

IR Meeting on Financial Results for FY2025 Q4: Questions and Answers

[Date]	May 7, 2026	
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<Questioner 1>

Regarding the “Cash In” item on page 11 of the presentation material, which refers to a reduction of ¥1 trillion in invested capital for low growth/low ROIC businesses, could you comment on what is specifically included? Also, if you have any comments on the improvement of profitability, meaning whether or not we can simply envision the direction in which ROIC will be raised by this reduction of invested capital, including the asset-turnover-based businesses, of ¥1.7 trillion.

<Ueno>

As shown in the presentation materials, our basic approach regarding ¥1 trillion is to replace low growth/low ROIC businesses. More specifically, this includes businesses that are continuously in the red or businesses that are not expected to grow in the future. We have identified such businesses and will replace them by selling them or other means.

While we refrain from commenting on specific business names given our relationships with partners, for example, Highline, our North American mushroom business, is currently facing a challenging environment, with limited progress in productivity improvement, and as we are considering all options, including asset replacement.

<Morooka>

In terms of profitability improvement, we expect to recover a total of ¥1.2 trillion in cash. In addition, due to the deconsolidation of certain subsidiaries, we also expect a debt reduction effect of around ¥500 billion. As a result, we are planning a total reduction of ¥1.7 trillion in invested capital.

There are two major categories for the approx. ¥1 trillion asset replacement related to low growth and low ROIC businesses. Slightly more than half comes from exits or sales of operating companies, and this is expected to result in a net decline of approx. ¥3.0 billion in underlying profits on an FY2025 basis.

The remaining, just under ¥500.0 billion, mainly comes from capital recovery through capital reductions of equity method companies, as well as from the sale of cross-shareholdings or general investments, none of which are expected to lead to a decline in earnings.

From this ¥1 trillion reduction, company-wide ROIC is expected to improve by approx. 0.4

percentage points. In addition, a reduction of ¥700.0 billion in invested capital in asset-turnover-based businesses, will lead to significant debt reduction. Regarding the debt portion, even if new assets are acquired during asset turnover, it does not generally increase on a gross basis, and therefore results in a net reduction in invested capital. Including the direct ROIC uplift from this area, we expect an overall improvement of approx. 0.6 percentage points in company-wide ROIC.

The appendix shows ROIC figures for the entire company and for each group. The current company-wide ROIC is around 8%, and we would like you to view these initiatives as having the effect of further raising that level.

<Questioner 1>

Regarding the bar chart on the right side of page 11, which illustrates the process of recovering financial soundness by the fiscal year ending March 31, 2029, could you clarify the planned scale of the reduction in gross interest-bearing liabilities? In addition, with respect to the profit growth rate assumed for the post-Medium-Term Management Plan period from FY2027 onward, while you have explained profitability on SCSK or aircraft leasing earlier, what assumptions were used? I would appreciate any of your comments, even if it is qualitative.

<Morooka>

As we have explained previously, we require each SBU to submit a three-year rolling plan every year, including investments, invested capital and profit plans, and we conduct internal discussions based on these. In the current Medium-Term Management Plan plus additional two years, we are presenting outlook for improving financial soundness. However, the bar chart etc. for the additional two years after the Medium-Term Management Plan period is not a final company-wide plan and is just for illustrative purposes only.

With regard to interest-bearing liabilities, we expect to improve to below ¥2.7 trillion by the end of FY2028, which was the level as of the end of Mar. 2025 before major investments. Based on our current plans, we believe this level can be achievable even if there is some variation in earnings or investment plans. As for the profit growth rate, aggregating the plans submitted by each SBU results in a relatively high growth outlook, but we would like to refrain from disclosing specific figures at this point.

<Ueno>

Growth is expected to be driven primarily by digital and leasing businesses, where large scale investments have already been made under the current plan, and these are positioned as flagship businesses where we expect organic growth in the post-Medium-Term Management Plan. For the real estate, the acceleration of the asset-turnover-based model and increased profit contributions from overseas businesses will accelerate growth and we believe it's recognized as solid plan.

Furthermore, in Energy Transformation Business Group (EX), in addition to asset-turnover-based initiatives in the upstream power generating businesses, we will strengthen our trading businesses in the midstream and downstream. Specifically, in areas such as power trading, gas trading, and LNG trading, we aim to build a highly profitable portfolio by leveraging the experience and strengths we have historically developed in the U.S. and the U.K. Also, by combining the turnaround of the construction systems and agriculture business, we aim to achieve sustainable growth in FY2027, FY2028 and further into FY2029.

<Questioner 2>

How have you factored in the impact of the situation in the Middle East? Could you explain the assumptions and the impact by businesses, including tubular products business and automotive business?

<Morooka>

We assume that the blockade of the Strait of Hormuz continues until the end of June, and based on this assumption, each business has assessed the duration and magnitude of the impact. As a result, we have factored in a negative impact of ¥23.0 billion on profit for FY2026, which is already included in the ¥660.0 billion figure before buffers.

