Q&A at Investor Meeting
Financial Results for the Three Months Ended June 2022

Presentation Date: Tuesday, August 2, 2022 18:00 to 19:00

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Questions and Answers

Q. You made good progress in Q1, reaching 63% of the FY2022 full-year guidance. With factors such as the recent downward trend in natural resource prices, what are your views on this strong rate of progress?

A.

- The progress rate of 63% of the full-year guidance was higher than expected. At the beginning of the fiscal year, we were expecting close to 50% progress in Q1, with the sales gain of the real estate management company, as well as our assumption of high natural resource prices. The reason for the outperformance was natural resource prices trending higher than our expectations, as well as the business environment being favorable not only in natural resources, but also for the Automotive & Mobility, Industrial Materials, Petroleum & Chemicals, and Power Solution Groups, etc.
- Natural resource prices have already fallen from the peak in Q1, and there are concerns about a slowdown in the global economy, but we believe we made a good start to the fiscal year in Q1.

Q. The investment leverage ratio declined to 31.8% in Q1, way below the range you have set as appropriate, and I think you need to optimize the capital structure through additional shareholder return. Please share with us your thoughts about the possibility of additional shareholder return, with the objective of optimizing the capital structure, together with the profit distribution using 30-40% total payout ratio as the benchmark. With rapid changes in the external environment, including the weakening of the yen, please explain if there will be any changes to your stance towards investments.

A.

- In Q1 we paid out the year-end dividend and bought back our shares, but the investment leverage ratio declined due to the accumulation of capital from strong earnings and the weak yen.
- The investment leverage ratio is a metric that we will continue to monitor as we optimize our capital structure. For shareholder return, the priority is to decide the policy that is in accordance with the total payout ratio of 30-40% which was outlined in the Midterm Corporate Strategy 2024.
- With the lack of clarity in the business environment, due to factors such as inflation, as well as concerns of the economy slowing down, we are engaging cautiously in our investments. Since there have been no changes to our financial status and investment capability, we are not in the position to immediately change our investment policy. We will however continue to monitor future developments.
- We have decided to disclose the investment leverage ratio in the IR material "Supplementary Information" every quarter from FY2022, so please use it for

your reference.

Q. You explained that you expect the business environment to become tougher in Q2 onwards. Are there businesses for which you are seeing a slowdown as of Q1, or businesses that you are concerned about?

A.

- There are no businesses that were significantly hit by the business environment as of the end of Q1. There are cases in which some businesses in the U.S., such as Indiana Packers Corporation, and our domestic businesses being affected by the higher cost of procurement, but there were only a limited number of businesses that experienced a slowdown in Q1.
- Meanwhile, natural resource prices have fallen in the past month and a half. There has been a significant decline in the price of metallurgical coal compared to early April, and the same applies to the price of copper, which is said to be a leading indicator of the overall economy. In terms of the future outlook, although we do not see any specific items of concern, we are expecting a tougher business environment.

Q. The price of metallurgical coal continues to decline, with the weakening in demand for steel materials in China. What are your thoughts on the current market trends? There is a big price discrepancy between thermal coal and metallurgical coal, but could it support the price of metallurgical coal as an arbitrage?

A.

- After the price of metallurgical coal peaked at a record level (around USD670/ton) in mid March, demand for steel materials began to weaken since late May, driven partly by seasonal factors. The price decline was spurred by the negative sentiment becoming widespread, caused by concerns regarding the impact of monetary tightening on economic activities, as well as concerns of the Chinese economy slowing down. Although we expect demand to be robust over the mid to long term, the current sentiment is causing prices to fall.
- As for the price difference between metallurgical coal and thermal coal, metallurgical coal has been trending at a higher price than thermal coal. However, due to the difference in uses and quality level, thermal coal is used in power generation and its price is affected by electricity demand, while metallurgical coal is used in steel production and is therefore affected by the demand for steel materials. Certain types of low quality metallurgical coal can be used as thermal coal, but the high quality metallurgical coal that we handle is not suitable for power generation in principle. Therefore, the size is not large enough to have an implication on pricing, and we do not expect a price arbitrage.

