Forging ahead with the sustainable enhancement of corporate value through appropriate capital allocation and promotion of the Value-Added Cyclical Growth Model

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Summary of Results for the Fiscal Year Ended March 31, 2023, and Forecasts for the Fiscal Year Ending March 31, 2024

In the fiscal year ended March 31, 2023, multiple factors, including the prolonged conflict between Russia and Ukraine, as well as financial instability in both Europe and the United States, had a disruptive effect on the global state of affairs. Our activities amid this environment yielded consolidated net income of 1,180.7 billion yen, an increase of 243.2 billion yen from the previous fiscal year. Even after making appropriate allocation for potential losses by reviewing assets' value, we significantly surpassed the record set in the previous fiscal year and achieved profit in excess of 1 trillion yen for the first time in our history. By segment, seven of our 10 Business Groups set new record-high profits. In addition to the tailwind of high resource prices on the performance of the Mineral Resources Group and the Natural Gas Group, these results can also be attributed to the steady accumulation of earnings by other Business Groups, including the Urban Development Group, which recorded a gain on the sale of real estate management company (MC-UBSR) in line with the Value-Added Cyclical Growth Model, as well as to the Industrial Materials Group and the Automotive & Mobility Group.

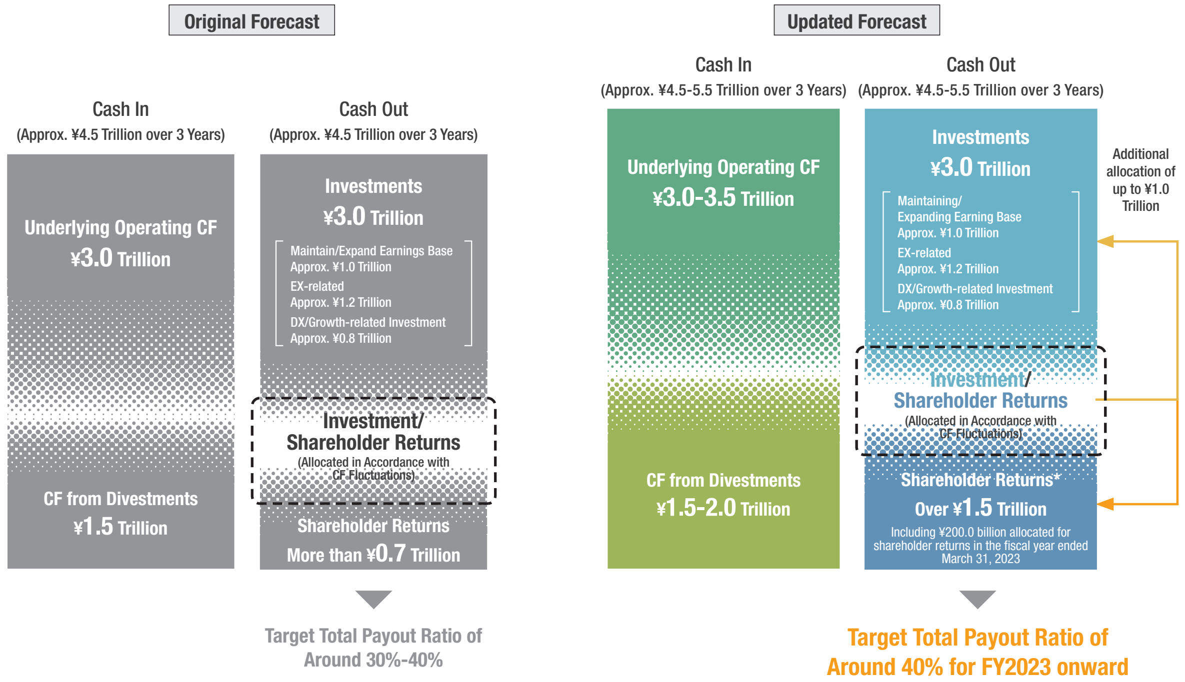
In the fiscal year ending March 31, 2024, we anticipate a return to normality after an overheating trend across the entire economy, led by resource prices and foreign exchange. On this basis, we are predicting that our consolidated net income will decline by 260.7 billion yen to 920 billion yen from the previous fiscal year. Even in such an environment, we expect our performance to remain firm, in part because of increasing production volumes at the Quellaveco copper project.

In addition, in terms of capital gains from the implementation of the Value-Added Cyclical Growth Model, we are working to divest multiple projects in the Power Solution Group and the Food Industry Group, etc., in the fiscal year ending March 31, 2024. Thanks to these efforts, we expect to achieve results similar to those achieved through the divestment of MC-UBSR in the previous fiscal year.

