Question & Answer at IR Meeting on Financial Results for FY2022 Q4

[Date] **May 10, 2023**

[Presenters]	**Masayuki Hyodo**	**Representative Director, President and Chief Executive Officer**
	Reiji Morooka	**Representative Director, Senior Managing Executive Officer, Chief Financial Officer**
	Hirokazu Higashino	**Managing Executive Officer, Chief Strategy Officer**
	Yoshiyasu Fuse	**Corporate Officer, General Manager, Accounting Controlling Dept.**
	Yoshinori Takayama	**Corporate Officer, General Manager, Investor Relations Dept.**

< Questionnaire 1 >
What do you consider to be your full-year earnings capability at this moment?

< Hyodo >
We are having the discussion based on the idea that an ROE of 12% or more should be firmly achieved when formulating profit plans. The profit forecast of JPY 480 billion for FY 2023 can be simply divided into a quarterly basis to JPY 120 billion. Based on the current level of performance in the Q4 of FY 2022 and considering the business expected to recover, we see our plan is quite firm and close to the current actual earnings capability. Based on the same idea in FY 2024 and FY 2025, and focusing on areas that can grow earnings, along with expanding our invested capital, we will steadily achieve our planned targets.

< Morooka >
The profit plan is based on the Q3 and Q4 of FY 2022 when the economic environment has normalized. In the non-mineral resource businesses, it is about JPY 80 billion. Taking into account that large-scale properties in the real estate business were booked in the first half of FY2022 and the improved business environment in the domestic electricity retail business, we consider the annual forecast of approximately JPY 340 billion for the non-mineral resource business to be reasonable. The mineral resources businesses were also reviewed based on current market conditions, and we believe we can achieve the full-year forecasts of JPY 460 billion excluding one-off profits/losses.

< Questionnaire 1 >
As a premise for the profit plan for the tubular products business, I believe the market condition for OCTG is lower than it was at the beginning of last fall, but I would like to know how you factor in the number of rigs and the market condition for OCTG.

< Hyodo >
While decarbonization must be accelerated, investment in new exploration and production in the oil and gas sector has been restrained worldwide in recent years, however, we expect sustained demand for investment in enhancing production capacity to remain firm in the near future. Our forecasts are based on this underlying assumption.

< Morooka >
Regarding the market situation in the tubular products business in North America, which performed well in FY 2022, we assume that demand for tubular products will be firm and will return in the second half of FY2023 from a macro perspective, although the market is currently in an adjustment phase due to the supply and demand easing, which is due to the accumulation of inventories by developers and the increase of imports from overseas. The number of rigs is currently on a downward trend after peaking in November last year due in part to the mild winter, but we expect the number to remain around 700 to 800 rigs in FY2023.

< Questionnaire 2 >
Regarding the business portfolio shift, which is the basis of SHIFT 2023, what is your assessment of the progress in each area as president?

< Hyodo >
The pillars of our company's business are concentrated in the areas designated as "Steady Business Growth" under SHIFT 2023, i.e., the areas where profits will build up as capital is invested. In “Value Creation”, there is still room to improve ROIC to exceed WACC, though it certainly contributes in terms of a revenue scale. Some businesses are shifting from " Value Creation" to "Steady Business Growth" by improving ROIC. In the short term, we believe that we can certainly invest capital in these areas and ensure growth in earnings. Through the PDCA in the medium-term management plan, we have made considerable progress in organizing our thoughts on issues, and I feel that this has led to results, and we will continue to work with confidence.

< Questionnaire 2 >
The forecasts are planned to increase profits by JPY 105 billion in non-mineral resource businesses from FY2023 to FY2025, which is the same scale as the profit increases in FY2021 and FY2022 where the increase was triggered by unprecedented circumstances, and I feel that the hurdle is not high to achieving this. Could you give us a specific idea of your plan to increase profits?

< Hyodo >
When we discuss the strategies within the company, we discuss not only achieving sales growth by expanding the number of customers, expanding business areas, and improving the unit price through our own efforts but also improving ROIC by managing costs and risks. We will invest in strategic areas and businesses that effectively address both of these aspects.

< **Questionnaire** 2 >
How specifically visible is the pipeline for a JPY 105 billion profit increase in non-mineral resource businesses?

< Hyodo >
The forecasts incorporate what appears to be quite concrete.

< Morooka >
The strategy developed by each strategic business unit (SBU) and the quantitative plan are discussed at the strategy meeting, and the three-year profit plans are made by the accumulation of those. In terms of the cash flow behind these profit plans, the investment and loan plan for FY2023 is about JPY 500 billion, slightly higher than that of the previous 2 years, and the plan for FY 2024 and FY2025 is about the same. Businesses as described in the materials, in particular, retail, healthcare, and agribusiness are Steady Business Growth areas and next-generation growth fields. We are expanding our current strength, and as an extension of that, we plan to invest and expand our earnings. In the overseas IPP business, the contract phase in the existing business will change in the future to increase revenues. In the automotive sales & marketing business, we will continue to expand in key markets, particularly in the Middle East, where we have our strength. We have specific scenarios in place, and we believe that the planned increase in earnings will be achieved only after solid execution in line with our strategy.

