Q&A at Investor Meeting
Financial Results for the Nine Months Ended December 2021

Presentation Date: Thursday, February 3, 2022 17:45 to 18:45

Presenters:
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Questions and Answers

Q. In terms of the additional shareholder return mentioned in the "Financial Results for the Nine Months Ended December 2021", what was discussed in determining the direction? There seems to be some room in your cashflow, but please share your current thinking about the additional shareholder return, which will be considered towards the end of the fiscal year.

A.

- We had intensive discussions leading to this results announcement.
- We did consider announcing details regarding additional shareholder return in the current fiscal period, during which we revised up our earnings forecast. However, we concluded that we should decide based on the full-year results. Therefore, this time we explained our thinking about additional shareholder return, together with a clear statement to the market that we will consider the amount towards the time when we announce the results of the fiscal year.
- Since the previous Midterm Corporate Strategy 6 years ago, our cashflow management policy has been to control the free cashflow after dividends at zero. Meanwhile, when managing our financial soundness internally, we use investment leverage ratio as the metric. This metric is affected by factors such as the borrowings of companies we acquire through M&A, which lead to an increase of the consolidated balance sheet. If we acquire a company with debt (Lawson and Eneco are good examples in recent years), this does not affect the cashflow, but the increase in borrowings on the balance sheet does affect the investment leverage ratio. We manage our funding from a comprehensive standpoint including the aforementioned factor, and after taking its impact into consideration, the actual amount of excess cash carried over is not significant.
- Keeping in mind the fact that the market favors our current progressive dividend scheme, we will consider our future shareholder return policy based on the heightened earnings volatility caused by severe changes in the external environment such as market prices.
- As for share buybacks, I believe we can take a more flexible approach, while maintaining our focus on financial soundness.
- We are still in the initial stages of consideration, but would like to decide our future policy so that we continue to meet the expectations of our shareholders.

Q. Please explain the direction of the next Midterm Corporate Strategy.

A.

- We have just begun discussions, and the first step will be to review the past 6 years under the current management structure, analyze from multiple

perspectives, determine what the challenges are, and move our considerations forward.
- In terms of earnings, the new forecast which we revised upwards to 820 billion yen comes somewhat close to the 900 billion target for the final year of the current Midterm Corporate Strategy, but there are issues which we need to think about for the future.

Q. Please explain the background for your decision to consider and execute the additional shareholder return at the end of the fiscal year, and not in the current fiscal period. To what extent was the next senior management team involved in the decision?

A.
- The core part of our thinking regarding shareholder return was considered and prepared by the Finance & Accounting Division, which reports to the CFO.
- Our commitment to consider additional shareholder return including share buybacks towards the end of the fiscal year was announced after confirming with the current and the next Presidents.
- In terms of the timing, we chose the results announcement of this fiscal year as the time that we could decide on shareholder returns that meet market expectations, based on our outlook for the next fiscal year as well as the results for this fiscal year.

Q. For the Metallurgical coal business, the 3rd quarter earnings do not seem that high, considering the high level of the index price. What are the reasons for this?

A.
- Profit from the Metallurgical coal business was up approximately 108 billion yen year-on-year. This was the result of an approximately 141 billion yen improvement in royalty, while there were negative factors such as approximately minus 14 billion yen from volume and cost factors, approximately minus 16 billion yen in relation to the foreign exchange, and approximately minus 3 billion yen from other factors. Therefore, the main reason why profit improvement was not as significant as what could be expected from the strong market price is the impact from volume and foreign exchange factors.
- In terms of prices, as we have explained in the past, when prices are going up, there is a certain time lag before the index price is reflected on our earnings. Moreover, not all of the sales volume is subject to the index price(High quality hard coking coal), and there is some difference depending on the ratio.
- The decline in volume in the 3rd quarter was due to the weather conditions in Australia, as well as COVID-19, and we hope the situation will improve towards the end of the fiscal year.

Q. What do you attribute the current price hike to?

A.
- We believe the price hike since the end of the calendar year was mainly due to supply-side factors, and we see the current prices as being overheated. The main reasons include the impact from weather conditions in Australia, as well as logistics constraints in Canada. Therefore, based on the assumption that supply disruptions will be resolved, we do not expect the current prices to persist.

Q. Please explain the background for mentioning share buybacks in the material as an option for additional shareholder return. Are you implying that you will buy back shares based on the possibility that the investment leverage ratio will

go below 50% in this fiscal year, which is in the range of 40-50% which you have deemed appropriate from the past? With your peers conducting share buybacks flexibly in consideration of expectations from the market, please explain your current thinking on buybacks.

A.

- There is no change to our policy of using the appropriate range of investment leverage ratio as the benchmark.
- However, although the previous share buyback was initiated because the investment leverage ratio exceeded the appropriate range and we had excess capital, at the end of this fiscal year we will flexibly consider share buybacks as an option even if the investment leverage ratio is within the appropriate range, as long as we maintain our financial soundness.
- This reflects the extremely volatile earnings environment since last fiscal year, driven by fluctuations in market prices, and for the current fiscal year we would like to consider flexibly combining the shareholder return options of dividends and share buybacks.
- We will consider what to do about the next fiscal year onwards in the future.

Q. Based on the revised earnings forecast of 820 billion yen, what is the background for the 4th quarter earnings forecast falling by more than 100 billion yen from the 3rd quarter? Are you factoring in any slowdown, such as significant losses?

