# Q&A at Fiscal 2020 Business Segment IR Meeting (Industrial Infrastructure Group)

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| Date | October 1, 2020 (Thu.) 14:00 to 15:30 | |
| Presenters | Aiichiro Matsunaga | Group CEO |
| | Kazuyoshi Kawakami | General Manager, Administration Dept. |
| | Koji Ota | Division COO, Plant Engineering Div. |
| | Terutora Urano | Division COO, Industrial Machinery Div. |
| | Motoki Ishii | Division COO, Ship & Aerospace Div. |
| | Tatsuhiko Terada | General Manager, Investor Relations Dept. |

## Questions and Answers

### (Q&A session: 1st round)

**Q. What are your strategies in achieving the mid-to-long term profit target of 50 billion yen, in relation to the current Group total assets of 1.2 trillion yen?**

A.

- The current Group total assets of 1.2 trillion yen includes the 500 billion yen increase from making Chiyoda Corporation a subsidiary in Accounting last year. Group total assets before that was approximately 700 billion yen.
- Going forward, the basic policy is to control the overall asset size at around the current level, while improving asset efficiency.
- This will be achieved by determining the businesses for which there is little rationale for continuing, such as unprofitable businesses, and exiting them, while at the same time i) building up assets in projects and business areas with high profitability that are generating returns in excess of our internal hurdle rate, ii) improving of development and sales of asset, and iii) renewing our investments such as our investment in Nikken Corporation.
- As a result, we will gradually raise our run-rate ROA from the current level of around 2.5% (which excludes the one-off profit from making Chiyoda Corporation a subsidiary in accounting last year).

**Q. Out of the 12 business units on page 6 of the presentation, which areas will you grow, and which will you exit from?**

A.

- We have discussed the positioning of each business within our Group, as well as the profit and investment plans etc., in the Business Strategy Meeting held in around March every year.
- We have categorized the businesses into core businesses, businesses requiring productivity improvements, businesses to exit from, etc., but we will not go into the details.

**Q. Will you continue your investment in Chiyoda Corporation? If you are to make a decision on exiting, what will be the criteria and timeframe?**

A.

- Our top priority for now is to focus on the 5-year revitalization plan.
- As of now, we have not set the concrete criteria for exiting after the revitalization plan. We will decide by comprehensively analyzing factors such as the progress in Chiyoda Corp.'s restructuring, the status of the hydrogen business which they are newly working on, anticipated synergies with Mitsubishi Corp. in areas such as medicine, together with external factors such as the consolidation among engineering companies.
- As for the timeframe, we were originally planning to decide within 5 years, which is the period of the revitalization plan, but this is under review at the moment due to factors such as COVID-19 and the sluggish oil price.

**Q. What is the roadmap for each Division in achieving the mid-to-long term profit target of 50 billion yen?**

A.

- In terms of the growth of our existing businesses, the Plant Engineering Division will focus on the revitalization of Chiyoda Corp., as well as increasing the several number of FPSOs. The Ship & Aerospace Division will focus on stabilizing the earnings of the commercial vessels business, and seeking more projects in the gas carriers business, while the Industrial Machinery Division will focus on growing the rental business.

- We believe the domestic rental business, which is currently in a tough situation, still has room for growth, such as in relation to replacement demand for infrastructure that is getting old, as well as the maglev bullet train. Moreover, we will strengthen our platform in the 3 ASEAN countries, and expand the business by introducing the business model to the region.
- As for new businesses, we will promote projects (and businesses) mentioned in the presentation, which the Group has already begun working on or is currently considering.

**Q. What will be the size of the investments, as well as the timeframe for profitability, of the new businesses outlined on page 12 of the presentation?**

A.

- Because these are literally start-up companies, the size of each investment will be relatively small at around several hundreds of millions of yen.
- Generally speaking, it will take (at least) several years for the businesses to turn profitable.
- For example, Noodle.ai is generating profit by helping U.S. steel makers cut down on their O&M (Operation & Maintenance) costs, as well as working on Estee Lauder's logistics. We are planning to apply the system technologies of Noodle.ai to oil & gas plants, which is where Chiyoda Corp. has strengths in.
- Groke was set up by an engineer who used to work at Rolls Royce, and is among the top companies globally in terms of technology, and there is a fair chance of our investment turning profitable in the future.