Q. What is your outlook on the price of metallurgical coal?

A.

- We cannot disclose our outlook on pricing, but we understand the highly volatile market to be normalizing, and the price is returning to the usual level.

Q. For Sakhalin 2, is there any change in the operational status before and after the presidential decree? Please explain what requirement is to be made from Russian government in the presidential decree.

A.

- There has been no change to the operation. Although the decree was signed, there still has not been talk about setting up a new company, and the operational status has not changed.
- As for the future policy, there is nothing concrete that we can say at the

moment, and we will work with the Japanese government and project partners and decide how to respond. We do not have additional information other than what has been covered in the news, and are not yet ready to consider the details.

Q. Does the strong performance in Q1 achieved by businesses other than natural resources mean they have become stronger than before? Are there any businesses that you see as having become stronger? Please also explain your thoughts about additional shareholder return going forward.

A.

- If we apply the assumptions used in the Midterm Corporate Strategy 2024 for natural resource prices and currency for FY2024, the result for Q1 will be around 370 billion yen. This includes one-off gains as well as the strong tailwind from market prices of commodities other than natural resources, and we believe it is still too early to say that our businesses have gained strength.
- To share with you an example of our initiatives from the past in terms of strengthening the business, the Cermaq (salmon farming) business benefitted from the strong market, but also made progress in improving our production cost in certain areas. As for natural resources, the Quellaveco copper mine has begun production, and we are expecting full-fledged operation and earnings contribution next year onwards.
- We will continue our efforts to raise the underlying earnings power of our businesses, namely by improving asset efficiency. We will consider additional shareholder return in Q2, including raising the level of dividends as well as how we combine it with share buybacks.

Q. I understand the earnings of the Power Solution Group are usually higher in the second half due to seasonality, but why did you do well in Q1? Was there a change in the business portfolio as you have made progress in your investments?

A.

- The strong performance in Q1 is due to higher electricity prices causing mark-to-market gains etc. in our long positions, as well as the increase in earnings from power generation assets in Europe starting operations, etc.
- For Eneco, the result in Q1 was 6.7 billion yen. There was the mark-to-market gain in its long position as energy prices are on the rise in Europe, as well as the contribution from the gain generated from selling gas which Eneco had procured in excess.

Q. What expectations do you have in terms of the investments in the Power Solution-related businesses?

A.

- The domestic offshore wind power generation project for which we were selected at the end of last year is a long-term project, but for our existing businesses including Eneco, we are beginning to recoup our investments by selling part of our power generation assets since last year. The Power Solution Group has always been engaged in asset rotation-type businesses, including Eneco as well as other businesses, and has been seeking to grow earnings by combining income gains with capital gains.

Q. What impact does the hike in royalty rates by the state of Queensland in Australia have on your earnings? What are your thoughts on news about the draft for new mining royalties in Chile?

A.

- As stated in the news, the hike in royalty rates by the state of Queensland has been in effect since July 1st. There will be no impact in our Q1 earnings, but it will affect our earnings to some extent in Q2 onwards. With this change, royalty rates have been newly set for coal that is sold at A$175/ton, A$225/ton and A$300/ton, which are all high price levels, and because the progressive tax only applies to the portion exceeding the threshold, this change will have only a limited impact on our full-year earnings outlook.

- As for the mining royalty proposal in Chile, we understand the bill is going to be submitted to congress. We are still not sure of the actual impact, but we do expect an increase in taxes. However, the number of seats held by the current President Boric's party is limited, and it is hard to assess the outcome of discussions in congress, and we will carefully monitor the impact on our business.

Q. Please explain the background and details of the "Trading losses in the LNG sales business", which is one of the items in the year-on-year comparison of the Natural Gas Group's earnings. Was this loss factored in to the guidance for FY2022?

A.

