

Q&A at Investor Meeting
Financial Results for the Six Months Ended September 2022

Presentation Date: Thursday, November 10, 2022 13:00 to 14:15

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Questions and Answers

Q. The additional shareholder returns announced this time was below market expectations, and some say the revised forecast is conservative. Please explain your thoughts about how to engage with the market.

A.

- We take the dialogue with the market very seriously and are sincerely listening to feedback from the market about the revised forecast and the additional shareholder returns.
- Meanwhile, please understand that with the uncertainty in international affairs, it is inevitable that our earnings forecast is somewhat conservative.
- The current total payout ratio is 28.7%, which is below the range of around 30-40% outlined in the Midterm Corporate Strategy 2024. We plan to consider the extent of shareholder returns in the second half, based on factors including the 31% total payout ratio last fiscal year.

Q. Please explain the progress in EX-related investments outlined in the Midterm Corporate Strategy 2024. Will there be any impact on the investment plan from changes in the external environment?

A.

- We discussed internally to select and narrow down EX-related investments from a long list of more than 200 projects. We think we will be able to share the progress sometime in the second half of this fiscal year onwards.

Q. Based on the full-year profit outlook, one option is to conduct sizeable share buybacks, or accelerate the pace of shareholder returns, which would create positive expectations in the market. What discussions are you having about additional shareholder returns in the second half?

A.

- We will assess the progress of the extent to which we can grow the full-year earnings in FY2022, taking last fiscal year's results as well as the policy in the Midterm Corporate Strategy 2024 into consideration, and decide the actual level of returns.
- The purchase period for the share buybacks announced this time was set with some buffer, considering factors such as market liquidity. The amount is the same as the previous buybacks, which was part of our FY2021 shareholder returns, but this does not mean we will regularly conduct 70 billion yen of share buybacks.
- In hindsight, we could have communicated better to the market about how there is room to consider further increases in dividends and buybacks, depending on the extent of profit growth.

Q. Please explain your thinking on the revised full-year earnings forecast. The second half outlook seems conservative, even when considering factors such as the decline in metallurgical coal prices and uncertainty in the economic outlook. Did you rationally factor in concerns of an economic slowdown, or does this imply the possibility of additional shareholder returns based on the assumption that you are going to further outperform the revised forecast?

A.

- We believe the 1.03 trillion yen forecast is conservative, due to the need to be cautious with the current state of international affairs. Please look forward to the actual results because we are currently working with confidence that we will outperform the 1.03 trillion yen level.

Q. Please explain why you kept the earnings independent of market factors at 650 billion yen in the revised full-year earnings forecast.

A.

- As outlined in the Midterm Corporate Strategy 2024, we have strong intentions to continue growing the earnings independent of market factors.
- We will work on initiatives, both offensive as well as defensive, to grow the 650 billion yen to 800 billion yen, which is the target for the final year of the Midterm Corporate Strategy 2024, as early as possible. Offensive EX-related investments take a certain amount of time, and we will replace unprofitable businesses through the Value-Added Cyclical Growth Model.
- We maintained the 650 billion yen forecast for the earnings independent of market factors, but we expect an improvement in the second half, despite some loss-making businesses in the first half.

Q. I understand that, among the EX/DX-related investments, there are some potential investments that have profitability concerns, due to the time it takes for the projects to generate a profit. What kind of discipline will you apply when making investment decisions?

- We are making economics-based disciplined investment decisions for EX/DX-related investments as well, with no exceptions, in order to achieve the double-digit ROE target set out in the Midterm Corporate Strategy 2024.
- As for EX-related investments, for which we are expecting around 1.2 trillion yen of investments in the Midterm Corporate Strategy 2024, the key will be to generate a green premium on the demand side. For example, in Europe the premium value has already been established, and although the timing may differ, we expect similar developments in the U.S. and Japan going forward.
- For DX-related investments, we set up the Industry DX Group this July, and will narrow down from the approximately 80 candidate projects that we now have, based on thorough assessment of the economics, just like for EX-related investments.