Toward Appropriate Capital Allocation—Review of the Cash Flow Allocation Plan in Midterm Corporate Strategy 2024

When we announced our financial results for the fiscal year ended March 31, 2023, we also updated our cash flow allocation plan for the three years covered by Midterm Corporate Strategy 2024, in part to reflect progress achieved in that fiscal year. We expect our strong performance in the fiscal year ended March 31, 2023 and other factors to lift our underlying operating cash flow (CF) by up to half a trillion yen, from 3 trillion yen to 3.5 trillion yen. We are making steady progress with the Value-Added Cyclical Growth Model, and it now appears that we will be able to recover investments worth in excess of 1.5 trillion yen through divestments. When we formulated Midterm Corporate Strategy 2024, we projected investment totaling 3 trillion yen. We will seize opportunities by using our robust cash generation capacity to support the proactive allocation of funds. Of course, we will never relax our investment discipline, and will continue to select investments based on strict criteria. We are anticipating at least 1.5 trillion yen in total shareholder returns, including additional returns, over the three-year period.

■ CF and Capital Allocation

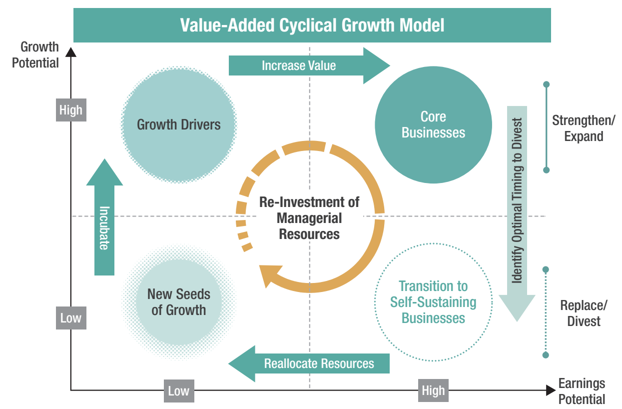


* Including the forecast for cash dividends paid to non-controlling interests: Approx. ¥0.2 trillion.

Promotion of the Value-Added Cyclical Growth Model

We are accelerating the application of the Value-Added Cyclical Growth Model to enhance our corporate value.

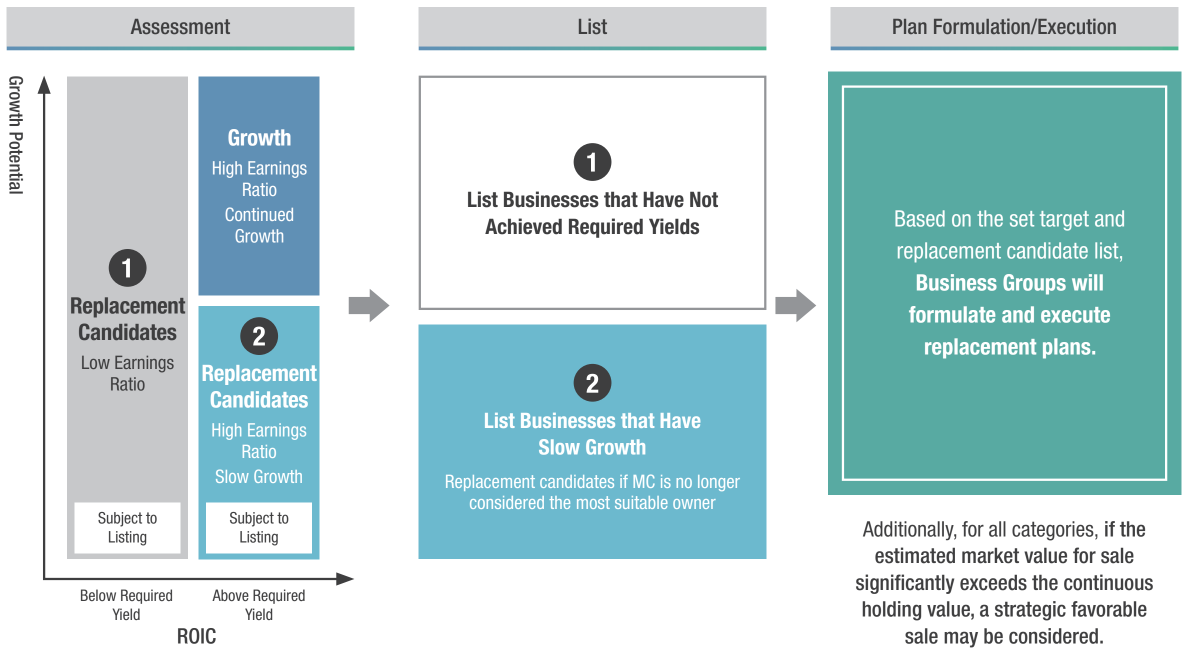
Responding to changes in the business environment, we are aggressively replacing even businesses that contribute to earnings within our portfolio to promote the re-investment of managerial resources to pursue further growth. We are also steadily achieving divestments of substantial assets. For example, in the first quarter of the fiscal year ended March 31, 2023, we



recorded gains of 84.1 billion yen on the divestment of the real estate management company MC-UBSR, and in the first quarter of the fiscal year ending March 31, 2024, we recorded gains of 36.9 billion yen on the divestment of a Food Industry Group affiliated company.

