¥40 billion in H1. We expect to post some profit in H2 as well, but market conditions are not expected to be as favorable as they were in the first half of the fiscal year. While we do not seek to be overly conservative, we cannot be confident that H2 profits will be as high as H1.
- As for iron ore, we anticipate lower profits in H2 compared to H1, due to recent declines in iron ore prices.
- As a result, although MC as a whole has maintained its full-year forecast of ¥950 billion, the forecasts for some segments have been revised. In prior years, when we have maintained the overall forecast, we have not disclosed the individual segment's revised forecasts. However, this time we chose to disclose them to provide a clear explanation of how the overall full-year forecast was maintained.

Q. Even if we assume profits from the copper and iron ore businesses will not be as high as they were in H1, unless the metallurgical coal business is expected to record a loss in H2, the numbers do not add up to the total forecast of the Mineral Resources segment. In your earlier explanation that MDP will not record a loss, was that referring to the full-year forecast or H2?

A.

- The forecast for the metallurgical coal business assumes profitable levels for the full year. However, even if we only look at H2, we expect that the business will not be unprofitable.

Q. What is the cash flow allocation approach for the next midterm plan? It is my understanding that the current midterm plan assumes a gross investment of ¥1 trillion per year and divestitures of approximately ¥700 billion per year. Assuming that there are attractive opportunities in the investment pipeline, is there a possibility that the gross investment amount for the next midterm plan may be higher than the current one? If so, how significant could the scale of asset divestitures be? Also, could you share any updates in relation to the CFO's comment regarding leverage which was made during the FY2023 Q4 earnings briefing?

A.

- We are still in the midst of formulating the next midterm plan, so we can only give you a rough idea of these ongoing discussions. We expect to see approximately the same level of cash-in from divestitures as the current midterm plan. Underlying operating CF will depend on the profit levels of the next midterm plan, and we need to further review if the same level as the current midterm plan is achievable. The current midterm plan assumed that we would generate underlying operating CF of ¥1 trillion per year. Currently, we are exceeding our initial plans, and we would like to generate about ¥1 trillion of underlying operating CF under the next midterm plan as well.
- MC's financial soundness has been improving, and we should be able to utilize more leverage in the next midterm period. As a result, we believe that we will be able to secure the same level of cash out capacity for new investments as the current midterm period, or perhaps more, subject to further review.

Q. I understand that the use of leverage is being considered for the next midterm plan. However, how you compare this with the current midterm plan will depend on the recovery of the metallurgical coal business, as this would impact the underlying operating CF considerably. If we assume that underlying earnings currently stands at only ¥700 billion approximately, and this only recovers gradually in the next three years, then the underlying operating CF will likely not be as high as that of the current midterm plan. If that is the case, is there a chance that you would be utilizing leverage to maintain (or exceed) the current level of investments and shareholder returns, while raising the ROE target from the current double-digit target? Is this something that is being discussed?

A.

- Detailed discussions are currently underway regarding how we maintain and improve profit levels in the next midterm plan, and we cannot disclose any details at this time.

- While we cannot comment on the expected level of underlying operating CF for the next midterm plan, we believe that there is room to use leverage to mitigate the decline in underlying operating CF to some extent, even if underlying operating CF were to only slightly decline in the next midterm period.

Q. I'd like to ask a bit more in detail about the individual segment's revised forecasts, especially the Mobility and Power Solution segments, whose initial forecasts remain unchanged. Earnings declined significantly from the previous year in the Mobility segment, particularly in Southeast Asia. In the Power Solution segment, although it is difficult to estimate, I assume Eneco is one of the major drivers for the decline in earnings. While I am aware that there is some seasonality in the earnings of these businesses, I would like to confirm if the H1 results for these two segments are in line with your expectations.

A.