There are three main segments. First, tubular products business, we have factored in impacts on OCTG and line pipe businesses for the Middle East. For the line pipe business, we factored in the fact that the impact will be quite prolonged even after the Strait of Hormuz opens in June including cases where projects originally scheduled in the latter half of the fiscal year may not be realized within the current fiscal year. Therefore, we are not assuming that situation will remain negative through June and then recover sharply thereafter.

Second is automotive business. The primary factor is a decline in demand in the Middle East region, and we expect the impact on demand to persist even after the Strait of Hormuz opens. In Chemicals Solutions Group, in the fertilizer business, we are factoring in farmers' restraint in purchasing input due to higher raw material prices, while in basic chemicals trading, we expect impacts from significant production cutbacks at manufacturing plants across Asia.

In addition, based on the uncertainty and other risk factors considered in each business, we have set an additional buffer of ¥30.0 billion to reflect uncertainties and downside risks.

<Questioner 2>

With regard to the withdrawal from the Ambatovy project, what were the key lessons learned, and how will they be reflected in future investments?

<Ueno>

The Ambatovy project, in which we invested in 2005 and commenced production in 2012, was the

world's largest nickel operation utilizing HPAL technology at the time. However, given its technical complexity, startup and stabilization faced significant challenges. Despite continuous efforts to improve operations and cost competitiveness, operations were suspended for one year due to COVID-19. In addition, Madagascar experienced political instability since we invested. After the pandemic, we prioritized restoring production and achieved a significant recovery in productivity. In 2024, we shifted to exploring all strategic options and completed a debt restructuring. However, an unprecedented cyclone led to another suspension of operations from February 2026. There are two main reasons for the withdrawal. First, the high operational complexity. Although we started the project with a technically capable partner, the partner fell into de facto insolvency. We subsequently took a majority stake and worked to stabilize the business, amid additional challenges such as COVID-19 and a cyclone. Second, while we expected strong demand for high-grade nickel driven by EV adoption, structural changes—including significant capacity expansion by Chinese players, particularly in Indonesia, and rapid supply growth—kept nickel prices below expectations, eroding our competitiveness. At the same time, we placed importance on the project's social impact, including approximately 9,000 local jobs in Madagascar. Rather than closing the project, we pursued a sale to a suitable partner, ultimately achieving a transfer that ensures economic viability, business continuity, and social contribution.

<Questioner 3>

What is behind SCSK's strong profit growth outlook, and how do you view concerns regarding the impact of AI on the SaaS industry?

<Ueno>

Our decision to make SCSK a wholly owned subsidiary was based on SCSK's standalone business plan, without factoring in additional synergies with Sumitomo Corporation. We recognize that this value is worth SCSK's standalone growth.

Medium-term management plan is currently being formulated by SCSK and the profit growth is now expected to exceed our original assumptions, with further upside from collaboration within the Group. The details are to be presented in the strategy briefing on May 27, 2026.

With respect to concerns about the impact of AI on SaaS, we believe SCSK is relatively resilient and potentially a beneficiary of AI adoption. SCSK's strengths lie in integrating core systems, business processes, data infrastructure, and AI governance across entire enterprise systems. In addition, through the integration of Net One Systems, SCSK has strengthened its capabilities in networks and security, and we see demand for SCSK expanding accordingly through increased demand for AI implementation.

Alongside its traditional contract-based model, SCSK is also shifting toward an offering-based business model, enabling greater customer retention which leads to additional growth opportunities.

<Questioner 3>

How do you position construction systems, agriculture, and healthcare within the “No.1 Business Group” strategy, particularly for those categorized as restructuring businesses?

<Ueno>

The categorization of construction systems and agriculture as restructuring businesses does not mean that we are not aiming for No.1. Our philosophy remains that each business pursues its own definition of No.1, and collectively they form the No.1 Business Group.

In construction systems, turnaround initiatives are progressing steadily, including cost reductions, responding to U.S. data center-related demand, expansion of rental businesses, and leveraging strengths in mining equipment. We believe it will return to the focus area from the restructuring area in the future.

In agriculture business, while weather-related impacts persist, we are strengthening downside resilience through regional diversification and enhanced inventory management. The business has previously achieved a position capable of aiming for No.1 in South America, and we believe the underlying business strength remains solid. Regarding fertilizer supply constraints stemming from the situation in the Middle East, we are responding by diversifying our supply sources and aim to turn these efforts into value creation.

Healthcare is positioned as a growth area rather than a restructuring area. Domestically, we have expanded our business not only through dispensing pharmacy but also into areas such as home care, while overseas we have been developing new business lines, including clinic operations in Malaysia and healthcare businesses in North America. While scale remains small, growth rates are high, and we expect healthcare to become one of our earnings pillars over time.

<Questioner 4>

How do you view financial constraints and shareholder return capacity following recent large-scale investments? In addition, how should we think about the scale and sustainability of future growth investments, as well as your approach to improving ROIC and expanding the spread between ROIC and cost of capital?

