IR Meeting on Financial Results for FY2024 Q4: Questions and Answers

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	Yoshinori Takayama	Executive Officer, Head of Investor Relations Dept.

<Questioner 1>

Regarding the ¥40.0 billion buffer in the FY25 full-year forecast, I understand that there is a risk of additional contributions or losses depending on the inspection of the Ambatovy slurry pipeline. Excluding this, I would like to know to what extent the buffer can practically prepare for an economic downturn.

<Ueno>

The ¥610.0 billion is the aggregated planned profit for each business group, excluding the impact of U.S. tariff measures and economic downturns. Additionally, the equity in earnings of Ambatovy is expected to be zero. On the other hand, uncertainties in the business environment and the direct and indirect impacts of U.S. tariff measures are not incorporated independently by each business line but are buffered at the corporate level. It does not assume a global depression or paradigm shift, it does includes risks associated with economic recession, such as potential delays in new investments and a greater-than-expected decline in mineral resource prices, as part of management decisions. Regarding Ambatovy, downside risks are included within this buffer, but if stable operations progress, further contributions are not expected. I visited the site three weeks ago, and efforts to improve cost competitiveness are progressing, with production volumes mid-30,000 tons per year and nickel prices at $7.0/lb, achieving cash-based break-even. While working to strengthen the business foundation, we will keep considering all options.

<Morooka>

Out of the ¥40.0 billion buffer, it is not possible to clearly distinguish between Ambatovy and other factors. Meanwhile, in the FY24 Q3 financial results, there was an impairment of ¥18.9 billion, of which ¥8.6 billion was explained as committed but not yet contributed. Subsequently, as of the end of March, contributions have progressed, but approximately $30 million remain unallocated on a project basis. With an annual production volume of 35,000 tons and a nickel price of $7.0 /lb, future operations can be covered by the committed but not yet contributed amount. Considering unexpected issues, for example, if production volume drops from 35,000 tons by 5,000 tons, it would result in losses of approximately ¥3.5 billion for our share, and a nickel price impact of approximately ¥3 billion for every $0.5 change. Taking these sensitivities into account, a total buffer of ¥40.0 billion was set.

<Questioner 1>

How is the progress of the restructuring, which is a factor in the profit increase plan for FY25 on page 2 of the presentation materials? Also, regarding the earnings contribution from new investments on page 5, the earnings contribution amount is ¥13.0 billion against the invested capital of ¥420.0 billion, excluding real estate, which is ¥380.0 billion. The ROI appears to be very low at around 3%. I would like to hear about the progress, including the perception of the investment's effectiveness and profitability.

<Morooka>

Out of the ¥18.0 billion allocated for restructuring, the major factor is in the Ethiopian telecommunications business. In FY24, the number of active customers over 90 days has steadily increased, and we have taken measures such as raising prices three times in response to the devaluation of the local currency. The business environment has bottomed out, and we aim to achieve profitability while assessing the situation with regulatory authorities and competitors. Additionally, we are seeing results from restructuring and cost structure reforms in the auto finance business in Southeast Asia, the parking business in Northern Europe, and TBC. The fresh produce businesses (Fyffes, Highline) have also shown significant effects from initiatives started last year, and we feel confident about the restructuring efforts. While some businesses may be affected by U.S. tariff measures, we will handle these with the company's overall buffer.

Regarding the expected profit contribution from new investments in FY26, the major investment is in Net One Systems, which was made by SCSK, while the earnings contribution to our company is limited to our equity share. Additionally, many businesses take time to contribute to profits after investment. We will continue to strengthen our efforts to achieve greater earnings contributions and realize synergy effects with existing businesses.

<Questioner 2>

I would like to hear about businesses considering the impact of US tariff measures and the downside risks in the event of a recession.

<Morooka>

While some segments have incorporated performance forecasts, most impacts are unclear and difficult to quantify for each segment, so we have considered a company-wide buffer. Among these, the US-bound automotive manufacturing business based in Mexico and the business of selling and renting construction machinery in the US may be affected, although the company does not directly pay tariffs.

<Questioner 2>

Could you elaborate the reasons of increase in profits for the steel group from FY24 to FY25, particularly focusing on North American tubular product business, including assumptions.

<Ueno>
Firstly, for tubular product business, we anticipate a contribution to profits based on the current increase in demand and rising sales prices in North America. On the other hand, if drilling significantly progresses under the Trump administration, oil and gas prices may drop, leading to a slowdown in the drilling pace. Therefore, we will carefully manage inventory adjustments while monitoring the situation and market conditions.
In other regions, while FY2024 was favorable, FY2025 is expected to be a transitional period with fewer large projects compared to the previous year, leading to a temporary decrease in profits.
For steel sheets, considering the continued sluggish demand in China, the group has not included significant figures in the FY2025 full-year forecast. However, we hope for better-than-expected results.