- As explained previously, we expected the Mobility segment to have a challenging year when we originally set our initial full-year forecast. Looking at the results for H1, some areas were in line with our expectations, but others, particularly the Tri Petch Isuzu Sales Co., Ltd. (TIS) business in the ASEAN region, faced very difficult market conditions which were outside our original assumptions. This is largely due to the continuing difficulty in customers obtaining financing, which is not unique to just TIS, rather, it is a common issue in the Thai market. Although we hope to see a recovery in this area, we had originally expected the situation to be a bit protracted, so we are not far off from our initial assumptions.
- On the other hand, because some businesses have improved more than expected, results for the entire segment in H1 were close to being on-track. Looking ahead to H2, we do not anticipate a significant improvement in market conditions, and the outlook remains very uncertain. Nevertheless, we believe it is possible to achieve the full-year forecast, so we have left it unchanged.
- As for the Power Solution segment, Eneco's H1 results were weak when compared to H1 of the previous fiscal year, but as we explained at the time, the overachievement in last year's performance was one-off. Eneco's traditional pattern has been to earn almost all of its full-year's profits in Q4, remaining loss-making until that point in the year. Therefore, Eneco's results for FY2024 H1 were mostly in line with our expectations.

Q. The ¥100 billion effect of asset replacement and earnings improvement in the Value-Added Cyclical Growth Model (effect of profit improvement against the FY2021 baseline) seems to be partly based on an optimistic assumption, making it difficult to accurately confirm how the effect will manifest. While there are positive and negative effects due to market conditions and other factors affecting your measures to strengthen underlying earnings, is it correct to assume that the effect of this improvement will materialize in the form of increased earnings this fiscal year and will remain in place in the next fiscal year, i.e. a driver of increased underlying earnings?

A.

- To execute the Value-Added Cyclical Growth Model, we identified 160 companies to either divest or improve. The performance of these companies was then monitored and tracked.
- The profit improvement of ¥100 billion, which is stated in the material, was calculated based on comparisons between the FY2021 results recorded by these companies and their FY2024 consolidated net profit forecasts. This calculation aggregates all actual incremental increases and decreases in profit achieved by each company. Accordingly, it does not include, for example, the revaluation gain on Lawson's reclassification to an equity method affiliate. Although we cannot disclose the actual breakdown, this number represents the cumulative actual incremental profit improvement or decline, in each business.
- Of the ¥100 billion profit improvement achieved in FY2024 compared with FY2021, profit improvement in existing businesses account for approximately 60%. Other factors include the impact of divestitures of non-profitable businesses. In any case, the profit improvement will amount to around ¥100 billion. We consider this achievement as one of the outcomes of the Value-Added Cyclical Growth Model, and we believe that this will prevail going forward. However, we will not be content with merely achieving ¥100 billion in improvement, and accordingly, we will continue to work on this.

Q. I would like to hear the President's thoughts on profit growth. The timing of MC's return to annual profits of ¥1 trillion will indeed be affected by changes in the external environment, like the negative impact mentioned earlier in today's press conference from recent developments in China. I got the impression that MC is less confident than before about the timing of its recovery to this profit level. There will obviously be uncertainties going forward, but I would like the President to elaborate on how MC aims to achieve profit growth through its own efforts and improve corporate value. For example, are there any specific, potential strategic M&A that would increase the likelihood of inorganic growth? As I found the President's previous statement somewhat ambiguous and unclear, I would like him to provide a hopeful message toward achieving profit growth or share a glimpse of his vision regarding what MC aims to achieve in the course of the next midterm plan.

A.

- Although it was stated earlier by one of the attendees that MC's underlying earnings is around ¥700 billion per year, I don't think that this is the case. While the full-year forecast for FY2024 now amounts to ¥950 billion, the simple subtraction of gains on the divesture of two coal mines and reevaluation gains related to Lawson will result in approximately ¥750 billion. This can be broken down into ¥300 billion from the resource businesses and ¥450 billion from the non-resource businesses. In the previous fiscal year, non-resource business profit amounted to nearly ¥500 billion. Although we have maintained the forecast for non-resource businesses at around ¥450 billion due to weaker performance in the Mobility segment (particularly TIS), we believe that the underlying profit of these businesses is ¥500 billion.
- As for the resource businesses, although uncertainties persist in the Chinese economy,

the annual volume of steel exports from China is expected to reach 110 million tons (in FY2024), which is approximately a 40 million ton increase from the previous annual average of 70 million tons (recorded between FY2017 and FY2022). This has a considerable effect on our business and we will continue to pay close attention to metallurgical coal price trends.

