INVESTOR BRIEFING

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Mitsubishi Corporation (JP: 8058)

Mitsubishi Corporation (MC) must demonstrate alignment with a net zero by 2050 pathway

Key Points

- MC's Scope 3 emissions (381 million tons) are greater than either the UK or France's annual fossil emissions, but the company has no targets to reduce them in line with its own commitment to net zero emissions by 2050.
- MC lacks adequate disclosure to demonstrate a viable pathway to its net zero commitment.
- MC's LNG expansion plans ignore lowered LNG demand in emerging Asia and undermine its own climate commitments, creating financial risk for the company and its investors.

MC's current climate targets and disclosures are entirely insufficient for investors to conclude it has a viable pathway to meet its own net zero by 2050 commitment.

Despite major investors' clear expectations and repeated requests for improved climate disclosure and target setting, MC has made little progress in this regard. Market Forces and Friends of the Earth Japan have therefore filed **shareholder proposals requesting:**

1. **Emission reduction targets aligned with the Paris Agreement.**
2. **Disclosure of how the company evaluates the consistency of each new material capital expenditure with a net zero by 2050 pathway** (full details on page 8)**.**

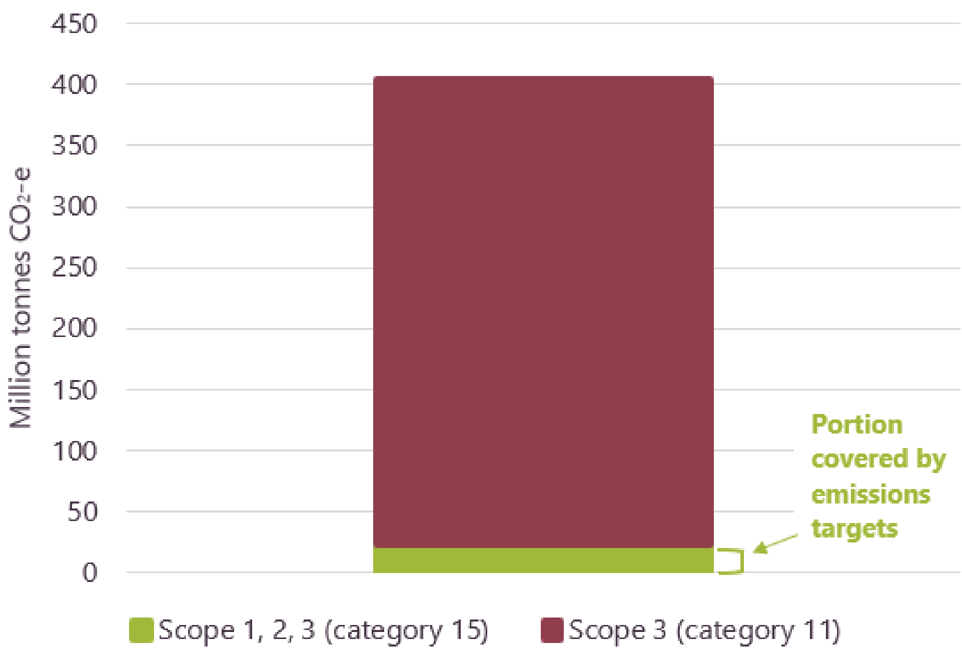
Before the upcoming MC Annual General Meeting (AGM), investors are urged to engage with the company and request the disclosures in the shareholder proposals. If this engagement is unsuccessful, investors are urged to vote:

- **FOR the 'Emission Reduction Targets' shareholder proposal (see page 8).**
- **FOR the 'Capital Expenditure' shareholder proposal (see page 8).**

Despite massive Scope 3 emissions, MC lacks targets to guide a pathway to net zero by 2050

In February 2023, MC disclosed its Scope 3 category 11 emissions (use of sold products): 381 million tons, a number larger than either the UK or France's annual fossil emissions. This massive Scope 3 emissions figure **represents significant transition risk to the company. However, it currently has no Scope 3 emission targets to ensure a reduction in line with a net zero by 2050 pathway.** MC's current target covers **less than 6%** of its total reported emissions.

