Q&A at Investor Meeting
Financial Results for the Three Months Ended June 2021

Presentation Date: Tuesday, August 3, 2021 18:00 to 19:00

Presenters:
Kazuyuki Masu: Executive Vice President, Chief Financial Officer
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Questions and Answers

Q. The ordinary income in the 1st quarter, excluding one-off gains/losses, was around 180 billion yen. What are your thoughts about your underlying earnings power? With the rise in metallurgical coal prices, should I expect profit in the 2nd quarter (3 months) to exceed 200 billion yen?

A.
- Based on natural resource prices in the 1st quarter, given the extraordinary factors and concentration on profits, we believe our underlying earnings power to be around 140 billion yen. Extraordinary factors in the 1st quarter include the evaluation gain of the North American fund. Volume is concentrated in the 1st quarter as maintenance work is planned in the Metallurgical coal business and the LNG business in the 2nd quarter onwards. It was in mid-to-late May that Australian metallurgical coal prices began to rise. There is a time lag before metallurgical coal prices affect our earnings, and we expect some of the impact to start showing up in the 2nd quarter onwards.
- In terms of our future earnings forecast, based on the current business environment, we expect the 140 billion to be the standard level of profit, using natural resource prices in the 1st quarter, and adjusting for extraordinary items. Therefore, we would propose using this level, and reflecting the outlook on business environment and natural resource prices for the remaining 3 quarters.

Q. Which businesses could be affected by the resurgence of COVID-19 infections in Southeast Asia?

A.
- We have concerns about the resurgence of COVID-19 infections in Southeast Asia. The business that is expected to be affected is the Automotive-related business in Thailand and Indonesia.
- Although we generated solid 1st quarter earnings of 21.2 billion yen in the Automotive-related business in Thailand and Indonesia, with the number of COVID-19 infections rising again, we have concerns about the impact in the 2nd quarter onwards.

Q. What was the background for the 21.2 billion yen result in the 1st quarter in the Automotive-related business in Thailand and Indonesia, in the Automotive & Mobility Group? Also, is it correct to understand that, given the profit level of the Group as a whole, businesses other than in Thailand, Indonesia, and Mitsubishi Motors Corporation (such as in Australia and India) have been recovering?

A.
- The Isuzu business in Thailand continued to do well following last year, thanks to the effect of strong new car sales. The sales of Mitsubishi Motors in

Indonesia is also robust, with the luxury tax cuts in Indonesia.

- The strong performance of the Thailand and Indonesia business was supported not only by increases in sales volume, but also by market share gains.
- I will not go into the details, but the situation in Australia, etc. is relatively strong as of the 1st quarter.

Q. I believe you mentioned in the past that you could use the average payout ratio of the top 100 companies in the market, which is 40%, as a benchmark for your own payout. In terms of your shareholder return in case you outperform your forecast, what would prompt you to increase your dividend, and what are your thoughts on shareholder return?

A.

- For share buybacks, there is no change to our policy of conducting buybacks when the investment leverage ratio, which we use as the indicator, is below the adequate level.
- For dividends, as there were opinions that the payout ratio of 115% last year, due to the temporary decline in earnings, was too high, we explained that if we consider the average payout ratio of the top 100 companies in the market, a 40% payout ratio is an adequate level.
- Our policy is to conduct share buybacks to reduce the number of shares outstanding, instead of increasing dividends, thereby increase the dividend per share, and not lower the total amount of dividends. We determine the current dividend amount in FY2018. Therefore, please use FY2018 as the benchmark. This does not mean that we will not increase dividends if our earnings fall to below that of FY2018, but I believe we will consider increasing dividends if we outperform FY2018.

Q. You mentioned how there is a time lag between metallurgical coal prices being reflected on your earnings, and the recent price hike will show up in the 2nd quarter onwards. How much impact on production will there be from maintenance work?

A.

- Please refer to past production volume on page 21 of "Supplementary Information for the Three Months Ended June 2021". Please use the figures for FY2019 for your reference as the figures for FY2020 include the impact from unofficial import restrictions in China, while the production figures for FY2019 include the impact from regular maintenance work. Although production volume decreases due to maintenance work, it will not be zero.

Q. When factoring in the impact from regular maintenance work, should we expect the positive effect from pricing to be larger than the negative effect from volumes?

A.

- If the current price level continues, yes, we expect the pricing effect to be larger.

