Q&A at Investor Meeting
Financial Results for the Nine Months Ended December 2022

Presentation Date: Friday, February 3, 2023, 17:15 to 18:15

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Questions and Answers

Q. Please tell us about the factors that led to the decision to raise the per-share dividend to ¥180, including how confident you are in the sustainability and growth of earnings independent of market factors going forward.

A.

- When we set the ¥155 dividend per share forecast announced with the first-half financial results, it was based on our expectations at the time for revenue growth as well as the need to maintain the policy of progressive dividends within the Midterm Corporate Strategy 2024 target total payout ratio of around 30–40%, and with the assumption that we would determine the final level of returns during the second half of the fiscal year.
- The sustained strengthening of underlying earnings will be crucial and earnings independent of market factors is a measure of earnings after certain corrections for resource price and foreign exchange fluctuations; this correction is helpful particularly because volatility in market prices has a major impact on earnings. Earnings independent of market factors is one of the indictors we reference when determining dividends. The most recent decision to increase dividends was the result of a comprehensive determination that we would be able to maintain the policy of progressive dividends going forward, even considering one-off factors.
- We aim to continue to steadily increase underlying earnings, and from there to realize shareholder returns in line with the Midterm Corporate Strategy 2024 target of a total payout ratio of around 30–40%. As we laid out in Midterm Corporate Strategy 2024, after determining the amounts of total shareholder returns and dividends, we will make up any difference through flexible share buybacks.

Q. What are the chances that financial performance will slow in the fourth quarter? If results are even higher than the revised forecast, can we expect additional shareholder in order returns to maintain the forecast total payout ratio of 38% announced today?

A.

- As of the end of the first nine months of the fiscal year, consolidated net income was already 83% of the way to the ¥1,150.0 billion forecast for the year, well ahead of pace. Also, we are still deducting a ¥10.0 billion risk buffer for the fourth quarter because, while only three months are left, elements of uncertainty remain. However, considering the need to deal with any losses that may arise in the fourth quarter, I do not think that our full-year forecast is necessarily too conservative. We aim to achieve the forecast of ¥1,150.0 billion even amid uncertainty and, depending on how conditions turn out, we hope to exceed it.

- The estimated total payout ratio of 38% is not a commitment. As I said, we will consider progressive dividends and total shareholder returns within the Midterm Corporate Strategy 2024 target range of about 30–40%. At the same time, we are not ruling out any options for additional returns in the fourth quarter.

Q. What are your thoughts about the high volatility of Eneco's performance? Do you view it as an inherent feature of the business that must be tolerated, or are you considering measures to stabilize results?

A.

- Eneco's business is normally characterized by seasonality, with revenues rising in the second half of the fiscal year as energy consumption in Europe increases. However, this year in particular, due in part to the Russia-Ukraine situation, energy prices in Europe are fluctuating more than usual. Eneco and other power generating companies in Europe are being affected by these conditions, and Eneco's financial results have indeed been more volatile than normal as a result.
- We are seeing firm signs that Eneco's underlying earnings are steadily rising, and we will continue to develop the company as the core of our EX-related investment.

Q. In downstream businesses, like those of Food Industry and Consumer Industry business groups, what impact do you expect from cost increases arising from domestic and overseas inflation in the coming fiscal year and beyond?

A.

- The overall business domains of both of those business groups are susceptible to negative impacts from inflation-related cost increases. Both business groups saw year-over-year decreases in revenues for the first nine months. In Food Industry, Cermaq has maintained strong performance, and some operating companies even saw year-over-year revenue increases. However, the feed and livestock business is easily affected by grain price increases, and Nosan Corporation and Indiana Packers Corporation, in particular, have been somewhat impacted by rising costs.
- The impact of retail electricity price hikes has yet to be felt, but we are already seeing some impact from price hikes for corporate customers. However, even if cost increases continue due to persistently high electricity costs, we do not expect this to have a markedly large impact. We are working to reduce costs as much as possible by passing on price increases and otherwise improving efficiency on the ground. As such, we expect to be able to absorb a certain amount of cost increases in the coming fiscal year and beyond.

Q. I understand that the flooding in Queensland has impacted many mines and ports. What impact has flooding had on BMA's results this year and its forecasts for next year? Is weather the main cause of the decrease in production volume this fiscal year compared to previous years?

A.

- Yes, the flooding at coal mines and ports in Queensland has caused a decrease in production volume. Metallurgical coal prices have recently been rising partly because of this supply instability.
- The coal mining of BMA has indeed been impacted by rainfall far in excess of normal at mines and ports. There is no controlling the weather, but we are assiduously implementing recovery measures on the front lines to minimize such negative impacts.
- Weather accounts almost all of the year-over-year decrease in production volume. We were concerned for a time about the impact on volume of strikes, but the strikes are now over and had only a minor impact on operations.

Q. What accounts for the major upward revision to the forecast for the Natural Gas Group? Do you expect this strong performance to continue in the next fiscal year?

A.

