

Question & Answer at ESG Small Meeting

[Date&Time]	October 24, 2018	2:30 – 4:30 pm
[Speakers]	Hideki Iwasawa	Representative Director, Executive Vice President, Chief Administration Officer and Chief Compliance Officer
	Hideki Yamano	Representative Director, Managing Executive Officer, Chief Strategy Officer and Chief Information Officer

Question & Answer

[Environmental Related]

Q1: I believe your company has not publicly endorsed TCFD (Task Force on Climate-related Financial Disclosures), however, please share what is your approach towards TCFD and your approach to respond to CDP (Carbon Disclosure Project) including your policy for information disclosure.

A1: We basically agree what is proposed by TCFD on information disclosure but we have not yet publicly announced at this moment. We understand that the requirement under TCFD is very precise and comprehensive, therefore, we are currently preparing ourselves to respond after our endorsement of TCFD.

Q2: As a part of ESG risk management, you mentioned that you are implementing due diligence for environmental and social area for new investments. What are the pros and cons?

A2: There are additional steps for implementing these due diligences but it is very important and effective step for understanding the investment target in depth and for controlling the investment intelligently.

Q3: You have announced reducing the ratio of coal-fired power plant and increasing the ratio of renewables, however, in your medium-term management plan, I believe you have a plan based on the current business mix. I believe there is a gap in between. Would you share what are the milestones for mid/long/ultralong term including cycle for collecting the cash from investments?

A3: As for the cash management, we have a plan based on the term for our 3-year mid-term management plan. However, for JPY300bil. part for new investment in our mid-term management plan, we do not have a concrete idea for its return.

Q4: It seems that the risk of coal business is getting higher with the divestment movement. But I have an impression that your company is not developing sense of crisis. Do you still see that there are significances in continuing these businesses?

A4: The climate change issue is very severe, and the decarbonization is inevitable. As for the portfolio, we keep track and quantify the risks related to coal or other assets that lead to global warming. We are monitoring the damage it could potentially give on our performance if those businesses fail by any chance. We have concluded this will not give a crucial impact on our financial at this moment.

[Social Related]

Q5: In your presentation, we see a “CSR Action Guideline for Supply Chain Management”. As a huge trading company like yours, I assume it is difficult to decide how thoroughly it should be checked. Could you explain to us the practical operation about this?

A5: As you mentioned, we are running business in various fields, therefore, it would be difficult to set one objective over various fields. However, we have a policy and checklist provided related to supply chain and we also have private meetings if they have any specific issues need to be consulted. For example, supply chains are critical in food industry or apparel, and our business groups are all aware of that situation. In these business fields, we are focusing on vender management and occasional site audit. In addition, we also receive advices from outside and take those advices to adjust the checkpoints and frequency for process improvement.

Q6: Regarding the supply chain, it is hard to keep track of the activities every day and I think the business group has a big role in this. At the same time, there is a need to grasp the situation comprehensively. How do you divide the role between business group and corporate departments to proceed with the monitoring?

A6: On this risk control front, traditionally, each business group was responsible for its internal control, however, we are currently enforcing our monitoring system and internal control system as an entire group. As for internal monitoring for the group companies, we have created a very comprehensive system and identify risk management items need to be monitored which we are calling as “basic elements”. For this monitoring system, the corporate department gets hands-on on this and will take necessary actions including having dialogues, making improvements and counter-measures with each group company.

Q7: As for other competitors, I believe some are engaged in CSR activities to local community, such as contribution to local business, establishment of infrastructure, and provide scholarship for studying in Japan, etc. Does your company have this kind of activities?

A7: In our Ambatovy project in Madagascar, we have established facilities for local communities and, as we prioritize the environmental protection, we carefully working on this since our participation to this project. Also, in our San Cristobal project in Bolivia, since we relocated the entire village to another place, we are engaged in designing the entire village including schools and churches. We acknowledge that the importance of co-existing with local communities and contributing to the region.

Q8: In last year’s session, your company gave us the details about the case on the industrial park in Vietnam contributing to the development of local economy as an achievement related to ESG. In implementing any projects, do you have any criteria on making investment decision regarding ESG related? Also, how do you appraise internally the added-value related to ESG perspective after the investment?

A8: From our point of view of material issues, we are considering whether the investment complies with our philosophy. However, we are not having the system to positively appraise the ESG related points as “we will make investment to this project because ESG related points supersede profitability”. But for the emerging fields which we identified in our medium term management plan, we selected based on our philosophy of material issues, therefore, as a result, we are allocating our company’s resource to the fields related to material issues and ESG related.

[Governance and HR Strategy Related]

Q9: In promoting diversity, there was an explanation on hiring and training specialists. But if we take the size and variety of business of your company, I believe there are needs for job rotation. How do you see the balance between these two?

A9: Because of our job rotation, we have many employees who are very well-rounded. However, in these days that we need to tackle “unceasing challenge”, we are not able to survive with a group of generalists. We need to create the system to appraise those specialists and to utilize them effectively.

Q10: I understand the current mix and diversity of your board of directors, however, are you satisfied with the existing management structure? I feel a little odd that there are no foreign directors for a global company like yours. Also, it seems that you are missing the person who specializes in risk management area. Could you comment on how you see this challenge and how you plan to tackle this?

A10: In this revision of Corporate Governance Code, gender and nationality are considered items, and not only directors but having executives diversified will be our challenges as well. In the future, we believe that we may need to consider having non-Japanese directors but we need to think of how we operate going forward. We have introduced our system of having outside directors in 2013, and we just started our system having 5 outside directors from this year. The term for each director is maximum 6 years, and I believe non-Japanese candidate will be important as next-generation board of directors. In our board of directors meeting, we have agenda relating to risk management. There are a lot of incisive comments during discussion about risk management and we do not think our system is insufficient in expertise in managing the risks.

Q11: In the revised version of Corporate Governance Code, we need to analyze the rationale of holding cross-sharing stocks and if it is worth the cost of capital. I would like to know your perspective on cost of capital. Also, in which meeting, are you holding the review on these cross-sharing stocks?

A11: We review the list of those companies and its rationale in the board of directors meeting. This practice is done prior to the recent revision of Corporate Governance Code. In the recent review, we decided to sell majority of these stocks among the ones which are not economically rationale. We are screening the list one by one.

The quantitative review is based on the cost of capital. Our past cost of shareholders’ equity was around 7.5% and we estimate that it is below this level at this moment. However, we keep higher hurdle to make severe screening.

Q12: Regarding the new remuneration system of having performance-based compensation, I believe it is very important to link the value of shareholders and that of the company. On the other hand, I feel that there are adverse effects on this, such as having influence on decision making on booking impairment loss for the company like trading company which has large amount of goodwill. What is your view on this?

A12: We have this new concept of remuneration system from this year, and if we have any adverse effects on this, I think it would be necessary to revise the plan accordingly.

We have precise impairment test within the specific rule and make decision on whether we need to impair or not. We think that we do not have any controls over the timing for impairment.

[END]