

Value-creative corporate group evolving beyond the boundaries of the current *Sogo Shosha*

» Marubeni is committed to taking on new global challenges,
and pursuing corporate value enhancement while
continuously seeking to create economic value, together with
environmental and social value.



CEO message

Masumi Kakinoki
President & CEO

First, I would like to say that our thoughts are with everyone affected by the COVID-19 pandemic, which we hope will come to an end in the near future. I would also like to express my profound gratitude to all the medical institutions and health professionals working on the frontline.

We live in a world undergoing significant change in consumer lifestyles and industrial structures. The necessity of solutions to societal issues, notably climate change measures such as decarbonization, is coming to the fore, while we experience a digital transformation (DX) with the arrival of digital technologies such as AI and IoT. By challenging prevailing societal values, the COVID-19 pandemic is increasing the pace of change even further. The top priority for the Marubeni Group is still the safety of employees, customers and business partners worldwide. We aim to enhance our corporate value by addressing societal issues across a range of industries while promoting innovation.

A year of steadily achieving missions with a sense of urgency

After the major losses posted in the fiscal year ended March 31, 2020, last fiscal year (ended March 31, 2021) was an important one for restoring the trust of all Marubeni Group stakeholders. We could feel the pressure as we took on this task. The uncertainty caused by the steadily developing COVID-19 pandemic outbreak created a debate over whether we could even provide forward guidance for the fiscal year to March 2021. We decided it was important to prepare proper budgets and explain to our shareholders and investors how we planned to use the funds that they had entrusted to us in managing the business and in recovering from the losses posted in the previous year. We released the results for the fiscal year ended March 31, 2020 together with forward guidance for the year to March 2021, based on what we considered the most appropriate assumptions at the time. This generated a shared sense of urgency among employees and spurred everyone to achieve the goals they had designated as their missions. In the end, we performed significantly better than we had anticipated in our initial guidance for the fiscal year ended March 31, 2021 in terms of

consolidated net profit and core operating cash flow*. We also achieved our goal ahead of initial target in terms of improving the net DE ratio, one of the most critical components of rebuilding the Group's financial foundation.

* Core operating cash flow: Operating cash flow excluding net increase/decrease in working capital and others

Marubeni: Pushing ahead with changes to realize its vision of the "Global crossvalue platform"

One of our unique characteristics as a *Sogo Shosha* (general trading company) has been the ability to detect societal transitions early and to contribute to each new era by swiftly evolving in response. To grow sustainably in this current era, we will need to leverage such qualities more than ever. Naturally, this will mean changing our business models, while also reforming and improving management systems in parallel.

Even though Marubeni Group is constantly changing, we continue to value our Company Creed of "Fairness, Innovation, and Harmony" as a universal and unchanging set of values that applies to the whole Group. The Creed is derived from the directions of Marubeni's first president, Shinobu Ichikawa. He would always urge employees to act with fairness and integrity; to actively pursue creative challenges; and to never forget the spirit of teamwork, which is built on harmony and respect for others. His thinking was consistent with our modern concept of sustainability. Taken in conjunction with Marubeni's Management Philosophy and Corporate Principles, these values are highly prescient for our modern age, in my view.

In an age where the future is as unpredictable as ever, our Company Creed gives us a point of origin to which we can return. Defining the Marubeni Group's long-term vision as a "Global crossvalue platform" is important in giving us all a shared sense of direction as an enterprise. By using "Fairness, Innovation, and Harmony" as our immutable guideposts, and by gaining a firm understanding of global trends such as climate change issues and DX, I believe we can undertake the appropriate reforms to help us address societal issues and enhance the Group's corporate value over the medium and long term.

The Marubeni Long-Term Vision on Climate Change

Our current situation, amid a rising incidence of extreme weather events and natural disasters across the globe, is not a normal one. It is vital to take environmental issues seriously and to conduct business accordingly. Resources on this planet are finite, and if we are to adopt the position that we must be proper stewards of the Earth, sustainability becomes a critical issue. The Marubeni Group engages with this issue in our day-to-day management.