**Q. Why is your profit expected to decline to 17 billion yen in the forecast for FY2020, from the 41.4 billion yen profit in FY2019 (including the one-off gain of 11.7 billion yen from making Chiyoda Corp. a subsidiary)?**

A.

- This is because of the lower demand due to COVID-19, mainly in the rental business of the Industrial Machinery Division, and the decline in income gains due to the downsizing of the ships business, as part of the process of streamlining the size of our fleet.

**Q. What is the breakdown of the current headcount by Division, as well as your future plans for the allocation and utilization of your employees?**

A.

- We currently have close to 400 employees in the Group.
- The breakdown is around 100 in Plant Engineering, around 110 in Industrial Machinery, and around 90 in the Ship & Aerospace Divisions, as well as around 80 in the GCEO Office and the Administration department.
- Going forward, we will allocate our human resources from the standpoint of each Division, and we do not plan to make significant changes in the breakdown by Division. However, we will consider transferring employees among Divisions, if it becomes necessary as a result of optimizing our business portfolio.
- As for the 30 or so employees (including former employees of our Group) who are currently being seconded to Chiyoda Corp., which is one of our major investments, the plan is to bring them back once Chiyoda Corp.'s revitalization plan is on track. However, we are also considering allocating more headcount to new businesses and projects, such as in the field of digital technologies.

**Q. Do you not transfer employees between Groups and Divisions?**

A.

- The transfer of employees usually takes place within each Division. However, we are expecting to bring in talent from other Groups of Mitsubishi Corp. as well as from outside the firm, especially if we are to develop more employees in-house with capabilities in areas such as digital technologies.
- Transferring employees from one Division of the Group to another is also possible. We have been moving some employees among Divisions, if their capability reaches a level sufficient for them to be regarded as professionals within their Division.

(Q&A session: 2nd round)

**Q. In relation to Nikken Corp., you mention on page 18 of the presentation about the "providing more advanced services)", in order to grow revenues. What exactly do you have in mind?**

A.

- A good example is to install sensors to the rental machinery, to allow operation management using IoT.
- This will optimize services, based on operational data on how and to what extent clients are using the machines, leading to Nikken Corp. deepening its relations with existing clients, as well as capturing new clients. We call these initiatives "Fleet Management".
- Together with the aforementioned operational management, preventive maintenance using sensors will lower the maintenance cost of the machinery, contributing to profitability improvement.

**Q. With the needs for the FSRU business on the rise globally, please explain Mitsubishi Corp.'s strengths in this area, as well as the competitive environment with your peers.**

A.

- FSRU (floating storage & regasification unit) can serve as an LNG terminal, by using LNG carriers and connecting them with on-shore gas pipelines. Korean shipbuilders have strengths in this area, due to their ability to build LNG carriers.
- Our main competitors are shipping companies and trading companies that have strengths in LNG carriers. Our competitors outside of Japan include shipowners in Norway and Greece.
- Mitsubishi Corp.'s strength lies in the fact that we can offer a range of services, from the supply of gas to terminals as a package, by collaborating with the Natural Gas Group which conducts the LNG business.

**Q. Mitsui O.S.K. Lines is the only player in Japan so far to enter the FSRU business. Who will you partner with to promote the FSRU business?**
**There was a trading company that booked impairment losses a few years ago in relation to the FSRU business. What are the risks related to this business?**

A.

- We have close relations with domestic shipping companies, and outside of Japan we are close to the shipowners in Norway and Greece. We will partner with suitable partners both in and outside of Japan.
- We believe there are no risks in terms of technology.
- The failures in the past were due to speculative projects, where FSRU's were built without securing orders, and ended up not being able to sign the expected contracts. We are not going to place speculative orders.

**Q. There was news about KBR of the U.S. shutting down its LNG plant business, and focusing on government contracts going forward. With the changes in the business environment, what are your thoughts on the risks and opportunities for Chiyoda Corp.?**

A.

