Business Briefings: Sustainability Management

–Climate Change and Natural Capital-

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I am Chisato Onda, Managing Officer and General Manager of the Corporate Sustainability Division.
Thank you all for taking the time to attend today's briefing, both in person and online. I sincerely appreciate your participation.
Today, I will provide an update on the progress of our company's sustainability management.

Operating Environment Surrounding Sustainability (Slide 2)

First, I will briefly outline the operating environment surrounding sustainability management.
There are two key terms here; *an era of change* and, in relation to companies, *expectations for real change*.
Despite global discussions and measures, the severity of climate change and natural capital issues continues to increase. On the other hand, there are concerns about the risk of policy changes in various countries which may impact private investments that contribute to the tackling of these issues, such as Trump 2.0 and the winding back of sustainability in Europe.
Until now, I believe there has been a strong movement to push forward target driven sustainability initiatives. Nevertheless, we recognize that required responses by companies are becoming more complex; that we are required to take more realistic measures in the midst of an ever changing operating environment, it is necessary to consider diverse pathways and countermeasures that are in line with the actual conditions of each country and region, and also there is a need to integrate our response to climate change and natural capital issues.

In light of these changes in the operating environment, I would like to touch upon the overall framework of our sustainability management, focusing particularly on two themes: climate change which many investors have been interested in, and natural capital, for which we feel through our recent engagement that there is a growing level of interest.

Review of Material Issues (Materiality) (Slide 3)

I will now speak on the review of Mitsui's material issues, or Materiality, that is currently underway.

Our Materiality acts as a bridge between our Mission to "*build brighter futures, everywhere*" and business strategies or individual business activities. In other words, in order to move forward in our Mission, we will identify material issues, and push forward business activities which are linked to Materiality.
We identified five material issues in 2015 and made our first review in 2019, setting our current five Materialities. As five years have passed, we started reviewing our Materiality this fiscal year, taking into account rising public interest in double-materiality, aiming to confirm whether the social issues we identified are not obsolete. In today's fast-paced world, it is crucial to continually reassess whether social issues remain relevant.

In the review, we revisited social issues and evaluated the importance of each social issue through stakeholder dialogue. I would like to take this opportunity to thank some of the participants today for their cooperation.

While it is still work in progress, we are seeing that some important themes we set such as climate change, human rights, and natural capital are likely to be identified as important social issues. Compared to the current Materiality, human rights are expected to be the main update, but we will inform you once the review is completed.

Introduction of New Climate Change Target: Gross GHG Emissions for 2030 (Slide 4)
Moving on to climate change issues, we have decided to set a new target for GHG emissions.
Previously we had set an interim target with GHG Impact as an indicator; however, based on engagement with investors, we have set an additional target for gross emissions, which do not take into account the amount of Reduction Contribution.

Gross emissions for FY March 2020 were 36 million-ton-CO2e. However, taking into account comparisons with industry peers, we have decided to include emissions from power generation businesses that had already reached the FID stage by the end of FY March 2020 as part of the baseline. As a result, the reference baseline for the gross emissions target is 44 million-ton-CO2e. We aim to reduce this by 30% by 2030.

2030 Interim Targets Related to Climate Change (Slide 5)
This slide provides an overview of the interim targets for 2030 including the new one.
We had previously set three interim targets for climate change, and with the new gross GHG emissions target, there are now four targets in place.

For halving GHG Impact, we are working to reduce emissions, mainly by asset divestitures, while investing in projects that will contribute to a reduction of emissions. We also have a database of

GHG emission forecasts and take changes in GHG emissions into account when making investment decisions.

For halving Scope 1 and Scope 2 emissions, subsidiaries are required to save energy and switch to renewable energy. We have identified reduction measures and estimated ballpark figures for necessary costs. We will push forward with reducing GHG emissions through discussions with our customers.

For the ratio of renewable energy in the power generation portfolio, with the FID for the offshore wind power generation business in Taiwan and the sale of several coal-fired power generation businesses, the ratio has already exceeded the target level of 30%.

Through these initiatives, we are targeting net zero emissions by 2050.

Efforts to Reduce Emissions in the Value Chain (Slide 6)

I will now speak about our efforts related to Scope 3.