A.

- There were some extraordinary factors in the 3rd quarter, including the dividend timing of the LNG-related business, capital gains in the Real estate business, and the year-end demand etc. in the Automotive and Food industry-related businesses, amounting to several tens of billions of yen. Although we do not expect significant impairment losses etc. in the 4th quarter, we are factoring in a certain amount of losses resulting from asset replacements etc. in each business segment.
- Moreover, we have factored in approximately 20 billion yen of negative impact in the Corporate segment, which includes foreseeable downside risks such as changes in the external environment, and subsequent revisions to asset values, etc.
- We do not regard these assumptions as being too conservative, but if the anticipated risk factors do not materialize, there is room for upside in our earnings.

Q. You won the auction for 3 domestic off-shore wind power generation projects (Choshi off Chiba Pref., Noshiro Mitane Oga and Yurihonjo, both off Akita Pref.). Why were you able to offer an extremely low bid compared to your competitors? Please explain your future policy regarding this business.

A.

- We have a track record of working with Eneco for the past 10 years on fixed-bottom off-shore wind power generation in Europe (the North Sea), and have been building up the expertise and talent.
- The recent bid price was calculated based on state-of-the-art expertise that we built up in Europe, with sufficient profitability, and we believe we have made the optimal proposal. Due to business reasons I will refrain from commenting on future auctions.

Q. In terms of the revised forecast for the Consumer Industry Group, please explain why a loss (minus 8.5 bn yen) is expected in the 4th quarter.

A.

- The equity in earnings of our subsidiary Lawson makes up a large portion of this Group's earnings. As announced by Lawson, they are planning to book impairment losses related to their stores in the 4th quarter, as they usually do each year, as well as other factors.

Q. Investments in the 3 domestic off-shore wind power generation projects will probably be of considerable size, but what impact will this have on future investment cashflow?

A.

- Multiple options are being considered for the funding for the 3 domestic off-shore wind power generation projects before the project is established.
- We have confirmed that there is a high level of interest in project finance for funding in the field of renewable energy, and we do not expect this to be a major burden on our future financing.

Q. The recent oil price (Dubai) is trending at around $80/barrel. Based on your previously announced oil price sensitivity, an additional profit improvement can be expected in the next fiscal year. Please explain the factors that should be considered regarding the Natural Gas Group's earnings forecast for the next fiscal year.

A.

- As you pointed out, the impact from the current hike in oil price will be reflected in our earnings in the next fiscal year onwards, considering the 6 month time lag.
- However, please also consider i) the fact that although the oil price stated in our announcements is the oil price 6 months prior, which is in consideration of the impact to our earnings from the differences in fiscal periods with consolidated subsidiaries, as well as from the time lag of the oil price being reflected on LNG sales prices, etc., there are some projects for which we use the oil price 3 months prior, ii) the fact that there will be some profit contribution in this fiscal year from the hike in LNG spot prices from the beginning of 2021, and iii) the fact that the earnings will be affected by some specific factors of each project, etc.

Q. How much revenue contribution in FY2022 are you expecting from the Quellaveco copper mine, which is expected to begin production this year?

A.

- Production is scheduled to begin in the first half of FY2022, and we are expecting a certain amount of revenue contribution.
- Full-fledged revenue contribution will be in FY2023 onwards.

Q. How much impact from the semiconductor shortage etc. are you factoring in to the revised full-year forecast for the Automotive & Mobility Group? Will this be a positive factor to your earnings in the next fiscal year onwards?

A.

- There are downside concerns resulting from a decline in production in certain businesses, but we are working to minimize the impact.
- It is in terms of the number of units sold that the semiconductor shortage affects us directly. In terms of the year-on-year numbers in our major markets, sales volume increased in Indonesia, and although sales volume remained flat in Thailand we have gained market share, and are doing well in these markets.
- Therefore, our earnings this fiscal year are improving, even when excluding the positive effect compared to the previous fiscal year when we booked the impairment losses related to MMC etc. We expect this positive trend to continue in the next fiscal year onwards, but we are not anticipating an even stronger earnings improvement due to the semiconductor shortage being

resolved.

Q. Please explain the current pipeline of investment projects.

A.

- We have good visibility for the next fiscal year and onwards for investments that we have already committed to, such as natural resource development projects, as well as renewal investments in existing projects. On the other hand, for new investments, we are considering several projects, but will refrain from mentioning the actual project names as well as the amounts of investment. We do not have significant investments upcoming in the near future.

Q. The Salmon farming business (Cermaq) is already reaching record earnings this fiscal year, and is having more impact on your profit. Please explain the demand/supply balance and market outlook of this business.

A.

- As you pointed out, the business generated record profit of 23.7 billion yen in the 3rd quarter of FY2021.
- Favorable market prices was a major factor, but in the Chile operations of Cermaq, production cost of Atlantic salmon has improved by 17% since our acquisition in FY2014. This is the result of efforts to lower costs, such as lowering the death rate and the feed consumption rate(the weight of feed required to grow the fish by 1kg), and today the cost level is best in class when compared with peers in Chile.
- Cermaq's earnings capability is steadily improving, through diligent efforts including on the sales side, such as expanding the frozen foods channel for which prices are less volatile, and processing lower quality ingredient products to raise their sales prices in order to lower susceptibility to market price fluctuations.