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Mitsubishi Corporation (MC)
Earnings Briefing Q&A
FY2024 Q3

Date and Time:	Thursday, February 6, 2025; 16:00 to 17:00	
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

Q1.

I understand that all losses that could be recognized in FY2024 Q3 in relation to the Japanese offshore wind power business have been accounted for, and that the business plans are now under review. What would be the extent of any potential additional losses, such as penalty fees and other related costs, if MC decides to exit from this business? How could this affect MC's renewable energy business as a whole, or MC's policy of participating in auction processes?

A.

- We have recorded the maximum possible losses that can be recognized in FY2024 Q3. The potential for additional losses will depend on the results of the business review, which we are currently conducting as quickly as possible. While it will depend on the outcome of the business review, we believe that even if there are additional losses, the overall impact on our financial results will be limited. As part of our review process, we are working to determine the extent of any additional losses, including any such penalties.
- Our policies relating to the renewable energy business vary from region to region. Japan recently announced its Seventh Strategic Energy Plan, which is now awaiting cabinet approval. The Japanese government has positioned offshore wind power, alongside nuclear power, as one of the pillars of the renewable energy sector. As we work toward the realization of a carbon-neutral society, some think the transition period will be extended. Therefore, when considering our plans for the renewable energy business, we must take into account all of these factors; the business review of our Japanese offshore wind power business, carbon neutrality trends and the length of the transition period.
- As announced in our latest financial result, there has been a decline in our European energy business compared to the previous fiscal year after Eneco's strong performance last year. However, the business is still generating solid profits. In addition, Google, Apple, Facebook, Amazon and Microsoft (GAFAM) are leading the growing demand for clean, green power, especially in the AI/data

center sector. At some point, we anticipate that clean, green power will become relevant to the data center sector in Japan as well.

Q2.

MC has indicated that the ¥0.4 trillion of excess cash included in the cash flow allocation plan will not be carried over to the next Corporate Strategy period, but will be allocated within the period covered by Midterm Corporate Strategy 2024 instead. However, looking at MC's investment cash-out trends, it seems that the amount will be slightly higher than the projected ¥0.4 trillion figure. In addition, since MC has not yet executed the large-scale investments that the President/CEO has alluded to previously, I'd like to understand more about the current state of MC's investment pipeline. Am I right to assume that the excess cash may exceed the current projection of ¥0.4 trillion?

A.

- We are currently closely examining our investment pipeline in preparation for the next Corporate Strategy. Given the dramatic changes in the macroeconomic environment, we will need to move swiftly in some areas. For example, companies like Microsoft and Stargate have suddenly started to make significant moves into AI/data centers, which were rarely considered as an investment target two or three years ago. We will assess whether there are worthwhile opportunities for us in these areas, and this is an example of the type of projects we have in our investment pipeline.
- Given the amount of time remaining, it is unlikely that there will be any cash outflows during the current Corporate Strategy period in relation to the large-scale investments that we have been considering as potential targets for the excess cash of ¥0.4 trillion. However, there are several projects that are firmly in the pipeline, and we will continue to review new projects as part of considering each businesses' growth strategy.

Q3.

I'd like to know more about MC's Japanese offshore wind power business. I understand that MC has not yet reached the final investment decision (FID) stage for any of the three projects. I assume MC capitalizes various cost items, including preliminary surveys and survey-related construction, but did you decide to write off the full value of these assets as losses for FY2024 Q3, before executing the FIDs, because you are, to some extent, considering an exit from the business? The profitability concerns regarding the Japanese offshore wind power business is becoming apparent not only for round 1, for which MC was the successful bidder, but also for rounds 2 and 3 as well. Based on current trends, it looks like cost inflation adjustments will be needed for round 4 and beyond, and I've heard that the adjustments may need to be retroactively applied to rounds 1 through 3 as well. Is it possible that the profitability of the three projects could recover, depending on how the situation evolves, and will MC reevaluate the business after determining the situation? Can you tell us what is going on regarding your reevaluation of the feasibility of the Japanese offshore

wind power business?

A.

