Q&A at Investor Meeting
Financial Results for the Year Ended March 2023

Presentation	Thursday, May 11, 2023,15:30 to17:00	
Presenters:	Katsuya Nakanishi:	President and Chief Executive Officer
	Yuzo Nouchi:	Executive Vice President, Chief Financial Officer
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Q. With regard to the develop to hold/sell model and the early-stage investment model, I believe your past investments have been highly profitable; do you aim for high levels of expected profit going forward, as well? Also, given the speed difference in monetization between the two models, how will you balance them?

A.

- Returns vary by project, so our focus is on adhering to our guidelines, which set out requirements for each individual business, to maintain discipline. Whatever the model, emphasis is placed on the required yield of the individual company, taking into account system changes and other factors.
- In EX-related investments, for example renewable energy projects, one general guideline is that they are able to earn a return after construction begins; this is an important prerequisite for the entire project to be profitable. Under the develop to hold/sell model, our base case is developing to hold in order to secure stable revenues, but we may also sometimes take a develop to sell approach, going after upside by pursing capital gains in light of a project's maturity and other factors.

Q. The additional shareholder returns you announced seem to indicate that you are prioritizing shareholder returns. I am glad to see it. In the past, the investment leverage ratio has been used as one criterion for deciding to implement share buybacks. To promote the predictability of future returns, what should we use going forward?

A.

- After reevaluating the Company's earnings power in light of current market conditions, we determined that we could allocate approximately ¥1 trillion to additional investment and shareholder returns. We decide where and when to allocate these funds considering such factors as the progress of the value-added cyclical growth model and market expectations.
- As for predictability, the investment leverage ratio remains one indicator, but it provides only a snapshot. To get a fuller picture, we comprehensively consider revenues, asset replacement under the value-added cyclical growth model and future investment plans, among other factors.
- As for how we decided to implement the ¥200.0 billion in share buybacks just announced, we started with the assumption of a total payout ratio of around

40%, and, given that we had a positive free cash flow of approximately ¥600.0 billion before the additional shareholder returns, we set aside ¥400.0 billion for investment and put the remaining ¥200.0 billion into share buybacks.

- While the investment leverage ratio helps us to assess where we stand at a specific moment, the decision was based on consideration of appropriate capital allocation after further analyzing future cash flows, investment and other factors.
- The appropriate level for the investment leverage ratio is around 40%–50%, but that does not mean it must necessarily always be in that range, or be in that range at the end of Midterm Corporate Strategy 2024. Furthermore, when making these decisions, we not only consider the period of Midterm Corporate Strategy 2024, but also look forward even further.

Q. Why did you establish the Next-Generation Energy Business Group?

A.

- Until now, we have advanced next-generation energy businesses, such as ammonia and hydrogen, through the EX Task Force. However, each project had to move at the pace of the respective business groups. So, from the perspective of overall optimization, we came to the conclusion that we needed a clearer way to determine project priority and regional strategy, which led us to establish the new business group.
- We have narrowed down the approximately 200 candidate projects we were looking at last year to around 100 and are now at the execution stage. To execute these projects efficiently, we determined that we needed a new organization that could drive them forward. To this end, we gathered personnel from the relevant businesses groups that had comprised the EX Task Force for the new organization with the goal of shifting focus toward execution going forward.

Q. Could you give us a concrete example of how earnings power has increased?

A.

- In May 2022, when we announced Midterm Corporate Strategy 2024, resource prices were fluctuating greatly, and we announced the forecast of ¥650.0 billion in earnings independent of market factors for the year ended March 31, 2023. However, in the deep-reaching internal discussions of MC's earnings power over the year since president Nakanishi took office, we came to feel more confident in the firmness of performance in non-resource sectors. In particular, we have seen earnings growth in such non-resource segments as Industrial Materials, Chemicals Solution, Food Industry, Power Solution and Automotive & Mobility.
- In addition, advancing the value-added cyclical growth model has helped stabilize revenues in these segments, too. As such, at the end of the third quarter, we were able to raise the forecast from ¥650.0 billion to ¥730.0 with confidence.
- We anticipate a similar level of earnings independent of market factors in the year ending March 31, 2024. By firmly keeping earnings at this level and

steadily implementing the value-added cyclical growth model, we believe the underlying strength of our earnings power will become clear.

Q. In the fiscal year ending March 31, 2024, your plans call for a dividend payout ratio of 30% based on a dividend increase. When companies adopt a progressive dividends scheme, the dividend payout ratio generally tends to decrease, but will you be aiming for 30% going forward?