- As you mentioned, there was news about KBR moving out of the so-called lumpsum contract EPC turnkey projects. However, this does not mean they are terminating the business, it simply means that they will not participate in competitive projects. We understand KBR will continue to participate in projects which have high value-add, and which KBR have strengths in, and if clients want to work with KBR in that project.
- Having said that, it is absolutely true that the plant EPC industry in general is facing future uncertainties as well as a tougher competitive environment, and this could affect Chiyoda Corp. in the future.
- Based on this business environment, we will change Chiyoda Corp.'s earnings structure, which is currently dependent on plant EPC, and focus on creating new businesses.
- We are also aware of the need to consider whether Chiyoda Corp. can continue the plant EPC business on its own.

**Q. How should we understand the fact that Chiyoda Corp. will move into businesses other than plant EPC going forward? What are Chiyoda Corp.'s core competences in applying its hydrogen technologies to other areas?**

A.

- The plan is not to completely withdraw from the EPC business.
- Chiyoda Corp. has the SPERA hydrogen technology, which is core to the hydrogen chain. As the technology supplier that has expertise in the chain's most important link, we will consider monetizing Chiyoda Corp.'s capabilities without necessarily sticking to EPC.
- Of course, a hydrogen project requires plant construction, such as the absorption plant of hydrogen, or the desorption plant at the place of usage. Instead of Chiyoda Corp. investing or participating in the construction of these plants, it will seek revenue opportunities by providing its technology, or in the area of EPC.
- Chiyoda Corp.'s core competence lies in its ability to integrate and optimize technologies, thereby seeking out and solving various issues, regardless of the clients' industry.
- Therefore, Chiyoda Corp. is starting joint research with Shionogi, which is in the very different field of pharmaceuticals, in order to create additional value through the continuous drug batch process.
- The key going forward is to consider how to monetize from Chiyoda Corp.'s engineering capabilities, which is its core competence.

**Q. In terms of the future potential of Nikken Corp., how competitive is it compared to its competitors, and what is the growth story outside of Japan?**

A.

- There are 4 main players in the domestic rental industry, with a total of around 2,500 players when including the mid-to-small players. We believe consolidation and M&A will take place in the industry, due to many of the players having issues such as business succession.
- Nikken Corp. will take place in this consolidation by selecting the companies with strengths in different business areas and geographies, and taking them in.
- Traditionally, the rental business has been an "asset-ownership" type business, and Nikken Corp. too has assets of around 200 billion yen (on its acquisition amount basis), which it rents out to clients. In the future,

we will promote DX in the rental business, and pursue a rental business model in which assets need not be owned.

- We are thinking of creating new rental businesses, using digital technology, and through the sharing of assets owned by others as well as our clients.
- Our international operations are not that large-scale at the moment. We are ranked number 1 or 2 in the ASEAN countries of Indonesia, Thailand and Myanmar, but the scope of the business is limited to rather specialized machinery such as cranes. We are in the phase of considering how to expand into more general construction machinery.
- The current situation in the ASEAN market is quite tough, due to COVID-19. However, we expect the rental market in this region to grow to around 1 trillion yen in the next one or two decades, and will continue to focus on the region.
- On top of this, we are expecting dramatic growth in China. It is becoming the norm in China to rent machinery, especially for AWP (aerial work platforms), and we are currently seeking opportunities to enter the market.

**Q. What are the challenges for Chiyoda Corp.'s hydrogen business? Please explain the current cost competitiveness of its hydrogen technology, as well as the outlook for expanding hydrogen use in the future.**

A.

- The biggest challenge is on the cost side.The current cost is too high for hydrogen to be used in power generation or car fuel.
- When conducting a trial for a hydrogen project, only the parties involved participate. A simplified demo plant is built at the site, to see if the technological aspects can actually be realized and achieved. In parallel, assessments are made to see if the current system can be made more efficient. This is followed by a sub-commercial project, which then leads to the final commercial project.
- In order to make the pricing more reasonable, the current system has to be made more efficient and costs need to be lowered. This requires larger scale, which is something we are considering at the moment.
- We believe hydrogen can be commercialized if costs can be lowered in the next 5-10 years.

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