- Infrastructure projects like offshore wind power begin with surveys. Design work proceeds together with progress on the surveys, and we also work on acquiring the necessary permits and approvals at the same time. Only after these steps have been completed do we place orders for major equipment. We have recognized to the fullest extent possible all losses that can be recognized at this point, considering that these projects were still in the development phase, including the treatment of all previously capitalized costs as losses for the three offshore wind projects. In addition to expenditures, which primarily consist of spending on surveys, design, and permits, we also had to make spend commitments, including future expenditures, from the perspective of supply chain sources and other factors, in response to the global tightening of supply chains. While I cannot disclose any details, we included the maximum amount possible of losses related to those commitments in Q3.
- The future direction of our existing Japanese offshore wind power businesses will depend on our ongoing business review. We understand that equipment prices have been temporarily rising faster than the normal inflation rate, not only in Japan but in other countries as well, since the start of round 4. We are currently engaged in dialogue with various stakeholders, through working groups convened by the Agency for Natural Resources and Energy and through our input as business operators. While we cannot disclose any details, discussions are in progress regarding potential changes to system designs and other aspects with the aim of moving toward the realization of a carbon-neutral society.

Q4.

You have maintained your consolidated net income forecast of ¥950 billion, but some of the guidance for individual segments have been revised. Could you provide a little more detail about the reasons for these revisions? The upward changes in the forecasts for the Environmental Energy and Mineral Resources segments seem especially large. What is the reasoning behind these changes?

A.

- The higher forecast for the Environmental Energy segment reflects the cumulative effect of several factors, including strong performance in the Japanese LPG business, as well as a moderate rise in market prices for the North American shale gas business. In addition, we had originally included some development costs for the next-generation energy business in this year’s results, but it now appears unlikely that those expenditures will occur in the current fiscal year.
- We raised our forecast for the Mineral Resources segment to reflect the strong performance of the copper business compared with our initial forecasts, including higher-than-expected dividend income.
- In Q3, we posted impairment losses and other cost items relating to our Japanese offshore wind power projects, but we determined that these can be offset by the upside factors that I just explained. For that reason, we decided to leave our overall forecast unchanged at ¥950 billion.

Q5.

I understand that the latest change to MC's forecast reflects upward adjustments to earlier assumptions of market conditions and other factors for the copper business. However, market conditions for steelmaking coal are currently weakening. The projected prices seem to have been based on somewhat optimistic assumptions. However, when the previous financial results were released, the Company said the return to a steady profit level after the divestiture of two coal mines would take longer than previously anticipated. What are your thoughts concerning the business environment now, and MC's expectations regarding the next fiscal year?

A.

- Global steel prices have stagnated in the current fiscal year due to sluggish domestic demand in China, coupled with record Chinese exports of surplus steel. The impact of this situation had become apparent in the demand of steelmaking coal, with prices struggling to rise to a higher level. The time required for recovery will be determined by multiple factors, including whether domestic demand in China will return to its previous levels, as well as steel demand trends in regions outside of China, such as India and ASEAN. Historically, the Chinese government has taken steps to restore domestic demand by reducing excess production capacity and restricting exports (they took such actions in 2015 and 2016). The current economic and geopolitical climate make it difficult to predict how long the current situation will last, and we are fully aware of the need to base our strategies on the assumption that the business environment will remain challenging.
- Despite this difficult environment, we believe that we can still drive growth in FY2025 by growing our existing businesses. In the past we mentioned that we are reviewing a certain number of our companies for profit improvement opportunities. Going forward, every company will be subject to review for potential improvement. The composition of our financial results for the current fiscal year shows that we were able to fully offset the substantial impairment losses on our Japanese offshore wind power projects, which amounted to over ¥52 billion, thanks to the build-up of profits in our existing businesses. We see this as a positive outcome.
- In the coming fiscal year and beyond, we are determined to achieve a recovery strong enough to offset the downturn in our steelmaking coal business and other areas by generating profits attributable to capital recycling under our Value-Added Cyclical Growth Model, as well as [profits from other areas in] our balanced portfolio. This approach will also be reflected in our next corporate strategy.

Q6.

Looking at the Power Solution segment, the figures for the European company Eneco seem to be very volatile, so what should we anticipate for this business in FY2025 and beyond? With energy prices in Europe shifting significantly and construction of new projects expected to begin shortly, I'd like to hear an update on the overall situation.

A.

- A key factor behind the instability of the European market last year was uncertainty around if Russia would supply gas. Despite this situation, Eneco was still able to achieve a substantial earnings upside from its gas-fired power generation operations (unlike its renewable energy operations). Because of this temporary performance boost in FY2023, the financial results for the current fiscal year appear lower by comparison.
- Although seasonal factors like wind conditions do affect us, Eneco has a robust pipeline that includes an offshore wind power project that is in the final stages of construction and will soon become operational, as well as the repowering of existing projects. While we are not expecting to see a large spike in profits as we did in FY2023, we believe that Eneco will be able to keep its profits at stable levels for FY2024 and FY2025.

Q7.

I understand that LNG Canada is expected to begin shipments this year. Could you give any updates on this?

A.