As a global investment and trading company, we believe that our strengths lie in our collaboration with various partners and customers in the value chain and in our collaboration across a wide range of industries. This slide introduces the reduction efforts that we are making by utilizing our strengths in value chains where Scope 3 emissions are relatively high.

In the ships business, we have begun procuring environmentally friendly ships that can use next-generation fuels and are currently building two of the world's first methanol-fueled bulk carriers, with the first ship scheduled for delivery in the second half of 2025.

In addition, even in businesses that involve GHG emissions, we keep in mind the balance between profitability and reduction of carbon emissions when making investment decisions. For example, through the Rhodes Ridge iron ore project, in the future we expect to contribute by providing iron ore for lower-GHG steelmaking process such as DRI (direct reduced iron) given the relatively high level of iron content among Australian ores.

Similarly, in the Ruwais LNG project, we believe that advancing decarbonization in the production process, such as through the introduction of E-Drive, will contribute to our customers' lower carbon initiatives.

The largest Scope 3 GHG emissions in FY March 2024 was for use of ships, which was 42 million tons. The reason for this is that in the ship sales business, the emissions for the ship's entire life cycle are recognized at the time of sale.

We believe that our efforts to expand and strengthen our portfolio will lead to a reduction in Scope 3 emissions as low-carbon initiatives progress in various areas.

Investments for Growth: Global Energy Transition (Slide 7)

The next slide talks about our investments for growth in Global Energy Transition, which is one of the three Key Strategic Initiatives of the current Medium-term Management Plan (MTMP). At the Investor Day 2024, we announced that we are expecting to grow our profit in this particular initiative to 270 billion yen in FY March 2030.

In May 2024, we announced that we expect to invest 600 billion yen in Global Energy Transition over the three-year period of the MTMP from FY March 2024 to FY March 2026.
Breaking this down, we expect 300 billion yen to be invested in natural gas and LNG projects such as Ruwais LNG, which are particularly large in scale.
In the area of next-generation fuels, we are advancing our clean ammonia and renewable natural gas business in the US, and expect to invest 150 billion yen in this area.

Policy on Natural Capital Initiative (Slide 8)

Now, I will explain our efforts regarding natural capital. While we have not had many opportunities to discuss natural capital in the past, we have set it as one of the key issues in the MTMP so I would like to touch on our policies on natural capital and the progress of our initiatives.

We are pushing forward various initiatives to achieve the goal of "Contributing to achieve Nature Positive through business" in the MTMP.
Based on our engagement with stakeholders, we have announced today our registration as a TNFD adopter.
The diagram on the slide presents the concept of Nature Positive, with the blue line illustrating that focusing on the restoration and regeneration of natural capital will lead to Nature Positive.

Analysis of Dependencies and Impacts on Nature (Slide 9)

In slides 9 and 10, I will provide a summary of the analysis that we have conducted based on the TNFD framework.
We have identified ten key businesses, considering natural capital risks in our business portfolio from the perspective of dependencies and impacts on nature, carrying out a comprehensive analysis and a screening using the amount of invested capital and revenues.

Natural Capital Response in Existing Businesses (Slide 10)

Taking geographical factors into account, from the ten key businesses, we narrowed this down to the three business areas of copper mining, seawater desalination, and agricultural chemical

supplies, and conducted a LEAP analysis on these businesses to identify nature-related risks and opportunities.
Taking the copper mining and seawater desalination projects in which we participate as examples, let me explain natural capital responses in our existing businesses.

This slide focuses particularly on the *Assess* part but let me briefly introduce each of the steps.

- Locate: First of all, the location of direct contact with nature is important for nature-related risks and opportunities. In addition, efforts in businesses with large financial impacts are more critical. Therefore, we have targeted mineral and metal resource development from the earlier mentioned key businesses, and have analyzed copper mining, in which water stress is material. In addition, we have addressed the desalination of seawater in Chile as an initiative to mitigate the impact of mining operations. We have focused on Anglo American Sur for mining and Caitan for desalination.
- Evaluate: Next, regarding copper mining, we have identified that water resources and use of water during mining and processing of minerals are material dependencies and impacts.
- Assess: Based on this analysis, we have identified nature-related risks and opportunities. For example, from the perspective of transition risk, the cost of using water resources is expected to increase when regulations for water use are tightened. It is also anticipated that the impact on biodiversity will increase due to land alteration associated with development. To cope with these risks, our business is implementing risk mitigation measures, such as improving the water recycling rates and maintaining and restoring vegetation.

