

Q&A at Investor Meeting
Financial Results for the Year Ended March 2022
Midterm Corporate Strategy 2024

Presentation Date: Thursday, May 12, 2022 13:00 to 14:25

Presenters: Katsuya Nakanishi: President and Chief Executive Officer
Yuzo Nouchi: Executive Vice President, Chief Financial Officer
Yoshihiro Shimazu: General Manager,
Corporate Accounting Department
Tatsuhiko Terada: General Manager, Investor Relations Department

Questions and Answers

Q. In the Midterm Corporate Strategy 2024, you present a business portfolio centered around EX-related initiatives. With stable cash-in expected during the 3-year Midterm plan period, what changes are you making to your investment policy? Which investment areas will you focus on going forward?

A.

- As for EX-related investments, we will further accelerate the plan to invest approximately 2 trillion yen by FY2030, outlined in the “Roadmap to a Carbon Neutral Society” announced in October 2021, and are planning to make around 1.2 trillion yen of investments by FY2024. Due to the time it takes for these investments to begin contributing to revenue, we will prepare for the next generation while we can expect the cash-in from the existing revenue platform.
- We are convinced that we now have the capability to proactively drive forward EX-related projects including renewable energy. How MC participates in upcoming projects depends on the nature of the business as well as the relationship with partners, but we would like to play a proactive role, and accelerate initiatives towards a carbon neutral society.
- There are 2 focus investments areas. The first is the Copper business, which is becoming ever more important with the trend towards electrification. The Quellaveco copper mine is expected to begin production as early as the middle of this year, and we are looking forward to steady revenue. The second area is hydrogen, which we think will ultimately contribute to carbon neutrality, mainly in areas originating from renewable energy. Raising the self-sufficiency of energy will help Japan become a stronger nation, and we would like to actively engage in this business.

Q. Please explain why you are using a range of 30-40% for your target total payout ratio for shareholder return, including the actual results for FY2021. Will you continue to use the investment leverage ratio as one of the metrics to determine shareholder return?

A.

- Although we achieved record earnings for the full-year of FY2021, we expect our revenues to fluctuate based on the assumption that heightened uncertainty will continue.
- Based on this volatility in revenue, and balancing factors such as financial soundness, stable dividend growth and market expectations on shareholder return, and assuming that we will continue our progressive dividend scheme in which we increase dividends in response to sustainable earnings growth, we will consider shareholder return including flexible share buybacks. This is the

reason behind the range of 30-40% in our target total payout ratio.

- With the expected volatility in our revenue, we chose to use around 30-40% as target total payout ratio in the Midterm Corporate Strategy 2024, while continuing the progressive dividend scheme.
- For the single year of FY2021, the total payout ratio was above 30%, and for the 3-year period of the Midterm Corporate Strategy 2021, the average dividend payout ratio was 38%, the average total payout ratio was above 40%.
- As for the investment leverage ratio, we continue to see 40-50% as the appropriate range, from the perspective of maintaining financial discipline. Meanwhile, in the Midterm Corporate Strategy 2021, we have explained that we will conduct share buybacks from a comprehensive perspective if there is capital in excess of the range. In the Midterm Corporate Strategy 2024, we will consider share buybacks even when within the range, from a comprehensive standpoint, if there is no shortage of capital.

Q. Based on the forecast of 850 billion yen profit and 150 yen dividend per share for the full-year of FY2022, your dividend payout ratio will be less than 30%. Based on your explanation that you will keep the total payout ratio within the 30-40% range, does this mean that you will do a share buyback this year? Please explain the relationship between your target of double digit ROE and the shareholder return policy.

A.

- In the Midterm Corporate Strategy 2024, we will flexibly consider share buybacks even if the investment leverage ratio is not at 40% or lower. However, the investment leverage ratio continues to be an important metric in maintaining financial discipline. For FY2022 we are considering 30-40% as the range for total payout ratio, and will make a comprehensive decision, including increasing the dividend payout, if there is a rise in the level of sustainable earnings.
- The reason why we shifted to a policy of total payout ratio including share buybacks in the Midterm Corporate Strategy 2024 is because we are considering the possibility of fluctuations in our earnings due to volatile markets, even though MC is aiming to raise the level of base revenue which is not affected by volatility in natural resource prices.
- We are expecting uncertainties in the business environment leading to FY2024, but will seek to achieve double digit ROE, achieve the right balance between capital and returns, and continue the dialogue with the market as we determine our capital policy. We would like to be able to respond to any situation and meet the expectations of our shareholders.

