

## Investor Day 2022 Panel Discussion Q&A Summary

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Date: December 2, 2022

Speakers: Kenichi Hori, Representative Director, President and Chief Executive Officer  
Izumi Kobayashi, External Director  
Samuel Walsh, External Director

Facilitator: Kana Inagaki, Tokyo Bureau Chief, Financial Times

<Q1>

CEO Hori explained that the Board of Directors discusses the overall direction of the company. Please tell us what kind of discussions are being held regarding the overall direction of decarbonization, and what direction investment will take in the context of the next Medium-term Management Plan.

<Hori>

At our Board of Directors meetings, we provide opportunities for free discussion on certain topics. As an example, we have held a session on how we should respond to the trend toward low carbonization. We will continue to decarbonize existing work and control the amount of carbon dioxide emissions in our business portfolio. At the same time, there is extensive debate taking place on proceeding with the development of upfront investment projects for a new low-carbon society, including investments in new technologies such as renewable energy, hydrogen and ammonia, the time frame, and how much portfolio transformation will be carried out. The important thing is to take responsible corporate actions while ensuring economic efficiency. In the future, while fully controlling our own carbon dioxide emissions, in order to ensure a stable energy supply and ensure that our various operations meet the standards of a low-carbon society, we are currently discussing various measures regarding the three years of the next Medium-term Management Plan. I would like to solidify the next Medium-term Management Plan while keeping an eye on specific projects that are currently being worked on, while also keeping in mind the metrics for 2030.

<Q2>

In terms of direction, I acknowledge that decarbonization has already been raised and discussions are taking place. Given the Ukraine conflict, are there discussions taking place on changing something, such as speed, methods, etc., relating to the direction?

<Hori>

We believe it is appropriate to assume that geopolitical risks will continue to increase, including the situation in Ukraine. To that end, we are discussing the need to further increase the speed and level of diversification of energy supply source, which we have already been progressing. And so, for example, we are developing gas in many regions around the world, and in order to achieve that and diversify our supply source, we are discussing that building a global portfolio will become even more important. This is also true of the renewable energy business as natural and economic factors differ by region.

<Q3>

Over the last three years or so, the performance of the non-resource businesses has improved significantly. The current business environment is one of the factors pushing up your performance, but what kind of initiatives Mitsui has undertaken that have been effective in improving your performance? Earlier, Mr. Walsh mentioned that you have made a shift from making more majority investments than minority ones, if you have any other similar examples, please share them with us.

<Walsh>

It is an important role for the non-executive directors to focus the discussions on areas of potential and significant change that will provide opportunities for us and we believe that decarbonization provides that opportunity. We also have our existing portfolio and existing skills that we have developed over time. Regarding IHH that Ms.Kobayashi mentioned, we had an initial investment there, so we're able to see that project and understand the dynamics of healthcare and build on it, and increase our equity so that we had operatorship of the project. That sort of approach is important for us. So, the external directors and management have been strongly supportive in investing in what we call non-cyclical segments of the business and that's going to be important going forward.

<Kobayashi>

For each project, I think there is a lot of commitment not only to the investment but also to the operations. Not all investments are necessarily successful, but by being involved in operations, we gain knowledge from that business, which can be carried over into the next investment, creating a very virtuous cycle.

When the Board of Directors discusses new investments, the points that are always discussed are: "What will happen in five years? What will happen in ten years? What will be necessary as social needs change?" Over the past several years, there have been discussions not only on quantitative evaluations such as the IRR of the investment, but also on how it should be done in view of the needs of society in the future. I believe this is one of the factors behind the fact the

portfolio, which has been reconstructed over the last ten years, is actually beginning to generate profits.

<Q4>

Recently, I think there has been growing concern about the uncertainty of the business environment, including geopolitical risks. You explained proactively about seizing opportunities, but I believe that the supervisory function of the Board of Directors is required to firmly take actions that are different from consensus building. I would like to ask you to inform us whether or not thorough discussions are being held at the Board of Directors meetings, from the perspective of external directors.

<Walsh>

You're right that that is an important role that the non-executive directors play and certainly if you look at the portfolio of interests and involvements of the directors, they can provide insights that may or may not be available to the management.

