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Earnings Briefing Q&A
FY2024 Q1

Date and Time: Thursday, August 1, 2024; 15:15 to 16:00

Presenters:	Yuzo Nouchi:	Representative Director, Executive Vice President, Chief Financial Officer
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Q. Overall, the numbers appear to be positive, but how should they be interpreted? Does this mean that the forecast was too conservative? Excluding non-recurring items, operating income was ¥225.6 billion, which seems quite high in comparison with the full-year forecast of about ¥730 billion excluding non-recurring items. Based on Q1 figures, what do you expect the actual profit level to be [for the full-year]?

A.

- While we made 37% progress to our full-year forecast, the gains from the divestiture of two metallurgical coal mines were included in our Q1 forecast as part of our announcement of our full-year FY2024 forecast. On the other hand, there were also unanticipated items such as the reversal of provisions for Chiyoda Corporation and tax gain related to past impairment, resulting in a slightly better outcome than originally expected.
- Regarding the profit level, we do not consider ¥730 billion to be the actual value. As we explained in our May earnings announcement, metallurgical coal production volume is at below historical average levels. Once volume recovers, we expect profits will return to nearly ¥1 trillion.
- We do not consider Q1's 37% progress to be as high as it appears on the surface.

Q. When we look at Q1 results of other companies in the same industry, there seems to be no sign of an upward swing, however, results at your company appear to show strong progress, even excluding non-recurring items. The difference with other companies seems to be due to your conservative forecast. Foreign exchange effects were also cited as a reason, but based on sensitivity calculations, the effect of foreign exchange is only about ¥15 billion. Therefore, even with the exclusion of non-recurring items, are we correct in assuming that the underlying earnings power excluding foreign exchange effects appears to be about ¥210 billion, which is still quite good in comparison with the forecast?

A.

- Foreign exchange rates were higher than our forecast assumptions, and there were also some contributing non-recurring factors. While net income excluding non-recurring items appears to be strong at ¥225.6 billion, we do not consider the initial forecast to be overly conservative, given the current softening of resource prices.

- Q1 results were also strong in FY2022, and even then it was suggested that the forecast may have been too conservative. However, there are many uncertainties when formulating the initial forecast, and it tends to be somewhat conservative when aggregated. Nevertheless, we also stretch and challenge ourselves when creating our initial forecast. As this is only Q1, we do not believe that our forecast should be viewed as having been particularly conservative.

Q. You explained that the Environmental Energy, Mobility, and Mineral Resources segments are making large strides relative to their forecasts. Among these, you explained that the Environmental Energy segment had foreign exchange translation gains, but the Q1 results have already exceeded ¥60 billion. How should we interpret the actual performance? Please provide your view and the sustainability of the full-year forecast, excluding non-recurring items.

A.

- While the Environmental Energy segment's Q1 results show 40% progress against the full-year forecast, they include non-recurring gains and losses, such as foreign currency exchange translation gains on foreign currency receivables, and adjustments to past depreciation expenses. Although market conditions will dictate the outlook for the full year, we do not expect a significant deviation from our forecast given current energy prices. From the perspective of sustainability, we believe the forecast reflects our actual earnings power.

Q. What investments will be made in the current fiscal year and what are your thoughts on future results? Of the ¥196.5 billion invested in the current fiscal year, ¥150 billion was allocated to maintaining and expanding the earnings base. However, from the perspective of enhancing basic revenue, how do you envision increasing earnings outside of the resource sector? Please share with us a breakdown of your investments and how you expect them to contribute to raising the earnings base in the future.

A.

- Investments totaled ¥196.5 billion in Q1. The main focus was on investments to maintain and expand the earnings base of existing businesses, such as MDP, Cermaq, and Eneco. With regards to Cermaq the areas where we can operate our salmon farms in Norway are pre-defined, and to expand these pre-defined areas, we participate in an auction process for salmon farming licenses, which usually takes place every two years. Last year however, there were auctions for two consecutive years, and we were still able to win licenses as expected.
- While steadily building on these efforts, we will also seek to expand the scale of

our earnings through M&A, including but not limited to Cermaq.

- The investment plan for the current midterm period is set at ¥3 trillion, and the current investment pipeline exceeds this amount. While we are examining many opportunities, we will not invest without a compelling investment thesis. Nor do we believe that any investments must necessarily occur by the end of this fiscal year. We aim to improve our profitability and earnings through our investments.