  In terms of opportunities, due to the significant impact on water use, initiatives that mitigate this impact through seawater desalination will lead to new business opportunities. Caitan supplies fresh water to copper mines operated by BHP in high-drought-risk areas in northern Chile, helping to mitigate impacts.

For more detailed information on this analysis, please see our corporate website.

Using Natural Capital Issues as Opportunities to Develop New Business (Slide 11)
Because we have a broad business portfolio, we are not only viewing the conservation and mitigation of natural capital loss as issues, but also actively pursuing various opportunities.
As shown in the chart, and referring to the TNFD framework, we categorize them into *mitigating negative impacts* and *creating positive impacts*.

We are working on protein business as one of our focus areas in Wellness Ecosystem Creation, and I will introduce salmon and chicken farming as businesses incorporating the perspective of natural capital into our investment strategies.

First, FRD Japan is using our unique water circulation technology to mitigate negative impact on water use by controlling water intake and wastewater. Using this technology, we are engaged in the salmon land-based aquaculture business. Based on the successful operation of a demonstration plant in Kisarazu, we are currently constructing a new commercial plant in Futtsu, Japan.

In addition, chicken farming has a lower impact on natural capital compared to any other animal protein such as cattle and pigs, due to the higher feed efficiency.
We are implementing a number of other initiatives as shown here. For some of our projects, we have produced videos, so please feel free to click the YouTube icon and watch them if you want to find out more.

Management Oversight Function of the Board of Directors (Slide 12)
These next two pages are on corporate governance.
The Board of Directors strives for appropriate oversight of management including sustainability. The Board of Directors held 13 meetings in FY March 2024, in which a wide range of discussions on sustainability-related issues were held.

In addition, there are free discussions held several times a year by the members of the Board of Directors. Topics included climate change issues in the current and previous fiscal years, and how to manage our portfolio in the context of climate change responses.

I will also explain about remuneration of Directors as an incentive design. Certain conditions of our performance-linked stock-based remuneration include ESG elements. Among the environmental elements are qualitative assessments, such as the progress of climate-change opportunity businesses and the status of asset recycling, as well as the degree of achievement of targets, such as GHG Impact and GHG emissions, which are quantitative outcomes. It also considers the degree of ESG ratings improvement and enhancement of Company's disclosures.

Status of Sustainability Management Promotion (Slide 13)
We have the Sustainability Committee as a subcommittee to the Executive Committee. Three directors participate in this committee that discusses different agenda. This system plays a significant role in deepening discussions on sustainability agenda at the Board of Directors meetings.
In addition, we position "environment and society" as a component of the skill matrix, and many of our directors possess expertise and knowledge in this area. I am pushing forward our sustainability management while receiving appropriate advice from a high level perspective.

Final Remarks

To wrap up, I would like to share my experience from visiting Vale's Carajas mine in Brazil last August.

This year marks my fourth year as General Manager of the Corporate Sustainability Division. I have been fortunate to have a number of opportunities to engage in discussions with various internal and external stakeholders. These days, I feel the growing need to consider sustainability topics in a more holistic manner, such as the incorporation of sustainability initiatives in our business and the integration of our responses to climate change and natural capital. I would like to talk about Vale's efforts as a concrete example.

This photo of the Amazon rainforest was used in an explanation I received in Carajas, and Vale kindly provided it for use in this briefing.

As you can see in this photo, which depicts changes in Amazon rainforests across time, forests are protected in Vale's protected area, while the rest of the area is being turned into pasture. Learning that they are successfully balancing nature conservation with mining development on such a large scale made me acutely aware of the significant responsibility that companies have toward society. I realized that without Vale's protection efforts, the changes in the Amazon would have been even faster. Furthermore, it became clear to me that it is precisely because of Vale's financial success that they are able to carry out activities on this scale.

This reinforced my belief that, as a company, we should contribute to society through our business in a similar way. In order to provide solutions with such a significant impact to society, we need to take a more realistic approach. Above all, in doing so, I believe it is essential for us to continuously enhance our corporate value. In order to achieve this, we will objectively recognize the role we should play and steadily push forward an integrated approach to sustainability management.

This ends my presentation. Thank you for your attention.