<Questioner 3>
Regarding the FY2025 full-year forecast, it includes profit and loss related to asset replacement in the Diverse Urban Development Group and the Energy Transformation Business Group. As part of the business model, these efforts are expected to continue in the future. I would like to inquire about the expected scale of profits.

<Morooka>
Diverse Urban Development is expected to generate an underlying profit of ¥72.0 billion in FY2024 and ¥78.0 billion in FY2025. Profits from asset replacement are also included as part of the business model. Rental business projects are rotated over time, with a focus on ROIC. There has been considerable internal discussion about improving ROIC, and it is at a relatively high level compared to domestic peers.
In the Energy Transformation Business Group, similar efforts are being made, particularly with power generation assets. This is a long-term business where value is enhanced, and cash is recovered upon completion of development, improving overall asset efficiency. In this group, not all asset replacements are included in underlying profits; some are planned under asset replacement and extraordinary profits.

<Takayama>
In Diverse Urban Development Group, as shown on page 35 of the material, we visualized our growth strategy and asset turnover by dividing assets into development-and-sale and income-generating investment properties. While enhancing profitability and unrealized gains, we remain cautious with large-scale projects under current conditions. Each asset type totals around ¥400.0 billion, with FY2024 sales gains of ¥40.0 billion and ¥8.0 billion respectively. We aim to continue realizing gains from investment properties going forward.

<Questioner 3>
In the Energy Transformation Business Group, impairment losses amounting to several billion yen have been recognized in the renewable energy business. Given that other companies have also announced large-scale impairments, we would like to ask about the background of the impairment losses recorded in FY2024, as well as future initiatives, taking into account the quality of renewable energy assets, expectations for future earnings, and asset turnover.

<Fuse>
The impairment loss on the Egypt onshore wind farm project in FY2024 was due to a downgrade in the country's credit rating amid global economic turmoil, which raised the country risk and led to a higher discount rate in the impairment test. This resulted in an accounting adjustment. The project itself is progressing smoothly

<Morooka>
Our company also has investments in domestic wind power projects. This is a field that requires new expertise, and the projects are becoming increasingly complex, with rising costs in the near term. Since these are long-term projects, we believe it is necessary to assess them carefully.
As for overseas projects, even when the development itself is progressing smoothly—such as in the case of the Egypt project—geopolitical risks can emerge, requiring accounting measures.
Currently, cost is the most significant issue, but we are taking various risks into consideration.

<Takayama>
Currently, there are no impairment concerns for our renewable energy projects, including domestic wind power.

<Questioner 4>
Could you elaborate on the business environment for the construction systems, healthcare, and agriculture, where the directional arrows in the main growth businesses on slide P.2 of the material change between FY2024 and FY2025?

<Morooka>
There are signs of improvement in each of the businesses, and we expect them to return to a growth trajectory.
In construction systems, we increased rental assets in anticipation of market growth, particularly in the U.S. rental business. However, construction demand remained soft in FY2024. Due to logistics delays, previously ordered assets were delivered all at once during the downturn, rather than during the favorable period. We also expanded our network, which led to higher costs—such as depreciation, labor, and interest—despite stagnant sales. In FY2025, we will focus not only on local construction firms but also on large-scale projects and major clients with growth potential. We are

also overhauling our management structure, controlling assets, and implementing structural cost reforms to improve profitability.
In the agriculture business, FY2024 was impacted by poor weather in FY2023, which weakened farmers' financial conditions, leading to reduced purchasing power and credit losses. FY2024 also included significant asset replacements and extraordinary losses, and the absence of these alone will result in a recovery of several billion yen. In addition, we are tightening credit controls and reducing costs. For FY2025, we expect a recovery in farmers' purchasing power and aim to boost performance through stronger sales of high-value-added products such as branded seeds.
In healthcare, FY2024 saw a decline in revenue due to revisions in dispensing fees for major pharmacy chains in Japan. In FY2025, we aim to strengthen earnings by increasing additional medical fee for community support system and leveraging the expertise of Yakuju, which we acquired two years ago. We also expect increased contributions from overseas managed care businesses, supported by membership growth.

<Takayama>
Regarding the agriculture business, during the most recent demand season, weather conditions were favorable, and both planting and harvesting have recovered to normal levels. We are seeing signs of recovery

<Ueno>
Regarding the agriculture business, we view the recent surge in demand in China—driven by a shift in soybean imports from the U.S. to Brazil due to retaliatory tariffs against U.S. trade measures—as a positive development.

