Shareholder proposal briefing

Inadequate disclosures

- Climate-related financial risks
- Audit and Supervisory committee responsibilities

Chubu Electric Power Co.
Mitsubishi Corporation
Mitsui & Co.
Sumitomo Corporation

APRIL 2025

Give us your feedback

Trading houses and Chubu/JERA must strengthen climate risk disclosure and oversight so investors can assess impact

The current business plans of Mitsubishi, Sumitomo, Mitsui and Chubu/JERA* are aligned with catastrophic levels of warming** – despite these companies announcing net zero commitments and plans.

Current climate risk disclosures are inadequate. Investors cannot accurately assess the financial risks facing company strategies and major planned investments.

These companies are not disclosing robust assessments of key risks, including **high physical risks to operations and assets and transition risks facing new fossil fuel investments.**

Audit and supervisory committees/boards responsible for overseeing director duties are failing to provide clear rationale for how climate-related risk controls are monitored and assessed. Current disclosures lack transparency on risk oversight, assessment criteria, and the effectiveness of board supervision.

These shareholder proposals request better disclosure on material risks and their management, including basis of the audit committee/board evaluation of company strategy, policies and processes in order to enhance corporate value through improved management of climate-related financial risks and opportunities.

*JERA is a 50-50 joint venture between TEPCO Fuel & Power (a wholly owned subsidiary of Tokyo Electric Power Company) and Chubu Electric Power.
** Based on analysis by the MSCI Sustainability Institute

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Analysis featured in this briefing does not substitute analysis and disclosure from the companies themselves with primary information". The purpose of the information featured here is to demonstrate to investors the substantial climate-risks the companies are exposed to, and encourages them to undertake their own detailed, forward-looking analysis to demonstrate to investors how they are managing these risks.

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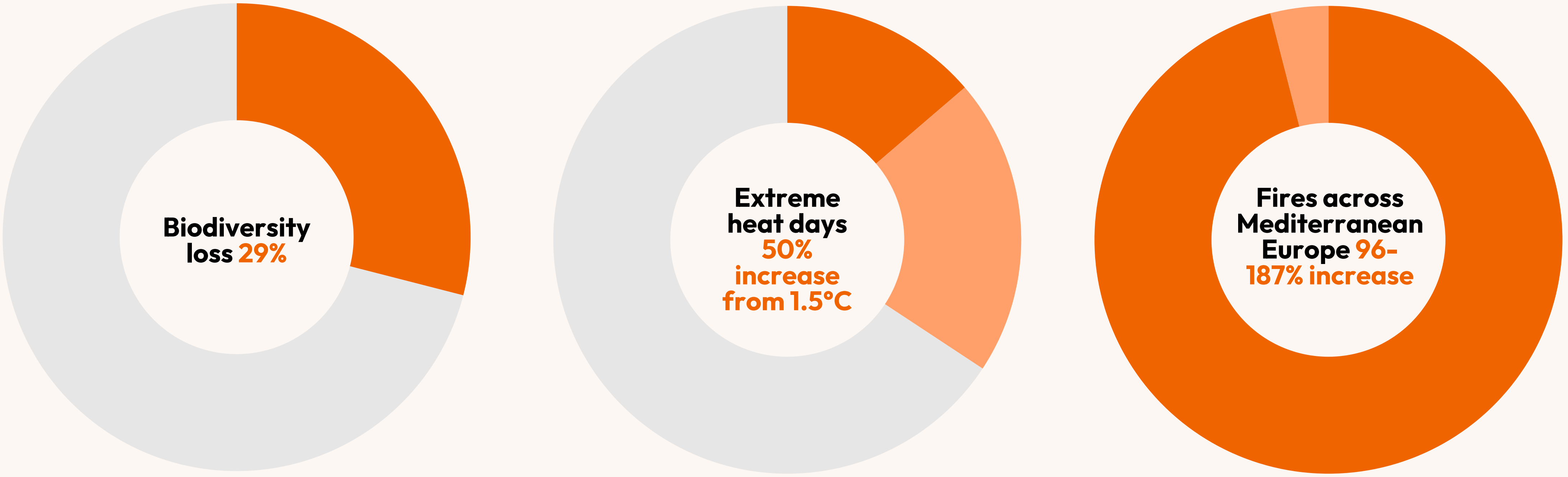
What’s in a degree:
Effects of warming on planet and economy

At 3°C climate impacts would be catastrophic



2.1x worse than 1.5°C

1.5x worse than 1.5°C

3x worse than 1.5°C

JULY 26, 2024 | 3 MIN READ

Extreme Heat Is the Deadliest Weather Disaster

Hundreds of thousands of people die from extreme temperatures every year, more than any other type of weather disaster

BY CHELSEA HARVEY & E&E NEWS

1.29bn people impacted by drought

1.4x worse sea level rise by 2100 compared to 1.5°C

8-12x more heatwaves in Southern Africa each year

6.4 heat waves in world's largest cities per year (29% higher than 1.5°C)

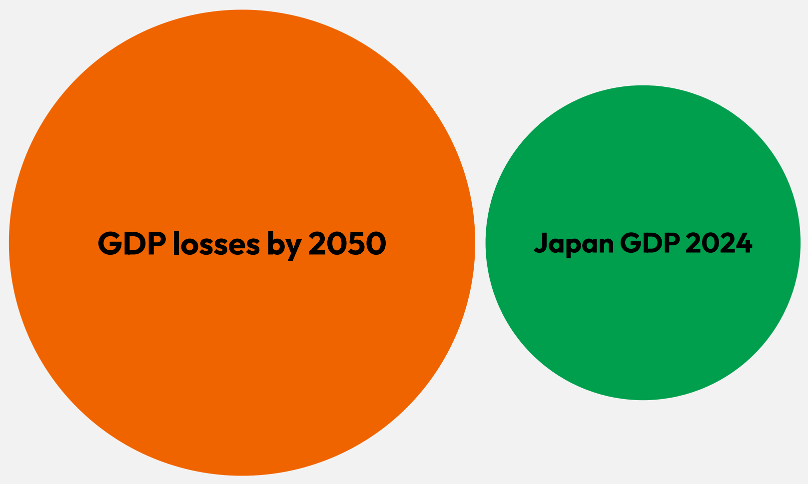
24.5 days global average for longest heat wave duration in world's largest cities (51% higher than 1.5°C)

Source: WRI – 'What Would Cities Look Like With 3 Degrees C of Warming vs 1.5? Far More Hazardous and Vastly Unequal'
Source: WRI – '10 Big Findings from the 2023 IPCC Report on Climate Change'

Significant economic costs from failing to meet 1.5°C target

Researches consistently warns of the financial costs to economies and balance sheets of failing to meet the 1.5°C global goal. GDP losses will be substantial, however, analysis by the World Economic Forum forecasts that every dollar invested in climate mitigation and adaptation initiatives could achieve a 5x increase in net GDP savings.

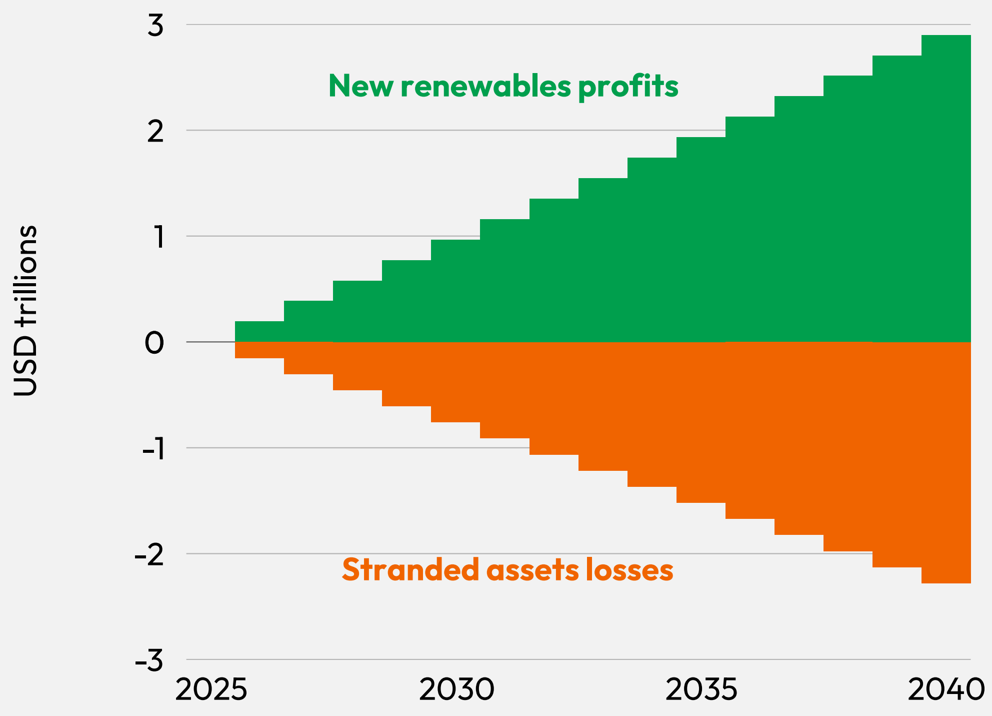
Between now and 2050, Japan could lose the equivalent of more than two years of GDP (based on 2024 levels) in a 2.3°C warming scenario



Asia Investor Group on Climate Change **forecasts losses of USD $9.2 trillion** between now and 2050 under current policy settings.