MC's reported GHG emissions



Other LNG focused companies like TotalEnergies and BP have higher levels of disclosure compared to MC. **BP and TotalEnergies for example, have set short, mid and long term Scope 3 emissions targets and published methodologies used to establish those targets**.

The **'Emission Reduction Targets' shareholder proposal** at this year's AGM is consistent with the demands and expectations set by many investor initiatives including:

- Investor Group on Climate Change's (IGCC) Corporate Climate Transition Guide, which says companies should set targets for its "most material Scope 3 emissions and be explicit about which emissions the target applies to."
- Science Based Targets initiative's (SBTi) Corporate Net-Zero Standard, which states that for companies to make credible net zero claims, "a scope 3 target is needed whenever scope 3 represents more than 40% of a company's total emissions." This would apply to MC, whose Scope 3 category 11 **emissions are 94% of its total reported emissions.**

- Climate Action 100+ Net Zero Company Benchmark expects that both medium and long term GHG reduction targets "covers at least 95% of Scope 1 & 2 emissions and the most relevant Scope 3 emissions (where applicable)."

In order to satisfy investor expectations and demonstrate requisite climate risk management, MC must set a Scope 3 emissions target for 2030 at the latest, as sought in this shareholder proposal.

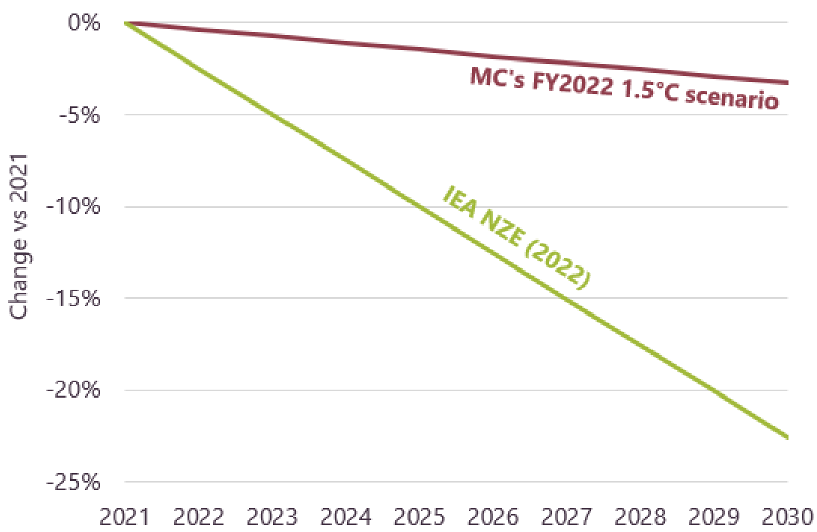
MC lacks disclosure required to demonstrate a viable pathway to net zero by 2050

1.5 degree scenario inadequate to assess risk

MC's own 1.5 degree scenario analysis, FY 2022 1.5°C Scenario, published in February 2023, lacks any quantitative assessment of potential impacts on key financial variables related to transition risk. **Without the disclosure of quantitative analysis, investors are unable to understand the potential impact of a net zero by 2050 pathway on the company's financial performance, such as changes to earnings, cash flow, retirement schedules and assets values.**

Especially concerning is MC's underplaying of critical differences on gas demand between its FY 2022 1.5°C Scenario and the International Energy Agency's (IEA) widely-referenced Net Zero Emissions by 2050 Scenario (NZE). **MC's scenario predicts a 4.6% gas demand decrease by 2030, in contrast to the 23% decrease in the NZE (WEO 2022).** NZE should be regarded as bullish on future fossil fuel demand as it aims for only a 50% chance of limiting global warming to 1.5°C and relies heavily on unproven low emissions fuels and emissions technology.

Global Gas Demand- MC vs IEA NZE (2022)



MC's scenario uses a 2020 baseline; 2021 starting point is our linear interpolation. Source: Mitsubishi Corp, [1]IEA

[1] It is critical for MC to use the IEA's updated roadmap (**WEO 2022**) which takes into account the recent Russia Ukraine war to give investors an accurate and current analysis. MC's comparison likely refers to the older NZE2050 from May 2021.