Q. How do you view the fact that your profit growth seems to be weaker than peers in the trading businesses for oil, chemicals, steel, natural gas, etc.?

A.

- The Groups most engaged in trading businesses are the Industrial Materials Group and the Petroleum & Chemicals Solution Group. In the Industrial Materials Group, there was significant profit contribution from the North American plastic building materials business, which was not from trading but rather an increase in equity method earnings through business management. In the Petroleum & Chemicals Solutions Group, not only was there revenue growth from trading, but the strong business performance of the Group companies contributed to profit. MC has been able to improve profitability to the current 1 trillion yen level by shifting the business model away from trading, to investing in and managing the various businesses.
- Both the Industrial Materials Group and the Petroleum & Chemicals Solutions Group have achieved strong earnings growth from the previous year thanks to higher profits from the Group companies. The businesses which these Group companies engage in are including trading businesses which MC used to do itself and were subsequently spun out.
- The Mineral Resources Group is also seeing profit growth through the trading business of mineral resources headquartered in Japan, Singapore etc., together with the Australian metallurgical coal business which is its main driver of profit.

Q. There are some major projects such as the Quellaveco copper mine and LNG Canada, but how will you evolve the EX-related business portfolio outlined in the Midterm Corporate Strategy 2024 to around 40% by the end of FY2024, including making early investment decisions?

A.

- We will work on EX-related investments in view of the period after the Midterm Corporate Strategy 2024. It will take some time for society to become fully carbon neutral, and LNG will be crucial during the transition. We will use earnings generated from existing businesses to fund EX-related investments. In Europe, there has been a resurgence of coal-fired power generation, due to the Russia /

Ukraine situation. However, we will be mindful of clean energy, and seek investment returns that are in line with our discipline as we engage in these projects.

Q. Please explain the European integrated energy business and the Overseas power business, listed as new projects in the presentation material.

A.

- Investments in the European integrated energy business refer to sustaining investments at Eneco, and onshore wind power generation, among others. Eneco is engaged not only in large-scale offshore wind power generation projects, but also onshore wind power generation projects in the Netherlands in which the electricity produced is used locally, and such projects will also make up part of the investments.
- As for investments related to the Overseas power business, community solar programs (approximately 10-20 megawatts each), a form of distributed power supply, are gradually on the rise in the U.S., and MC is actively engaged in this business. Such small-scale projects take only between 1 to 2 years, compared to offshore wind projects which take longer to deliver. If we work on around 100 to 150 of these projects at a time, the investment will be several tens of billions of yen, and we can expect earnings contribution accordingly.

Q. I would like to confirm the level of mid-to-long term profit, and the level of shareholder returns related to that profit. Is it correct to assume that the earnings independent of market factors (underlying earnings power) will steadily rise, and you will make further increases in the dividend and share buybacks? Is it also correct to assume that the total payout ratio will rise?

A.

- As explained in the Midterm Corporate Strategy 2024, our basic policy is to aim for steady growth in earnings independent of market factors, and to capture the upside from natural resource prices. We have set a range for the total payout ratio, because we will return the growth in earnings independent of market factors through progressive dividends, while returning the upside through share buybacks. We have maintained the 650 billion yen level in the full-year forecast for our earnings independent of market factors, but intend to raise the base for the earnings independent of market factors through the Value-Added Cyclical Growth Model.
- Please keep in mind that we are in a highly uncertain environment with much change taking place around the world.

Q. With changes taking place in the external environment, what is the key agenda for management? Is it prioritizing capital allocation, deciding your stance on investing in the weak yen environment, or geopolitical risks?

A.

- The first is geopolitical risk. Supply chains are evolving from their traditional form due to the Russia/Ukraine situation, so it is important to always be attentive to and take advantage of changes in the environment.
- The second agenda is technological innovation. It is important to grasp what is

going on in relation to digitalization, especially in relation to technologies that could have a major impact on the world.