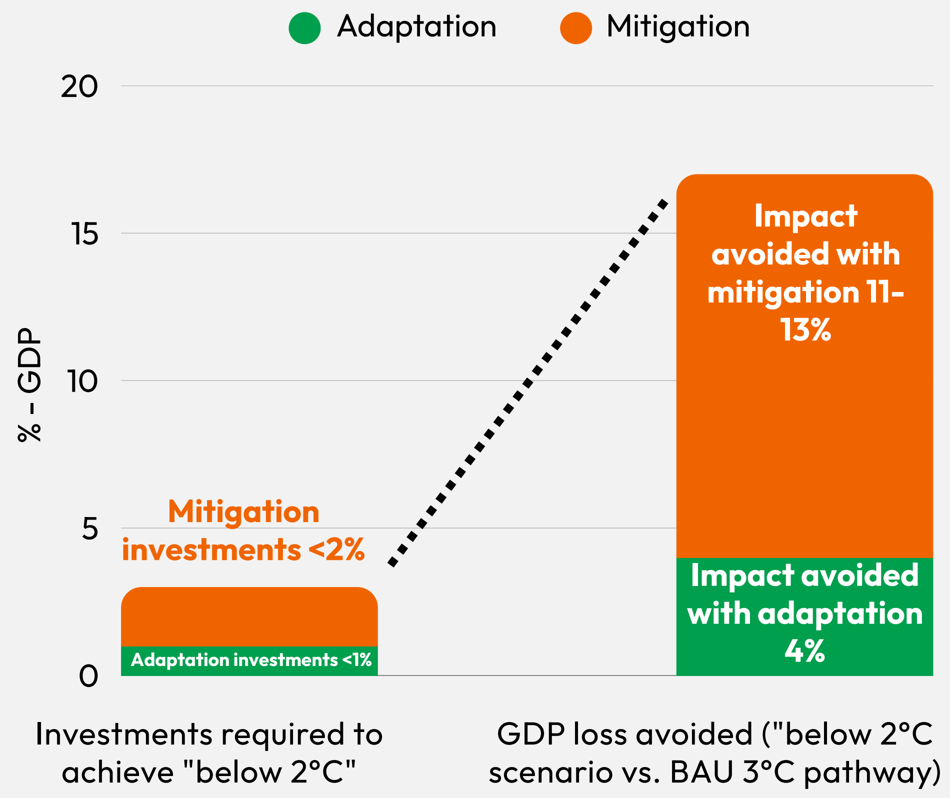
Source: World Bank (accessed March 17 2025, Japan GDP in 2023 was USD $4.2 trillion).

By 2040, global asset stranding reaches $2.28 trillion while new renewables profits reach $2.9 trillion



Source: UK Sustainable Finance Investment and Finance Association – Stranding: Modelling the UK's Exposure to At-Risk Fossil Fuel Assets

3% of cumulative GDP investment into mitigation and adaptation could avoid 15-17% in net GDP loss



Source: World Economic Forum – The Cost of Inaction: A CEO Guide to Navigating Climate Risk

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Investors require better disclosure of climate risks impact on financial performance

Mitsubishi, Mitsui, Sumitomo and JERA/Chubu disclosures (see slides 15-16) **fail to provide the financial details investors need to assess climate risks.** IFRS S2 Climate-related Disclosure requires companies to disclose the following items in relation to "climate-related risks and opportunities on the entity's financial position, financial performance and cash flows" for the reporting period **as well as over the short, medium and long term**. **Japan has adopted IFRS and these will be mandatory for the Japanese trading houses.**

Investors need:

Quantified financial cost estimates and linkage to financial performances

Instead of abstract risk level descriptors – "High, Medium, or Low" – investors seek quantified cost estimates with key assumptions used in the process including:

- Costs of physical risks (e.g., infrastructure damage, water scarcity).
- Costs of transition risks (e.g, regulations, legal, market demand shifts, stranded asset, carbon pricing).

Evidence of company's readiness for transition backed by adequate financial capability

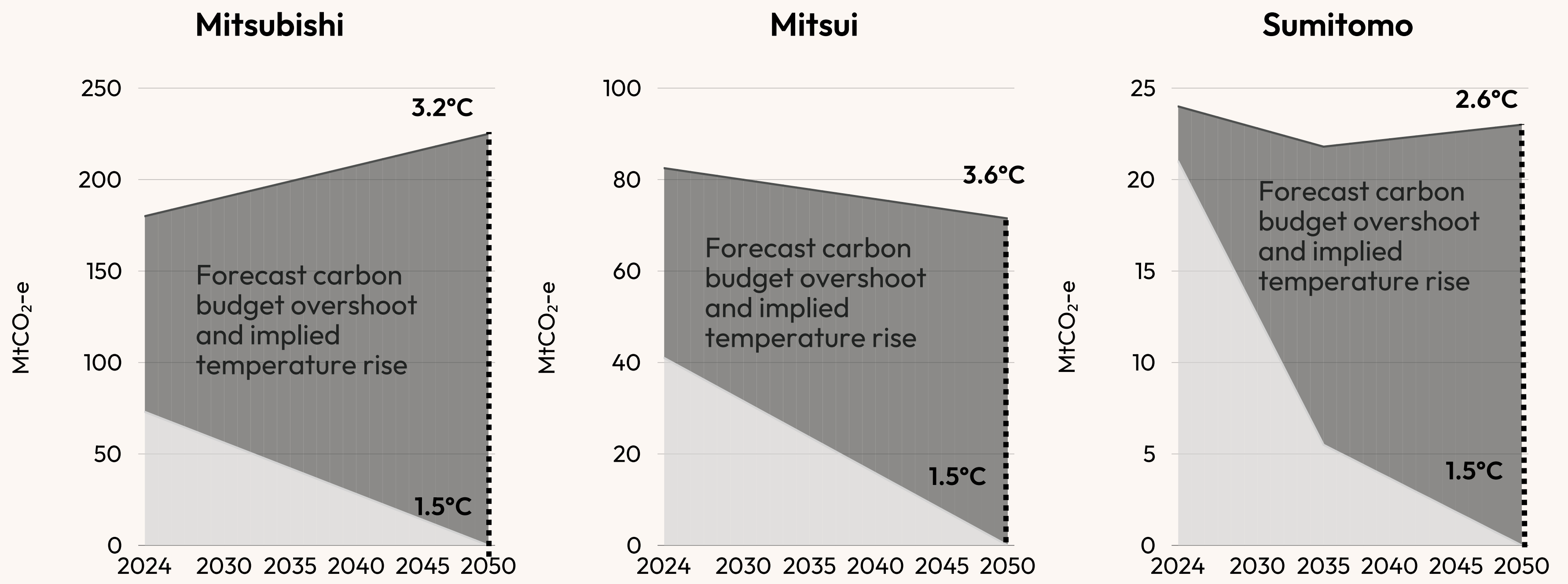
Investors seek information on whether the company has a robust and foreseeable plan for climate change-related risk management and transition planning, including:

- Transition investment plans (e.g., CapEx required for a transition aligned with 1.5°C).
- Decarbonisation plans, including retirement or repurposing of high-emitting assets in line with a 1.5°C climate goal.

Reality gap:
The costs of Japanese corporates not meeting 1.5 °C targets given their investments

Japanese trading houses + Chubu/JERA strategies are aligned with catastrophic warming

Company names	Claimed levels of warming-alignment in transition plan
Mitsubishi	1.5°C
Mitsui	Net zero emissions in 2050
Sumitomo	Carbon neutral in 2050
Chubu/JERA	Net zero by 2050



Source: MSCI ESG Ratings and Climate Search Tool

Mitsubishi, **Sumitomo**, and **Mitsui** all have business plans aligned with catastrophic levels of warming – 2.6°C or higher, according to the MSCI Sustainability Institute.

While Chubu-owned JERA is not a "trading house", JERA has **double the amount of planned new gas-fired power capacity of the three other companies combined** and "handles approximately **40 million tons of LNG annually, among the largest transaction volumes in the world."**

Despite this, these companies continue to claim alignment with the goals of the Paris Agreement and net-zero emissions by 2050.

The gap between the projected levels of warming and the companies' claims is **evident in planned investments in new and expanded coal and LNG assets.** The cost of 'decarbonising' these assets has not been disclosed to investors, posing a significant **transition risk.**

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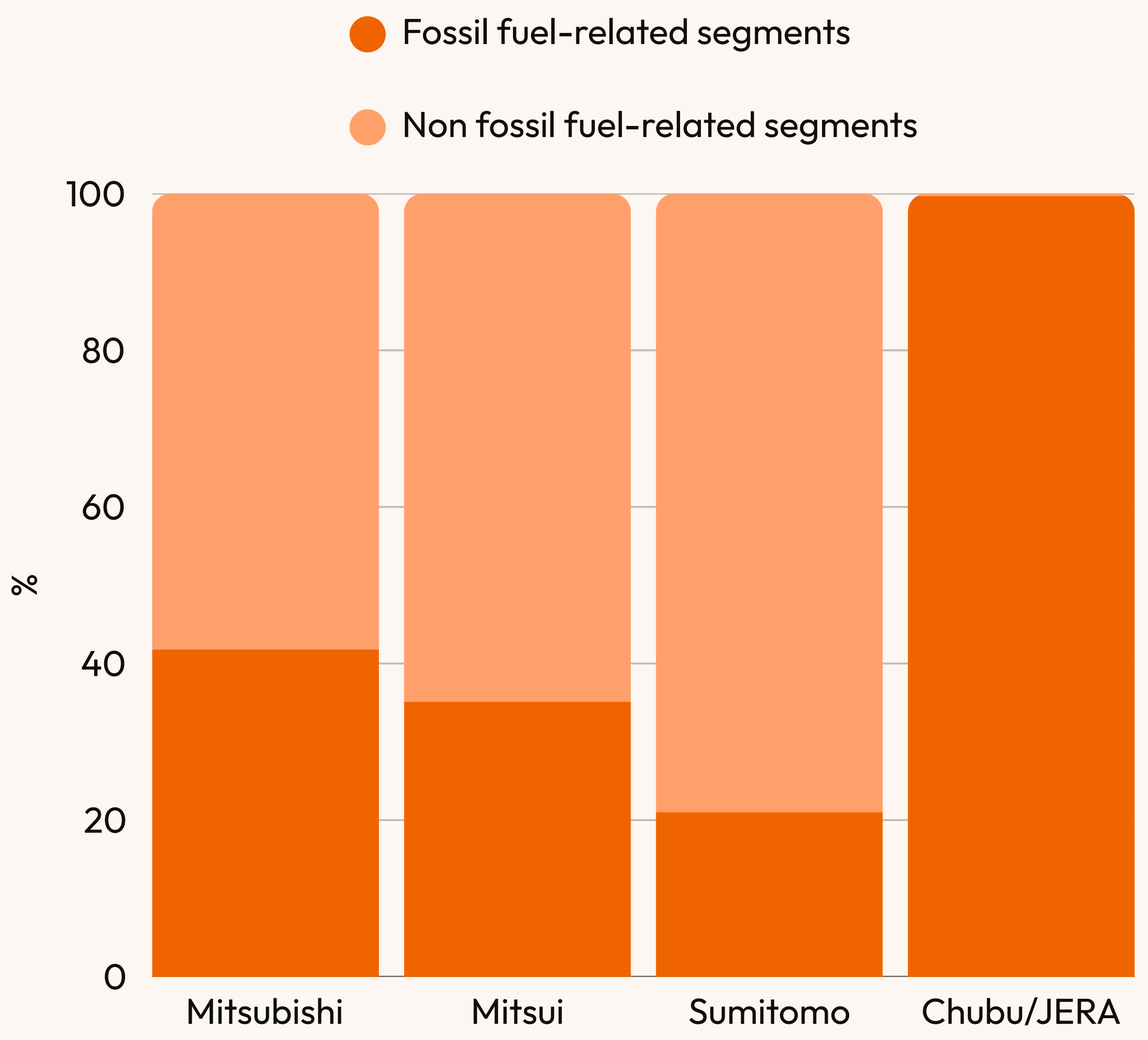
Key transition risks: Rising costs and market shifts for fossil fuel businesses