<Questioner 4>
How much recovery is expected in the telecommunications business in Ethiopia? Also, while the full-year FY2025 forecast for Fyffes is roughly in line with FY2024, how do you view the outlook going forward?

<Fuse>
Regarding the telecommunications business in Ethiopia, due to our relationship with the business partner, we are refraining from disclosing performance forecasts. However, we expect a reduction in losses next fiscal year driven by increased customer acquisition and revenue growth. We are also targeting monthly EBITDA profitability in FY2026.
As for Fyffes, FY2024 saw significant improvement due to strong banana sales and cost reductions. While the FY2025 forecast shows a slight increase, we expect continued strong performance in both bananas and pineapples.

<Questioner 5>
I would like to ask about the business environment for Sunstate, the North American construction equipment rental business. Additionally, we understand that inventory levels may be excessive—could you also comment on the impact of U.S. tariff measures in this context?

<Morooka>
Regarding the impact of U.S. tariff measures on Sunstate, while there is a risk that rising construction costs for customers could lead to reduced project demand and fewer project starts, we do not assume that having a large volume of rental assets will necessarily be advantageous in this context.

<Takayama>
In addition to Sunstate, our construction systems business includes sales and service operations in Canada for oil sands projects, where equipment is exported from the U.S. to Canada. Although these exports are not currently subject to tariffs, if Canada were to impose retaliatory tariffs on imports from the U.S., there could be some impact. However, since the equipment involved is highly specialized and not easily substitutable, we believe the overall impact would be limited.

<Questioner 5>
Regarding the Ambatovy project, it has been stated that the cash breakeven point is at an annual production volume of 35,000 tons with a nickel price of $7/lb. Could you clarify whether this breakeven point applies to the entire P&L as well?
Also, producing 35,000 tons would correspond to an operating rate of approximately 58% (*), which is significantly lower than the previously targeted 80%. Does this mean that the project is now able to avoid losses even at a relatively low utilization rate?
In the IR meeting on financial results for FY2024 Q3, it was mentioned that the results of the detailed inspection of the slurry pipeline would be available from Q1 onward. Taking that into account, we would also like to hear your outlook for the project going forward.
(*) The full capacity assumption of 60,000 tons was based on figures at the time of project participation. Due to declining ore grades and other factors, current capacity is estimated to be in the 40,000-ton range.

<Ueno>
Regarding the current status of Ambatovy, safety has been confirmed through hydrostatic testing and other inspections of the pipeline. Production will be resumed at a controlled pressure level, operating at around 35,000 tons per year rather than full capacity, with the aim of achieving a stable ramp-up.
At a nickel price of $7.0/lb, the project is expected to break even on both a cash and P&L basis.
Going forward, we will continue to monitor operational trends following the restart—taking into

account the safety of the pipeline—as well as the maintenance requirements for the scheduled plant shutdown around November, in order to determine the appropriate course of action.

<Questioner 5>
Assuming the situation can be properly assessed during the scheduled plant shutdown in November, could there be a possibility to consider increasing the operating rate thereafter, potentially leading to profitability?

<Ueno>
Depending on the results of the pipeline inspection and the condition of the facilities, there is a possibility that pressure levels could be further increased. However, since pipelines naturally deteriorate over time, it may also be necessary to operate while simultaneously reinforcing the facilities or partially replacing components. The plan is to gradually improve productivity while closely monitoring the situation.
Cobalt prices also impact the breakeven cost, and the recent surge in cobalt prices is being viewed positively.

<Questioner 6>
I assume that various strategic options are being explored, but could you clarify how challenging it would be to proceed with a withdrawal or divestment?

<Ueno>
Among the various options—such as continuing operations, selling the asset, withdrawing, or even bringing in a partner—none have materialized into concrete actions so far, although these possibilities have been kept in mind given the circumstances to date. The plan is to rebuild operations while gradually expanding the range of options.
As for the level of difficulty, it is hard to assess the feasibility of a sale without actively exploring it, but given that the operation is only now restarting and still in the process of stabilizing, it seems likely that finding a buyer would be challenging.
Withdrawal, while easy to suggest in words, carries significant social responsibility and would be an extremely difficult path to take.

<Questioner 6>
Regarding the assumptions on page 19 of the materials, could you explain the background behind the FY2025 full-year forecasts for copper, nickel, and coking coal being set slightly higher than current levels?

<Takayama>
The assumptions are based on consensus forecasts from external commodity analysts. Notably, in the case of coal, there is a divergence from current spot prices. Should current price levels persist, there would be downside potential; however, this is expected to be managed through buffer

provisions.

[END]