Q. In the Mobility segment, profits from businesses in Thailand and Indonesia are trending lower. What is the overall outlook for the Mobility business?

A.

- The Mobility segment earnings base is currently centered in the ASEAN region. Profits have decreased year over year because overall demand is declining in both Thailand and Indonesia, especially in Thailand, where total demand is about 24% lower year over year. Particularly in our core segment of pickup trucks, the decline in consumer spending and sluggish Thai exports have led to an increase in bad debts among the primary buyers in this segment. As a result, the tightening of finance screenings has progressed, leading to a decrease in sales volume.
- This is not a sudden development, as these issues were apparent in the latter half of the last fiscal year. We have incorporated these assumptions into our plans for the current fiscal year, and do not believe anything unexpected has occurred. The extent to which the economic downturn will persist is uncertain, but we believe that potential demand has not completely disappeared as there are economic ebbs and flows.

Q. I'd like to reconfirm the actual profit levels. Excluding the ¥220 billion in non-recurring gains and losses of the ¥950 billion forecasted for FY2024, I understand that the adjusted net income projection is ¥730 billion. However, based on actual performance, Q1 results show 31% progress, which is better than expected. What is your assessment of the overall Q1 progress?

A.

- It is true that the ¥225.6 billion in adjusted net income is higher than the standard 25% progress rate for Q1. However, this includes the impact of the depreciation of the yen, which is not something to be overly pleased about.

Q. Progress based on underlying performance stands at 36% for both the Environmental Energy and Mineral Resources segments respectively. Could you please share your assessment of these two segments? Of the full-year forecast of ¥286 billion for the Mineral Resources segment, the underlying full-year profit excluding the gains on sale of the metallurgical coal mines is about ¥190 billion. I understand that the actual Q1 results for the segment were approximately ¥69 billion, giving a progress rate of 36%. Is there a

concentration of profits in Q1 despite the currently low metallurgical coal prices?

A.

- The Environmental Energy segment's Q1 results were strong in terms of profit from LNG projects and DGI. However, since we had initially expected strong profits in the first half of the fiscal year due to factors such as the timing of trading transactions, we cannot simply refer to the progress to date and judge that there will be an overall upward swing for the full-year.
- Regarding Mineral Resources, one reason for the solid progress, excluding non-recurring items, is the copper business. The copper market has been performing better than anticipated, leading to higher-than-expected profits. Additionally, production in Chile has exceeded initial expectations, contributing to the high progress rate in Q1.

Q. Regarding the ¥128.8 billion in non-recurring gains and losses in Q1, gains from the divestiture of two coal mines in Australia were originally included in the FY2024 forecast. Were there any other non-recurring gains or losses included in the forecast?

A.

- The gain of ¥96.9 billion from the divestiture of the two Australian coal mines was factored into the FY2024 forecast.
- Major items not factored into the forecast were the gain on the reversal of provisions from Chiyoda Corporation, and the tax gains of ¥10.5 billion related to a past impairment in the overseas food ingredients business of the Food Industry segment. These items have positively impacted the comparison with the forecast.

Q. How does Q1's metallurgical coal production and sales volume of 4.9 million tons compare to your plan?

A.

- Although we do not disclose production volume forecasts on a quarterly basis, Q1 production and sales are approximately on-track with our original assumptions. As explained in our last end of year earnings materials, the full-year production volume forecast remains unchanged and is expected to be close to the previous fiscal year's production volume.

Q. Regarding long-term production of metallurgical coal, BHP's production report states that it will return to 43 – 45 million tons within the next five years. Is MC's view that production will return to normal levels in the year after next consistent with this?

A.

- Basically, we are aligned with our partner BHP in our plan to stabilize operations at BMA, including our view on the long-term production volume range which will be achieved after operations have been stabilized. As for the timing of the production volume return, it is difficult to say definitively, as it is not something that can be achieved within FY2024, but will likely go into FY2025. Factors like weather conditions could also impact this schedule. So far, the steps that are currently being taken to achieve the anticipated production volume recovery (gradually recovering through FY2024 and FY2025) are progressing smoothly.