As governments implement climate policies and the energy transition accelerates, companies relying on fossil fuels face growing market, policy and regulatory risks. These transition risks could significantly **impact their business models and profitability.**

Physical risk	Disclosure gap
Carbon pricing	**Investors need to know the risks to their own portfolios** Has the company disclosed analysis of how its current and future fossil fuel assets will be impacted by the introduction or increase of carbon pricing in countries of operation?
Regulatory changes	**Investors need to know that their company is able to profit from/mitigate these changes** How will new regulatory regimes, such as the European Union's Carbon Border Adjustment Mechanism (CBAM), impact the cost of the company's imported goods and overall business operations?
Cost-competitiveness	**Investors need to be able to better understand the impact to their return on investment** How will additional technology costs such as CCS, blue hydrogen and ammonia production affect the affordability of fossil fuel products for consumers compared to alternatives?
Declining demand	**Investors need to assess their companies' resilience in different scenarios** How would scenarios where the world achieves 1.5°C or well below 2°C impact the demand for the company's fossil fuel products, such as metallurgical and thermal coal, and oil and gas?

Trading houses and Chubu/JERA are exposed to transition risks

As high-emitting businesses with significant fossil fuel operations, the Japanese trading houses and Chubu/JERA face a host of transition risks to their businesses in Paris-aligned scenarios. Most significant is the potential for stranded assets due to the introduction of stringent carbon prices worldwide.



Company	Fossil fuel-related segments	Approximate % of portfolio in fossil fuel-related segments*
Mitsubishi	Based on Net Income in FY2023: • Fossil Gas (22.8%) • Metallurgical coal – (Approximately 13%) • Power Solution – Fossil fuels (Approximately 6%)	**41.8%**
Mitsui	Based on FY2024 profits: • Metallurgical coal (2.64%) • Fossil gas/LNG (20.6%) • Crude oil (5.8%) • Power generation portfolio and gas infrastructure – approximately 6% of total revenue based on FY23 data for Machinery & Infrastructure segment	**35%**
Sumitomo	Based on FY2023 profits (detailed breakdown of profits not provided): • Mineral Resources (Approximately 7%) • Energy Transformation Business (Approximately 17.8%)	**25%**
Chubu/JERA	Based on FY2023 revenue (excludes adjustments**): • Fuel (8.34%) • Domestic thermal power generation and gas (90.6%) • Overseas power generation (fossil fuels only) (0.8%)	**99.7%**

*The % of revenue in fossil-fuel related segments is based on the companies' disclosures, which often reports fossil fuel segments as part of other business segments. Where full disclosure was not provided, estimates and approximations were used based on information the company had disclosed about revenue/profit the company derived from that segment in the relevant reporting year.
** adjustments include headquarter expenses and consolidation adjustments such as intersegment eliminations

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Fossil fuel investments at risk: Mitsubishi – CCUS and cost-competitiveness risks of metallurgical coal expansion

Mitsubishi has **not disclosed the projected costs of ensuring future fossil fuel projects** (such as new/expanded metallurgical coal mines and LNG) are aligned with the Paris Agreement.

Mitsubishi's disclosures forecast that demand for 'high-quality metallurgical coal' will remain steady and emissions will be abated by blast furnaces equipped with carbon capture utilization and storage (CCUS).

Current capacity for CCUS for blast furnace-based operations remains stuck at just **1MtCO_2-e per year.** Just 6 CCUS projects are proposed, with a total capture capacity of **0.13%** of global steel emissions (see next page).

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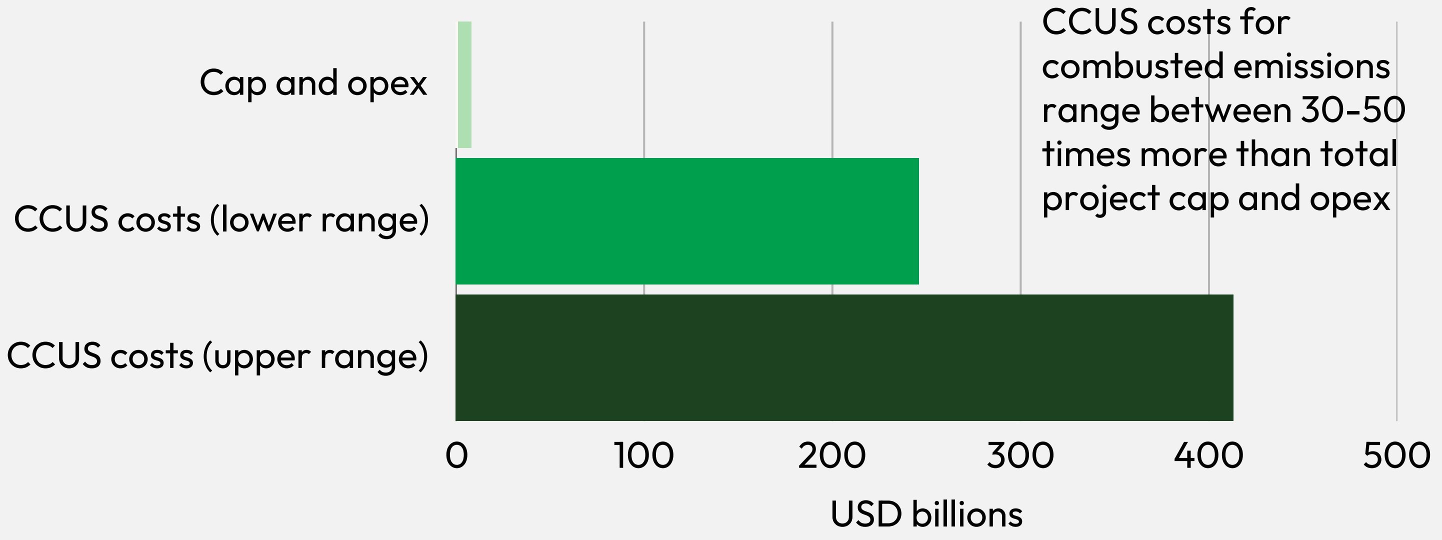
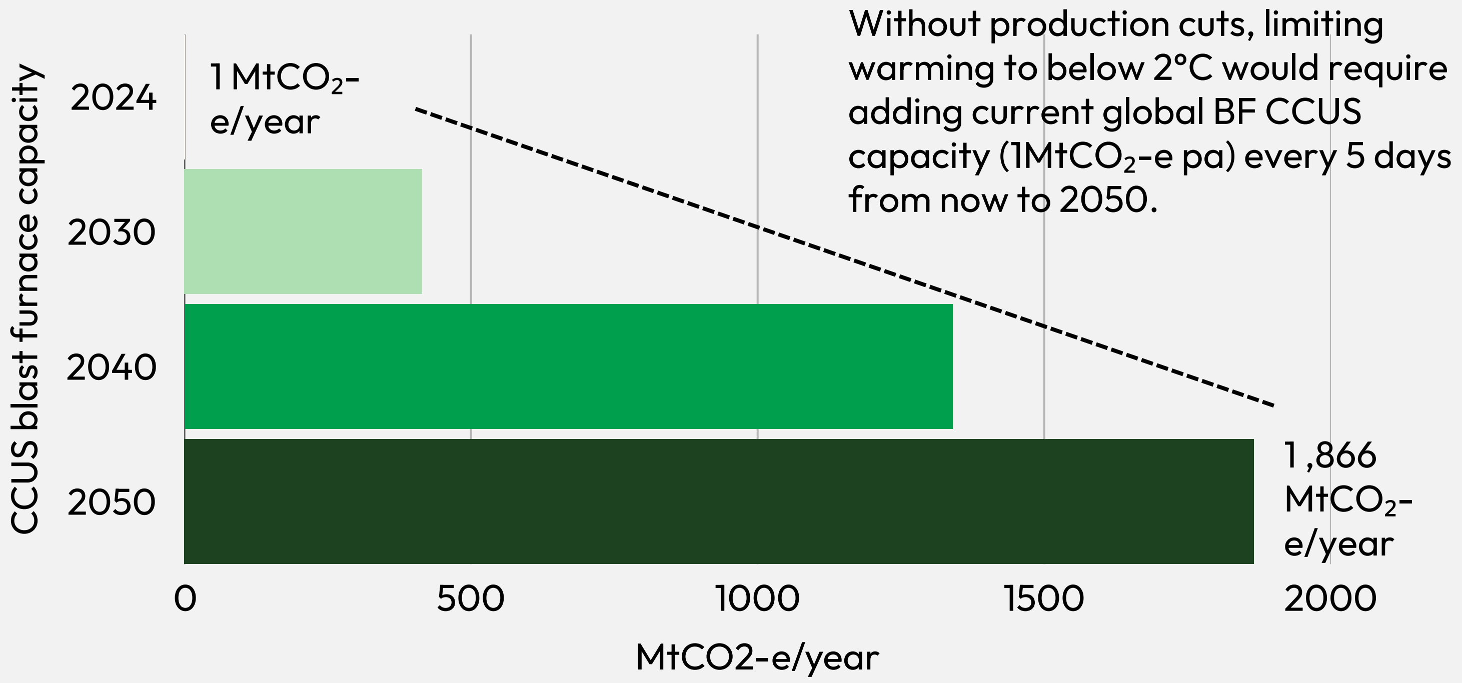
Fossil fuel investments at risk: Mitsubishi – CCUS and cost-competitiveness risks of metallurgical coal expansion

Peak Downs Metallurgical Coal Continuation Project – costs of abatement compared to initial capital expenditure



Source information: BMA (BHP/Mitsubishi Alliance) has estimated that Peak Downs would operate for 93 years and produce 1256 million tonnes of metallurgical coal over its project life. The emissions from this would be over 3.47 billion tonnes of CO_2-equivalent. The Global CCS Institute has estimated the CO_2 abatement costs for the steel industry range from USD$71 to $119/t$CO_2$-e, meaning the full cost of abatement for Peak Downs could range between USD $246-$413 billion. Total capex and opex costs were based on Mitsubishi's estimates of AUD $2 billion (capex) and AUD $120 million (opex per annum), converted to USD using 13 March 2025 RBA exchange rate.

