Q&A at Investor Meeting
Financial Results for the Nine Months Ended December 2020

Presentation Date: Wednesday, February 3, 2021 18:00 to 19:00

Presenters:
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Questions and Answers

Q. With the improvement in business environment, your quarterly ordinary income exceeded 100bn yen in the 3rd quarter. Does this figure represent your current true strength?

A.

- The profit in the 3rd quarter (for the 3 months) is somewhat high because some factors were concentrated in the quarter such as Eneco's profit contribution being higher in the second half, as well as the booking of dividends in the LNG business (the Sakhalin Project). Therefore, the ordinary income after excluding such factors is around 80-90bn yen.
- It is worth noting that the profit in the 3rd quarter (for the 3 months) was achieved despite the price of natural resources such as crude oil and metallurgical coal being at recent lows.

Q. The price of Australian metallurgical coal has been recovering, and catching up with U.S. coal. What is the background for this? What is your outlook on pricing going forward?

A.

- China's unofficial import regulations on Australian coal led to stronger demand for North American coal, which resulted in a spike in the sales price of North American coal to China. We believe the recent sharp rise in Australian metallurgical coal prices was caused by North American coal prices reaching the upper limit, leading to stronger demand for Australian coal from European and South American customers. In other words, price arbitrage took place, although it happened later than we had initially anticipated.
- However, China is continuing its regulations on Australian coal imports, and the future outlook, including where pricing will go when China removes the regulations, remains unclear.

Q. You did not change your full-year guidance of 200bn yen, despite improved performance in the 3rd quarter. Does this reflect the booking of structural reform expenses for Mitsubishi Motors Corporation ("MMC"), as well as your intention to restructure unprofitable businesses in the 4th quarter?

A.

- We have kept our full-year guidance unchanged, considering the possibility of reviewing asset valuations. We cannot disclose the names of the projects involved.

Q. What is the progress in restructuring the loss-making companies and low

profitability businesses? Any change in your policy?

A.

- No major change in our policy. Each of our Business Groups has listed up the entities subject to restructuring, and have already begun working on the restructuring. The status of the progress being made is shared among all Directors. We have already decided on the strategy going forward, and have started implementing them for more than half of the cases. We will continue our work on the remaining half.

Q. Why did the ordinary income for the 3rd quarter (for the 3 months) improve in the Food Industry Group and the Consumer Industry Group?

A.

- As for the Food Industry Group, the Meat products businesses did especially well, both in and outside of Japan, driven by heightened stay-at-home demand. As for Cermaq, its earnings were loss-making in the 2nd quarter (for the 3 months), but has turned profitable in the 3rd quarter (for the 3 months), and although the company booked losses for the first 9 months of the year, market pricing and other factors are beginning to improve.
- The Consumer Industry Group benefited from gains related to the disposal of Nippon Care Supply, as well as better performance in the Supermarket and wholesale businesses, such as Life Corporation and Mitsubishi Shokuhin, by capturing stay-at-home demand.

Q. The Power Solution Group is making relatively weak progress towards the full-year guidance. How does the Group plan to achieve its full-year target? Are any one-off gains expected, aside from Eneco's Q4 (Jan to March) profit?

A.

- As for Eneco, profit contribution in the 1st half was negative, due to factors including seasonality. However, Eneco generated around 6bn yen of profit in the 3rd quarter (in the 3 months), when excluding the impact of changes in the Dutch tax reform. Moreover, we are expecting a sizeable profit contribution in the winter demand season during the Jan-March period, which is in line with our expectations.
- The guidance at the beginning of the fiscal year did not factor in the impact from Dutch tax reform. We booked additional deferred tax liabilities, in response to the Dutch Parliament passing a law last December, suspending the corporate tax cut which was to take effect from FY2021, due to the COVID-19 pandemic. However, we are expecting to offset some of this negative impact from other projects.

Q. MDP was loss-making in the 3rd quarter (for the 3 months). What is your outlook for the 4th quarter?

A.

- There is no timing difference in accounting for MDP. Therefore, we expect MDP to start contributing to our earnings from the 4th quarter, if the current market conditions persist.

Q. Underlying operating cash flows were 446.9bn yen in the 3rd quarter. Was there a discrepancy from your initial plan? If so, what is the main factor?

A.

- Underlying operating cash flows have been stronger than initially expected. Based on current projections, it could reach close to 600bn yen.
- Although there was a year-on-year decline from 531.8bn yen in the 3rd quarter, the decline in underlying operating cash flows was smaller than the decline in

consolidated net profit. This gap is mainly due to non-cash items such as i) the increase in depreciation following the consolidation of Eneco, and ii) equity method losses from MMC.

- We see the significant improvement in cash flows in the 3rd quarter, from the period up to the previous quarter, as a sign of positive change.

Q. In relation to the ordinary income of the Automotive & Mobility Group, operations of the ASEAN Automotive business have been improving since the previous period, and your profit as of the 3rd quarter has already reached a level similar to the last fiscal year. Do you expect the recovery of the Automotive business to continue into next year, and will it be a driver of profit growth?

A.

- As you pointed out, the ASEAN Automotive business in Thailand and Indonesia is generating more profit than what was initially expected, although the equity in earnings of MMC remains tough.
- Total demand in Thailand for the period of April to December has fallen year-on-year, but we have grown market share in Thailand sales, and performance is stronger than expected. However, with the impact from the second wave of COVID-19 infections since late December, the profit level in the 3rd quarter will not necessarily continue throughout the whole of next fiscal year onwards.
- Total demand in Indonesia for the period of April to December has declined year-on-year, and car sales is showing a similar trend. However, there has been a solid recovery quarter-on-quarter, and we can expect a reasonably good next fiscal year.

Q. Please explain the progress you are making in Digital Transformation ("DX"). Are you expecting profit contribution, such as by cost reductions through DX in the next fiscal year?

A.

- We will make a full-fledged start of DX next fiscal year in the area of food distribution. We are most focused on linking the data between the retail business and wholesale, and will seek to reduce food waste in the coming year through better demand/supply forecasting.
- However, this first step will only lead to cost reduction, and there will not be a notable impact on our earnings. The objective of DX is to build a distribution platform not only for food but other items too, which will take a little longer to accomplish.

Q. The new section on page 23 of the IR material describing the trade flow of metallurgical coal is extremely helpful. Is it correct to assume that the key message here is how there is little chance of pricing falling to 100 dollars per ton, even with China's import regulations on Australian metallurgical coal?

A.

- The point we wanted to get across with this material is the background for the recent price hike; China regulating metallurgical coal imports from Australia, which led to demand for North American coal increasing, resulting in stronger demand for Australian coal by European and South American customers.
- As you can see from the graph at the bottom of the slide, pricing for domestic coal in China remains extremely high, followed by a rise in U.S. coal, which led to an arbitrage that also pushed up the price of Australian coal.

Q. You mentioned earlier that the negative impact from COVID-19 was 300bn yen for the year. What are your current views? Is the impact from COVID-19 gradually easing?

A.

- At the time of the previous results announcement, we explained the impact of COVID-19 on our earnings to be around minus 300bn yen for the year. Our rough estimate is that the impact so far in the first 3 quarters was around minus 240bn yen, and the full year figure should be around minus 280bn yen.
- As you point out, the negative impact from COVID-19 is getting smaller with time. It exceeded minus 110bn yen in the 1st quarter, was close to minus 70bn yen in the 2nd quarter, and then around minus 60bn yen in the 3rd quarter, and we expect it to be around minus 40bn yen in the 4th quarter.