

## IR Meeting on Financial Results for FY2023 Q3: Questions and Answers

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### <Questioner 1>

What is the background of the production decrease at Ambatovy? Also, I would like to know your outlook for next fiscal year's production volume.

### <Fuse>

The Q3 standalone result was -8 billion yen, but there were two factors: one was the drop in nickel and cobalt prices, and the other was the damage in some equipment, and the planned repair period was extended because of that damage. For Q4 outlook, a problem was discovered at the utility plant at the end of December, and recovery is expected to take a certain period of time. As a result, production volume in Q4 will be over 6,000 tons, and over 30,000 tons for the full year, and the financial results is expected to be -7 billion yen in Q4 and -17 billion yen for the full year.

This failure was caused by a sub-materials production plant, and while the impact of this is under investigation, we are pursuing various options to minimize the impact. We will first resolve this issue and continue working towards stable operations.

### <Questioner 1>

I would like to know the implication of the 50 billion yen buffer.

### <Morooka>

Individual projects are being considered from various perspectives. As we have previously explained about the three challenging businesses, we would like to examine the individual business environment, profitability, risks, outlook, etc. of each business and explain how we will address them at the end of the fiscal year. By maintaining the soundness of our business portfolio and further strengthening it, we would like to achieve the objective of this medium-term plan, which is to create a portfolio with strong resilience. I'm not thinking about continuing to run with risks. We are having discussions from the perspective of ensuring the soundness of our portfolio as a whole and moving forward in a way that will allow us to start towards the next stage of growth.

**<Questioner 2>**

I would like to know more about the details of the issue in Ambatovy. Also, as you work to maintain and improve the soundness of your portfolio, please tell me whether Ambatovy's business is in line with what your company is aiming for in the future.

**<Morooka>**

The issue at Ambatovy was with the plant facility that produces subsidiary materials, and is not a issue that affects the reliability of the entire plant. We are working with on-site management to minimize the impact on overall production and return to normal operations as soon as possible. Ambatovy is one of our company's challenging businesses, but I would like to refrain from providing detailed explanations regarding individual projects at this time, and would like to provide an explanation when we announce financial results at the end of the fiscal year.

**<Questioner 2>**

Regarding the agribusiness, please tell us about the factors of downward revision from the November forecast and the factors that will increase profits for the next fiscal year.

**<Fuse>**

In Agro-Amazonia, one of our core businesses, soybean planting has been delayed or canceled due to the lack of rain since October caused by the El Niño phenomenon, and demand and prices for agricultural materials have declined. As a result, we were unable to accumulate the expected profits. In addition, the crop protection business in Argentina suffered a one-off foreign exchange loss due to a decrease in foreign exchange rates. Q4 will be a demand period for the crop protection business in Europe. Furthermore, Agro-Amazonia has entered a period of demand for corn, and profits are expected to increase.

**<Questioner 2>**

Was the problem with Ambatovy a human error? Will large additional costs such as facility costs be required in the future?

**<Morooka>**

This is not recognized as a human error by the Ambatovy Project members. We will thoroughly examine the causes of this situation, including the manufacturing process of the facility, and then formulate future countermeasures.

**<Questioner 3>**

Although I do not see any improvement in the tubular products business in North America, could you update the market trends and market inventory status?

### **<Fuse>**

First of all, about Metal Products segment in general, the full-year forecast is 76 billion yen, unchanged from the November forecast. Regarding our core tubular products business in North America, we expected the North American market to recover from Q4 of this fiscal year, but the recovery has been delayed and is now expected to recover gradually from around the first half of FY24.

On the other hand, in regions other than the United States, sales of tubular products, including those of group companies, are steady, mainly in the Middle East. As for steel sheets, our performance is supported by transportation equipment-related products in North America, and the full-year forecast for metals as a whole is unchanged at 76 billion yen.

To add more information on market conditions, overall crude oil prices are expected to remain stable in FY24, but the rig count is expected to recover slightly and remain at an average of 600 to 700 level in FY24. Inventories on the market are expected to decrease going forward, and oil country tubular goods prices are expected to bottom out by the end of FY23 and recover moderately in the first half of FY24. Regarding market sentiment, we hear that it is on a recovery trend and that we will see new orders and a price recovery towards the end of FY23.

### **<Questioner 3>**

Could you tell us how you are confident in achieving the FY24 image of 510 billion yen that was announced at the beginning of the fiscal year?

### **<Morooka>**

We believe that a profit of 500 billion yen is one target level. The initial plan was for FY24 to be 510 billion yen and FY25 to be 600 billion yen, with the Transportation and Construction Systems being the driving force. Sales are strong in the automotive sales & marketing business, asset acquisitions are being made in the aircraft leasing business, and assets in the construction machinery business are steadily increasing. Furthermore, although automotive manufacturing has been suffering for the past few years, there are signs of recovery, and it is expected to return from next fiscal year onwards.