A.

- We decided to increase dividends for the year ending March 31, 2024 in light of increased confidence in our earnings power. We do not necessarily intend to maintain a dividend payout ratio of 30%.
- As laid out in Midterm Corporate Strategy 2024, progressive dividends are the foundation of our shareholder return policy, and we were aiming for a total payout ratio of about 30%–40%. However, we have now announced our decision to raise this target to around 40% from the year ending March 31, 2024 onward.

  Under a progressive dividend scheme, it is difficult to provide adequate shareholder returns using only dividends. In light of this and the volatility of resource prices, we provide shareholder returns using a progressive dividend scheme in combination with share buybacks. Our decision to pay an annual dividend of ¥200 per share was based on our assessment of earnings power, namely our view that we would be able to maintain progressive dividends at this level even if resource prices fall somewhat.

Q. Regarding the aforementioned surplus investment capacity, which fields are you focusing investment on?

A.

- How businesses related to the energy sector, especially Mineral Resources and Natural Gas, change amid decarbonization going forward is important to us. On a long timescale, our focus remains EX-related investment, especially in energy-sector businesses.
- As explained in the early-stage investment model, one of our winning patterns is to assess business channels starting from trading and ultimately execute sizeable investments. Although it might take time, we expect cash outflows of around ¥1.2 trillion to EX-related investments during the period of the Midterm Corporate Strategy 2024.
- Besides those related to EX, there are several other candidates in such areas as Urban Development, and we will continue working on them in order of priority.

Q. A key factor behind the price book-value (P/B) ratio being below 1 is that expectations for maintaining ROE over the medium to long term have not adequately been met. Given this, can you quantitatively explain your confidence regarding earnings power, which is part of the basis for ROE? In addition, as you aim for a P/B ratio of over 1, what progress has been made on

the value-added cyclical growth model and how do you expect it to affect profitability going forward?

A.

- Breaking down the consolidated net income forecast of ¥920.0 billion for the year ending March 31, 2024, revenues in Mineral Resources and Natural Gas, which are both easily affected by market conditions, are expected to total ¥440.0 billion, and all other segments will total ¥480.0 billion. Indeed, the results of all the other segments have held roughly constant at around ¥500.0 billion for the last three years, which is one factor that makes overall performance resilient.
- To continue expanding these figures, the most important thing is asset replacement under the value-added cyclical growth model. In each business, we will enhance asset efficiency by either improving or exiting projects that have not achieved their ROIC targets or that have slowed in growth. We expect these measures to increase profit by ¥100.0 billion.
- The approximately ¥480.0 billion in revenues forecast for the year ending March 31, 2024 in non-resource segments does not include all revenue improvement from the value-added cyclical growth model, because assessments for asset replacement will take some time. With these positive effects added, expected revenue exceeds ¥480.0 billion, and we think we can achieve double-digit ROE and a P/B ratio of over 1.

Q. Compared with investments aimed at maintaining and expanding the earnings base, EX- and DX-related investments take a long time to generate returns. This incurs risk, so will ROIC increase accordingly? What is your stance regarding the relationship between each investment's timescale and required yield?

A.

- EX-related investments will fully contribute to profit in the second half of the 2020s, considering the 10 or so years it takes for system design to establishment. Having established systems in place is a requirement especially for infrastructure projects, and as it takes time to establish systems, the timescales for projects are longer. However, as the established system lowers risk, we are able to secure development profits as capital gains at that stage. For example, when MC first collaborated with Eneco in 2010, offshore wind power had been well established in Europe, but there were almost no such projects in Japan; by 2022, the situation had changed. These projects will ultimately bolster profit, but a transition period will be necessary. Until then, resource fields will drive profit. Similarly, it typically takes some time for a project involving new, innovative technologies, such as next-generation energy, to become established.
- Accordingly, it is incredibly important to figure out how we can build up excellent, competitive assets for the next 30 years and beyond by 2030. While maintaining and expanding existing businesses will be our main focus until 2030, we also expect that efficiency gains in existing businesses through DX-related investment will contribute to profits sooner than EX-related

investments. As for other investments in growth, we expect a certain level of profit contribution attributable mainly to North American real estate and Indonesian smart city development.

- Guideline rates for calculating business profitability are set separately for each business type and duration, and we do, of course, adjust these rates for the respective risk premium. In this way, we have already incorporated uncertainties related to the possibility of project timescales being extended and cash returns being delayed. Please understand that we confirm whether projects can really clear the guideline rate after incorporating such factors.