- A major factor in the upward revision for the Natural Gas Group is the rise in spot prices. In the first six months of the fiscal year, we lost some potential profit in trading, but we have already almost completed measures to address the causes of this, and underlying earnings have generally been steadily rising.
- There will be some impact on financial results from volatility in prices, including those for long-term contracts. The most important thing is to focus on production at each project. We want to make our operational framework even stronger so that we can take advantage of upside when prices rise.
- We do not expect trading losses in the coming fiscal year or after, so we expect financial performance on that front to be steady. We will work to optimize production volume at each project and aim to meet your expectations in the coming fiscal year and beyond.

Q. Why did the performance of MDP and the Quellaveco copper mine change so significantly from the second quarter to the third?

A.

- MDP recorded earnings of ¥42.0 billion in the second quarter and ¥59.8 billion in the third quarter. The increase of about ¥18.0 billion breaks down as follows: Minus about ¥7.0 billion due to price fluctuations and royalties, plus about ¥17.0 billion due to volume and cost factors, plus about ¥3.0 billion from foreign exchange, and plus about ¥5.0 billion from other factors.
- Index average prices for metallurgical coal rose from the second quarter to the third, but sales prices do not move fully in sync with indices, so price fluctuations and royalties ended up negatively affecting earnings.

- Quellaveco commenced production in July 2022, but commercial production started in September, and the first shipments were in October. Because its fiscal-year end is three months earlier than that of ours, the third-quarter costs related to starting production and shipment were those recorded earlier in the year at the affiliate.
- However, we have already factored an appropriate amount of earnings into the revised plan for the fourth quarter. Full production will begin in the latter half of 2023, and we expect the project to contribute to earnings from the coming fiscal year onward.

Q. You increased the forecast for earnings independent of market factors from the November forecast of ¥650.0 billion to ¥730.0 billion. Am I correct in understanding that this increase is due to an increase in underlying earnings power? Also, should we assume that there will be no increase in dividends if earnings independent of market factors does not increase?

A.

- Earnings independent of market factors is merely earnings corrected for resource price and foreign exchange fluctuations, and we do not necessarily see it as equivalent to underlying earnings power.
- Earnings independent of market factors is an important measure of underlying earnings, but it is calculated simply by excluding resource price and foreign exchange fluctuations and still includes, for example, one-off factors. It is only one indicator. Steadily growing earnings independent of market factors amid widely fluctuating market prices is one of the quantitative targets for the final year of Midterm Corporate Strategy 2024, and this growth is an important factor in maintaining progressive dividends.
- The increase from ¥650.0 billion to ¥730.0 billion was partly because of strong performance resulting from favorable overall market conditions but also reflects the implementation of the value-added cyclical growth model and certain efforts in trading that effectively seized business opportunities and helped raise underlying earnings.
- The continuity of earnings is important to maintaining progressive dividends. We will therefore carefully judge the sustainability of underlying earnings, using earnings independent of market factors as one factor in that judgement.

Q. In the segments that contributed greatly in the period under review, earnings independent of market factors seem to be slowing somewhat. Could you tell us what segments you expect to contribute to growth in earnings independent of market factors in the fiscal year ending March 2024 and about the business sentiment behind those expectations?

A.

- Across multiple segments, we may see economic slowdown due to inflation and interest rate hikes in Europe and the United States, and we will be monitoring conditions closely.
- With regard to the value-added cyclical growth model outlined in Midterm Corporate Strategy 2024, we will continue to sell investments if growth has slowed or they do not clear the hurdle rate, and we will aim to secure capital gains. Through these efforts, we expect to be able to make up for any drop in revenues caused by worsening economic conditions.
- We do not necessarily expect earnings independent of market factors to always rise continuously from fiscal year to fiscal year, and we do anticipate some amount of fluctuation, but we are working toward earning ¥800.0 billion annually by the end of Midterm Corporate Strategy 2024.

Q. Could you give us a breakdown of concrete investments related to EX strategy? What areas of investment are promising as drivers of earnings growth? It would be helpful to have more details on this in the disclosure materials.

A.

- We plan to invest around ¥1.2 trillion in EX-related fields. In addition to the investment in Eneco indicated in the disclosure materials, this also includes investment in the North American power generation business and LNG-related investment. We are planning further investments going forward, including projects to which we have already committed.
- We will continue to consider ways to improve visibility.

Q. Do you expect any major one-off gains or losses in the remainder of the fiscal year?

A.

- The one-off gains and losses we currently expect have been factored into the latest full-year forecasts. We will refrain from disclosing specific numbers, but we do not expect any individual one-off losses of more than ¥10.0 billion.
- If concerns about any new one-off losses arise, we will promptly take appropriate measures.

Q. It seems that the strong performance of the Automotive & Mobility Group is due in part to semiconductor shortages, which led to price stability and, in turn, helped stabilize revenues. Do you think this will continue? Please share your outlook for this business group.

A.

- More than the increase in vehicle sales volume, the improvement in per-vehicle profitability was the major factor behind the strong performance in the first half of the fiscal year. Production and component supply limitations caused by semiconductor shortages have played a part in this, but we have also been working to improve operational efficiency and cut costs, which will help to sustainably improve underlying earnings somewhat.

- In the coming fiscal year, supply limitations will ease and sales costs are expected to rise, so we aim to offset these factors through such initiatives as improving sales efficiency.