- As for our existing businesses, we need to further increase the numerator of ROE and ROA. We have been implementing measures to replace or improve the performance of the 160 companies that do not meet their required return rate. However, we have approximately 400 subsidiaries across MC, and even if we exclude special-purpose companies, there are effectively about 270 subsidiaries. We do not intend to leave the companies that meet the required return rate as-is, rather, we need to further improve their performance. We believe it is essential to improve the figures in the short-term, and we are currently looking into investments that could increase the numerator without substantially increasing the denominator.
- We recognize that our resource businesses tend to grow substantially once a tailwind emerges. With regards to our non-resource businesses, we would like to seek large-scale M&A deals that would enable MC to achieve inorganic growth. Although I repeatedly stated my intention to disclose any promising deals as early as possible, we are not yet in a position to do so as potential deals at hand are not at that stage yet. Amid an environment affected by inflation and interest rate hikes, we are being cautious with regards to the timing of each M&A deal to avoid making acquisitions at a high price. That said, we have a robust investment pipeline, and aim to leverage it to execute M&A at the right time and price to achieve profit growth.
- As for the metallurgical coal business, production volumes and prices are the key factors. As we have stated since last year, production volumes will eventually return to normal levels, even though it may take some time. Therefore, the remaining factor of this business is market price trends. In addition, we believe that by closing large-scale M&A deals in the non-resource businesses, we will start to see our financial results coalesce at around FY2027. Of course, we know that any acquisitions we make will not immediately contribute to our consolidated net income. We believe that we will be able to achieve profit growth by executing robust post-merger integration and by operating the acquired business in a way that fully leverages MC's strengths.
- We will take a serious approach to assessing the ROE and ROA of each of our respective companies over the course of the next year or two in a more comprehensive manner, regardless of whether or not they have met their required return rate. We believe that this will enable us to achieve a profit level of ¥1 trillion without any problem.

Q. Regarding the utilization of shareholders' equity, I understand that you are not content with the FY2024 ROE forecast of 10.4% as of Q2. In fact, you stated at the press conference earlier that you intend to improve the ROE target, which is currently set at "two-digit ROE". Meanwhile, the investment leverage ratio stands at 14.9% at the end of Q2, which is below the guidance range of 30% to 40%. We understand that your top priority is to increase ROE by improving profitability, but given these circumstances, we believe that you must seriously consider an adjustment to shareholders' equity. Could you share with us your

current thoughts on how to approach the denominator of ROE in order to achieve a higher ROE, including whether the use of leverage could result in greater shareholder returns?

A.

- I assume that you want to confirm if we would consider capital adjustments for the purpose of improving our ROE. ROE is an important KPI for us and we aim to achieve a robust ROE both in the short and the medium to long-term. MC's management team is mindful of this. In terms of how we distribute our profit, our focus is on increasing the numerator of ROE. This will be the priority when we think about MC's future growth, while maintaining our fundamental approach to shareholder returns.
- Although it is not an easy task, our focus is to raise the profitability of existing businesses. Also, it may not yield quick results, but we need to implement measures that are instrumental to raising ROE over the medium to long-term, such as sustaining capex, expansion investments and acquisition of additional interest in existing projects. That being said, the success of these initiatives will also be affected by the availability of the right investment opportunities at the right time. Therefore, we may also consider shareholder returns such as share buybacks as a viable option, which may consequently have the effect of capital adjustment. We will give comprehensive consideration to these factors described above, to determine what the best way is to improve ROE over the medium to long-term.