I'll take the example of my involvement in Australia. Roughly 40 to 50% of our earnings come from Australia, so having a director based in Australia who's very much involved in the businesses and understanding the dynamics of the politics and society, I can provide insights that may not be available to people based here in Tokyo. There are different perspectives that we each bring from our own country in relation to what may be happening in the Ukraine, climate change, China, or whatever the dynamic force is, and we can each provide our knowledge, experience, and insights into that in our discussions. The world is changing and moving very quickly and I'm very pleased that the momentum, flexibility, and responsiveness that Mitsui has developed relatively recently. The company is reacting and responding sensibly to the changes in the dynamics of the world.

<Kobayashi>

The directors have different backgrounds, so as an external director myself, I often find myself listening to other people's opinions and discovering new viewpoints. I think it is quite important to provide various perspectives to those on the executive side, and to give input on risks, or conversely, on opportunities.

Secondly, we have been receiving detailed reports on potential impairment risks for several years. The Board of Directors conducts a detailed review of how much loss can occur, including the probability of occurrence, or whether profits can be generated. I think it is also very effective for us to be able to have in our heads an estimation of the risk of impairment loss in the event of certain things taking place.

<Q5>

As external directors of many years, I would like to hear your frank opinion about the areas where you think Mitsui can still improve, or where you think it is lacking.

<Kobayashi>

I think that you have already understood from CEO Hori's explanation that we are developing businesses that consider ESG, but we still need to delve deeper into this field and go one step further as we explore opportunities. For example, we could dig deeper into what will happen in different industries when carbon pricing is introduced; this is the kind of thing I think we could be doing more of.

One more point, in terms of diversity for example, there are many excellent female employees and non-Japanese employees at our company, but unfortunately, they have not yet reached the level of top management on the executive side. This is an area I would like to see us put in more effort.

<Walsh>

As a person who has worked for a Japanese car company Nissan, I'm a great believer in the management concept known as *Genba Kanri*. I'm a great believer of continuous improvement and *Lean Six Sigma* and so on, and I believe that any process can be improved and continue to be improved. And I think over time management show that. I think if you look at Mitsui, we've got a management who are very accepting of that principle and they see the opportunity to improve and to change. Ms. Kobayashi was just talking about the employees and HR, younger people are very different to us. They have greater expectations and have greater need for communication, engagement, and involvement. If you want to optimize and maximize the skills and experience that they bring, then you need to tailor the organization to that, and that's exactly what Mitsui is doing. Moon and Bloom are both examples of that. It's in the very nature of how we physically operate at the front line, so I believe there are significant opportunities to improve the business and earnings, and Mr. Hori has described that. I think there's also opportunities to strengthen all of our systems within the company and of course governance is an important area as is compliance. Also, our performance in relation to license to operate generally. Communities are becoming far more demanding of companies, businesses, and government, and we need to be responsive to that if we want to take advantage of the opportunities that are out there. Continuing to improve the operations is a focus of our company and we are seeing the benefits of that right now.

<Q6>

Given Mitsui's current business and future potential, what do you think the ideal ratio of external directors should be? Mitsui currently has nine internal directors and five external directors, making the ratio of external directors less than half. On the other hand, companies outside Japan, it is the norm for the ratio of outside directors to be above 50%, even 60% or 70%. Please let me know what you think of this difference and in which direction Mitsui should move.

<Walsh>

That's an interesting question, and it's one that we do discuss in the Governance Committee. There are two comments that I'd make. Firstly, as I mentioned earlier, the company believes in consensus and board members make decisions with a lot of thought and consideration and also prior flagging of what their position is. Quite frankly though, the non-executive directors are very noisy people and they're quite active in putting across their point of view. For every item that the board discusses each director will make a comment and they'll come from a different area given their skills base or experience. At times a director will build on a comment that one of the other directors has mentioned so you end up with a very strong result in terms of discussion, engagement, and involvement, which is a healthy process.

<Kobayashi>

There is certainly some debate as to what the ideal percentage of external directors should be, but I think it depends on the business of the company. It is not a simple case of the more external directors the better. It is important for external directors to speak out, but the attitude of the chair of the Board of Directors and the CEO's willingness to listen to external directors are major factors in whether or not their value is utilized or destroyed, which I think is a major point. Mitsui has few external directors, but the overwhelming majority of comments are made by external directors. I think we're now at the point where, in response to a question from an external director, instead of those on the executive side just answering it, they are expressing their opinion, so I feel the atmosphere has progressed quite substantially.

Considering how society is changing, I think it is important to have a generation of external directors who understand the needs of society. Especially when it comes to technology, my generation has already fallen behind, and so I think bringing in members who can complement that aspect would make the Board become more active in a wider range of areas in the future, and as people with different perspectives newly join.

[END]