- The third agenda is Creating a New Future and Promoting Regional Revitalization. Japan is faced with a weak currency and a declining population, and we would like to create new industries that are embedded in the local community, in order to strengthen Japan's industrial competitiveness. Among such new industries, we believe the green carbon neutral industry, originating in the field of renewable energy, is an area where MC can leverage our strength. As the world becomes more dispersed and regional strategies are being questioned, it is important for MC to consider what it can do to contribute to Japan's industrial competitiveness, while itself generating profits, and preparing for new changes in the world including technological innovations in these fields.

Q. There is a significant decline in profit excluding one-off items, between the first and second quarters. This decline can be attributed to lower production volume of metallurgical coal, and the drop in profit in the Power Solution Group. What is your outlook on the environment for these businesses in the second half onwards?

A.

- In relation to metallurgical coal, steel demand fell this summer due to seasonal factors such as the monsoon winds in India. Since then, with the pickup in demand in India and Asia, metallurgical coal prices have been recovering after bottoming in August. As for the second half, there are concerns about heavy rains in Australia, among others, but they have been factored into our earnings forecast.
- As for the Power Solution Group, we are expecting contribution from divestment gains of power generation facilities in the second half, and Eneco is expected to achieve a steady improvement in its profit from last year. Moreover, there will be more divestment gains as we replace existing power generation assets etc. and increase our stakes in generation capacity using renewable energy sources, as one of the EX-related strategies. This is part of our "Develop to Sell" business model, and the results of our past efforts are leading to our strength today.

Q. Please explain the business environment of the segments which saw a decline in profit between the first and second quarters. As for the Petroleum & Chemicals Solution Group, Automotive & Mobility Group and Urban Development Group, do you expect a slowdown in the second half, or are your forecasts conservative, expecting some upside in your earnings?

A.

- For the Urban Development Group, the main reason for the strong progress in the first quarter was the approx. 84 billion yen of capital gain from the divestment of the real estate management company. This is the result of an asset replacement as part of the Value-Added Cyclical Growth Model. Our earnings in the second quarter onwards are progressing at the run-rate level.
- The Petroleum & Chemicals Solution Group is making good progress towards achieving its full-year earnings target.

- In the Automotive & Mobility Group, the businesses in Thailand and Indonesia are contributing as a result of measures such as more efficient spending of sales & promotion expenses, together with the currency effect. This is promising, and we are looking forward to further growth in the second half.
- With the metallurgical coal price serving as one of the drivers, the first quarter was a rocket start to the year. There is a possibility of outperforming the revised forecast in the second half as well.

Q. How is the sharp depreciation of the yen affecting your business strategy?

A.

- The weak yen has only a limited effect on our business strategy. Because a major portion of our overseas businesses are conducted locally in each region, the weak yen could work positively but the chances of it having a negative effect is low. In the Food Industry Group and the Consumer Industry Group, there is a possibility of not being able to pass on the rise in the cost of importing raw materials to the selling price, but the majority of our earnings comes from overseas investments, so we are not expecting a significant impact.

Q. Which areas/domains should we focus on in assessing the progress made in Creating a New Future and Promoting Regional Revitalization?

A.

- Creating a New Future and Promoting Regional Revitalization is an endeavor we are engaged in with strong determination.
- One area is hydrogen and ammonia, which Japan imports from overseas. Import costs are high, with competitiveness further weakened by the yen depreciation. We believe Japan needs to raise its self-sufficiency ratio in energy, and if we can create new industries originating in the field of renewable energy, it will strengthen industrial competitiveness and allow overseas expansion and deployment. Moreover, by using digital technologies, the infrastructure can be improved for the residents of regions from which renewable energy is derived, and we believe creating a cycle to make the community more convenient and attractive for local residents will lead to regional revitalization.
- As we continue our business over the next 2-3 decades, it is important that we gain the trust of the local communities, work hand in hand with partners, local governments and residents who share the same values with us, and create a new future steadily, step by step. The establishment of branches in Akita and Choshi on November 1st is part of this initiative, and we intend to contribute to the revitalization of the Japanese economy.