If metallurgical coal production does not fall, decarbonisation would require an explosion in blast furnace (BF) CCUS capacity



Source information: The data featured here is taken from the Transition Pathway Initiatives October 2023 "Carbon Performance assessment of coal mining companies: discussion paper" which leveraged IPCC and IEA projections for a 'Below 2ºC scenario' to forecast required emissions reductions from the metallurgical coal sector by 2030, 2040 and 2050, based on 2021 production levels. Emissions from methane leaks, extraction and processing are included.

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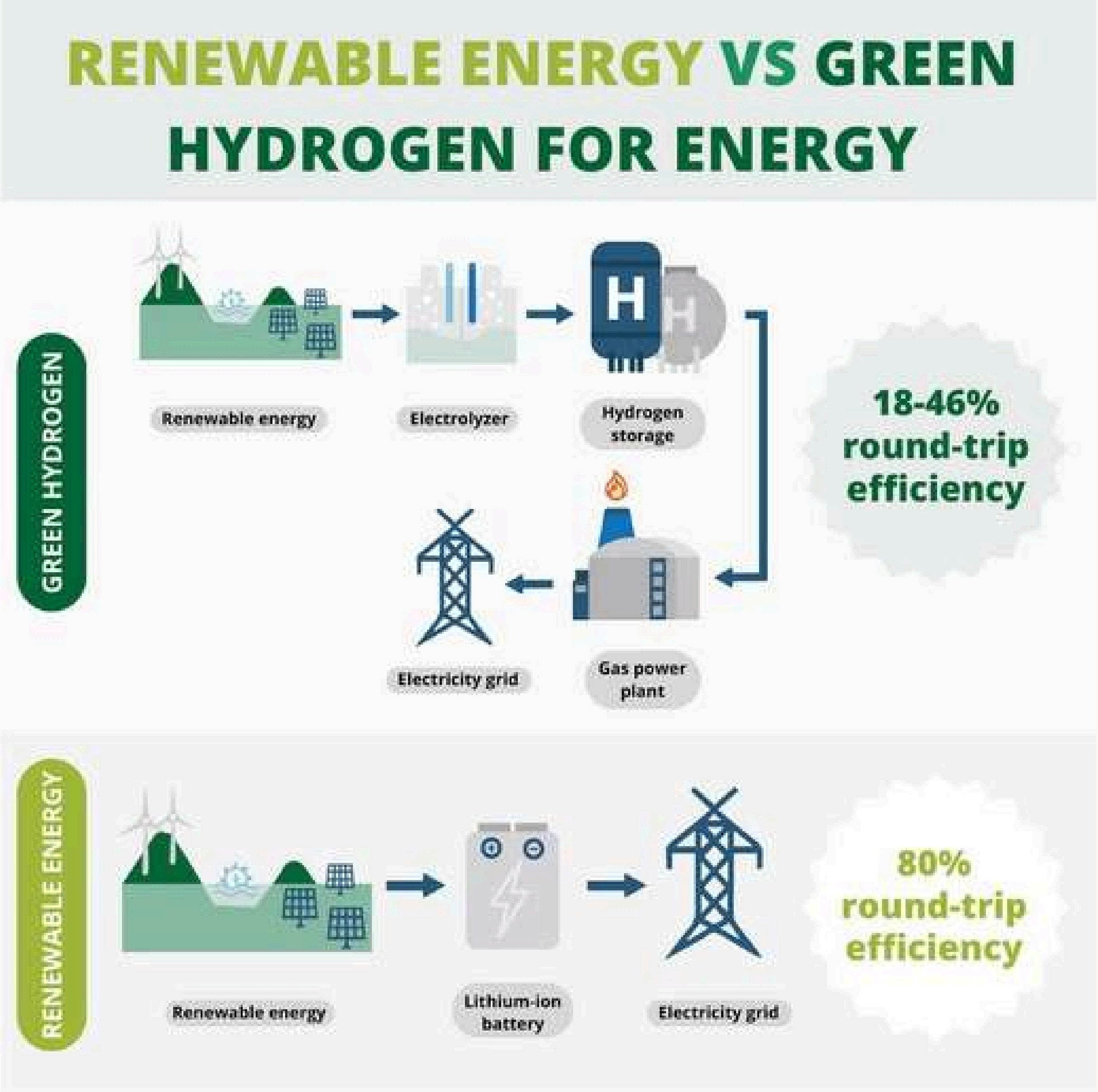
Fossil fuel investments at risk: Sumitomo's Van Phong 2 risks becoming a stranded asset

Sumitomo Corporation is developing an LNG-to-power project (**Van Phong 2**) which may be converted into a hydrogen-to-power project (see Second AZEC Leaders Meeting (October 11, 2024), "Cooperations towards 2nd AZEC Leaders Meeting" p. 115, link unavailable). While the type of hydrogen is not specified, **even hydrogen produced through renewables would be too costly**.

Vietnam has recently recognised volatility of LNG prices and has **set a price cap** on generators' sales of electricity fuelled by imported LNG. According to Reuters, "The 2024 price cap is based on LNG at $12.9792 per million British thermal units (mmBtu) … but average Asian spot LNG prices have trended higher since 2021, between $14 and $34/mmBtu on an annual basis…" **Hydrogen would only be more expensive and less efficient**.

This price cap **raises questions about the profitability** of projects such as Van Phong 2 where high LNG or hydrogen production costs would eat into profits from electricity sales. **These projects are at risk of becoming stranded assets.**



Fossil fuel investments at risk: JERA – blue hydrogen solution is a pipe dream

Extraction | Liquefaction | Shipping | Regasification | Combustion

Stage	USA Average (tCO_2-e /t LNG)	Australia Average (tCO_2-e /t LNG)
Upstream/extraction	0.89	0.26
Liquefaction	0.35	0.32
Shipping	0.52	0.07
Regasification	0.57	0.70
Combustion	2.05	2.05
Total	**4.38**	**3.4**
JERA annual LNG trading volume (Mtpa)	35-40	35-40
Total annual ($MtCO_2$-e)	**153.3-175.2**	**119-136**

JERA's **Zero CO2 Emissions 2050 Roadmap** involves a three-pronged approach of **LNG production**, **hydrogen and ammonia**, and **renewable energy**. Chubu's 2050 Net Zero plan is heavily dependent on JERA's roadmap.

Despite the heavy reliance on fossil fuels in its net zero roadmap, JERA has assured investors that it can make its LNG business and its thermal (coal and gas) power stations carbon neutral through conversion to hydrogen and ammonia and the use of CCUS.

Research has found that blue hydrogen is more emissions intensive to produce than gas, particularly if it involves adding every emissions intensive step in the LNG value chain before it is converted into hydrogen. Abating blue hydrogen will rely almost entirely on CCUS, a technology not yet proven to work at scale and one that adds enormous production costs to reduce emissions.

Source: CSIRO – Greenhouse gas emissions from the liquefied natural gas industry in Australia, June 2022
Notes: Australian figures are based on averages from three different project types (CSG from Queensland to Asia, LNG shipped to China, Scarborough (Western Australia) shipped to China.
Combustion figures are based on 2006 IPCC Emissions Factor of 56100kgtCO_2/TJ of gas, modified for tonnes of LNG.

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Transition risk disclosure gaps

Transition risk	Disclosure gap	Disclosure provided*	Peer disclosure
Carbon pricing	**Forward looking cost estimates for new fossil fuel investments:** The companies have not disclosed the impacts of future carbon pricing on new fossil fuel investments, leaving investors in the dark about crucial information such as the profitability of projects in Paris-aligned scenarios.	**Mitsubishi** has provided estimates of Paris-aligned carbon pricing's impact on specific assets and its current Scope 1 and 2 emissions profile. **Sumitomo** has provided estimates of the Paris-aligned carbon pricing's impact, but excludes thermal power generation and fossil fuel upstream business (Sumitomo CDP reporting 2024, p.59). **Chubu/JERA** provided estimates of carbon pricing's impact at a business segment level, not asset level.	As noted by EY in Applying IFRS: Connected Financial Reporting: Accounting for Climate Change, p. 19 (May 2024), "sensitivity disclosures, quantified if relevant, to illustrate the uncertainty embedded into the estimates relied on by entities, should also be made." **Equinor ASA** (Illustration 1-5, p. 12-13) **"**provided disclosures of commodity price sensitivity aligned with a Paris Agreement scenario in its 2023 annual financial statements" **with a table based on different management price assumptions.** **Shell Plc** (Illustration 3-12, p. 39) **"used a number of external climate change scenarios and disclosed the sensitivity of carrying amounts to prices** under the assumption that all other factors in the models used to calculate recoverability of carrying amounts remain unchanged." **In assessing impairments of assets**, companies like Beach Energy (Illustration 3-4, p.30) have factored in carbon pricing and Eni (Illustration 3-6, p.34) has included a market risk premium in its discount rate.
Regulatory changes	The companies have not disclosed the effects of regulations, including **mandated retirements of assets,** which would have an impact on the value of the assets**.**	None of the trading houses or Chubu/JERA.	As noted by EY in Connected Financial Reporting: Accounting for Climate Change, Equinor ASA reporting (Illustration 4-3, p. 45-46) includes provisions **for timing of asset retirement obligations.**

*Mitsui has not disclosed its CDP reporting on its website nor shared the reporting with shareholders, and has failed to communicate widely.