In terms of increasing assets, the real estate business is also expected to continue to grow. In the non-mineral resources, profitability is expected to improve due to the renewal of contracts for existing overseas power generation projects in the Infrastructure.

Regarding agriculture, although this fiscal year was sluggish due to various temporary factors such as unseasonable weather, business performance is expected to recover next fiscal year due to functional enhancements and geographical expansion. In the mineral resource business, there is an element of ramping up a copper mine in Chile. In terms of recovery of the bad business environment this fiscal year, we can also expect the tubular product business in North America and electronics

business to improve. On the other hand, there are some businesses that are slowing down, and we would like to take these factors into account and create a plan that will exceed 510 billion yen.

**<Questioner 4>**

Please tell us about the details of the upward revision in the mobility business. Also, please tell us about the future outlook for Transportation and Construction Systems.

**<Morooka>**

The upward revision in Transportation and Construction Systems is centered on mobility. Although automotive sales & marketing businesses are the driving force, earnings in the automotive manufacturing business are also improving. In addition, other companies such as TBC and auto leasing companies have revised their forecasts upward from November.

As for TBC, the retail business was sold in June last year, and the wholesale business is on track to dispose of high-value inventory in the first half of the year. The current business environment is not bad either. As the mileage of cars increases, the demand for tire replacement increases, and the maintenance business is also improving. Therefore, we do not currently anticipate any downside.

**<Questioner 4>**

Is Ambatovy a negative factor in the next medium-term management plan for Mineral Resources, Energy, Chemical & Electronics?

**<Fuse>**

We are currently examining the impact of Ambatovy in FY2024. Regarding other mineral resources and chemical businesses, the outlook remains unchanged from the initial expectations. Chemicals businesses are expected to recover from temporary decline of this fiscal year.

**<Questioner 4>**

I understand that the current problem with Ambatovy is not fundamental, but will the occupancy rate return early in the next fiscal year?

**<Morooka>**

The plant that produces subsidiary materials has become a bottleneck, and this part must be strengthened. It will take some time to address the problem, but we are working on site day and night to limit the impact on overall production. Therefore, we cannot say at this point when we will be able to return to our original operation

**<Questioner 4>**

Is the profit increase factor in automotive sales & marketing businesses due to volume or the margin per unit? I would like to know your outlook for the next fiscal year as well.

**<Morooka>**

Basically, it is the quantity. Our understanding is that we are still in the process of expanding the quantity. On the other hand, there is a risk, the situation in the Middle East, and if this spreads, there may be a change in demand. But unless the situation worsens, I think we can increase on-track.

**<Questioner 5>**

I would like to know what kind of timeline you plan to work on for projects that were not completed during SHIFT 2023.

**<Morooka>**

In addition to the three challenging projects, various other issues are being discussed, including countermeasures. We would like to make decisions and address these as much as possible within this fiscal year, and we do not plan to spend the next three years of the new medium-term management plan to solve these. Please wait until the end of the fiscal year for explanations on individual projects.

**<Questioner 5>**

Please tell us how you evaluate the accumulation of assets and profitability in the focus businesses in Infrastructure and real estate.

**<Morooka>**

In addition to the accumulation of assets in Infrastructure and real estate, there are several projects in the pipeline that are entering the implementation phase in other segments. These types of projects include not only build and sell projects, but also projects that raise the baseline of profits. I would like to present these projects with the profit increase image so that you can have a sense of expectation.

**<Questioner 6>**

Please tell us about the current situation and outlook for Media & Digital's overseas telecommunications businesses, especially in Ethiopia and Myanmar.

**<Fuse>**

In Myanmar, current business performance has increased compared to the same period of the previous year due to a decrease in depreciation costs, but the business environment itself remains

severe due to the ongoing negative impact of the exchange rates and inflation, as well as the intensifying competition with competitors.

We are particularly paying attention to the foreign exchange and convertibility situation. The company has lease receivables denominated in US dollars from the telecommunications carrier MPT, but due to foreign exchange control regulations, there are restrictions on the collection of these lease receivables.

Regarding Ethiopia, the business environment is also difficult. Due to changes in the global situation, Ethiopia is also affected by inflation. There are also disputes and the failure to make interest payments on Eurobonds, making the situation more unpredictable. Due to the country's security and political instability, plans for expansion of infrastructure facilities and other projects have been delayed, and we are reviewing our plans for next fiscal year and beyond.

**<Questioner 6>**

Pacific Summit Energy has revised its full-year forecast upward. Please tell me the background behind this.

**<Fuse>**

The company has been able to successfully monetize gas price fluctuations in the Northeast and Southwest regions of the United States. In addition, the Cove Point LNG project continues to operate stably, and we have revised our forecasts upward.

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