Q. The actual profit level is somewhat unclear, and I would like to dig deeper. For example, the impact of the weak yen on foreign currency receivables in the LNG-related businesses of the Environmental Energy segment is included in the ongoing profit, but to what extent should this be excluded in calculating the future outlook? In the non-resource segments, for instance, the Materials Solution segment appears to be performing lower than expected, while the Mobility segment numbers look strong, even considering the trends in sales volumes and the Thai baht. What is the actual profit level of MC's non-resource segments, when considering those that are performing above initial expectations and those that are below? Please give us a breakdown of the trends in the Environmental Energy segment and the non-resource segments to help us understand the underlying profit levels.

A.

- We are unable to provide details, but the foreign currency exchange translation gains on the foreign currency receivables in the Environmental Energy segment will continue to fluctuate depending on exchange rates which could turn negative in Q2. Therefore, we do not view this gain will significantly increase full-year results. Excluding this foreign exchange gain, the segment's performance includes some expected gains in the first quarter due to certain timings of transactions. Without these non-recurring factors, we do not assess the underlying profit as exceeding expectations.
- In the Materials Solution segment, the steel business's performance has fallen behind initial expectations resulting in a slowdown in the progress rate against full-year guidance.
- As previously mentioned, the copper business is performing well in the Mineral Resources segment.
- In the Urban Development & Infrastructure segment, there is a large negative impact from factors such as the provisions for Chiyoda Corporation, but there will also be a positive impact from the reversal of this provision in the Other line item [in the Company P&L]. Excluding these factors, progress is nearly on track.
- In the Mobility segment, the ASEAN automotive business has seen a decline in sales volumes as initially expected, but stronger-than-expected equity earnings from Toyo Tire have partially offset this decline.
- In the Food Industry segment, tax gains related to past impairment losses in the overseas food ingredients business advanced progress against forecast. On the

other hand, although Cermaq's progress is slow, we have no particular concerns as this is expected to improve towards winter.

- The Smart-Life Creation segment showed relatively slow progress against the full-year forecast due to the anticipated valuation gain from the Lawson transaction expected in Q2.
- In the Power Solution segment, Eneco's business model generates more revenue in the winter, so progress will be low in the first and second quarters. Last year and the year before, Eneco was able to take advantage of fluctuations in electricity and gas prices to some extent. However, this year, lacking such factors, the progress has been low which is typical for this time of year.

Q. Please confirm your future approach to shareholder returns. The ¥100 dividend was based on the assumption that profit level would return to ¥1 trillion on an ongoing basis. However, considering the non-recurring gains excluded from the initial forecast (such as partial reversal of provisions for Chiyoda Corporation and tax gains related to past impairment in the Food Industry segment), as well as potential gains from the divestitures of KFC, Princes, and Boyne in Q2, how should we understand the current dividend policy in the event that the current fiscal year's earnings exceed expectations and net income surpasses ¥1 trillion?

A.

- As you understand, the initial full-year forecast is ¥950 billion. However, anticipating future projections, we raised the dividend forecast to ¥100 during our earnings results announcement in May, based on an expected net income level close to ¥1 trillion.
- Our basic approach to shareholder returns has not changed from the explanation given in our May earnings briefing. We will maintain our progressive dividend policy, aiming for a total payout ratio of approximately 40%, and will also consider share buybacks flexibly.
- Accordingly, if net income for the current fiscal year were to exceed ¥1 trillion, we will consider a total payout ratio of at least 40%. Whether to pay dividends or conduct share buybacks will be determined based on the circumstances. Additional returns will be judged considering the overall cash flow trends, and there are no changes from our previous approach in this regard.

Q. Is it correct to assume that the gains from the divestitures of KFC and Princes will be recorded in Q2? Additionally, can we expect certain scales of gains on asset sales to continue emerging from the Value-Added Cyclical Growth Model in the second half of the year and beyond?

A.

- For KFC, we expect to record a gain in Q2. For Princes, we recorded an impairment loss in Q3 last fiscal year since the estimated sales price was below our book value. Therefore, we expect the difference between this and the actual sales price (such as foreign exchange gain/loss) to appear as either profit or loss in Q2.

- Moreover, both the Urban Development & Infrastructure segment and the Power Solution segment will continue to see recurring gains from the divestiture of assets. However, the timing of these recordings is subject to change and the amounts may vary depending on market conditions. These activities will not necessarily generate the same amount of profit or loss every year.