Transition risk disclosure gaps

Transition risk	Disclosure gap	Disclosure provided	Peer disclosure
Cost competitiveness	**Costs of decarbonisation strategy (CCUS and hydrogen/ammonia conversion) undisclosed:** The Japanese trading houses + Chubu/JERA have not disclosed the estimated costs of ensuring the emissions from their new fossil fuel investments are compatible with Paris. These emissions will need to be abated, most likely with CCUS. The additional costs of CCUS as an abatement strategy have not been disclosed to investors.	None of the trading houses have justified how their new fossil fuel investments will be competitive in Paris-aligned scenarios.	**In its** CDP report, Shell clearly discloses its capital expenditure (at the asset level) when reporting on where and how climate-related risks and opportunities have influenced financial planning. It also includes spending on CCS at the asset level (p. 36-38).
Declining demand	**No rationale for how new fossil fuel investments will provide a good return on investment in Paris-aligned scenarios:** Insufficient disclosure has been provided to investors about how investments in new high-emitting coal and gas assets will be competitive in Paris-aligned scenarios. Companies should provide forward-looking quantitative analysis that justifies such investments when compared to alternative competing energy sources such as **renewable energy with battery storage.**	**Mitsubishi** has stated that its metallurgical coal and LNG businesses will be resilient in a 1.5C world **Mitsui** has stated that its metallurgical coal and LNG business will be resilient in a 1.5C world. **Sumitomo** has stated that its gas power, metallurgical coal and LNG business will be resilient in various scenarios, including 1.5C. **JERA** has disclosed that its LNG business will experience impairments	As noted by EY in Connected Financial Reporting: Accounting for Climate Change, p. 50: "If market participants would consider adjustments for the inherent risk of the asset or liability or for the risk in the valuation technique used to measure fair value (e.g., the valuation technique did not explicitly consider climate-related matters), then such risk adjustments should be considered in the fair value assumptions," although EY also notes that "market(s) and market participants might not yet know how to adjust for it in the price of the asset or liability", and whether or how they can factor "relevant climate-related risks into a fair value measurement."

Japanese corporates are failing to disclose the costs of mitigating climate-related physical risks – in part exacerbated by their investments

Key physical risks: Rising costs of climate change on businesses

Companies face a host of acute and chronic physical risks to their businesses from climate change – these include risks to their facilities, staff, supply chains, and distribution lines, with significant potential impact to their bottom lines.

Physical risk	Disclosure gap
Sea level rise	**Power plants and LNG infrastructure are primarily coastal and threatened by chronic sea-level rise.** Has the company disclosed analysis on how its current and future fossil fuel assets will be impacted by sea level rise projected under a 3°C warming scenario?
Chronic drought	**Significant consequences for water-intensive industries like mining, power generation and agriculture, particularly with operations in areas prone to water-stress.** What would be the cost of supplying or reducing water use in the companies' water-intensive businesses?
Storms and flooding	**Hurricane seasons in the United States have caused material reductions in oil and gas production and significant periods of closure of LNG terminals. 19-24% of industrials sector assets in Asia are highly exposed to flooding, according to a Moody's Study.** What would be the cost of significant periods of closure do to storms and flooding projected under a 3°C warming scenario?
Heatwaves	**Increasingly severe heatwaves will reduce power plant capacity while simultaneously increasing demand for electricity for cooling.** How would increased heatwaves impact the capacity of the trading houses' power plants to meet demand?

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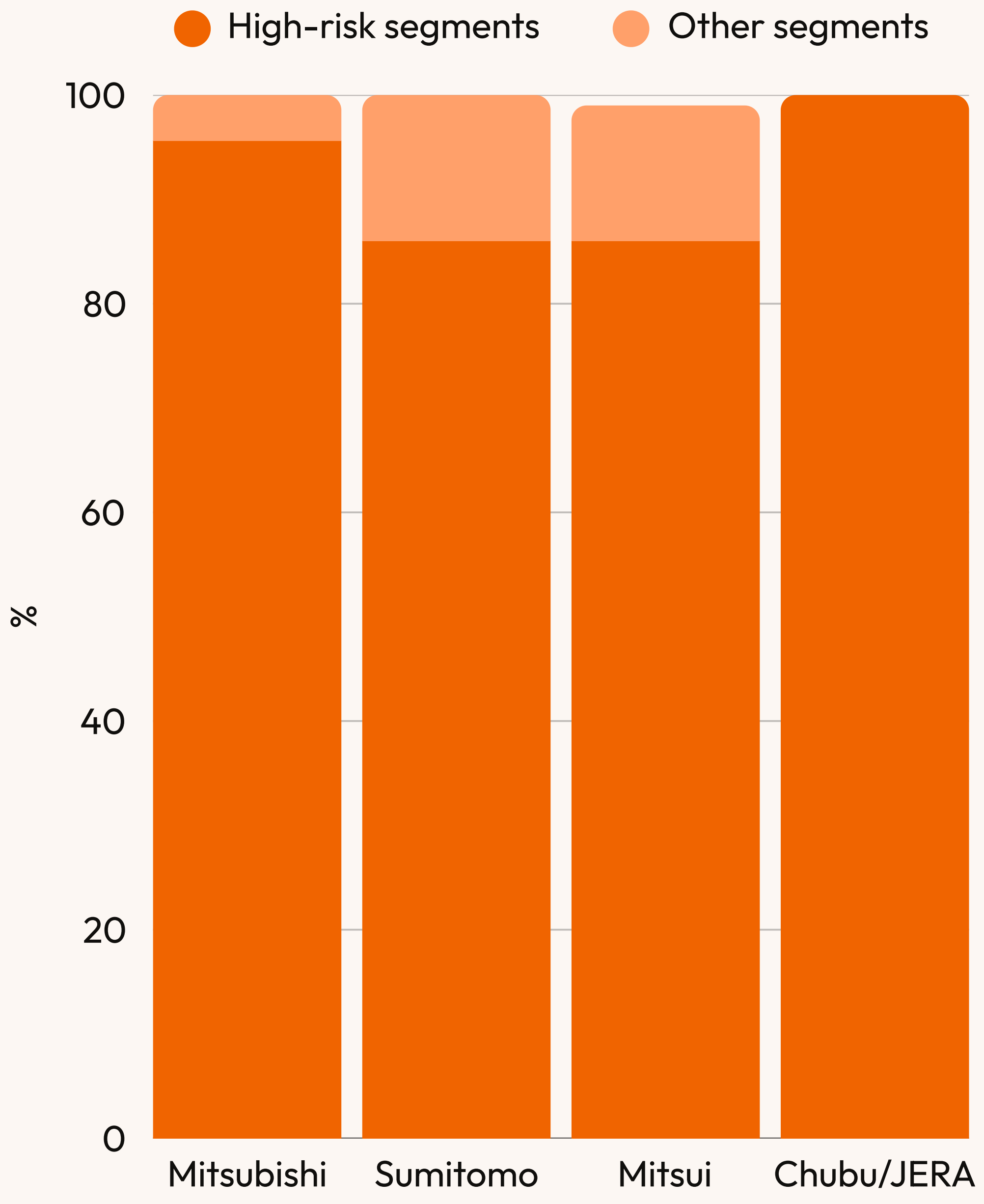
Trading houses and Chubu/JERA are exposed to physical risks

As high-emitting businesses with significant fossil fuel operations, the Japanese trading houses and Chubu/JERA face a host of transition risks to their businesses and physical assets in high-warming scenarios.



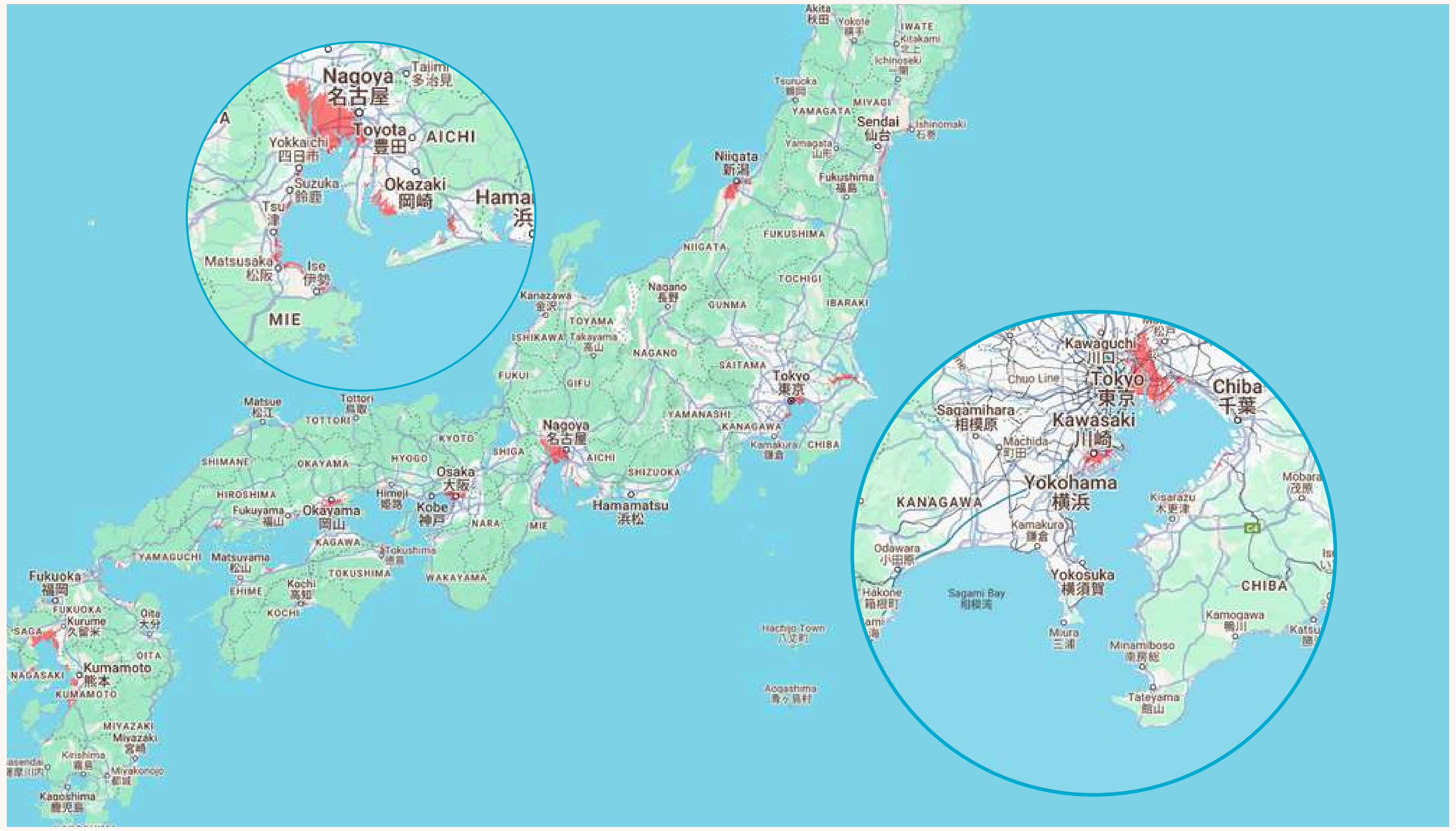
Company	Most impacted business segments	*Approximate % of portfolio in segments exposed to high physical risks
Mitsubishi	Based on Net Income in FY2023: • Mineral Resources (30.7%), Gas (22.8%), Food Industry (1.55%), Power Solution (9.5%), Industrial Materials (6.7%), Industrial Infrastructure (4.4%) Automotive & Mobility (14.7%), Chemical Solutions (1%) and Urban Development Segments (4.3%).	**95.6%**
Sumitomo	Based on Total Profit for FY2023 • Energy Transformation Business (19.8%), Mineral Resources (14.4%), Chemical Solutions (4.6%), Urban Development (9.6%), Transport/Construction (13.6%), Steel (13.6%), Automotive (10.4%)	**86%**
Mitsui	Based on Total Profit for FY2023 • Energy (26.5%), Mineral and Metal Resources (31.5%), Chemicals (3.7%), Machinery and Infrastructure (23.4%), Iron and Steel (1%)	**86.1%**
Chubu/JERA	Based on FY2023 revenue (excludes adjustments) • Thermal Power Stations (Coal, LNG, Gas and Renewables) and fuel procurement (LNG) – covers whole business.	**100%**