Q. Kobayashi CSEO, in the 2024 Integrated Report, you closed your message by stating that "[you] would like to consider introducing measures that are more focused on the capital market in the course of formulating the next midterm plan." Could you elaborate on what you meant by this?

A.

- This statement can be taken at face value. Our ROE target under the next midterm plan is currently under discussion. We are not content with barely achieving a "double-digit figure" and want to aim higher. In determining our target, we must take into consideration the capital market's view on MC, and its expectations towards our ROE. That is what I wanted to convey in my message.
- As explained by Nouchi CFO, we are focusing on using our cash flow to maximize our medium to long-term growth through the generation of robust profit, or in other words, by increasing the numerator of our ROE. At the same time, we will make sure to incorporate feedback from the capital market in our capital policy, and take a balanced approach (towards the growth of our ROE and shareholder returns). Those were the thoughts behind my message.

Q. To get a better understanding of the numerical results, could you please once again explain the gains and losses recorded in H1 for the metallurgical coal business, excluding non-recurring items?

A.

- While gains recorded in FY2023 H1 amounted to ¥84.3 billion, gains in FY2024 H1 totaled ¥137.1 billion, resulting in a year-on-year increase of ¥52.8 billion. However, this includes ¥90 billion of proceeds due to the divestiture of two coal mines in the first half of

FY2024. Therefore, when proceeds from this divestiture are excluded, the year-on-year comparison shows a ¥37 billion decrease in profit. If we were to further break this down, the primary components include [1] a ¥21 billion decrease due to the absence of the profits from the two divested mines, [2] a net decrease of approximately ¥12 billion due to reduced sales volumes and cost reductions, compared with FY2023 H1, [3] a decrease of around ¥8 billion due to price fluctuations, and [4] an approximately ¥4 billion increase due to other reasons including the depreciation of the yen.

Q. On page 13 of the earnings material, it is stated that non-recurring gains/losses attributable to capital recycling shall be designated "capital recycling gains/losses" instead of referring to them to as non-recurring gains and losses, as these items are expected to recur, to some extent, on a regular basis due to the implementation of the Value-Added Cyclical Growth Model. Please elaborate on the background of this categorization and inform us of the frequency that MC expects to record these gains and losses. For example, could you give us a quantitative view on the "capital recycling gains/losses" that can be expected during the current midterm period? I'd like to know the approximate numerical forecast. In addition, to what extent do you expect to accelerate the recording of these gains in the course of the next midterm period?

A.

- Looking at our past track record, gains/losses attributable to capital recycling have been, to some degree, recorded on an ongoing basis while we have been strongly focused on growth through the Value-Added Cyclical Growth Model, although not necessarily consistently every year. Accordingly, we decided that collectively labeling all these items as non-recurring gains and losses could be misleading. That's why we have separated them from one-time items.
- In order to differentiate these items from conventional one-time gains and losses, our earnings material provides their detailed breakdown. Moreover, we've tried to give enough details to our readers to evaluate these items as part of conventional one-time gains and losses if they wish. Our intention is to clarify the volume of gains and losses arising from capital recycling. In our conventional definition of one-time gains and losses, gains and losses from asset turnover-type businesses such as real estate and certain areas of the power business were previously not classified as non-recurring gains and losses. Going forward, we will categorize these items as "capital recycling gains/losses".
- Capital recycling gains/losses amounted to around ¥260 billion during FY2024 H1. In comparison, similar gains included in past annual operating results range from about ¥100 to ¥200 billion. Although the amount may vary from year to year, we believe that these gains will continue to be recorded as we push forward with our Value-Added Cyclical Growth Model. In other words, we do not intend to set an annual target for capital recycling gains, rather, we expect to enjoy a certain amount of capital recycling gains on a regular basis as a result of the Value-Added Cyclical Growth Model. In this regard, our investors can expect MC to continue recording these gains going forward.