

Investor Day 2022 Path to Green Transformation: Q&A summary

Date: December 2, 2022

Speaker: Makoto Sato, Representative Director, Executive Managing Officer,
Chief Strategy Officer

<Q1>

Regarding the percentage of renewable energy in the power generation portfolio, please tell us if you feel confident that your goal of over 30% by 2030, from the current figure of 23%, can be achieved by the progress of Mainstream projects. Also, what kind of discussions are going on with Mainstream?

<Sato>

We feel with a high degree of certainty that the 2030 renewable energy percentage can be achieved. Mainstream has accumulated a 2 GW project pipeline in the six months since we joined, and we expect this drive to continue. As for our involvement in the project, we see the following two advantages for Mainstream as a result of our participation.

Mainstream was originally a developer with a “develop and sell” model, but there has been a change in their policy. For example, now they will hold half of the projects that they develop and sell the remaining half, which is a change from the “develop and sell” model to a “develop, hold, and sell” model. Funds are needed to hold assets which is where our company fits in. This is the first point. The other is our unique business model as a general trading company, which is engaged in a wide variety of industries. From centralized power generation of renewable energy, which is the starting point of green business, to ammonia, hydrogen, methanol, fuels, low-carbon steelmaking, and low-carbon nonferrous refining, Japanese general trading companies are capable of handling all of these businesses, and Mitsui in particular has been strong in the areas of energy, ammonia, methanol, and steelmaking, among others.

We have several employees on secondment at the Board of Directors level as well as at the executive and lower working levels, and we are in the process of developing various businesses around the world while having communication on business development.

<Q2>

Regarding the incorporation of ESG into the director remuneration structure, I understand that currently the variable ratio of director remuneration of internal director is 2/3, but to what extent can the ESG factor affect that weighting, and how do you manage?

<Sato>

There are several components, and in terms of the balance, 2/3 is paid in cash and 1/3 in shares. The maximum amount of performance-linked restricted stock-based remuneration, which constitutes 1/3 of the

stock portion, is a maximum of 300 million yen, and this portion is linked to ESG and ROE. Within this maximum amount of 300 million yen, 80% is linked to ROE and the remaining 20% is linked to ESG.

In terms of ESG, the "E" relates to reduction of GHG impact or progress toward net zero, which is used as a KPI in making decisions. For "S," we use the results of employee satisfaction surveys as a KPI. The "G" component is linked to the evaluation of effectiveness of the Board of Directors. These components are used to determine 20% of the performance-linked restricted stock-based remuneration.

<Q3>

It was explained that you are proceeding with work on Scope 3 calculations, and you also touched you're your initiatives of low-carbon materials such as steelmaking and nonferrous refining. At the stage of consumption of goods sold, I think there could be many ways to view this in the wholesale supply chain, but even in Category 11, while it is within your scope of responsibility, it could also be a business opportunity. In aiming for net zero, please tell us about the categorization and to what extent it could be a challenge.

<Sato>

Since this is a question about an area where the rules are not clearly defined yet, I will answer with my personal opinion.

As you mentioned, for Scope 3, we disclose Category 15: Investments, and there are other categories we have yet to disclose.

Looking at the supply chain, for example, we are making progress in understanding the figures for Category 1 products, Category 10 processing and Category 11 consumption. On the other hand, even within our company, there is a possibility of double or triple counting. The current method of calculating emissions in the main supply chain is based on basic unit multiplied by activity level. For example, iron production is calculated as follows: iron ore consumption multiplied by GHG generation per unit. Meanwhile, I understand that there must be reduction efforts unique to Japanese steel companies and they are probably in an advanced position in the world, but the figures do not appear, and we are working on this issue with great concern from the standpoint of accuracy.

Therefore, our policy is to proceed with understanding the current figures and disclose them appropriately at the timing when the rules are established. The current figures for halving GHG impact in 2030 and net zero in 2050 include Category 15. Regarding net zero in 2050, we aim for net zero without including reduction contributions (unlike halving GHG impact). I hope you understand that our targets for 2030 and 2050 are different.

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