

Q&A at Investor Meeting
Financial Results for the Six Months Ended September 2020

Presentation Date: Thursday, November 5, 2020 17:00 to 18:00

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Kazuyuki Masu: Executive Vice President, Chief Financial Officer
Yuzo Nouchi: General Manager, Corporate Accounting Department
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Questions and Answers

Q. When will the cost reductions, as well as strengthening the review process of the loss-making group companies, start having a positive effect on your earnings?

A.

- We are constantly reforming our cost structure of our business operations; to name an example, by improving productivity through automation. This process is related to DX, which is one of our focus areas. Our policy regarding the loss making businesses is to improve the earnings structure towards profitability, through structural reform, such as disposing the businesses, or merging them with others. The majority of the positive effects will begin contributing to our earnings from FY2021 onwards.

Q. What are the chances of a review of the business portfolio, or the risk of booking one-off losses, in the second half? There are concerns in the market regarding the risk of impairment losses related to Mitsubishi Motors Corporation (“MMC”) and the Lawson goodwill, changes in your long-term outlook on the oil price, Eneco becoming loss-making in the 2nd quarter, etc.

A.

- Our policy is to review our portfolio from an accounting perspective in every quarter, including whether or not we need to book impairment losses, with an especially thorough review process at the end of each fiscal year.
- MMC itself has booked impairment losses in the 1st quarter, and is planning to book structural reform-related expenses in the near future, which we will consolidate on to our P/L. However, we are not anticipating additional impairment losses, because i) we have already written down in FY2019 approx. 70% of the premium on our investment to MMC, and ii) MMC’s cash flow is expected to improve in FY2021 onwards, thanks to its structural reforms.
- While the European Oil and Gas resource companies lowered their oil price outlook substantially, the international organization IEA has announced their outlook of above USD70/BBL for Brent oil price. We will carefully assess the need for reviewing our own outlook, making references to the outlooks of external institutions. However, we have almost completely withdrawn from development businesses such as upstream E&P, and have already made provisions for losses, so we do not expect many of our businesses to be subject to impairment losses.
- Lawson is one of the businesses that has been significantly impacted by COVID-19, and we need to assess the impact on its future growth strategies, as well as the speed of earnings recovery.
- Eneco’s business model is such that the majority of its profits are booked during

the winter. Eneco should generate sufficient profit in the full year, even with the amortization of the premium we have booked.

Q. The underlying profit in the 2nd quarter has not improved since the 1st quarter. Have you changed your outlook regarding the recovery from COVID-19, since the time you formed your previous outlook in the 1st quarter?

A.

- It is true that the underlying profit for the entire firm has not improved by that much since the 1st quarter.
- The performance of metallurgical coal and LNG businesses has deteriorated, due to the fall in market prices. On the other hand, Business-related sector is gradually recovering. Both trends are within our initial expectations.
- One of the reasons we have not made that much progress in the 1st half towards the full year figures is that we are expecting to book a gain from asset replacement in the 2nd half, as well as other factors.

Q. What will be the size of the cost reductions, and the review process of the loss-making companies?

A.

- As Mr. Kakiuchi explained earlier, we are going to lower the structural costs of operating our business, through digitalization and other methods, rather than simply lower the amount of certain SG&A items. We expect to see the effects of these initiatives from the next fiscal year onwards.
- Meanwhile, in terms of lowering our SG&A, there has already been a sizeable reduction caused naturally, due to COVID-19. Our consolidated SG&A has declined by almost 30 billion yen in the 1st half, including reductions in international travel, transportation and other expenses, and we believe it reasonable to expect a roughly 50 billion yen reduction for the full year.
- We will restructure the loss-making companies, mainly the businesses that are not going well and have been loss-making for a long time. There is a possibility of one-off losses, due to disposals and liquidations, but we would like to start with what we can, in order to minimize losses in the next fiscal year onwards.

