

Financial Results Briefing for the Fiscal Year Ended March 2021

[Date]	May 7, 2021(Fri.)	10:00-11:30
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[Moderator]	Masaya Inamuro	General Manager of IR Division

<Q1>

I had a positive impression about your proactive attitude towards shareholder returns as you made the decision of dividend increase as well as additional share buyback. Cash flow may exceed your forecast as the assumption of iron ore price for the business plan for FY ending March 2022 seems to be conservative. Under the current situation where commodity prices are volatile, please tell us your idea on shareholder returns. Will you maintain your policy in paying dividends from the base earnings and do buybacks from additional profits? Would you think about pooling the profit for next fiscal year, for example?

<Hori>

While we are still in the process of recovery from the COVID-19 pandemic, we have confirmed that our base earnings have been raised to a certain degree, and we have decided to allocate additional dividends from such increase. This is the result of scrutiny regarding the fundamentals of how we can get back on track to recovery and generate profits. In the meantime, commodities', especially iron price, is at historical high level, but when we look at the outlook of the supply and demand balance for the next few years, we would certainly think about returning to average or normal. Profits that are slightly different from base earnings, such as upside gains arising from market conditions beyond the normal range or profits generated through portfolio restructuring, could be used for capital allocation in a different manner.

Therefore, while we understand the nature of capital allocation and the increased profits, we will allocate a portion of that capital to growth investments and share buybacks in a flexible manner, and aim to increase the overall level of shareholder returns. We would like to raise the total shareholder returns as a percentage of our core operating cash flow in the current Medium-term Management Plan in comparison with the average of previous MTMP. Furthermore, we would also like to increase the efficiency of our capital and put priority on per-share figures such as cash generating capability per share. Since we will be required to make decisions with many parameters, we would like to engage with you all as we move forward.

<Q2>

Regarding Market Asia, I have the impression that you are doing well in the US in the area of non-resources businesses while you have historically failed in Asia, especially in collaborating with local companies. I would like to know what will make the difference and what will be the prospects for success in regards to your

alliance with CT Corp, and if you have any additional strategies for Market Asia. I understand that you have been involved in consumer businesses in Indonesia, but not being very successful in the past. I would like to hear how you would analyze the reasons for this, as well as the background of deciding to challenge once again.

<Hori>

First of all, CT Corp is a unique company that was established in Indonesia by people of Indonesian origin and has grown to the present scale. The company is involved in property, retail, finance, insurance, digital businesses, and media such as TV broadcasting. Therefore, they have a lot of contacts with consumers and we believe they are a very strong partner to capture the growing consumer market in Indonesia. What we know through the dialogue with CT Corp is that there are many cases where products and services that can be sold in Indonesia and that are valued by consumers, come from outside of Indonesia. In this regard, we are hearing that there are issues in going outside of Indonesia for procurement of those products and services. In fact, we have already been asked if we can introduce and transfer products or services related to US healthcare industry to Indonesian consumers. We would like to co-work with CT Corp to understand the Indonesian market and play a role as a partner in regards to what to procure from outside. I trust this is where the synergy lies. Therefore, we will work with CT Corp, a local professional who is growing in Indonesia, and bring in contents from around the world. We would like to fulfill our company's role in this scheme.

As for the reason why we chose CT Corp as a partner, in addition to the strength of their portfolio I mentioned earlier, is because, while Indonesia has also been hit by the COVID-19 to a certain extent, CT Corp has shown great resilience over the past year. Being able to confirm such capabilities of theirs played a big role in conducting the deal.

We have to look at each consumer business we have been involved in Indonesia individually. With regard to CT Corp, we appreciate their menus presenting to the growing consumer base both online and offline and the overall platform that hold consumers in multiple layers from media to retail, and banks which connects with individual consumers. We have come to the conclusion that partnering with such comprehensive companies is the way to capture the Indonesian market in the future, and in that sense, the scale is becoming quite different from others. We recognize that we have a mission in this partnership to enhance the strength of CT Corp as an institution so that CT Corp makes a robust IPO in the future, thus we intend to add functions as mentioned to strengthen the organization. That is also what CT Corp is expecting. In this context, the decision was made because of the unique nature of the company.

<Q3>

Please tell us what you would like to accomplish during your term as president. In particular, what kind of issues are you aware of, both financial and non-financial aspects in your future management?

<Hori>

One of the things I strongly felt facing the COVID-19 pandemic was that, while there have been difficulties making business trips, both overseas and domestic, it is becoming increasingly important to secure talented managers who can act autonomously. Though we have made considerable efforts to acquire, invest in, and develop such talent both in Japan and overseas, I am keen on further raising the level of these efforts, in order to enhance our global presence. In order to tackle various global issues and to focus on good and value-added work in the new world after Covid-19, we will continue making efforts to further strengthen our human capital management.