No assumptions on unproven technology including hydrogen and CCUS disclosed

MC's net zero by 2050 plan partly relies on unproven technologies such as ammonia, hydrogen, carbon capture utilization and storage (CCUS), which come with significant technical and financial uncertainties. **Pursuing these strategies with limited risk mitigation measures could lead to wasted shareholder capital. Since MC fails to disclose its assumptions relating to these technologies, investors are unable to make an assessment of the viability of the company's strategy and the risks involved.**

IGCC summarizes investor expectations on negative-emissions technology saying companies should disclose the following:

- "why the technologies have been used"
- "current and future availability of CCS/CCUS"
- "external drivers and barriers"
- "time frame for current actions required to develop future technologies"
- "underlying assumptions and contingency planning in the event of carbon capture shortfalls"

It is critically important for MC to disclose its assumptions relating to ammonia, hydrogen and CCUS if investors are to accept that investing significant shareholder capital in these technologies is at all viable to provide value and deliver on MC's net zero by 2050 commitment.

LNG plans undermine net zero emissions by 2050 commitment

The IEA's NZE finds there is no room for new oil and gas fields, significant financial risk for LNG facilities, and that gas use for power must rapidly decline. With no policies to rule out or in any way restrict the development of these new projects, MC is effectively **betting shareholder capital against the net zero by 2050 energy transition it claims to support**.

NZE conclusions compared with MC policies and practice

NZE conclusions	Mitsubishi policies	Mitsubishi practice
Natural gas demand "can be met through continued investment in existing assets and already approved projects but without any new long lead time upstream conventional projects." "declining fossil fuel demand can be met without the need for the development of new oil fields"	No policy to rule out or in any way restrict development of new oil and gas fields.	・Along with project partners, MC plans to develop the new Udabari gas field for the Tangguh LNG project. ・MC also holds an equity stake in the massive proposed Browse gas field in Western Australia, which if approved would result in 1.6 billion tonnes of CO_2.

"The rapid fall in LNG after 2030…implies no need for additional capacity beyond what is existing or under construction (as of October 2022); any new LNG projects approved after 2022 are at risk of not recovering their invested capital."	No policy to rule out or in any way restrict development of new LNG projects.	･Plans to increase LNG liquefaction capacity (on an equity share basis) by roughly 20% from 12mtpa currently to 14.6mtpa by the mid 2020s. ･Plans to build the Tabeer LNG terminal in Port Qasim, Pakistan. Local NGOs have raised concerns that the project will disrupt fishing communities and harm vital mangrove forests.
Absolute emissions from oil and gas fall by 29% from 2021-2030 (oil 29%, gas 30%).	Emissions target does not apply to use of sold products, therefore does nothing to restrict emissions from the end use of MC's oil and gas products.	Currently bidding on or sponsoring two import terminals and one proposed LNG to power projects in Bangladesh and Vietnam. With an expected life of 25 years, these projects will be emitting carbon and processing carbon-intensive LNG to 2050 and beyond. Browse would operate at least into the 2060s.

LNG plans ignore lowered LNG demand in emerging Asia

MC betting shareholder capital on gas plans without considering financial risks

The 'Capital Expenditure' shareholder proposal at the 2023 AGM requests MC disclose assumptions underpinning material capital expenditures so investors can be confident the company is adequately considering and managing these financial risks.