Q. Metallurgical coal prices rose in September, but has begun to fall again, due to the news that China will prohibit imports of Australian coal. Based on the current situation, including this news, what is your outlook on future metallurgical coal prices?

A.

- When we announced our 1st quarter results, we explained that we were waiting for operations to resume for the blast furnace in India, which was not in operation at the time. Since then, crude steel production in India has been recovering, and this led to prices rising to close to USD140/ton at the end of September. However, prices are now falling due to the various views and rumors regarding the subsequent import regulations by China.
- The current fall in prices has been caused in large part by the sentiment of market participants. Based on the current demand/supply balance, we believe there is a fair chance of prices picking up, although it may not be in the very near future.
- Although there has not been any official notification about this, China's volume control is conducted on a calendar year basis, and the resetting of the current regulations in the New Year onwards could cause prices to recover. Another reason we believe the current situation will not last is the widening gap in imported coal and domestic coal in China, which has been caused by

this regulation.

- This does not mean, however, that we are factoring in overly optimistic assumptions in our earnings forecast.

Q. As for EX, you say you will change your business portfolio based on the long-term perspective. What kind of discussions are you having at the moment?

A.

- As of today, the LNG business makes up the majority of our energy-related businesses. Going forward, we plan to actively expand renewable energy, such as wind and solar power.
- We are currently building up research and analysis on the mixed combustion of ammonia, which is now in the trial phase, and which will ultimately lead to hydrogen. We are focusing our discussions on when the shift will take place.

Q. You moved ahead of market trends in selling the thermal coal business. Do you also plan to move quickly and make changes in EX?

A.

- That is correct. Simply following trends does not work. The key is to take action by moving ahead of the trends.

Q. You have explained Eneco's net profit was approx. 16 billion yen in FY2018, and you expect that to grow by 10% per annum. Has there been any change to this scenario?

A.

- Although there has been a temporary impact from COVID-19, our basic view remains unchanged since the time of acquiring Eneco.

Q. With the decline in LNG prices, coupled with the expansion of the spot market, is there a risk of impairment losses in the LNG business during the current fiscal year, or in FY2021?

A.

- The sales prices we have set in our LNG business is resilient to downward pressure. Although prices are linked to the crude oil price, some LNG projects have formulas which prevent the price of LNG from declining as much as the decline in the crude oil price. Other projects limit how far the price of LNG can fall to. Considering the fact that the crude oil price will have to decline to an extraordinary level for the LNG business to become loss-making, we are not anticipating impairments for the LNG projects that are currently in operation.
- Meanwhile, there are external institutions such as IEA of Europe that are expecting a rise in crude oil prices over the next 5 years or so.
- Although most of our LNG business is covered by long-term contracts, we do sell at spot prices the LNG that was produced in excess of a plant's intended capacity. Spot prices were trending at between USD 2-3/MMBtu, and our profit had declined, but the low spot price does not mean we suffer losses; we are simply selling the LNG that was produced in excess. Since then, spot prices at one time recovered to around USD 7-8/MMBtu, and has remained high at between USD 6-7/MMBtu, and we believe the profit we generate from selling excess LNG in the spot market will recover. Meanwhile, due to the time lag, the current pricing will be applied to transactions delivered in December, so the positive impact on this year's results will be limited.

Q. In relation to EX, please explain initiatives for renewable energy in Japan. Does the lowering of the purchase price in renewable energy auctions in September have any impact?

A.

- It is hard to talk about profitability, due to there being various factors, but we believe we will be able to secure a certain level of premium for renewable energy. There is a recent trend, especially among ICT (Information and Communication Technology) companies, to require all of their suppliers supplying products etc. to switch their entire electricity consumption to renewable energy sources. Some of these digital and ICT companies have very high profitability, and we believe there is a better chance now that the pricing difference still existing between renewable energy and traditional sources of energy can be absorbed, which is a business opportunity for us.
- In terms of actual projects, we are working through our subsidiary Mitsubishi Corporation Power on domestic off-shore wind power generation, and have begun environmental assessments off the coast of Akita and Choshi.