Initiatives to promote sustainability are an essential aspect of what every business is expected to do now. The coal-fired power generation business is a powerful case study of how this works in practice. We led the industry back in 2018 in announcing a bold plan to halve the generation capacity of our coal-fired power generation business. Every year, financial institutions from Europe have been asking me for my views on the hot-button topic of coal-fired power generation, so I have been acutely aware of this issue for some time now. Just a few years ago there was a view that coal-fired power would probably be essential to the economic development of Southeast Asian countries, but in the blink of an eye the world has shifted.

Today, more than 120 countries have made the commitment to reduce their net greenhouse gas (GHG) emissions to zero by 2050. This kind of forward-looking stance is very important. The Marubeni Group announced the Marubeni Long-Term Vision on Climate Change in March 2021, in which we also set a target of reaching net-zero GHG emissions by 2050. Since a long-term vision is really just a goal, we also set practical targets as part of an action plan that we formulated for the period to 2030 so that our corporate direction is clear, and the long-term goal is more achievable.

With environmental issues, we can easily take a direct approach. We are able to contribute environmentally through our business functions because the Marubeni Group is already a part of various networks operating from upstream to downstream.

Accelerating global shifts do pose risks, but I believe they also present huge opportunities. Failing to anticipate and understand these new trends could mean being instantly left behind. So, rather than companies falling in line with the rest

of their industry, I think the main differences will be between those companies that face new global trends and respond to them, and those that don't.

The Marubeni Group is addressing the issue of sustainability in ways that will lead to enhanced corporate value; we are doing this by recognizing that actions to address societal issues are business opportunities, and by seeking to create new value through innovative solutions. We will continue to work to create new businesses in partnership with customers and society.

DX Strategy: the basis for addressing the Group's new challenge

In order to enhance our corporate value, we must simultaneously strengthen our existing businesses and develop new business domains. Our DX Strategy is the key to achieving this.

In February–April 2021, small teams led by the Chief Operating Officers of each business division looked at strategies for utilizing digital technologies to expand existing businesses across all Group divisions. At the same time, we also formed teams led by younger employees to devise scenarios and strategies utilizing digital technologies that could disrupt the strengths of our core businesses. This analysis looked for opportunities to use digital technologies in existing businesses alongside an objective analysis of DX-related threats. The output from these processes provided the basis for revising and improving each business division's strategy, while also generating ideas for new businesses to develop. Overall, I believe this was a successful initiative.

Digital technologies can be a powerful and invaluable tool for increasing the scale or efficiency of existing businesses, or to speed up operations. They can also play a vital role in supporting innovation. In addition, DX is not just about boosting efficiency or speed; I see new businesses coming into existence where DX itself is a core element of operations, as opposed to simply a means of optimization.

One of the issues we have at Marubeni is a shortage of people with the skills to lead our digital-led reform process. To address this, we plan to develop a digital talent base of 200 individuals by 2023. These people will have a base of business knowledge, in addition to having a working knowledge of data analysis and programming. In addition, they will be able to test



hypotheses based on the data analysis and come up with flexible concepts. We are looking to develop HR internally alongside active external recruitment. Development of our digital talent base will help us succeed in identifying new business domains while also making our existing businesses stronger and more efficient.

A diversity-oriented HR Strategy

People are Marubeni's greatest asset. It is no exaggeration to say that making the most of our human resources is the key to the success of the Marubeni Group.

Rising workforce mobility is characteristic of this current era. We have significantly overhauled our HR and personnel evaluation systems to ensure that Marubeni is a place where talented people will want to work. The reformed system went into effect in the fiscal year ended March 31, 2021. I believe that this new HR set-up recognizes the importance of human capital as a resource for the entire Marubeni Group, while also fostering awareness of the need to develop it.

We have also revised recruitment policies to ensure we hire more non-Japanese, seniors, and women – all of whom have tended to be under-represented within our workforce. To boost the intake of new female graduates for our career track, we have set a target of increasing the recruitment ratio to 40–50% within three years, which should quickly strengthen the company in this area.