Moving on to your question about what I would like to accomplish in terms of financial and non-financial issues, I will continue to focus on our core businesses combining the surrounding areas, as well as leading that initiative to areas such as energy transition and healthcare which are our major subjects in the Strategic Focus, and will focus on cash generation by realizing value in these areas. In order to achieve this, it is important to improve front-line management capabilities. We are increasing the number of core businesses as business groups and clusters, and by doing this, we will be able to see things that others may find difficult. I think it is a continuous process of how to capture those. I would like to grow the company by realizing cash generation enabling us to pursue both growth investments and shareholder returns.

<Q4>

This question is about decarbonization, or the impact of GHG. This is the first time you have disclosed the GHG impact of 34 million tons for the year 2020. Please tell us about your action plan and its timeframe from the perspective of reduction, in particular, in order to halve the impact by 2030. Please also share with us your thoughts on how to manage the oil upstream assets in your portfolio, as there may be risks of being stranded.

<Hori>

The world's issues are becoming more complex and thus there are more variables. Therefore, we need to increase the number of tools in tackling issues like climate change; such as working responsibly in the entire supply chain. In order to achieve this, it will become increasingly important to reach out globally and to collaborate across industries. I think the key is to ensure diversity within our group. If we do not have a variety of opinions and are not able to analyze things from multiple perspectives, we will not be able to create inter-industry businesses or respond to current issues in the world. There are various models and technologies for dealing with climate change, for example, which we need to fully understand.

The major trend of ESG is an opportunity for us to strengthen ourselves, an environment to enhance our presence, and above all, an opportunity for business. Regarding the greenhouse gas issue, I think that the most important thing for reduction toward 2030 is how to restructure the portfolio effectively and economically, and to proceed with it in a rather shorter time frame. I will be able to talk about this in more detail at the ESG Day in December. We are currently negotiating and tapping to exit some of the coal-fired thermal power assets in a way that is economically acceptable to us. I think we will concentrate on them by 2030 or much earlier. However, at the same time, it is true that our assets have become a key power source in each county and area, so in that sense, we will take responsible actions to reduce greenhouse gas emissions by using new tools and technologies at that time as we are involved in the operation. I would like to promote reduction through both portfolio restructuring and the advancement of operations.

Regarding your question about the potential risk of oil assets being stranded, we will not have those assets become stranded. That is the key perspective when we work on portfolio restructuring. However, I would like to reiterate that it is important to ensure economic efficiency and to take a responsible approach. We are not only a player in the existing business, but we also have a potential to take the lead in the energy transition world. We will drive it forward while incorporating the global demand into our action plan.

<Q5>

While the profit forecast for FY ended Mar 2021 in the initial plan was JPY180 billion, the actual result excluding one-time factors turned out to be JPY420 billion. I understand that the reason of difference of JPY240 billion was the upturn in both Mineral & Metal Resources and Machinery & Infrastructure segments.

Please explain about the background of the upturns. Was it due to the commodity prices, less-than-expected impact of COVID-19, or the result of your own efforts?

<Hori>

In the Mid-term Management Plan, we estimated the COVID-19 impact of about JPY200 billion as we saw high uncertainties. As a breakdown of JPY200 billion, we roughly assumed that JPY100 billion was due to commodity prices, and remaining JPY100 billion as other factors. The actual impact, in the fiscal year ended March 2021, settled within about JPY60 billion. Out of that figure, the impact due to commodity prices was JPY10 billion compared to the originally anticipated JPY100 billion while others were roughly JPY50 billion. I do not think that I need to explain about the commodity price which was mentioned earlier in this presentation. The reason for less impact in the other factors was mainly due to the recovery from COVID-19, while there are some businesses that are still in the process of recovery, such as fashion, retail business, and passenger business. If we look back the fiscal year, the first half of the year was going at that original-JPY200 billion-pace and the second half showed results from capturing considerable signs of recovery starting with China and then US.

<Q6>

According to your reference forecast for fiscal year ending Mar 2023, you are looking at a further increase of JPY30 billion in Machinery & Infrastructure, and JPY20 billion in Chemicals and Lifestyle, respectively compared to the business plan for fiscal year ending Mar 2022. What are the factors behind these increases in profit? Please tell us about the individual factors and if included, the stretch targets, especially as you are forecasting further improvement following fiscal year ending March 2022.

<Hori>

When we look at fiscal year ending Mar 2022, the realized impact of JPY50 billion will not be fully recovered because there are areas that are still in a recovering process. In addition, we have been able to raise our numbers through our own efforts, which is something we set forth in the Medium-term Management Plan. The figures for fiscal year ending Mar 2022 are budgeted as a mixture of those factors. As for the drivers for fiscal year ending Mar 2022, recovery in the hospital and service businesses in the Lifestyle segment is a big key. Fashion is suffering at the moment, but shall be recovering a little more, as well as the food service industry compared to the previous fiscal year. We expect that the automobile-related business, mainly in Asia, will recover slightly more in the Machinery and Infrastructure segment. In Chemicals, streamlining of operations in which we participate as a manufacturer and market recovery in methanol and Novus related businesses, will be the drivers.