Q. You revised the forecast of cash flows from divestments during the period of Midterm Corporate Strategy 2024 to ¥1.5–¥2.0 trillion. I know there was a large sale in the year ended March 31, 2023, so, given the ¥2.0 trillion figure, does that mean we can expect sales in the following two fiscal years to remain on the same level? Please tell us what led to this upward revision.

A.

- In the year ended March 31, 2023, cash flows from divestments were ¥0.7 trillion, including a large sale in the Urban Development Group, as you said. Going forward, we plan sizeable sales, and the total could exceed ¥1.5 trillion for the three-year period, so we lifted the upper limit of the forecast to ¥2.0 trillion.
- In implementing the value-added cyclical growth model, there were more investments that were sold, securing capital gains, than originally expected. Specifically, these were investments that had not reached the required level of yields or that were seeing slowing growth and judged to be close to peaking.

Q. Regarding the ¥200 per share annual dividend, am I correct in understanding that if the progressive dividend scheme is to continue, you do not anticipate any cases where you will lower this figure going forward?

A.

- It is possible that dividends alone could cause the total payout ratio to exceed 40% due to, for example, resource prices decreasing more than expected, but that kind of situation is unlikely to persist over the long term.
- Therefore, we announced the ¥200 dividend because we are confident that we will at least maintain the progressive dividend scheme we have committed to over the period of the current midterm strategy.

Q. It seems that gains on asset sales will contribute significantly to higher profit in the Power Solution, Food Industry and Consumer Industry Groups, which are forecast to see profit increase in the year ending March 31, 2024. Have you seen any positive effects on these segments from the value-added growth model?

A.

- We expect profit in the Power Solution Group to increase through asset replacements under the develop to hold/sell model.

- Our forecast for the Consumer Industry Group is based mainly on expectations of a return to pre-pandemic levels of demand.
- Regarding the Food Industry Group, our forecast is based on expected improvement in production efficiency and a further increase in salmon demand at Cermaq.

  (Note that the abovementioned forecast on the profit increase does not include the impact of new resource taxes.)

Q. What is your policy regarding investment in Japan going forward?

A.

- As laid out in Midterm Corporate Strategy 2024, we will continue engaging in such investment with a strong focus on EX, DX and regional revitalization.
- To address the three big issues in Japan (energy, economic security, and the low birth rate and graying population), MC will proactively engage particularly with industries, such as semiconductors, where the supply chain is expected to change significantly amid the push for decarbonization. We expect such efforts to lead to the restructuring of industries. In addition, enhancing productivity through digital technology (such as in logistics) offers an opportunity and a solution to issues society faces due to the low birth rate and graying population.
- Although the bulk of opportunities for EX-related investment are overseas, going forward, we will continue working hard to create new industries within Japan over the medium to long term.

Q. Why are you considering the divestment of the two coal mines of BMA? What is your strategy regarding BMA going forward?

A.

- First, the divestment process is still in its early stages, and we are not yet in a place to make specific decisions. MC has continued to pursue a resilient portfolio through proactive asset replacement, not limited to metallurgical coal. This divestment process is a part of these efforts.
- There are various challenges to the practical implementation of new steel-making methods to replace blast furnaces. Considering that blast furnaces will therefore remain the mainstream method for the foreseeable future, we expect the demand for high-quality metallurgical coal in particular, will remain firm.

Q. In the Automotive & Mobility Group, why is the forecast for profit excluding one-off factors for the year ending March 31, 2024 down around ¥40.0 billion to ¥110.0 billion from the previous year's ¥150.2 billion?

A.

- In the year ended March 31, 2023, due to effects of supply restrictions imposed due to a lack of semiconductors, the profit per unit was higher than in normal years.
- Our forecast for the year ending March 31, 2024 is based on the combination of multiple factors that point to a year over year decrease, such as the effects

of monetary tightening and recoil from the yen depreciation seen in the previous year. It is not due to any particularly unusual factor.

Q. Regarding the allocation of cash flows, you have said that you are considering many candidates for EX-related investments, but what kind of candidates have increased, specifically? Are they transition-related or hydrogen- or ammonia-related?

A.

- Of the 100 or so in the pipeline, we have already started on around 40. As the various systems and infrastructure surrounding each business vary by country, we are starting from countries with a low risk of system change. This was what we did when we started with offshore wind projects, and we are confident that we have the insight to make steady, continuous progress. We have lined up candidates already, so we are carefully assessing them to ensure we can create the next core business.