- LNG Canada has made steady progress, and is expected to deliver its first shipment sometime in the middle of CY2025. We do not anticipate any sizable profit contributions from the project in FY2025, but FY2024 has seen steady progress toward the start of production. Because we assumed that LNG Canada would not start to make significant profit contributions until FY2026, we have stated in previous results briefings that we would steadily complete the LNG Canada project as one of our “Enhance” projects, among our “Reinforce”, “Enhance”, and “Accelerate” steps toward profit stabilization and growth.

Q8.

MC’s automotive businesses in Thailand and Indonesia, as well as DRI (Diamond Realty Investments) and the Quellaveco copper mine, have all experienced significant profit declines compared to FY2023. What is the current situation and what are your turnaround plans for these businesses?

A.

- Our automotive business in Thailand and Indonesia continued to face challenging conditions in Q3. As we explained during the Q2 earnings presentation, both countries have experienced major year-over-year declines in overall demand. Our automotive business in Indonesia is with Mitsubishi Motors, and in Thailand it is with Isuzu. In Thailand, we have continued to face difficult market conditions, particularly because of the downturn in demand in the overall pick-up truck division. As mentioned previously, the main factor that has caused a year-over-year profit decline in Thailand is the difficulty in customers obtaining financing. Given the current situation, it may take until the latter half of FY2025 for this to gradually improve.
- DRI is our North American real estate development business. This business is facing an extremely challenging situation due to the persistently heavy burden of interest

costs for existing projects, as well as the low liquidity in the real estate market. While we anticipate a gradual decline in U.S. interest rates, recent developments indicate that the decline may not be as rapid as expected, which means that rates could remain relatively high for the time being. We will continue to monitor the situation closely, but we expect that a full-scale recovery of buy/sell activity in the real estate market will take a little more time.

- The situation at the Quellaveco copper mine is more of an accounting technicality. While production started in FY2023, certain costs like amortization of development costs were not fully accounted for during the construction phase. As a result, some costs like amortization in FY2023 were lower than in the current fiscal year. This has created a situation in which our profits for the current fiscal year will be lower than in FY2023 due to higher costs, but we are confident that the mine will continue to generate stable profits going forward.

Q9.

I'd like to confirm the plans for cash flow (CF) allocation. I understand that the latest forecast for excess cash is ¥0.4 trillion. Meanwhile, for example, the forecast for underlying operating CF is being revised upward from ¥900 billion to ¥950 billion, and subtracting the actual results from the forecast would lead to an underlying operating CF forecast of ¥180 billion in Q4. If this is added to the actual year-to-date results, then the final total value of underlying operating CF for the current Corporate Strategy period appears to fall short of the planned value, ¥3.5 trillion, by about ¥0.1 trillion. However, if divestitures continue at the current pace, the cumulative amount would be just over the ¥2 trillion divestiture forecast. Moreover, as we just discussed, the possibility of cash outlays for large-scale investments is unlikely during the current fiscal year, meaning that cumulative investments will fall short of the ¥3 trillion planned if it continues at the current pace. All this considered, although MC has said that the ¥0.4 trillion forecast will not be revised, I'd like to confirm whether you actually feel the figure may be a little higher than that.

A.

- To address your last point, we are not necessarily forecasting that there will be more than ¥0.4 trillion in excess cash that can be allocated, but rather, we expect it to be around ¥0.4 trillion. As you stated, underlying operating CF may fall slightly short of ¥3.5 trillion; however, in terms of divestitures, while it is difficult to provide an exact figure due to the number of ongoing considerations, we currently expect divestitures to total around ¥2 trillion. Regarding investments, in the approximately two months remaining in the current Corporate Strategy period, it is unlikely that cumulative investments will exceed our plan of ¥3 trillion, but we do not expect to fall too short of that number either. Although we may have a discrepancy of around ¥100 billion, the ¥0.4 trillion forecast is not necessarily a low estimate.

Q10.

MC's share price has struggled for a while now. What discussions are taking place among the management team to address the situation? In your

explanations so far, we have heard positive stories such as that of LNG Canada. However, MC's steelmaking coal business is struggling, the recovery of the automotive business from the more stringent financing in Thailand is expected to take time, and the challenging conditions presented by high interest rates in the North American real estate business continue. Given these challenging situations, I'd like to ask you as President/CEO to share any thoughts you have for shareholders or a message of where you would like them to focus.

A.