*Companies are exposed to a range of physical risks and the impacts of climate change are likely to be felt across the entire economy. Because of this, only sectors likely to face high-risks from the physical impacts of climate (e.g., drought, sea level rise, storms and flooding, and heatwaves) were included. These classifications are general in nature. Without asset-level data it is impossible to accurately assess the level of physical risk in the companies' portfolios. Based on location, assets within the same business segments could be exposed to vastly different levels of physical risk. This underscores why disclosure of asset-level analysis is crucial for investors to understand the companies' risk profile in high-warming scenarios.
** adjustments include headquarter expenses and consolidation adjustments such as intersegment eliminations

Fossil fuel investments at risk: JERA's power plants affected by sea level rise by 2050

JERA is Japan's largest power generation company with generation assets supplying approximately 30% of the country's electricity. Many of these power plant assets are located on land projected to be below the annual flood level in 2050, presenting serious adaptation challenges and costs for the company in high warming scenarios.

Many of JERA's thermal power projects in Japan are located in coastal areas



Climate Central: Coastal Risk Screening Tool
Land projected to be below annual flood level in 2050 (refers to the predicted height of a flood that has a certain probability of occurring in any given year)

Fossil fuel investments at risk: Projects off the coast of Western Australia at high physical risk

Bloomberg has rated the Browse LNG project (equity stakes held by Mitsubishi and Mitsui) and Scarborough LNG project (equity stakes held by Sumitomo and JERA) at **high physical risk**, from extreme weather events as well as sea level rise.

These disruptions can **cost**: for example, Suncor Energy estimated in its CDP report that a 10-day Base Plant shutdown could cost the company more than $500 million in the form of lost revenue due to production losses.

Assets at risk: Mitsubishi's mining operations face costs of chronic drought

Source: BHP – Reducing reliance on groundwater at Escondida

Along with JECO Corporation and JX Nippon Mining and Metals, Mitsubishi is part of a consortium that owns a 10% stake in the Escondida copper mine in Chile.

After an unprecedented drought severely impacted the country's freshwater supply, the **proponents of the mine were forced to construct a USD $4 billion desalination plant to continue its mining operations at Escondida.**

The initial capital expenditure and ongoing operational expenditure at the desalination plant is a stark example of the **potential additional costs companies may face under high-warming scenarios.**

Physical risk disclosure gaps

Critical gaps remain in Mitsubishi, Mitsui, Sumitomo and Chubu/JERA's disclosure around the potential physical impacts to their businesses from high-warming scenarios, including the estimated costs of adaptation for assets in areas facing high physical risk.

Physical risk	Disclosure gaps	Disclosure provided	Peer disclosure
Storms/flooding	No physical risk analysis for Gas business segments. Investors need information on how these could affect asset carrying values.	**Mitsubishi** estimates of the minimum and maximum financial impact on its metallurgical coal operations in Queensland, Australia from acute events such as cyclones and flooding. Metallurgical coal – Minimum financial impact: USD $88.7 million (3 days additional shutdown) to Maximum financial impact: $413.8 million (14 days additional downtime). **JERA**: Broad estimates of potential impacts of acute (storms/cyclones) under a 4ºC scenario.	EY in Connected Financial Reporting: Accounting for Climate Change (p.35) notes the physical risk uncertainty over assets with long lives and states that "entities need to disclose information about the assumptions they make about the future, and other major sources of estimation uncertainty with a significant risk of resulting in a material adjustment to the assets' carrying amounts within the next financial year." BHP and South 32 (Illustrations 3-8 and 3-9) **describe in detail how these risks were being considered on asset carrying values.**
Sea level rise	No physical risk analysis for Gas business segments; No consideration of these risks on asset carrying values.	**Mitsui** shows that parts of Asia are susceptible to coastal flooding, but no details provided.	

Physical risk disclosure gaps

Critical gaps remain in Mitsubishi, Mitsui, Sumitomo and Chubu/JERA's disclosure around the potential physical impacts to their businesses from high-warming scenarios, including the estimated costs of adaptation for assets in areas facing high physical risk.

Physical risk	Disclosure gaps	Disclosure provided	Peer disclosure
Drought	No physical risk analysis for gas business segments despite the importance of water to these processes. Investors need this information to assess the long-term risks to their portfolios.	**Mitsubishi** disclosed asummary of chronic drought event at Escondida copper mine in Chile (8.25% equity stake). **JERA** produced broad estimates of potential impacts of chronic physical impacts (droughts) from a 4°C scenario.	EY in Connected Financial Reporting: Accounting for Climate Change, p.20: "IAS 16 requires entities to review the useful life of an asset at least at the end of each year- end. Entities will need to consider climate-related factors annually when determining the expected useful life of their assets and, therefore, the period over which such assets are depreciated." **National Grid** (Illustration 2-1) **provides estimates of depreciation based on different expected gas asset lives.**
Heatwaves	No physical risk analysis for gas business segments; No consideration of these risks on asset carrying values	**Mitsui** selected 65 companies it invests in that are considered to be highly impacted by physical risks. It used 2C and 4C scenarios in 2030 and 2050. No fiscal features were provided.	

Japan's trading houses and JERA/Chubu have significant exposure to transition and physical risks from their fossil fuel businesses

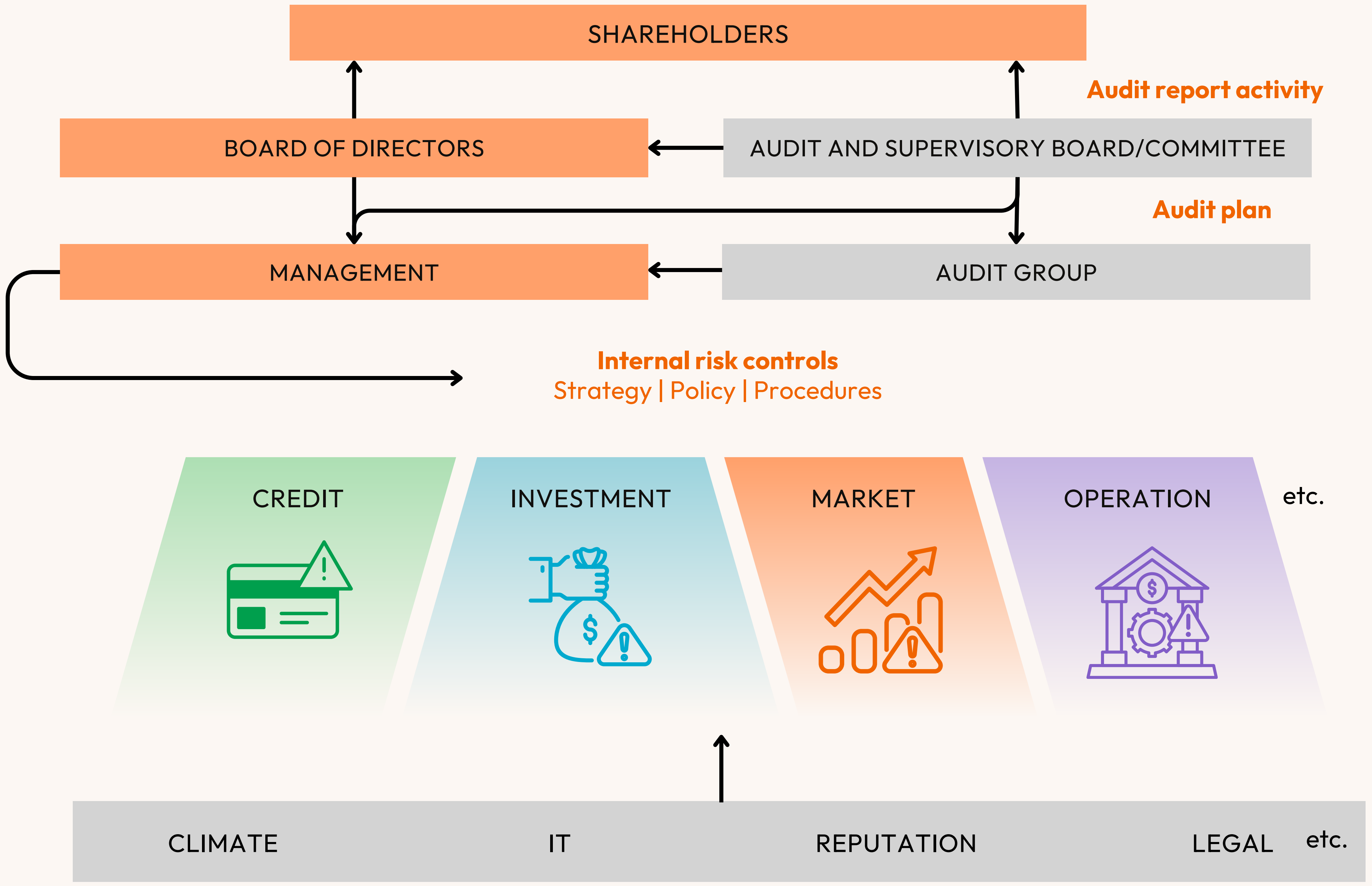
Audit and supervisory committees/ boards are responsible for ensuring directors properly monitor and mitigate these risks.