In addition, our approach to asset replacement, which is a key component of this process, is to list candidates for replacement based on the ROIC and growth potential of the businesses concerned, and to encourage autonomous asset replacement by allocating targets to each Business Group. Our policy is to enhance capital efficiency by securing capital gains and replacing low-yield businesses. We will use Value-Added Cyclical Growth Reviews to monitor the progress of asset replacement activities for each Business Group. Candidates for replacement were identified during the first full review carried out in October of last year, and we are now gradually replacing companies selected by the Business Groups under their replacement policies. After formulating schedules and methods for the replacement of individual companies during the review process, we regularly monitor progress as part of an intensive process designed to enhance asset efficiency. The replacement plan will be implemented over the three-year period covered by Midterm Corporate Strategy 2024. To ensure the steady execution of the plan, we will monitor progress through annual Value-Added Cyclical Growth Reviews, as well as monthly follow-up reviews by a newly established dedicated team. I have noticed a change in perceptions regarding asset efficiency within the Company since the announcement of Midterm Corporate Strategy 2024. As CFO, I will continue working to achieve solid improvements in our capital efficiency through asset replacement.

■Asset Replacement Process



Enhancing Shareholder Returns

With regard to shareholder returns in the fiscal year ended March 31, 2023, we decided to provide additional returns in the form of 200 billion yen in share buybacks when we released our yearly financial results in May 2023, besides the approximately 430 billion yen, consisting of a dividend per share of 180 yen and 170 billion yen in share buybacks, which we had announced before. This decision, which reflected our strong business performance, financial soundness, CF trends, and other factors, increased total shareholder returns in the fiscal year ended March 31, 2023, including additional returns, to approximately 630 billion yen. The total payout ratio based on our results for the year was 53%, which significantly exceeded market expectations.

When we announced Midterm Corporate Strategy 2024, our target total payout ratio was 30-40% of yearly earnings. In May 2023 we revised this target to around 40% for the fiscal years ending March 31, 2024 and March 31, 2025. This decision was prompted by the heightened probability of achieving our CF forecast following the completion of the first year of Midterm Corporate Strategy 2024, and by our dialogue with the stock market. Under Midterm Corporate Strategy 2024, we based our policy on shareholder returns primarily on progressive dividends, while at the same time carrying out share buybacks linked to the size of fluctuations in our business performance. Our target total payout ratio under this policy was 30-40% of yearly earnings. While this policy was well received by the stock market, some shareholders were not fully satisfied with the breadth of the 30-40% range. By newly setting the target to 40%, instead of the previous range of 30-40%, we believe that we have enhanced the predictability of our shareholder returns from the perspective of the stock market.

In accordance with the shareholder return policy described above, we decided to increase the dividend per share for the fiscal year ending March 31, 2024 by 20 yen from the previous fiscal year to 200 yen. We are aware that this increase is significantly higher than stock market expectations. However, after analyzing multiple scenarios that took into account various factors, including fluctuations in resource prices, and verifying the firmness of our profit level, we made the decision to raise the dividend after determining that we could maintain the progressive dividend system even in situations where the dividend per share was equal to the 200 yen level. In May 2023, we decided to buy back shares worth 100 billion yen on the basis of the projected final results for the fiscal year ending March 31, 2024. If dividends and share buybacks are taken into account, we have already offered shareholder returns equivalent to a total payout ratio of 40% based on our forecast of 920 billion yen for the fiscal year ending March 31, 2024. However, we have no intention of limiting ourselves to this target, and will instead continue to take a flexible approach by considering additional returns like those provided at the end of the fiscal year ended March 31, 2023, to reflect CF trends and other factors.

We must always consider multiple scenarios and try to predict what might happen. We also need to remain alert to potential changes and must think carefully about their implications.

My Role as CFO

In recent times, we have experienced numerous developments that would have been unimaginable a few years ago, including the COVID-19 pandemic, the conflict between Russia and Ukraine, and global inflation. While it is impossible to make exact predictions about the future, when we look back on various unexpected events, we find that most of them are, in fact, closely related to one another. Even when situations appear to be smooth sailing, we must always consider multiple scenarios and try to predict what could happen. We also need to remain alert to potential changes and must think carefully about their implications.

One of my most important responsibilities as CFO is, of course, the appropriate allocation of capital in order to maintain financial soundness and improve capital efficiency so that we can achieve sustainable improvements in total shareholder returns (TSR). When we announced our financial results for the fiscal year ended March 31, 2023 in May 2023, we also updated our three-year CF forecast for Midterm Corporate Strategy 2024. With both underlying operating CF and CF from divestments reaching record levels, our CF allocation options have expanded, further heightening the importance of our capital allocation activities. Given the increasing unpredictability of the macro environment, we will allocate capital appropriately to investments, asset replacement, and shareholder returns in accordance with Midterm Corporate Strategy 2024, while also remaining focused on forecasting and addressing potential future changes.