- We are very concerned about our share price. We are currently formulating our next Corporate Strategy for FY2025 onward. In terms of the business environment, the steelmaking coal business and the automotive business in both Indonesia and Thailand are challenging, and I'm sure our shareholders are wondering what we plan to do about it. As I just mentioned, we plan to review and enhance all our existing businesses. Additionally, there are capital recycling gains/losses resulting from our Value-Added Cyclical Growth Model, as well as upsides from strategic M&A (although the possibility of new investments being executed for this in the current fiscal year is low). Our struggling share price is something that we have discussed regularly in the past year. We are fully aware that without discussing what we will specifically enhance, change, or create, we will not be able to earn the capital market's trust. Therefore, in our next Corporate Strategy, by thoroughly communicating these details from a quantitative perspective based on hard figures and data, we hope to gain both understanding and positive expectations from our shareholders.
- I believe there are many factors involved in our currently struggling share price. One is that we have not properly communicated our growth story to the capital markets. We have also not provided clarity on our desired ROE levels or pathways to earnings recovery. We are aware that there are many issues. We are thoroughly discussing these points in our next Corporate Strategy to present it in the best way possible to the capital markets. One point we are focusing on is providing greater clarity on revenue and CF growth. To do so, I believe that explaining our plans to boost the profitability of existing businesses will provide the most clarity. We will focus on this area and discuss it as much as possible in our next Corporate Strategy.

Q11.

MC has recently revised upward its forecast for the Mineral Resources segment by ¥20 billion. The main reason given for this revision was the increase in dividend income from the copper business. However, when looking at the MDP business, it appears that profits increased from Q2 to Q3. I understand that the market was declining from Q2 to Q3, so what improved from Q2 to Q3? I can imagine factors including production volumes, costs, stripping costs, and non-recurring factors, but please share the specific factors. Moreover, please explain whether the ¥20 billion upward revision to the copper business forecast includes the factor of increased profits in the steelmaking coal business.

A.

- As you pointed out, the MDP business was positive in Q3. From the standpoint of market prices, prices were lower than expected in Q3, but production progressed smoothly. As we have explained in previous earnings presentations, the main positive factor is related to the sale of two mines earlier this fiscal year, for which there is a mechanism in place for adjusting the upside based on the actual steelmaking coal sales price. This adjustment will continue for a three-year period, and the adjustment amount will be determined annually (based on actual results). For the remainder of this three-year period, we will reassess the fair market valuation (to the best estimate possible) based on future market outlook for accounting purposes. Because this adjustment increased by around ¥8 billion in Q3 (compared to Q2), it was a significant driver of the increased profits in the MDP business for this quarter. As such, the steelmaking coal business [excluding this revaluation gain] was not a factor in the current ¥20 billion upward revision.

Q12.

I'd like to know the background behind the decision not to retain free cash flow (FCF) after shareholder returns (not to carry over FCF into the next Corporate Strategy period). Was the fact that MC's share price has been persistently struggling a factor in the decision? I understand that it was probably a comprehensive decision based on multiple factors, but could you share more detail about this? Also, I assume the policy on shareholder returns is being revised for the next Corporate Strategy. Please share with us what you can about the discussions taking place.

A.

- As a result of formulating the next Corporate Strategy, and due to comprehensive discussions we have had in the final year of the current Corporate Strategy, we made the decision not to carry over the ¥0.4 trillion in excess cash to the next Corporate Strategy period and instead, allocate all of it to investments and/or additional shareholder returns within the current Corporate Strategy period. We will likely not have any sizeable cash outflows for new projects this fiscal year, in which case, we will most likely allocate excess cash to additional shareholder returns.
- We are currently holding daily discussions with each business segment to finalize the details of the next Corporate Strategy. We are reconsidering how we use our capital, while carefully considering what level of funds we expect to accumulate as FCF and operating CF, as well as how to allocate funds to new investments,. Because these discussions are ongoing, I cannot yet provide specific details, but we plan to make an announcement in the future. Based on these factors, we have made the decision not to carry over any excess cash that can be allocated to the next Corporate Strategy.

Q13.

I get the impression that there is more emphasis on reviewing existing businesses to boost profits in MC's next Corporate Strategy. I'm sure that you

are currently evaluating many different options, but from your perspective as President/CEO, could you please share with us to the greatest extent possible which fields have significant potential in terms of profit contribution?

A.

- As I've explained, during the current Corporate Strategy period the Value-Added Cyclical Growth Model has produced capital recycling gains/losses in the past of between ¥100 billion and 200 billion annually.
- This year, we have successfully built up profits in our existing businesses, but there are some businesses that have the potential for further profit increases. Decisions will only be made after a thorough study on the individual project or business, but generally speaking, greenfield projects require more time before they start contributing to profit, and with M&A deals, we must consider the amortization of premiums and other items. Naturally, I believe that refining our existing businesses would be the most effective way to increase profit contributions in the short-term. I am aware that these explanations alone are not enough, so we will demonstrate them through figures when we release our next Corporate Strategy.