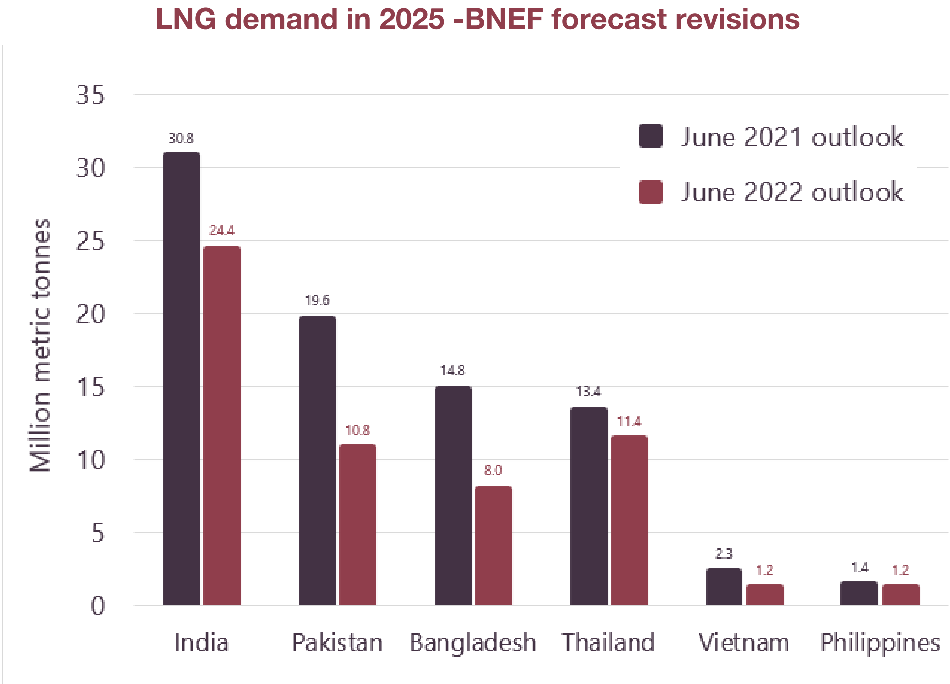
MC currently has plans for new LNG projects in Vietnam as sponsor of the Long Song I power plant and in Bangladesh for the Matarbari Summit LNG Terminal. It is also listed as a bidder for Matarbari LNG Terminal in Bangladesh. The company also has plans in Pakistan to build the Tabeer LNG terminal through its wholly owned subsidiary Tabeer Energy.

MC's plans are financially risky for the following reasons:

- The **global energy crisis** triggered by the Russian invasion of Ukraine has resulted in record high gas prices and disruptions to supply. In its Q3 2022 gas market update, the IEA stated this has cast doubts on the prospects of natural gas "particularly in developing countries where it had been expected to play a growing role in meeting rising energy demand and energy transition goals."

- LNG **demand projections in key markets have been cut** due to limited availability and high prices, which are expected to continue for years. From 2021 and 2022, Bloomberg New Energy

Finance (BNEF) significantly revised down its LNG demand forecasts in South and Southeast Asian countries. See chart below.



Recreated from Bloomberg New Energy Finance, Global LNG Market Outlook 2022-26

- **Lower utilization rates, phase out and cancellations of fossil gas and LNG assets may affect profitability.** Institute for Energy Economics and Financial Analysis (IEEFA) states that "as long as unaffordable LNG prices and procurement challenges persist, 96.7 billion U.S. dollars of proposed LNG-related infrastructure projects in countries like Pakistan, Bangladesh, Vietnam, and the Philippines will face a heightened risk of underutilization or cancellation".[2]

- Pursuing volatile LNG creates **an opportunity cost for the rollout of renewable technology**. Southeast Asia can install 300 gigawatts of renewable capacity by 2030 in a cost-effective manner and many emerging Asian countries are increasing renewable capacity installation targets. For example, Bangladesh has drafted a plan to achieve a 40% renewable energy target by 2041. MC is risking shareholder value by pursuing its LNG strategy and failing to fully capitalize on clean energy opportunities.

To reduce its exposure to financial risk, MC must evaluate its material capital expenditures in the energy sector for consistency with a credible net zero emissions by 2050 scenario. The company should disclose the assumptions (long-term commodity demand, long-term commodity and carbon prices, asset lives, future asset retirement obligations, capital expenditures and impairments) underpinning

[2] See also https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/lng/123022-asian-lng-markets-to-brace-for-more-uncertainty-macro-risks-in-2023

material capital expenditures so investors can be confident MC is adequately considering and managing the financial risks climate change poses to its business.

Falling foul of investor expectations and lagging peers

The assumptions being requested in the **'Capital Expenditure' proposal** are based on investor expectations as outlined in the TCFD, Climate Action 100+ and other investor initiatives. Moreover, companies are already providing disclosure on the assumptions being sought from MC in the 'Capital Expenditure' shareholder proposal.

