Q&A at Investor Meeting

Financial Results for the Nine Months Ended December 2019

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Questions and Answers

Q. Based on your explanation, achieving the full-year forecast will not be easy. The forecasts for the Industrial Materials Group and Petroleum & Chemicals Group seem particularly difficult to reach. Could you tell us where these businesses stand and your outlook for them?

A.

- We set the forecast for the full fiscal year at ¥520.0 billion. Some segments have made strong progress toward the forecast, and others have lagged.
- The Industrial Materials Group is behind at the moment, due in part to weak performance at Metal One, but we expect it to recover somewhat in the fourth quarter.
- In the Petroleum & Chemicals Group, reaching the forecast is looking somewhat difficult. In addition to one-off losses related to Petro Diamond Singapore (PDS), we have seen declines in equity earnings from SPDC Ltd. and other companies and in our own trading profit due to the sluggish petrochemical market.

Q. Assuming that the price of metallurgical coal remains around $150, what's your expected "earnings level" for the year, excluding one-off factors?

A.

- To break down the ¥373.3 billion in profit for the first nine months, operating income was ¥387.5 billion, and one-off losses came to ¥14.2 billion, it's quite difficult for us to define "earnings level" though.

Q. MMC is in the red, and its share price is down more than 40% from when you increased your stake. Is there any risk of impairment losses in the fourth quarter? Also, if things do not improve, any chance of additional capital support?

A.

- Under IFRS, to test for impairment, the highest recoverable value, as determined by either the active share price or direct cash flows, is compared with the book value, thus we value their future plan. In the fourth quarter, we will work with MMC to formulate a future business plan, and then judge whether there is an impairment.

- We do not have the idea to provide an additional financial support against their downturn.

Q. The business environment has become more challenging than in the first six months. Are you considering any cost-cutting or other such countermeasures for the coming fiscal year?

A.

- Yes, the external environment has worsened, but we do not intend to give up minimizing the impact of this shift. All our businesses are working hard to improve their own performance. For example, at Mitsubishi Development Pty Ltd. (MDP), fuel and personnel costs are increasing, but we are making great efforts to improve production efficiency by such means as introducing automated trucks. As another example, Cermaq is advancing initiatives to prevent salmon death, as well as using larger gages and automatic feeders.
- Looking at areas that we expect to contribute to revenues from next year, the first liquefaction train of the Cameron LNG Project has begun operation, and construction on the second and third trains is progressing as scheduled. We expect them to begin contributing to revenues in fiscal 2020 and we can pick up the full expected profits from them in fiscal 2021. In the Canadian Shale Gas business, we can expect the increased profit due to the rebound from red profit. And we also believe our effort in each business will contribute to our profit, such as production optimization in the Metallurgical Coal business, the consolidation of Eneco (a comprehensive energy company based in the Netherlands), and some digital transformation related projects with NTT.

Q. Why has the Natural Gas Group's operating income fluctuated so much between quarters? Are spot prices a factor? What level of operating income do you expect in the Natural Gas Group going forward?

A.

- LNG-related income, particularly, comprises equity earnings and dividends received. The timing of dividends is one of the main reasons for the fluctuation between quarters.
- Moreover, decline in LNG spot prices affected Natural Gas Group's performance. Our LNG sales are based on long-term agreements linked to crude oil prices, however small portion derived from excess production is sold at spot prices. Because the spot market has been weaker this year than last year, income has declined approximately ¥8.0 billion year over year, but this reflects narrower margins due to the market slump, not losses.
- As for the operating income outlook, it depends on the price outlook of crude oil, so we

cannot make any definitive statements. However, we expect the beginning of operations at the Cameron LNG Project to contribute, and the end of costs carry in the Canadian Shale Gas business will increase profit due to the rebound from the red.

Q. The operating income of the Automotive & Mobility Group decreased year over year. How do you evaluate the performance of Asian Automotive business?

A.

- The Asian Automotive business is mainly conducted in Thailand and Indonesia, both of which have been affected by decreased overall demand due to the slowing global economy, including the impact of U.S.-China trade frictions. Our unit sales have fallen less than overall demand in Thailand but more than overall demand in Indonesia, due in part to recoil from strong sales of Xpander last year.

Q. In the Natural Gas Group, while LNG spot prices have been down, progress in the first nine months was better than expected. What caused this, other than the timing of dividends?

A.

- Dividends are the greatest factor, but the other main factor is seasonally higher gas prices in the Canadian Shale Gas business in the first quarter.

Q. What further progress have you made in determining the causes of the issues at PDS and formulating any specific countermeasures?

A.

- We cannot provide details about the investigation being conducted by law enforcement, but we continue to cooperate fully with the investigation.
- Since deciding to liquidate PDS, we shrunk the business volume and now move forward with formulating a schedule for transferring its operations to Mitsubishi Corporation.

Q. In the first nine months, operating income for the Power Solution Group and Urban Development Group included gains on asset disposal, and such gains are expected in the fourth quarter in the Food Industry Group as well. Can we expect a similar level of asset replacement in the next fiscal year?

A.

- In the first nine months, the Power Solution Group recorded gains on the transfer of DGC assets in North America, and the Urban Development Group recorded gains on the sale of real asset property in North America and Japan. In such asset-turnover-based businesses, asset sales are an ordinary part of operations. While the scale of profit is not always constant, a certain level of profit from sales can be expected on average. We cannot provide a forecast for the coming fiscal year at this moment.

Q. What impact do you expect from the new corona virus?

A.

- We have relatively little business in China and we have seen almost no direct impact so far. However, the virus is spreading not only within China, but in other countries as well, and it could significantly impact economic activity and markets. We are monitoring the situation closely.

Q. What caused the year-over-year revenue decline at MDP? Also, has MDP been affected by the Australian brushfires?

A.

- Of the approximately ¥64.0 billion decrease year over year, market prices and royalties accounted for a decline of ¥45.0 billion and volume and cost factors for a decline of ¥30.0 billion, while foreign exchange rates and other factors provided a positive boost of ¥11.0 billion.
- Results in the third quarter were more or less on par with the previous quarter, at approximately ¥23.0 billion, as a steady decline in market prices was offset by an increase in production volume and cost reductions.
- BMA is located in Queensland, and the Australian brushfires have been further south. As such, there has been no significant impact so far.

Q. Is there any need to adjust your existing forecasts for full-year cash flows or leverage at the end of year?

A.

- Underlying operating cash flows, which do not include operating capital, came to ¥531.8 billion for the first nine months. We expect underlying operating cash flows of around ¥750.0 billion for the full year.
- In investing cash flows, as already announced, we expect outflows for major investments, including those in Eneco and HERE (a location information services company).
- Due in part to the recording of these major investments, we forecast that leverage will rise, but we cannot provide further details at this moment.