- The losses related to the LNG sales business in this fiscal year were in relation to the long position we had for the TTF (Title Transfer Facility) which is a pricing benchmark for natural gas in Europe in our LNG sales to Europe. The losses were due to the current market pricing forcing us to sell at a discount to the TTF.
- We have already booked provisions and inventory valuation losses in Q1 for the expected losses for positions that are to be delivered during the fiscal year. We had partially factored this loss in to our budget for FY2022, but there is a large incremental portion, and the majority of the loss is not factored in to our guidance.

Q. In terms of your future policy for the Sakhalin 2 business, you say you will "work with the Japanese government and project partners and decide how to respond", but I think the government will have views that differ from private sector companies. As a private sector company, what is the nonnegotiable factor for you to continue engaging in Sakhalin 2?

A.

- For the Sakhalin 2 business, the new company has not yet been set up even after the presidential decree, and details about the underwriting of shares of this company remain unclear, so it is hard to comment on our future policy for this business. We will keep in mind our position as a private sector company, and because there is an energy national security aspect to this business, we will discuss with the Japanese government and our partners and decide how to respond. Please understand that we cannot comment on the details as of this moment.

Q. Please explain the background for the strong year-on-year growth in profit to 45.6 billion yen for the Automotive & Mobility Group, and your outlook for Q2 onwards.

A.

- The main reasons were the increase in earnings following earnings improvement in the overseas entities we invest in, mainly due to the weak yen, as well as the improvement in earnings from MMC.
- MMC achieved profit growth year-on-year due to the weak yen, improvement in profit per unit, and fixed cost reduction. In the Indonesia MMC business and Thailand Isuzu business, supply is not keeping up with demand, which caused the sales promotion expense to decline, leading to higher profitability. Although there is some minor impact on production due to the shortage of parts such as semiconductors, we have been able to minimize the impact

thanks to efficient supply chain management, etc.

- With heightened concerns about a global recession, together with Covid, the semiconductor supply chain, the Russia/Ukraine situation, as well as the impact of currency fluctuations etc., the outlook of the business environment remains unclear, and we will continue our efforts so that we can achieve the 98 billion yen, which is the full-year target for FY2022.

Q. In the salmon farming business, why did profit decline year-on-year despite the strong market conditions in Q1, and what is your outlook for Q2 onwards?

A.

- The high market prices in Europe and North America pushed up sales prices in Norway, Chile and Canada, and we achieved growth in realized profit. However, because the growth of fish subject to fair value accounting (FVA) of biological assets did not progress as intended due to the cold water temperature, as well as the impact from the Q1 decline in market prices in Chile, the valuation P&L declined, leading to a slight decline overall.
- We expect the impact from the decline in FVA to improve in Q2 onwards.

Q. For the Natural Gas Group, "Equity in earnings of subsidiaries and affiliates" and "Dividend income (after tax)" are up 17.7 billion yen and 5 billion yen respectively year-on-year. Please explain the main reason for the profit improvement.

A.

- The main reason is the year-on-year improvement in the oil and gas prices, which had a 16.8 billion yen impact from the oil price, and a 10 billion yen impact from the LNG spot price.
- As for the oil price applied, we reviewed the calculation period from this fiscal period. In the past, we were showing the oil price 6 months prior, due to the difference in fiscal year end with the consolidated entities, and the time lag before the oil price is reflected on the LNG sales price. But because the oil price 3 months prior is used in the North American shale business and the oil-linked sales in the LNG businesses in Australia etc., we have changed our policy to state the average of the oil prices 6 months and 3 months prior, with the objective of explaining the impact on our earnings with better accuracy.
- The oil price used, based on the above changes, has improved significantly year-on-year.

Q. Are there any existing or new LNG projects for which production is going to start earlier than expected? Please explain if there are any changes to the situation, due to fluctuations in the LNG market.

A.

- It is ideal if we could start production early, but it is hard to suddenly bring forward the completion of projects under development. In fact, generally speaking, there were cases where projects were delayed due to the pandemic slowing down work, but we have already overcome that situation, and we expect the scheduled projects including the Canada LNG project that are now in development to progress according to schedule.