Investor expectations and disclosure examples

Shareholder proposal disclosure requests	Investor expectations	Other companies disclosure
Long-term commodity and carbon prices	The TCFD update discusses the importance of internal carbon prices for performance measurement, position management and investment decisions.	Equinor discloses its long-term commodity price assumptions, and states clearly that these are not consistent with achieving the IEA NZE or SDS. BP and Eni both disclose long-term commodity price assumptions.
Asset lives and future asset retirement obligations, and impairments	Institutional Investors Group on Climate Change's (IIGCC) Investor Expectations for Paris-aligned Accounts discuss the importance of disclosure of assumptions related to asset lives based on accounting standards.	Eni discloses the potential impact of climate-related risks and opportunities on an organization's financial position in terms of fair value of assets.
Capital expenditures	The TCFD update suggests as a metric "the amount of capital expenditure, financing, or investment deployed toward climate-related risks and opportunities."	BP provides a target for capital allocation "by 2025, more than 40% of our capital expenditure will be in our transition growth businesses, and around 50% by 2030."

Investor action required

MC is the largest Japanese trading house by assets and is highly exposed to the decarbonisation transition required in the energy sector, and LNG in particular. The company has not set any further targets or disclosed most of the key assumptions sought in shareholder proposals last year, despite a fifth of MC's shareholders voting in favour of one or more of the proposals. Engagement with the company over the last year has not led to clear outcomes, and investors need to demand adequate disclosures from MC.

The **‘Emission Reduction Targets’ and ‘Capital Expenditure’ shareholder proposals** seek disclosure of how MC plans to align its strategy with its own net zero by 2050 commitment. This improved disclosure is necessary for shareholders to be in a position to evaluate the security of their capital invested in MC as the world moves to meet the climate goals the company claims to support.

At the upcoming MC AGMs, investors are urged to vote:

- **FOR the ‘Emission Reduction Targets’ shareholder proposal.**
- **FOR the ‘Capital Expenditure’ shareholder proposal.**

Shareholder Proposal Text

Proposal 1: ‘Emission Reduction Targets’
It is proposed that the following provision be added to the Articles of Incorporation:

Chapter: “Transition Plan”
Clause: “Adoption and disclosure of a business plan with short-term and mid-term greenhouse gas emission reduction targets aligned with the goals of the Paris Agreement”

1. To maintain and promote the long-term value of the Company, given the risks and opportunities associated with climate change, and in accordance with the Company's support for the Paris Agreement, the Company shall adopt and disclose a business plan with short-term and mid-term greenhouse gas emission reduction targets aligned with Article 2.1(a) of the Paris Agreement (the “Paris goals”).

2. The targets shall cover scope 1, 2 and 3 greenhouse gas emissions and disclose on each scope separately.

3. The Company shall report on its progress on an annual basis.

Proposal 2: ‘Capital Expenditure’
It is proposed that the following provision be added to the Articles of Incorporation:

Chapter: “Transition Plan”
Clause: “Disclosure of how the Company evaluates the consistency of each new material capital expenditure with a net zero by 2050 scenario”

1. To maintain and promote the long-term value of the Company, given the risks and opportunities associated with climate change, and consistent with the Company's commitment to the goal of net zero greenhouse gas emissions by 2050, the Company shall include annually in its corporate reporting an assessment of how a net zero by 2050 scenario would affect the assumptions, costs, estimates, and valuations underlying new material capital expenditure investments and planned future investments in the development of new upstream, midstream and downstream oil and gas assets.

2. Omitting proprietary information, the disclosures shall include key assumptions and estimates, including those related to long-term commodity demand, long-term commodity and carbon prices, asset lives, future asset retirement obligations, capital expenditures and impairments.

Shareholder resolutions in Japan and Amendments to Company Articles of Incorporation

- Under Japanese corporate law, the **sole legal pathway** for a shareholder proposal on climate change is via an amendment to a company's articles of incorporation.
- The proposal to amend companies' articles of incorporation is the **most commonly used approach** to make shareholder proposals in Japan, and the approach taken in this proposal. Around two-thirds of the shareholder proposals filed in 2021 took this form.
- The legal effect of such shareholder proposals is the same as the "special resolutions" on climate change filed and passed at UK companies including Barclays, BP, Royal Dutch Shell, Rio Tinto and Anglo American, which take binding effect as part of the companies' constitutions.

-- Client Earth

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