Q. The business environment has changed significantly since the days when Mr. Kakiuchi was President. Please explain the current focus areas of investment.

A.

- We will focus our investments in EX-related areas, which we outlined in the “Roadmap to a Carbon Neutral Society” last October. We plan to further accelerate our EX strategy, from “investing around 2 trillion yen by FY2030” to “investing around 1.2 trillion yen by FY2024”.
- I will not go into deal specifics, but we already have a long list of multiple projects. The recent geopolitical risks are driving the shift towards new sources of energy. We are making preparations to participate in bids in Europe for next-generation energy related projects, and will consider engaging in such opportunities, which are one or two steps ahead internationally, here in Japan as well in the future.

Q. Please explain the investment to raise Japan’s self-sufficiency rate of renewable energy, as part of your investments that contribute to carbon

neutrality. Since MC won all 3 projects in the operator selection for off-shore wind generation projects at the end of last year, I understand that the Japanese government has expressed its intention to review the selection criteria, to avoid operator concentration risk. This could make participating in bids harder for MC than it used to be, but please explain your policy on off-shore wind projects going forward. In terms of the hydrogen business, this requires low-priced renewable energy, making it hard to move ahead with just the hydrogen business itself, but what are your plans?

A.

- I believe discussions are still ongoing about revising the bid assessment criteria, but MC will continue to work on such projects while following the rules.
- It is true that off-shore wind power generation has large capacity, but we see renewable energy as being a regionally distributed power source. Solar power, hydropower and on-shore wind are also distributed power sources, and the number of large projects is limited, so we will build up a number of small-scale projects. We did end up being mandated for 3 off-shore wind projects last year, but we believe we should also work on building up other projects.
- Hydrogen is becoming more price competitive in Europe, and it will become possible to produce at more affordable prices. In a recent press release we announced our investment in Breakthrough Energy Catalyst (BEC). We are also assessing multiple scale-up projects which aim to move from the R&D phase to social implementation. We believe we need to take action now for hydrogen as well as ammonia.

Q. In the LNG business, projects under construction include LNG Canada and the Tangguh expansion, while some projects are coming up for contract renewal. Please explain new investments as well as the future investment plan of the LNG business, including the current state of Sakhalin 2 for which there is Russia-related risk.

A.

- New LNG projects are already included in the long list, and we will assess the opportunities going forward. Because renewable energy alone will not be enough to cover the demand for electricity, LNG will be crucial as a source of transition energy, and MC will make sure to play this very important role.
- As for Sakhalin 2, we will discuss and work together with our partners and the government, keeping in mind our social responsibility for the stable supply of energy.

Q. In terms of the “Investment Plan / Business Portfolio” on page 5 of the Midterm Corporate Strategy 2024, please define “EX-related”. Out of the 3 trillion yen of investments planned, EX-related projects are probably more long-term, but please explain the timeframe of your investment plans and profitability.

A.

- “EX-related” mainly refers to LNG, base metals such as copper and rare metals, renewable energy, as well as next-generation energy such as hydrogen. LNG does emit CO₂, but in much less quantity than coal power generation, and we believe LNG is crucial as a source of transition energy in EX, which is why we categorize LNG as “EX-related”. Through the LNG business, we will fulfil two conflicting social responsibilities of “responsibility for stable supply” and “decarbonization”. In the “Business Portfolio” graphs at the bottom of the page, the green section includes LNG, copper, renewable energy, next-generation energy etc., and makes up roughly 30% of our business portfolio as of FY2021.
- In terms of earnings contribution from EX-related businesses, it is difficult for example to monetize next generation energy from next year. However, it is

important to take the necessary steps today, in anticipation of the next generation. In order to do this, we are further strengthening the businesses which are categorized in “Maintain / Expand Earnings Base”, which includes businesses for which we have strength and expertise, such as metallurgical coal, food, automotives etc., while we are enjoying the tailwind, and this will lead to the next EX in the future.

Q. In the full-year results for FY2021, the ordinary income excluding one-off losses is around 1 trillion yen. Your full-year outlook for FY2022 includes the one-off capital gain from the disposal of the real estate management company, so in real terms it is about a 200 billion yen decline in profit. Please explain the reason for the profit decline.