< Questionnaire 2 >
About the seeding business, the amount of invested capital has increased from JPY 35 billion to JPY 150 billion compared to the result in FY2021, but I would like to know what specific initiatives are being undertaken and how progress is being made, and what is your impression as president? Also, what is the timing of monetization?

< Hyodo >
Multiple initiatives are growing up, including the plan for revenue contributions and increase. For example, in terms of DX, business units have grown up that are working on utilizing distribution capabilities that only trading companies can do, such as reforming the business models of existing businesses themselves and linking them to new revenues. Personnel working on these units were originally from the Steady Business Growth and Value Creation businesses, who are also working with our DX centers and teamed up with specific business partners. For example, we have decided to invest in DABCO (Vodafone's subsidiary), the company that aims to build payments for goods in a mobility society. However, the social implementation of EVs needs to be developed, and monetization will take time. However, as in this case, we believe it is important to steadily carry out a business with a good partner and a sense of future potential. There are several examples of this. We cannot disclose many details at this time, but we hope to disclose them as soon as possible.

< Questionnaire 3 >
Compared to the company's previous plans, the plan is a stronger profit plan, and the company seems to be more aggressive on shareholder returns. What kind of internal discussions have you had? What you've been working on is giving you confidence.

< Hyodo >
We have been working on the assumption that if we can achieve the three SHIFTs stated in the medium-term management plan (Business Portfolio, Framework, and Management base), we will be able to maintain and improve ROE by increasing shareholders' equity, leading to an increase in dividends. I feel that we have

shown that the above cycle can be carried out if we do what we have to do steadily. Accordingly, based on the shareholder return policy we have formulated, we have made public what we should present. We believe this is the result of promoting the medium-term management plan.

< Questionnaire 3 >
As for the business portfolio shift, based on the track record, it seems better to strengthen the Value Creation area than the Steady Business Growth area. I want you to tell me what's included there. Also, in which areas do you plan to increase the amount of invested capital in your future investment and loan plans?

< Morooka >
The Value Creation area, which includes mineral resources-related businesses in addition to the tubular products business in North America, was a major contributor to the company's profit in FY2022. We review the classification of SBUs once a year, but from a company-wide optimal point of view, we are mapping SBUs based on strategies such as changing them from Steady Business Growth to Value Creation areas that do not involve a significant investment of funds. Therefore, SBU, which will expand its footprint through increased invested capital in the short to medium term, including after FY2024, is classified as the Steady Business Growth area and will invest heavily in businesses belonging to this category. Investments with a long-term perspective are included in the plans in the Seeding area, although not on a large scale.

< Hyodo >
Over the long term, we will continue to firmly address the five themes identified in the medium-term management plan as those that should be strengthened (energy Innovation, social infrastructure, retail consumers, healthcare, agriculture). The acquisition of Nativa in Brazil's agricultural business is an example of a business that can contribute to profits immediately after acquisition, and we will increase such cases in the future. In infrastructure, it takes time from investment to monetization, but we expand the investment capital in other SBUs in the meantime and improve the company-wide portfolio.

< Takayama >
The increase in invested capital in the Value Creation area includes, in addition to the factors mentioned above, the impact of retained earnings, which were not distributed, to invested capital such as from the mineral resources business which had a significant increase in profits.

< Questionnaire 4 >
I would like to know the specific factors contributing to the increase in profits from the FY2023 forecasts to the FY2025 plans.

< Morooka >
The largest increase was in the Transportation & construction systems segment. There are three major subsegments (lease, ship & aerospace, mobility, construction & mining systems) in this segment, each of which is expected to increase earnings: growth in the aircraft leasing business and environmental improvement in the shipbuilding business, environmental improvement in the manufacturing business and strengthening the sales business in the mobility business, and geographic/customer base/products expansion in the construction & mining systems business. In the Infrastructure segment, as mentioned, there is an impact on increasing earnings based on existing contract conditions. In the Media & digital segment, the

telecommunication business in Ethiopia is expected to contribute significantly. In addition to expanding the revenue base of retail business and healthcare business in the Living related & real estate segment, in the Mineral resources, energy chemical & electronics segment, we expect to increase based on geographical expansion and functional enhancements in the agribusiness.

< Questionnaire 4 >
Ambatoby is expected to improve by about JPY 20 billion to JPY 11 billion in FY2023, excluding one-off profits/losses, from a deficit of JPY 8 billion in FY2022, due to an improvement in production volume. How e sure is it?