We must recognize that the HR strategies prevalent in Japan until now have failed to help women achieve social advancement, despite women making up half of the population and gender having no bearing on overall aptitude. Setting a target of 40–50% female recruitment for university graduates sends a positive and empowering message to young people entering society in Japan, both male and female.

Reinforced investment discipline in the wake of asset write-downs

As a company, we have thoroughly analyzed and discussed the reasons why we have posted impairment losses over the past several years. As a result, we have decided to make changes to ensure stricter investment discipline so that such failures do not recur. In the past, many business plans for Marubeni's investment projects were based on optimistic growth assumptions. Today, we withhold approval for any projects that do not sufficiently consider key factors and in cases where proper checks have not been done to ensure that a potential investment is fully aligned with corporate strategy and growth probabilities. Application of strict selection criteria to any new investments has become an accepted part of the internal culture at Marubeni, though many also recognize that being overly strict could stop us from rising to

the challenge. We have reformed our HR systems to ensure challenging missions are properly valued, that people can get second chances, and that incentives are in place to encourage people to take up challenges in the first place. I believe our reforms have transformed our company culture into one that accepts strict selection criteria for investment projects while also retaining a spirit of enterprise. We have found a good balance between enforcing strict investment discipline and creating a system that allows employees to take on new challenges.

The fiscal year ending March 31, 2022 is the final one in the three-year GC2021 Medium-Term Management Strategy. Improvements will carry over into the next medium-term management strategy as we look to take the next steps in enhancing corporate value over the medium to long term.

Strengthening corporate governance and optimizing Group management

We are continuing to target improvements in our corporate governance; requiring all directors and Audit & Supervisory Board members to evaluate the effectiveness of the Board of Directors is a measure that enables executives to raise issues concerning Board operation without limitation. It works well, in my view, since it has made us aware of various places where improvements can be made. We are also focused on how to maximize the contributions of the outside directors even though the Board of Directors already meets quite frequently. We prepare advance briefings on Board meeting agenda items for them, organize meetings for the outside directors, and also opportunities for them to visit the front lines of Marubeni Group businesses.

We have revised the executive compensation systems for inside directors and executive officers, starting from the fiscal year ending March 31, 2022. Previously, up to 20% of base annual remuneration could be awarded in the form of stock options. In June 2021, we introduced restricted stock (shares with restriction on transfer) and performance share units (shares issued or disposed in accordance with the achievement of targets linked to market value growth rate and other performance indicators) as new executive remuneration tools. This decision will help to provide improved incentives for management to increase the share price in ways that are aligned with the interests of all shareholders.

One of the principles of Group management at Marubeni is that we endeavor to promote top-performing employees to senior management positions of our operating companies so that we can maximize the results of these companies. We have also adopted structures to promote dynamism and ensure that as much operational independence as possible is afforded to them. While the Marubeni Headquarters naturally acts as the owner of each operating company, we try to maximize corporate value by allowing the top managers at each firm to specialize and grow within their domain. In addition to the local governance structures, each operating company must comply with the Marubeni Group governance policies to ensure sound operations are maintained. By strengthening Group management while ensuring that the relationships between operating companies and Headquarters are highly transparent, we aim to create a dynamic enterprise that is also well suited to addressing societal issues.

Restoring trust to pursue long-term enhancement in corporate value

In the fiscal year ended March 31, 2021, we strove to restore the trust of shareholders, investors and other stakeholders following the losses posted in the previous year. With our top priority to rebuild and strengthen the financial base, we focused on boosting cash flows and meeting quantitative targets such as an improvement in our net DE ratio. We remain committed to achieving the goals we have communicated to our stakeholders and will not allow ourselves to get complacent.

We recognize, however, that focusing only on greater financial discipline dampens the momentum to strive for growth. I stated last year that, despite significant losses, we would not reconsider the spirit of GC2021. Growth-oriented investments are necessary if we are to achieve our longer-term targets for enhancing corporate value. While keeping a solid base of operations, we will move on to sow the next seeds of growth once we have made the necessary improvements. In doing so, we hope to satisfy the expectations of all shareholders.

August 2021

Masumi Kakinoki
President & CEO