Q. If we assume the Australian metallurgical coal price to be 200 dollars / ton, we expect your quarterly profit will increase by 40 billion yen from the Metallurgical coal business alone. In this case, should we assume your underlying earnings power to be 180 billion yen instead of 140 billion yen?

A.

- We will not go into the details of our outlook on the Metallurgical coal business. However, we have doubts as to whether the current price level of 215 dollars / ton will continue until the end of the year.

Q. To what do you attribute the rise in the Australian metallurgical coal price since mid-May?

A.

- The import restrictions by China are still continuing, but as we have explained in the past, we believe there will be an arbitrage effect in global trade flows of metallurgical coal. The CFR price in China has recently exceeded 300 dollars, the FOB price in U.S. has exceeded 220 dollars, and we believe the arbitrage is already taking place.
- However, the recent price level reflects the tight demand/supply balance, triggered by strikes in U.S. mines, as well as the wildfires in Canada. That is why prices are rising even more than the arbitrage effect.

Q. If we assume the underlying earnings power to be 140 billion yen in the 1st quarter, it means you are making good progress towards the 380 billion yen forecast. Please explain which Groups are outperforming, including the extent of the outperformance.

A.

- If you look at the progress of each segment, the Mineral Resources Group has achieved extremely strong progress of 82%. It depends on natural resource prices, but if the current price levels persist, there could be a significant increase in profits.
- The second strongest progress is the 52% of the Automotive & Mobility Group, which achieved exceptional results in the 1st quarter. Although there are concerns from the resurgence of COVID-19 in Southeast Asia in the 2nd quarter onwards, we believe there is a very high chance of outperforming the forecast.
- The progress by the Food Industry Group is 48%. This strong progress was driven by the extremely good results of Cermaq, driven by the recovery of the salmon market in North America, which was severely impacted by COVID-19 in FY2020.
- The Natural Gas Group, Industrial Materials Group, and Petroleum & Chemicals Solution Group also did well, and performance was strong overall.
- For the other segments, such as the Urban Development Group, we do not expect a significant outperformance from the forecast, due to factors such as fund valuation gains being concentrated in the 1st quarter.

Q. Is it correct to understand that the difference between the ordinary income of 180 billion yen in the 1st quarter, and the underlying earnings power of 140 billion yen, is due to the Mineral Resources Group and the Urban Development Group?

A.

- There is a high concentration of profit in the 1st quarter in the Mineral Resources Group and the Urban Development Group, but this includes other factors as well. The Power Solution Group is loss-making in the 1st quarter, but there is seasonality to the business, and we are expecting divestment gains in the 2nd quarter onwards, so the underlying earnings power is positive. Please understand this figure to be the overall amount, including positive and negative factors.

Q. The Industrial Materials Group and the Petroleum & Chemicals Solution Group both did well in the 1st quarter. Do you expect this to continue?

A.

- Together with the Industrial Materials Group and the Petroleum & Chemicals Solution Group, we consider the trading of the Mineral Resources Group, etc. to be doing well overall.

Q. As for Australian metallurgical coal prices shown on page 22 of

"Supplementary Information for the Three Months Ended June 2021", should we assume the nature of the recent price hike to be different from that in January to February?

A.

- In January to February, there was a temporary price hike due to the arbitrage effect mentioned earlier. However, prices fell due to the special intervention by some market player.
- On the other hand, the recent price hike is not affected by such factors. It may be a little too high, but we believe the healthy market mechanism is working.

Q. For your Copper business, how do you assess the impact from the tax hike and strikes in Chile, and the Presidential election in Peru?

A.

- We will not comment on the strike in Chile (the Escondida copper mine), because the situation has not yet led to a strike.
- The new Castillo administration in Peru used to have policies such as the nationalization of copper mines, as well as raising taxes on the mining industry. However, the administration recently made comments denying nationalization. We expect the impact of the tax hike to be limited, since we have already agreed with the Peru government that the tax rate for the Quellaveco project will be fixed for 15 years.
- With the Presidential election coming up in November, we will continue to closely watch the situation on taxes in Chile, including the related laws, towards the end of the year.

Q. Are there any one-off gains/losses you expect in the 2nd quarter onwards? If so, what is the size?

A.

- We have already factored in one-off gains/losses in our earnings forecast, and will not go into details. As of this moment, we are not expecting to book one-off losses of the size we saw in the 4th quarter of FY2020.