Q14.

I'd like to express my gratitude for MC's intentions to allocate the ¥0.4 trillion in excess cash to additional shareholder returns. I'm sure MC has made this decision while considering how to maintain and improve ROE, and I'd like to hear your thoughts on ROE levels, including your plans in the next Corporate Strategy. In past earnings presentations, you have mentioned the use of leverage; at the same time, shareholders' equity has reached ¥9.3 trillion. I'd like to hear your thoughts on both the appropriate scale of shareholders' equity and what is being discussed regarding future ROE target.

A.

- ROE is something we are very keenly aware of, just as much as our share price, which I just covered. We are in the middle of discussing this as part of our next Corporate Strategy, so there is not much more that I can disclose as of now. After we have properly evaluated our next Corporate Strategy, we hope to share with everyone our plans, hopefully in early April.

Q15.

I'd like to confirm MC's projections for steelmaking coal volume. Based on a calculation that excludes the two divested coal mines, in the nine months ended December 31, 2024, steelmaking coal volume fell by around 3% from the previous fiscal year. It appears that production volume for FY24 will be about the same as the last fiscal year, which is in line with what you had explained at the start of this fiscal year. It is difficult to determine from the outside looking in how best to evaluate the operation's stabilization efforts to date, as well as the approximate timeline for the business to return to normalized profit levels. Naturally, regardless of market conditions, production volume will be one factor in profit outlook for next fiscal year onward, so I'd like to know your thoughts on

this point.

A.

- Our FY2024 steelmaking coal volume is expected to reach around the same level as FY2023, in-line with our initial plan. In addition to this year's production, we are steadily carrying out pre-stripping and building up raw coal inventory at levels above our initial forecasts. Although we have yet to finalize our production plan for the next year, the business team has informed me that we should be able to increase production quantities slightly in the coming fiscal year compared to the previous fiscal year. There have been no major changes to our initial timeline of recovery to 43 to 45 million tons per year in the medium to long-term. Naturally, production volumes may vary slightly from fiscal year to fiscal year, but we are making our plans together with our partner, BHP. In short, we are making steady progress in-line with the projection that we provided.

Q16.

Looking back at the financial results through Q3, are there any segments that MC is concerned about in terms of a potential downturn in performance, aside from the steelmaking coal business and the automotive business in Thailand? For example, up to this fiscal period, the Materials Solution segment has had no one-time items or capital recycling gains/losses, and it appears that underlying profit levels are declining. Please share any segments or businesses for which MC is concerned about a downtrend in performance.

A.

- Some businesses in Materials Solution are doing well, while some are not. The North American plastic building materials business performed very strongly in the past year, and it is true that the business is returning to normalized levels, but we do not necessarily see this as a downtrend. [As for other businesses,] in our automotive business, although we do not believe that the fundamental strength of our local sales is declining, improvement in local financing in Thailand may take around six months longer than our initial expectations, and we expect the challenging market conditions to continue for the foreseeable future. However, again, this is not an issue of the fundamental strength of our Thai automotive business.
- In the two months remaining in FY2024, we intend to steadily achieve our full-year forecast of ¥950 billion. While we are seeing a decline in the ASEAN automotive business and the price of LNG, a weakening in the North American plastic building materials business in the Materials Solution segment and DRI (North American real estate development business) in the Urban Development & Infrastructure segment, we have taken any foreseeable impairment losses as of Q3, including offshore wind power business, and are on our way to steadily generate profit in the remaining two months.
- Our greatest area of focus and consideration from the next fiscal year onward is the Trump administration's new policies. Starting with tariffs, the market impact of these policies and other factors is difficult to predict. As a company with a diverse portfolio across the globe, we will collect our global intelligence and carefully

incorporate it into our corporate strategies. I believe that geopolitical risks and U.S.-China relations are factors that require careful monitoring, regardless of the business segment.

Q17.

Regarding the latest forecast of ¥0.4 trillion in excess cash that can be allocated, I understand that MC will be allocating it to investments and shareholder returns during the current Corporate Strategy period based on your explanation today. However, if the shareholder returns are implemented through a share buyback, the share ownership ratio of Berkshire Hathaway Inc. in MC will approach the upper limit currently [said to be] set at a maximum of 9.9%. Could this become a factor to restrict MC's consideration of future share buybacks?

A.

- MC is not in a position to make any comments about Berkshire Hathaway's stance on the ownership of our shares. A potential increase in Berkshire Hathaway's ownership ratio is not something that will lead us to restrict our share buyback.