<Morooka>

We aggregate investment and loan plans from each SBU through our annual three-year rolling plan, but we do not allocate capital by segment or SBU. The FY2026 investment plan of approx. ¥1.1 trillion reflects the overall investment capacity after considering our investment pipelines.

Of this amount, approx. ¥520.0 billion relates to large projects that have already been decided, including SCSK and Air Lease Corporation. Excluding replacement investments, we retain approx. ¥400.0 to 500.0 billion of capacity for new or additional growth investments. This level is comparable to recent years and provides sufficient flexibility for continued growth investment. We also expect to

maintain a similar investment level in FY2027 and FY2028, while continuing to reduce interest-bearing liabilities and maintaining shareholder returns of 40% or more.

In asset-turnover-based businesses such as real estate and energy solutions, while gross investments and replacements will occur, our focus is on net invested capital. In energy solutions, while invested capital will temporarily decline due to the exit from the Van Phong project, but our underlying policy is to steadily expand invested capital in asset-rotation-oriented businesses otherwise. By combining financial structuring and the use of third-party capital, we aim to further enhance capital efficiency and improve company-wide ROIC.

<Questioner 5>

Regarding the ¥23.0 billion impact from the Middle East situation, how should we think about the impact if the disruption lasts longer than expected? Also, are any positive effects, such as those from natural gas trading, included in this figure?

<Morooka>

The ¥23.0 billion impact is based on the assumption that the situation normalizes by the end of June. If the impact extends into the second quarter, the effect would not simply double to ¥46.0 billion, as a substantial portion of the negative impact, particularly in the automobile business, has already been conservatively factored in.

If the current weak demand environment were to continue for a full year, some additional impact could occur; however, we are already assuming a significant portion of the profit will shrink, therefore we believe the additional downside would be limited.

Potential upside factors, such as positive effects from natural gas trading, are not included in the ¥23.0 billion figure. This amount reflects only the negative impact and was estimated conservatively on a gross basis.

<Questioner 6>

Underlying profit in the automotive business is expected to decline from ¥38.0 billion in FY2025 to ¥33.0 billion in FY2026. How much of this decline reflects the impact of the Middle East situation?

<Fuse>

The decline in the Automotive Group's underlying profit is mainly due to weaker demand in the Middle Eastern markets for automotive sales & marketing. At the same time, improvements in mobility services and operational improvements in the tire business are expected to partially offset this decline, limiting the total decrease to around ¥5.0 billion. The Middle East impact reflects not only lower sales volumes but also higher logistics costs, and assumes that even if the Strait of Hormuz opens in June and orders resume, there will be a time lag before production and sales to be normalized.

<Questioner 6>

What specific types of assets are included in the approx. ¥1 trillion of low growth, low ROIC invested capital shown on page 11?

<Morooka>

Of the approx. ¥1 trillion, around ¥550.0 billion consists of investments in dozens of operating companies that have been continuously monitored by management due to low growth or low ROIC. While some businesses generate profits, others record significant losses, and on a net basis, their combined underlying profits amount to approx. ¥3.0 billion, excluding one-off factors in FY2025. While we have been working to improve certain assets based on a turnaround assumption, there are cases where exit is difficult. In light of this situation, we have identified assets subject to replacement at the management committee and are promptly instructing to take appropriate action. In addition, approx. ¥450.0 billion relates to cross-shareholdings, general investments, and equity method companies. These assets allow capital recovery through measures such as capital reductions and are not expected to directly reduce equity method earnings. The recovered capital will be reallocated to businesses with higher profitability.

<Questioner 7>

In the waterfall chart on page 2, where is the ¥23.0 billion Middle East impact reflected? Also, is the impact also reflected in the figures for the eight growth areas ¥79.0 billion?

<Morooka>

The ¥23.0 billion negative impact is reflected across several businesses in the FY2026 waterfall, primarily in steel, automotives, and chemical solutions including agriculture.

The positive figures shown for steel and agriculture within the eight growth areas are net figures after reflecting the Middle East impact. For automotives, the negative impact is included under "Others (Automotive business)".

<Questioner 7>

The steel business shows a CAGR of minus 3.7% over the Medium-Term Management Plan period. How do you position this business going forward, given its cyclical nature?

<Ueno>

The steel business is broadly divided into tubular products and steel sheets. In tubular products, we hold approx. 35% market share in North America and are focusing on enhancing profitability through higher value-added offerings. While demand remains sensitive to oil and gas prices, we are concentrating on the value we can provide as a North American business.

Outside North America, we supply tubular products under long term contracts with major oil

companies, and we expect demand to expand in regions such as the North Sea and Asia. In Oman as well, we expect demand to expand for onshore operations through innovative delivery arrangements. Unlike the more volatile demand structure seen in North America, we anticipate relatively stable demand growth.

In steel sheets, growth is expected to be driven by wind power related monopile demand through our investment in EEW, expansion of coil centers in North America, and capturing growing demand in India. Overall, while some cyclicalities remain, we view the steel business as capable of delivering relatively stable growth over the medium term.

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