

Q&A at Investor Meeting

Financial Results for the Year Ended March 2019

Presentation Date: Monday, May 13, 2019, 16:00 to 17:30

Presenters: Takehiko Kakiuchi: President and Chief Executive Officer
Kazuyuki Masu: Executive Vice President, Chief Financial Officer
Yuzo Nouchi: General Manager, Corporate Accounting Department
Hiroshi Takehisa: General Manager, Investor Relations Department

Questions and Answers

Performances

Q. Consolidated net income fell almost ¥50.0 billion below fiscal 2018 forecast (¥640.0 billion). Could you provide with the detailed breakdown?

A. ● The difference of approximately ¥50.0 billion was due mainly to factors that differed from our assumptions at the end of the third quarter. Consolidated net income of fiscal 2018 included the additional losses for Chiyoda Corporation (approximately ¥18.0 billion) and a failure to realize the expected returns. In addition, profits in the Metals and Living Essentials groups did not meet our expectations.

Q. Why is the earnings forecast for fiscal 2019 limited to ¥600 billion? You mentioned that the global economy will continue to gradually improve; given that, are there some extraordinary factors included in fiscal 2019 forecast? Are there any areas in which you think forecasts may be relatively conservative?

A. ● In addition to reflecting uncertainty in the external environment, we expect decrease in earnings in Mineral Resources group and Natural Gas group due to lower metallurgical coal price and crude oil price compared with fiscal 2018.

● The organizational restructuring came with changes in the top management of the business groups, which may have slightly altered the way we view market environment and reflect in such forecasts. We strive to make precise forecasts.

Q. I understand conservative market assumptions are behind decreased earnings forecasts for the Natural Gas and Mineral Resources groups in fiscal 2019. Are there any factors that negatively affect earnings across all groups?

A. ● The Automotive & Mobility group and Food Industry group are groups with improved forecasts excluding one-off gains and losses. However, some other business groups are expected to see profit decrease. These include Natural Gas group, Mineral Resources group, and Consumer Industry group. The forecasts reflect numerous positive and negative factors.

Q. Other than LNG, are there any business-related sectors showing signs of weakness? Should we interpret fiscal 2019 forecasts as conservative?

A. ● We view that the growing trend of AI/IoT technologies will gradually take over midstream business opportunities. We aim to shift the business portfolio toward the extreme upstream and downstream areas. In midstream areas, we will speed up industry reorganization through alliances, mergers, acquisitions, and absorptions. If large parts of the profit pool lie in the extreme upstream or downstream areas, we will decisively step in by means of M&A.

● Some people concern that we have lost our ability to create new business concepts in the business-related sector, but re-profiling our businesses to capture greater parts of profit pools will require thorough preparation and planning. We consider to use the three years of Midterm Corporate Strategy 2021 for these initiatives.

Q. Other than Toyo Tire Corporation, what new investments made during Midterm Corporate Strategy 2018 will contribute to profit in fiscal 2019?

A. ● Investment over the last three years has been limited, and our investments often take time to become profitable. As such, investments made before the last three years contributed more to profit than investments made in the last three years.

Midterm Corporate Strategy and Shareholder Return Policy

Q. In what areas should we expect growth in order to reach the net income goal of ¥900.0 billion in the final year of Midterm Corporate Strategy 2021?

- A. ● Of the 10 business groups announced with Midterm Corporate Strategy 2021 last November, our missions are already clear for six (Natural Gas, Mineral Resources, Automotive & Mobility, Food Industry, Consumer Industry, and Power Solution), so we will aggressively invest in pursuit of these targets. In the remaining four business groups (Industrial Materials, Petroleum & Chemicals, Industrial Infrastructure, and Urban Development), we are working to select businesses to focus on and to create a clear priority. We will then move forward in addressing the key task of each business, in the way of reallocating assets, aggressively investing, scaling down, or combining with other businesses. Within these two large categories, we are carefully deciding where to allocate our sources.

Q. Do you expect cash flows to increase over the coming three years?

- A. ● As with forecasts for the consolidated net income, cash flows may be affected by changes in resource market prices, but we have not changed our assumption of ¥3 trillion in underlying operating cash flows over the three years of the Midterm Corporate Strategy 2021.