Current disclosures lack transparency, making it unclear whether they are fulfilling this duty.

Audit and supervisory committees/boards have a legal duty to oversee risk management

Under Japanese law, audit and supervisory committees/boards must audit the performance of directors' duties, including risk management.

They are responsible for ensuring the Board of Directors monitors risk controls and discloses its reasoning to shareholders.



Companies Act, Art 399-2 (1)(2)(3) applies to Chubu and Mitsubishi ; Art 381-1 applies to Mitsui and Sumitomo. Sumitomo will propose to shift to "Company with Audit and Supervisory Committee" (監査等委員会設置会社) at the AGM 2025 June.

Audit and supervisory committee/board members

Mitsubishi	• Mitsumasa Icho, Director, Full-time Audit & Supervisory Committee Member • Akira Murakoshi, Director, Full-time Audit & Supervisory Committee Member • Tsuneyoshi Tatsuoka, Independent Director, Audit & Supervisory Committee Member • Rieko Sato, Independent Director, Audit & Supervisory Committee Member • Takeshi Nakao, Independent Director, Audit & Supervisory Committee Member
Mitsui	• Kimiro Shiotani, Audit & Supervisory Board Member • Hirotatsu Fujiwara, Audit & Supervisory Board Member • Kimitaka Mori, External Audit & Supervisory Board Member • Yuko Tamai, External Audit & Supervisory Board Member • Makoto Hayashi, External Audit & Supervisory Board Member
Sumitomo	• Daisuke Mikogami, Senior Audit & Supervisory Board Member (Full-time) • Kazunari Sakata, Audit & Supervisory Board Member (Full-time) • Yukiko Nagashima, Outside Audit & Supervisory Board Member • Nobuo Inada, Outside Audit & Supervisory Board Member • Taisei Kunii, Outside Audit & Supervisory Board Member
Chubu	• Furuta Shinji, Director, Senior Audit and Supervisory Committee Member (Full-time) • Sawayanagi Tomoyuki, Director, Audit and Supervisory Committee Member (Full-time) • Nakagawa Seimei, Director, Audit and Supervisory Committee Member (external) • Murase Momoko, Director, Audit and Supervisory Committee Member (external) • Yamagata Mitsumasa, Director, Audit and Supervisory Committee Member (external)

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Gaps in audit oversight: Weak risk controls and lack of transparency

The current audit frameworks of Japanese trading houses and Chubu lack transparency and effective risk controls.

Despite commitments to decarbonisation, capital expenditures suggest misalignment between strategy and commitments.

Audit and supervisory committees/boards disclosures fail to explain the criteria by which the Board of Directors assesses and supervises risk, leaving investors uncertain about internal controls and oversight effectiveness.

2024 Audit and supervisory committees/boards ‘boilerplate’ disclosure omits the basis of assessment of directors and executives’ risk controls

	Audit committee/Audit and supervisory board statement on directors duties
Mitsubishi	“the details of the Board of Directors’ resolutions concerning the internal control system were appropriate and adequate. Furthermore, there was nothing we must point out regarding the contents of the business report or the performance of duties by Directors in connection with said internal control system” Convocation notice, p. 110
Mitsui	“In our opinion, the substance of the decisions made by the Board of Directors with regard to the internal control systems is appropriate. Furthermore, we find no matters that require noting with regard to the description in the Business Report and the Directors’ performance of their duties in connection with the relevant internal control system” Convocation notice, p. 76
Sumitomo	“We consider the contents of the Business Report and the Board of Director’s resolution regarding the Internal Control System to be proper. Furthermore, there is no matter that requires comment, regarding the Directors’ execution their duties concerning the Internal Control System including internal controls over financial reporting” Convocation notice, p. 129
Chubu	“the contents of the Board of Director’s resolution regarding the Internal Control System is appropriate. Furthermore, there was nothing we must point out regarding the contents of the business report or the performance of duties by Directors in connection with said internal control system” Convocation notice, pp. 73-74 (Translated from Japanese by Market Forces)

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Key issues in audit and supervisory committees/boards disclosures

Mitsubishi, Sumitomo, Mitsui, and Chubu all have significant oversight gaps in their 2024 audit and supervisory committees/boards disclosures:

Audit reports **lack transparency** because they do not provide reasons for their opinions/assessments, explain directors' duties regarding risk controls, or clarify how the Board of Directors and executives are evaluated

Weak oversight makes it unclear whether the interaction between the audit and supervisory committees/boards and the Board of Directors is effective

No established interaction exists **directly between risk committees and the audit and supervisory committees/boards**

Evaluation processes remain unclear since audit and supervisory committees/boards have not disclosed how they assesses directors and executives on strategy alignment.

Why stronger oversight matters: Mitsui's Mozambique LNG

Mitsui is part of a consortium that owns a 20% equity stake in the highly controversial US$20 billion Mozambique LNG project, which is facing significant delay and allegations of human rights violations.

Since TotalEnergies declared force majeure in 2021 due to the deteriorated regional security, the situation has only worsened and the continued presence of insurgency in Cabo Delgado creates uncertainty for the project. Allegations of serious human rights violations have been reported. Affected communities from this project were not compensated properly. Waves of protest across the country in recent months – following the national elections – have been met with forceful action from the Mozambican government.

The project will only be operational at earliest by 2029. With declining LNG demand projected under net zero scenarios, the project may face stranded asset risk.

Mitsui remains involved with this costly project despite established risks.

REUTERS

TotalEnergies' Mozambique LNG project faces delay beyond 2029

23 January 2025

FRANCE 24

France launches manslaughter probe into TotalEnergies over 2021 Mozambique massacre

15 March 2025

POLITICO

ENERGY

Undeterred: Energy firms pursue Mozambique projects despite massacre report

30 December 2024

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Why stronger oversight matters: Serious legal and financial risk in Bangladesh

Following the Awami League's removal in August 2024, reports emerged of **officials embezzling funds** through energy projects, including Sumitomo's Matarbari 1 coal plant. Corruption allegations during construction included overspending, unapproved work, violence against a journalist and arrests of senior officials for corruption and improper tendering.

Matarbari 1 is part of the USD18 billion Matarbari Moheshkhali Integrated Development Initiative (MIDI), an industrial hub with over 35 projects, including LNG and coal power. The project bypassed typical environmental and governance processes and so far has developed **without legislative oversight or public accountability**. These projects risk becoming **stranded assets**.

Mitsubishi, Mitsui, Sumitomo, and JERA (Chubu) remain involved in the legally and financially risky MIDI project.

Image: Victory march by protesters after the resignation of Sheikh Hasina in 2024: Creative Commons Attribution-Share Alike 4.0.

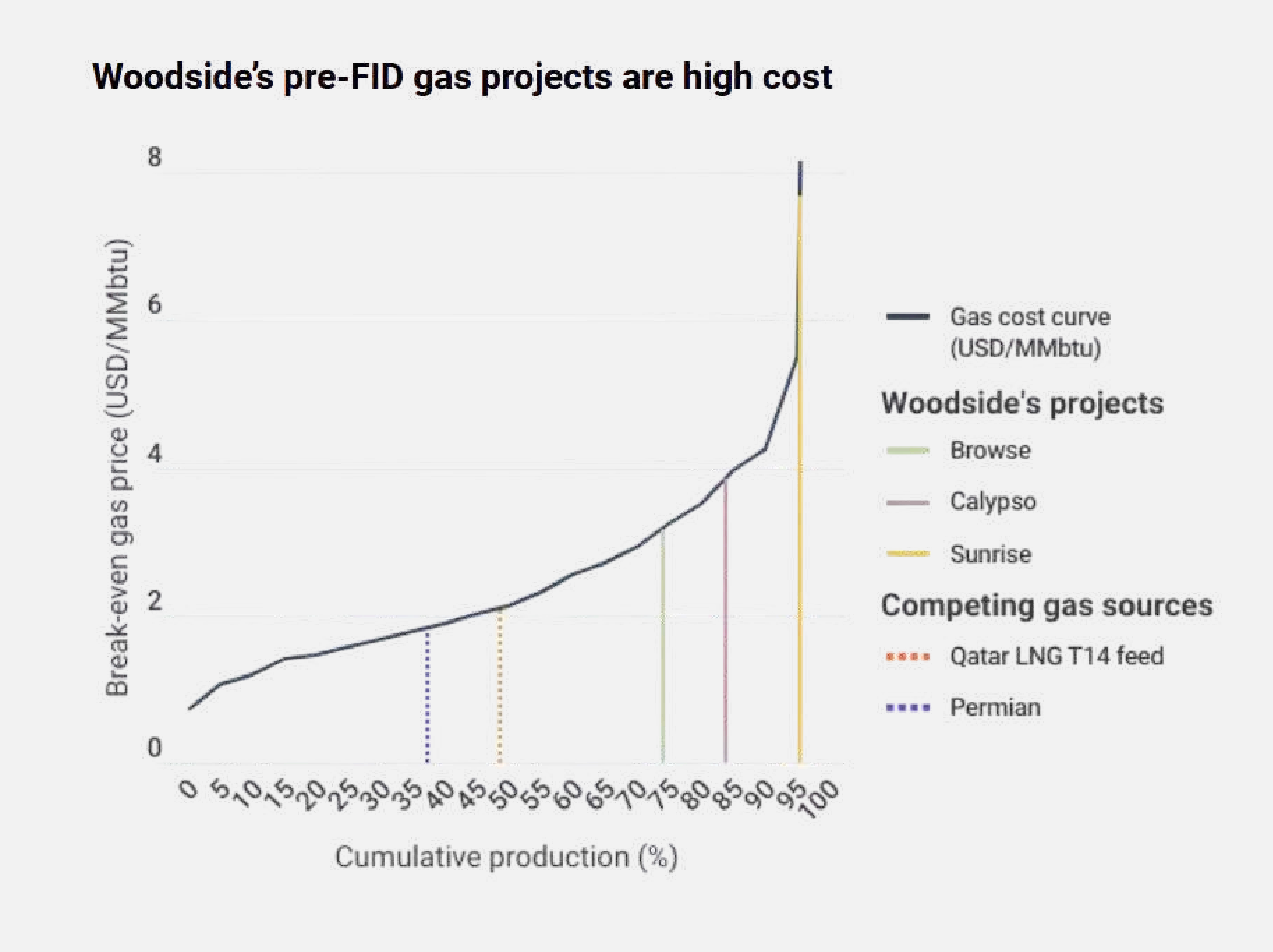
Why stronger oversight matters: Browse LNG – historic financial impairment

Analysis has found Mitsui and Mitsubishi-invested Browse LNG is **more expensive than 70% of the world's unapproved gas projects**, and over 50% more expensive than sanctioned oil and gas fields in Qatar and unconventional projects in the Permian Basin.