Q. Why has the 2nd quarter earnings of the Automotive & Mobility Group improved significantly from the 1st quarter? Are you expecting an improvement from the minus 50 billion yen outlook for the full year?

A.

- The improvement in the 2nd quarter includes the positive effect of the Isuzu business in Thailand doing better compared to the 1st quarter. Total demand in Thailand for the 1st half was down by around one third from the previous year, but sales in the Isuzu business was flat, and it outperformed the market.
- How well we do in the 2nd half is up to MMC and the Thailand Isuzu business, but we will try to improve as much as possible from the current full year outlook.

Q. You say there are 65 DX projects which you are considering, but it is hard to grasp how you are going to monetize from these projects. Is the objective to lower the distribution cost within the firm? Or, are you going to commercialize and provide them to the whole industry? In that case, how much earnings contribution are you expecting?

A.

- We are analyzing the impact each project will have on our earnings, but we need to assess the probability of realizing each project, so for the moment, we will refrain from mentioning the expected impact on our earnings.
- In terms of how to monetize, in case the objective of the DX project is to help our internal operations, it is clear that the project will benefit us or our Group companies. Meanwhile, in case the DX function is going to be provided to outside of our Group, there could be cases where earnings are split due to the competition. There are various options, including making alliance and pursuing profit pools, or offering consulting-type functions. We will conduct our analysis carefully, including how we can function, and will explain in more detail when we become able to do so. In any case, there will be almost no revenue contribution in the current fiscal year, and we will start benefiting from additional revenue in FY2021 onwards.

Q. Are there any bottlenecks in your DX initiatives, such as expertise or human resources?

A.

- In addition to the alliance with NTT, we have newly hired around 20 AI professionals at MC Digital.
- What is most important when promoting DX is that we handle the operations ourselves, and that we have the hands on know-how and expertise about the industry. We believe that the more involved we are with that industry, the wider the range of DX that we can create. We are deeply involved in a wide

range of industries, and we expect the number of projects to rise going forward.

Q. As part of your DX initiative, will you strengthen governance and cost control, by streamlining the structure or making business operations more visible for your 1,700 group companies?

A.

- We will use DX to connect the business value chain (materials, distribution, sales, etc.) vertically as well as horizontally. By connecting functions that were self-contained in one company, we believe we can make our business more efficient and productive.
- We do have concrete concepts about how to use DX to solve structural issues which each industry has. The positive impact to our earnings will be in FY2021 onwards.

Q. How much impact was there from COVID-19 in the 1st half of FY2020? Has there been a change in your view about the full-year impact, from what you had initially projected? If so, what has been the change?

A.

- When we announced the full-year outlook in August, we explained that the negative impact on profit due to COVID-19 is about 300 billion yen. There has been no major change to this view since then.
- We estimate the impact in the first half was roughly 180 billion yen, which can be broken down into slightly more than 110 billion yen in the 1st quarter, and around 70 billion yen in the 2nd quarter, and the negative impact is getting smaller.
- We are expecting a roughly 120 billion yen or so of negative impact in the second half. Having said that, the situation remains unpredictable, for example with the recent resurgence of the virus in Europe.

Q. You say that you will restructure your group companies that continue to be loss-making. In total, about how much losses are being made by these companies currently?

A.

- Several tens of billions of yen in the 2nd quarter.

Q. With the lowering of your long-term outlook on the oil price, is there a risk of impairment charges in the shale gas business?

A.

- The shale gas business in Canada is impacted by both the crude oil price as well as the price of gas. The gas price is currently rising in Canada, and we are now considering how to form our future outlook on the rise in gas price as well as the fall in oil prices.
- We are planning to connect the gas to the LNG Canada Project, which is currently under construction, and use it. We need to carefully assess how to evaluate this part of the project.