< Fuse >
In Q4 FY2022, the project originally expected to be profitable, but was affected by a fall in the price of the by-product cobalt, a decrease in production due to some repairs being carried out ahead of schedule, and a periodic profit gap due to crane failures at the port, etc. These effects resulted in a loss in Q4 as well, and a loss of JPY 8.3 billion in FY2022. But at the same time, there is a sense that the production capacity of the site has been improving , partly due to the effects of previous initiatives such as major repairs and the strengthening of the maintenance system, etc. We expect to produce above 40KMT In FY2023, and we expect to increase production to the upper 40KMT in FY2025, aiming to achieve the planned profit growth. We believe that the most important issue in the Mineral resources, energy, chemical & electronics segment is the stable operation of this business, and we will certainly improve it.

< Questionnaire 5 >
What is your view on investment? I often hear that other trading companies will step-up investment in Japan, even in the context of contributing to Japan's revival.

< Hyodo >
Our company, too, has grown and worked with a sense of mission toward its postwar reconstruction and its contribution to the nation-building of Japan. We believe that it will continue to be very important to work with stakeholders and Japanese companies. For the development of the Japanese economy and society, there are many factors to be invested in each segment, such as domestic renewable energy power generation and domestic value chain construction. Those factors are not insignificant within our portfolio balance, and we continue to uphold this fundamental approach moving forward.

< Questionnaire 6 >
In the Media & digital segment, I believe the telecommunications business in Ethiopia is positioned as a key factor for future earnings growth. With the impairment of the telecommunications business in Myanmar recorded, I would like to hear your thoughts on how you intend to manage the risks associated with growth investments in areas with relatively high-risk countries.

< Hyodo >
Managing country risk is a prerequisite for doing business in emerging countries, and investment decisions are made after incorporating a manageable scheme. For example, in the equity portion, sovereign or equivalent investors are invited to participate, and when country risk becomes apparent, they negotiate with

the counterparty government on the same footing as private companies, to form deals that minimize risk as much as possible.

< Fuse >
We would like to supplement the impairment loss in the telecommunications business in Myanmar. The business environment, including country risk, deteriorated compared with FY2021 due to the conversion regulations issued in April 2022 and the devaluation of official rates in August of the same year. Under the circumstances, our company's equity method investments were determined to be impaired due to decline in performance caused by higher costs such as fuel costs and the posting of foreign exchange losses. In terms of the business itself, however, there was no impact on sales or business share, but rather a longer payback of investments due to difficulties in convertibility and higher discount rates due to rising country risk.

< Questionnaire 6 >
Please tell us about the future profit growth factors in the Infrastructure segment, such as whether the performance of the domestic electricity retail business, which is improving due to price revisions, will be sustainable, and how orders are piling up in the IPP business.

< Hyodo >
For the domestic electricity retail business, the project is to rebuild the value chain for energy sales and purchases, and have reviewed existing procurement and sales contracts, aiming to minimize the risk of price fluctuations. It is expected to contribute to earnings as planned.
In the overseas IPP business, a revenue structure has been established based on long-term contracts, basically on a take-or-pay basis, and within this structure, profit is expected to increase based on the existing contract conditions as mentioned above.

< Questionnaire 7 >
It is understood that the plan is to withdraw from low-profitable businesses and replace assets in businesses with limited growth potential is to be completed in the final year of the medium-term management plan. On the other hand, there is a counterparty for negotiation for withdrawal or asset replacement, and if these are delayed, will there be an impact on FY2023 forecasts?

< Morooka >
As for the withdrawal of low-profitable businesses, many of them were in the red, and even before the formulation of the current medium-term management plan, we had identified about 100 companies for structural reforms and promoted their withdrawal. The number of companies has already been reduced to 69 at the start of the medium-term management plan, with a further withdrawal of about 40 companies at present. Although some of the more difficult items remain, such as partner relationships, industry positioning, and a virtually limited potential buyers, we believe that those with a large impact have already been processed, and remained ones are mostly with small impact. Regarding asset replacement in businesses with limited growth potential, even if they currently contribute to profits, we believe that they should be subject to exit from a medium- to long-term perspective, and we are already working on it and have factored it into our profit plans to a certain extent. We will continue to deepen discussions at the management level and shift our business portfolio.

< Hyodo >

When we announced our medium-term management plan “SHIFT 2023”, I felt that, and I’m once again aware that the most important thing is to firmly implement what we intend to do and show the results. If we didn’t do so, we wouldn’t be convincing.

We will thoroughly consider your comments received today, and make improvement where necessary , enhance the quality of the content that needs to be disclosed, and gain an understanding of the market, including what is good about our company and what is not.

I also believe that even in a difficult business environment, a company must make strategic moves toward the next generation to survive in the future. I recently had the opportunity to have a conversation with Mr. Warren Buffett of, Berkshire Hathaway, and he has very disciplined approach in his investment, and there were many valuable insights, which reminded me of the importance of having these engagement and conversations with our shareholders and investors. I want to continue put into practice as we strive for further growth.

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