The project, discovered in 1967, has seen **massive delays** with the main proponent, Woodside, with the project shelved **in 2016**.

At the time, Mitsubishi took a 60bn yen pre-tax impairment on the project, **cutting its value on the balance sheet in almost half.** Mitsui also reported a 40bn yen impairment in 2016.

Mitsubishi and Mitsui remain involved with this costly project despite established risks.



Source: ACCR, What's next for Woodside? 1 August 2024

What should the audit and supervisory committees/boards be disclosing?

Audit and supervisory committees/boards of Mitsubishi, Sumitomo, Mitsui, and Chubu are failing to provide transparency on how they assess whether directors are effectively managing material risks, including the transition and physical risks tied to fossil fuel investments. Investors need clear disclosures to evaluate whether risk oversight is sufficient. The audit and supervisory committees/boards should disclose:

- **Clear basis** for their assessment of whether directors and executives are fulfilling their duties.
- **Defined criteria** for their assessment that directors are appropriately monitoring risk controls including:
    - Directors' understanding of material risks, including climate risk management capability
    - Director involvement in policy creation and response to compliance failures
    - Director evaluation of corporate strategy in relation to long-term commitments of the corporation.

Form of proposal and engagement timeline

Amendment to articles of incorporation is the <u>sole legal pathway</u> for shareholder proposals

Amending the company's articles of incorporation is based on <u>Japanese corporate law</u>, and is the **most commonly** used approach to make shareholder proposals in Japan, including in <u>2024</u>.

The **legal effect of such shareholder proposals is the same as the "special resolutions"** on climate change passed at UK companies including Barclays, BP, Royal Dutch Shell, Rio Tinto, which take binding effect as part of companies' constitutions.

Nevertheless some investors would prefer **advisory** climate-related shareholder proposals **because of the form.**

We filed **advisory shareholder proposals.**

The companies **refused**.

Therefore, we have filed shareholder proposals as amendments to the articles of incorporation.

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Engagement timeline (Trading Houses)

2019–2022
Market Forces and partner organisations engage with Sumitomo on climate-related issues, including its policies on coal power plants. In 2021, proposal on disclosure on business strategy aligned with the Paris Agreement received strong support. In February 2022, Sumitomo announced a policy prohibiting new coal power plant projects and construction without exception.

2022–PRESENT*
Market Forces, FoE Japan, and Kiko Network engage with Mitsubishi on climate-related issues, including its policies on fossil fuel business and decarbonisation plan aligned with its own net-zero by 2050 commitment. In 2022, proposal on disclosure on greenhouse gas emission reduction targets and business strategy aligned with the net zero by 2050 commitment obtained strong support.

On March 2023, Mitsubishi disclosed its scope 3 emissions, including category 11. However, **scope 3 category 11 is not included in its emissions reduction target.** In 2023. the same proposal received strong support again and showed investor's demand for further disclosure. Market Forces and FoE Japan continue engaging with Mitsubishi.

SEPTEMBER–DECEMBER 2024
Market Forces have started to engage with Sumitomo and Mitsui on fossil fuel business and transition plans.

FoE Japan joins Mitsui engagement.

FEBRUARY 2025
Co-filers continue discussions with Mitsubishi, Sumitomo, and Mitsui* focusing on climate-related risk management such as LNG projects and strengthening policies, as well as mid- to long- term transition plans with robust climate governance. Co-fliers outlined areas to Sumitomo and Mitsui where progress is needed. **Co-filers suggest Sumitomo and Mitsui to consider the possibility of submitting an advisory proposal (勧告的決議案) at the annual general meeting of shareholders.**

MARCH 2025
Subsequent discussions to clarify and deepen understanding of companies' decarbonisation plan and climate-related financial risk management.

Market Forces shared advisory proposals wording with three trading houses, and asked to include them in the notice of convocation for the AGM 2025.

APRIL 2025
Ithree trading houses refused to include advisory proposals in the convocation notice.

Market Forces and FoE Japan lodged shareholder proposals to Mitsubishi and Mitsui as a form of amendment of article incorporation.

Market Forces lodged shareholder proposals to Sumitomo as a form of amendment of article of incorporation.

*Co-filers had a past conversation Mitsubishi in which the company declined to accept advisory proposals.

Engagement timeline (JERA/Chubu)

DECEMBER 2021–PRESENT
Market Forces began engaging with Chubu and JERA (and TEPCO), subsequently joined by Kiko Network.

2022 AGM–POST AGM
Proposal on disclosure of asset resilience in line with a net zero by 2050 Pathway received strong 19.9% support from shareholders.

Co-filers continued engaging with Chubu and JERA*.

2023 AGM
Proposal on disclosure of a policy to align with a net zero by 2050 pathway received similar strong 19.6% support from shareholders.

SEPTEMBER–NOVEMBER 2023
Chubu released its 2023 Group Report. Market Forces requested a meeting with Chubu in October, Chubu requested to push it back to November.

Held a meeting with Chubu in November. Chubu explained its directors' climate competence verbally and in writing without addressing the concerns raised in this briefing.

FEBRUARY–MARCH 2024
Co-filers requested a meeting with Chubu board members. Meeting was held without board members. Chubu did not provide an adequate response to concerns raised in the briefing.

2024 AGM–POST AGM
Proposal on Director competencies for the effective management of climate-related business risks and opportunities received strong 23.3% support from shareholders.

Co-filers continued engaging with Chubu and JERA*.

OCTOBER 2024
Market Forces sent an open letter to JPX and investors to raise concerns that JERA has never responded to or met with communities affected by JERA's projects worldwide. Market Forces shared the letter with JERA, but did not get any response.

MARCH 2025
Co-filers and Chubu had a meeting to discuss policies, transition plans, and governance on climate-related financial risk management.

Co-filers also suggested considering the possibility of submitting an advisory proposal (勧告的決議) at the annual general meeting of shareholders and sharing the proposal text with Chubu.

Chubu refused to include advisory proposals in the convocation notice.

APRIL 2025
Co-filers lodged shareholder proposals in the form of amendment to articles of incorporation.

*JERA has continued declining to meet post 2022 AGM. We asked Chubu to invite JERA to join the meeting, but again the request was declined.

Give us your feedback

Get in touch

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Annex: 2024 Audit and supervisory committees/boards disclosures

	Company Strategy	Company Policy	Structures for Managing Risk
Mitsubishi	Audit committee stated that it reviewed the 2024 Mid-term Corporate Strategy, **however, it is unclear what risk controls the board has put into place in relation to not meeting the strategy**: Convocation notice, p. 110 and Mitsubishi Sustainability Website, "Audit & Supervisory Board / Audit & Supervisory Committee and Audit"	**Audit committee does not state why it finds internal control system is working in relation to policy:** Convocation notice, p. 110 and Mitsubishi Sustainability Website, "Audit & Supervisory Board / Audit & Supervisory Committee and Audit"	MC has shifted from an audit board structure to a audit committee (with Board of Directors as members). There appears to be some interaction with the risk management system, but it is **unclear on what basis the Board of Directors has been supervising risk :** Convocation notice, p. 110 and Mitsubishi Sustainability Website, "Risk Management"
Mitsui	**Audit report unclear what the risk controls are in relation to Five Corporate Strategies Medium-term Management Plan 2026:** Convocation notice, p. 76	**Audit board does not state why it finds internal risk controls are working in relation to policy:** Convocation notice, p. 76	**It is unclear what the interaction is between audit board and Mitsui's risk management system** Business Reports, p13
Sumitomo	**Audit report unclear on what risk controls are in relation to Sumitomo's midterm management plan or the group's Goal of Carbon Neutrality:** Convocation notice, p. 129	**Audit board does not state why it finds internal control systems are working in relation to policy:** Convocation notice, p. 129	The interaction is between Audit board and Sumitomo's risk management system is through the Internal Auditing Department, however, **it is unclear what the criteria for evaluation of the risk management system is:** Sumitomo Corporation Website, "Corporate Governance" and "Risk Management"
Chubu	**Audit report unclear on what risk controls are in relation to Chubu's medium-term management plan or the group's "Zero Emission Challenge 2050":** Convocation notice, pp.73-74:	**Audit committee does not state why it finds internal control systems are working in relation to policy:** Convocation notice, pp.73-74:	It is unclear **what the interaction is between audit committee and Chubu's risk management system and management strategy committee,** which are responsible for risk management and adaptation of risks into business strategies: Business Report, pp.1-5 and Chubu Electric Power Website, "Corporate Governance"

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Annex: Japanese law gives Audit Committee responsibility for auditing the performance of directors' duties including risk management

Companies Act (Japan)
Article 381(1) Company auditors audit the execution of duties by directors (or directors and accounting advisors for a Company with Accounting Advisor(s)). In such cases, company auditors must prepare audit reports pursuant to the provisions of Ministry of Justice Order.

Article 399 (2) (3)The Audit and Supervisory Committee performs the following duties:
(i)audit of execution of duties of directors (in cases of a Company with Accounting Advisor(s), directors and accounting advisors) and preparation of audit report;

Corporate governance code: Principle 4.4 Roles and Responsibilities of Kansayaku and the Kansayaku Board
Kansayaku and the kansayaku board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors' duties...

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