Q. Does that mean you are not anticipating one-off gains/losses exceeding 10 billion yen?

A.

- That is correct.

Q. In terms of the earnings forecast of the Automotive & Mobility Group, please explain the future business risks and opportunities, including the resurgence of COVID-19, and the loosening of semiconductor demand/supply balance. Will the Group continue to drive profits, or will things peak out?

A.

- It is hard to set forecasts with the COVID-19 pandemic continuing.
- However, in the 1st quarter the Group is generating around 20 billion yen in the Automotive-related business in Thailand and Indonesia, and we believe we can expect continued earnings contribution from the business.

Q. Based on the progress made in the 1st quarter, you can expect an increase in cash inflows. Is there a chance you will allocate more capital to the downstream areas which you raise as a priority in the Midterm Corporate Strategy?

A.

- One of the key initiatives in the current Midterm Corporate Strategy is to strengthen the downstream areas, which is closest to consumers but we lacked capabilities there. The main example is the acquisition of ENECO, an

integrated energy company with a customer base of around 6 million in Europe, mainly in the Netherlands.
- We will be discussing internally about our future investment policy, in preparation for the next Midterm Corporate Strategy. Our earnings dropped significantly in economic downturns, therefore it is important to strike the right balance between the areas defensive against market fluctuation and the areas to see an upside when the economy picks up.

Q. Please share your thoughts on Chiyoda Corporation. First, how do you evaluate the fact that Chiyoda has booked losses related to the Ichthys dispute in the 1st quarter? Second, what is your support policy to Chiyoda going forward? I assume that even after a dispute with the customers is resolved, risks related to subcontractors remain. Moreover, construction work on Tangguh in Indonesia has been affected by COVID-19, and although Chiyoda has explained that costs due to COVID-19 will not be borne entirely by Chiyoda, and that they will discuss with the customers going forward, Chiyoda's capital has weakened due to the company booking impairment losses. If these issues surface going forward, will you have to consider injecting capital, or, because you have already supported them once, will you deal with it in a just and unbiased manner?

A.
- For Ichthys, it is true that even if the dispute with customers such as INPEX is resolved, the situation with subcontractors is yet to be resolved. Although losses were booked, we believe it is a major step forward for us that the discussion is proceeding with our customers to resolve disputes.
- In terms of our support, preferred shares with a value close to Chiyoda's capital amount are currently held, since Chiyoda cannot maintain its listing if it goes into capital deficiency. However, we are not anticipating additional measures.

Q. Mitsubishi Corporation is also involved in the Tangguh project. In order to protect your interests in Tangguh, is there a possibility that you end up supporting Chiyoda again?

A.
- No, we will not support Chiyoda simply to protect a project for which we placed the order.

Q. **In the Natural Gas Group, the 1st quarter result was extremely strong at 18.5 billion yen, given that the oil price of 44 dollars / barrel was reflected. How should we think about this? Were there one-off gains/losses, or is there a concentration of profit?**

A.
- The oil price is reflected on LNG sales prices following a 6 month time lag. In the 1st quarter, the low oil price during the weak market has been reflected. The price has a negative effect on profit compared to the previous year.
- The main reason for profit growth was the increase in dividends. In the same period in the previous year, several companies deferred dividend payments due to COVID-19, etc., but in the recent period there was a big contribution from dividends from businesses such as in Sakhalin and Malaysia. The rise in LNG spot prices also contributed to profit growth.

Q. How should we evaluate the Shale gas business in North America?

A.
- The Shale gas business in North America is contributing to profit growth, with both oil and gas prices rising.

- The Shale gas business in North America had long been struggling, and one of the reasons was the premium for entering the business; namely how we had to pay capex on behalf of partners. By adjusting the allocation of construction costs incurred after our participation, we were deferring the payment of this premium, which led to our performance being weaker than that of our partners. However, this payment has been completed in FY2019, and we have been able to move out of this situation.
- Moreover, gas prices in Canada have risen and remain stable. There was a time when the gas price neared 0 dollars / mmbtu, but thanks to the expansion of the pipeline in the west coast of Canada, demand/supply adjustment using this pipeline is now possible, leading to stable gas prices. From this standpoint too, we believe the Shale gas business in North America has overcome its most difficult period, and will enter the collection phase going forward.