Q. Looking at the forecasts for fiscal 2019, how should we evaluate the progress of business portfolio and the performance of business groups?

- A. ● The business groups have a culture of trying to obtain more and more management resources. The source of discipline that restrains this tendency, as outlined in the Midterm Corporate Strategy 2021, is divestment-to-reinvestment cycle, which is also part of our growth mechanism. Investments must yield a suitable return, however there are times when we decide not to go for various reasons other than pricing. Timely and accurate management decision will play an important role.

Q. When you announced Midterm Corporate Strategy 2021 in November 2018, you explained that capital gains from asset replacements would be a profit driver going forward. Has that policy changed?

- A. ● Each business group is conscious of asset re-profiling. We strive for capital gains for businesses which we can no longer add value and continue to invest in businesses which we see growth potential, and we are beginning to see results. Whether it is a turnaround or potential growth business we will work closely with the investee to get onto a growth trend by asset re-profiling.

Q. Do the earnings forecast of ¥600.0 billion for fiscal 2019 include potential capital gains?

A. ● The forecast includes almost no capital gains.

Q. What KPIs should we use to evaluate annual progress under Midterm Corporate Strategy 2021?

A. ● Revenues comprise both the sum of the revenues of companies subject to consolidation and the results of dynamic asset replacements controlled at the companywide level.
● The growth of our value is the aggregate of the growth of our employees' management skills, so it is difficult to evaluate on a year-at-a-time basis.

Q. What will we be able to see from the outside as you change the business portfolio over the three years of Midterm Corporate Strategy 2021?

A. ● We are at a very important stage in terms of selecting new investments. We will be using a long-list and short-list approach to select new investments by being aware that the larger the project, the greater impact on profitability the decision timing makes.

Q. My understanding is that you bought back shares because the investment leverage ratio reached the lower limit. Under Midterm Corporate Strategy 2021, can we continue to expect a rule of conducting share repurchases if the investment leverage ratio falls below the lower limit?

A. ● We do not conduct share repurchases by merely seeing investment leverage ratio as a "rule". The investment leverage ratio is one of an indicator of discipline that the company and its stakeholders can share.

Q. What is MC's policy on share repurchases under Midterm Corporate Strategy 2021?

A. ● The policy indicated in Midterm Corporate Strategy 2021 of flexibly repurchasing the company's shares in a disciplined manner (e.g. paying due consideration to our optimal investment leverage ratio range) stands unchanged.

Q. Conducting share repurchases based on the investment leverage ratio is an advanced approach. What conditions must be met to conduct share repurchases going forward?

A. ● There are many factors to consider, so I cannot give a simple formula. We share the investment leverage ratio as just one factor.

Chiyoda Corporation

Q. How will MC reduce the risk of additional losses at Chiyoda Corporation, given that certain external factors are outside MC's control? Also, please explain MC's plan on its holdings in Chiyoda Corporation going forward?

- A. ● First, we will more precisely analyze and evaluate risk when taking orders. Secondly, we will reinforce the framework by which they secure appropriate backup management resources in case of an unexpected issue arises. Thirdly, we will strengthen the project management structures after each order intake. We will change mechanisms themselves so that we are able to rapidly solve issues while maintaining an overall grasp of each project. We intend to rebuild these frameworks and avoid the same mistakes by, for example, hedging risks to partners. We are confident that we have already found the ways to turnaround Chiyoda Corporation back on the right track.
- As for the question of the plan on our holdings in Chiyoda Corporation, there is a wide range of possible options on our hands, thus we have not yet reached any firm decisions at this moment.

Q. You mentioned that MC will increase the number of staff dispatched to Chiyoda Corporation to approximately 30 in order to assist with that company's recovery. How many have been dispatched there until now? What role will they have going forward?

- A. ● As of this investor meeting, 16 are dispatched to Chiyoda Corporation.
- In addition to Chiyoda's top management, several MC personnel will be placed in risk management and related divisions.

Q. How did you arrive at the figure of ¥70.0 billion in preferred shares?

- A. ● We calculated that amount in order to cover the excess of debts of Chiyoda Corporation.

Q. Within EPC businesses, construction is regarded as particularly high risk/high return. What is your policy for construction at Chiyoda Corporation going forward?

- A. ● We will carefully assess which risks we can take and which we cannot, and proceed accordingly.