A.

- The full-year result for FY2021 was strong because we were able to profit steadily from revenue opportunities in each of our businesses, with tailwinds such as the sharp recovery in demand from the pandemic, as well as robust natural resource prices. Meanwhile, in our forecast for the full-year of FY 2022, we have revised our assumptions on the currently high market prices, and we see the 650 billion yen, which includes the capital gain from the disposal of MC-UBSR, to be our underlying earnings power.
- The reason for the decline in profit from FY2021 to FY2022 is, while there is the capital gain of 84 billion yen from the MC-UBSR disposal, we are assuming minus 30 billion yen from the correction in natural resource prices, minus 40 billion yen of downside risk, and minus 100 billion yen of rebound from the sharp recovery in demand from COVID-19 that we saw in FY2021.

Q. Please explain which DX initiatives are contributing to your earnings.

A.

- In the Midterm Corporate Strategy 2024, we will be newly setting up the Industry DX Group as of July 1, 2022, as an organization that promotes DX strategies, with the aim of further executing and accelerating our DX strategy.
- The contribution to earnings today is still limited, but during the Midterm Corporate Strategy 2021 we set up MC Digital, which builds AI and algorithms, and Industry One which provides DX services, and have begun developing DX functions and providing them to our business groups. Chubu Electric Power Miraiz Connect, which was jointly set up with Chubu Electric Power Group, contributes to regional revitalization by providing services that utilize the local customer base and digital technologies.
- Going forward, we will develop and provide cross-industry services through the Industry DX Group, solve social issues such as regional revitalization, and contribute to growth of the overall industry as well as create a future society based on the characteristics of each region.

Q. On page 3 of the Midterm Corporate Strategy 2024, you mention the double digit ROE as one of the quantitative targets. I believe you will be able to maintain double digit if current market prices persist. What level of ROE are you targeting as a firm, and please explain your capital allocation during the new Midterm Corporate Strategy period considering you maintain that ROE. Please update us regularly on the growth of base revenue.

A.

- ROE has always been an extremely important management metric. In the Midterm Corporate Strategy 2024 we are clearly stating that we plan to maintain and further improve the double digit ROE, and we believe this has a certain significance. Meanwhile, because the level of shareholders' equity fluctuates depending on the business environment, we will determine our capital allocation by balancing risk with capital.

- In the Midterm Corporate Strategy 2024, we will be mindful of the total payout ratio, and maintain our financial discipline, while we believe it is important to steadily grow the profit independent of market factors to further improve ROE. We believe we can maintain double digit ROE from this standpoint as well.
- By maintaining and expanding the earnings base, we plan to steadily grow base revenue, so that we can also capture the upside when prices go up.

Q. What does President Nakanishi see as MC's challenges?

A.

- The first is to steadily replace assets under the value-added cyclical growth model. As the business environment evolves, we replace businesses for which our role as parent company has changed, and instead allocate our management resources to new seeds of growth and growth drivers, but have so far had only a few successes like the Real estate management business. We still have assets with low productivity, and we will continue to monitor them using progress review meeting and establish a powerful business portfolio.
- The second challenge is reforming the business portfolio. While maintaining and expanding the earnings base, we will move forward with strong resolution to build a portfolio that can be passed on the next generation, in the trend of decarbonization and through the integrated initiatives of EX and DX.

Q. Why do you use net profit as the base earnings to calculate the total payout ratio?

A.

- Based on comprehensive consideration of factors such as the consistency with the past and our policy of continuing the progressive dividend scheme, we believe a total payout ratio using net profit would be easier to understand for our stakeholders.

Q. What kind of criteria, such as a hurdle rate on investments, do you set for EX-related investments?

A.

- We do not lower the expected investment returns just because it is an EX investment, and will make sure to maintain investment discipline.
- There may be a preconception that renewable energy projects have low returns, but based on our experience from projects in Europe, renewable projects have very high scarcity. We were able to leverage our strength in the bid for off-shore wind power projects last year precisely because we have been involved in this business for more than 10 years, and are making investment decisions with strong conviction of generating sufficient returns.
- Electricity has no color, form or smell, but renewable energy has attached to it the color green, which implies consideration for the environment. All industries must work on it to achieve a carbon neutral society, and MC will continue to strengthen its competitiveness in this area.