In terms of fiscal year ending Mar 2023, we assume that the negative impact of Covid-19 will be mostly recovered. In addition, there are factors which are expected to make steady contributions for the Machinery & Infrastructure segment, namely, FPSO, gas distribution in South America, power generation, and organic growth of our core businesses. In Chemicals, business clusters related to agriculture is growing. Also, we were able to confirm the areas where there is room for growth through our dialogue with the affiliated companies which are also incorporated. In Lifestyle, we expect recovery and growth in the food and food products, and IHH and hospitality-related businesses. We shall see some of the profits that we should be making in the normalized situation, thus we are accumulating those figures. The forecasted figure for fiscal year Mar 2023 is a reference, which was calculated by accumulating such factors to update the information in the Medium-term Management Plan, which we set at the beginning of the COVID-19 pandemic. After reviewing the entire Medium-term Management Plan, we came to the conclusion to manage this MTMP period by having more options by partly restructuring the capital allocation.

<Q7>

Many companies are focusing on the existing and next-generation domains in energy solutions. What is your perspective on the time frame and scale in terms of profit contribution in this area?

<Hori>

We see the area of energy solutions as an opportunity. The reason is that we are talking with key players in the world who are responsible for the energy transition on a daily basis, both in working level and top management. It is important to understand what a responsible transition means, as each country or region has different strategic ideas about transitions around the world. In this context, technological innovation is also taking place. Many technological innovations have a long time horizon, or solve some of the problems at hand in a very practical way. Therefore, we need to be familiar with all of these factors and expand our menu while keeping close contact with global, inter-industry, existing players and newcomers. Our company's current advantage lies in the fact that we can expand our menu, and I think it is very important that we do so steadily.

The organization we established for this purpose is the Energy Solutions Business Unit. I understand that the COO of the Unit told you about the profit forecast at the last Investor Day. That is a figure that we need to look at carefully. If we build on what we are working on, we expect a scale of JPY20 billion for 2030. On the other side, we can see new business models and new systems that will become apparent as we work on them, so we will probably have to make a longer time frame for this, including upfront investments.

Therefore, we will make a transition to something of a larger scale. In short, if we do not aim for something on a slightly different order of magnitude than those near-term figures, we will fall short in the midst of the world's great energy transition. It will certainly take some time. For example, hydrogen will require technological innovation and the establishment of a tightly coordinated overall infrastructure. We are also wondering how to connect competitive hydrogen sources and actual demand. Locally produced and locally consumed products are relatively easy to understand, but when it comes to products that go abroad, we are doing economic calculations to figure out what kind of system is needed. In this area, we would like to expand our verification process and partnership a little more and make a judgment as to exactly where we should take our position. Therefore, I would like to discuss with you the scale of profit opportunities that can be obtained from energy transitions as we go through this process while I believe that we need to think about our aim on a very large scale.

<Q8>

What is the current scale of your company's profit in the healthcare and nutrition business, and how much do you expect to grow in this area? When you look at the current business related to IHH, what was something as expected and what was different compared to the image you had before making the additional investment in 2018? Furthermore, what do you see as the future challenges?

<Hori>

The figures for the Nutrition & Agriculture Business Unit and the Wellness Business Unit are as disclosed, while the business we are targeting in the healthcare domain is actually quite large. For example, in the healthcare business around hospitals, we have made various investments in the past while steadily increasing profits and we will continue to increase the current flow while generating cash. Therefore, in the case of healthcare, I think there will be some uneven profits over the next few years, but I hope you can see the business model as such. Especially, IHH has reached the scale of 15,000 beds. This is a considerable scale, and in the post-

COVID-19 period, reform of the business model that links the advanced value-added treatment provided in hospitals with the prevention of undiagnosed diseases at home is being carried out, centering on doctors. We are going to take this in.

In the healthcare domain, with long-time horizon, a very important point will be how to make the related data secure and anonymous, and organize it in a way that meets various regulations, so that it can be developed in a way that is useful to people in various industries. As the largest shareholder of IHH, our excellent team is now working on this project in a way that will be a win-win situation for all parties involved, and I believe that this will be of great value in the future. An issue that we have been facing is that when there are many hospital groups across the country, inefficiencies naturally occur due to the dispersion of resources as well as hospital management and administration. We need to spread the internal best practices throughout the group to increase efficiency in management. Furthermore, while data collection is also very important, we recognize that there is a substantial upside in increasing the efficiency by centralizing the management of the hospitals with the IHH Group, for example, making the purchasing of materials more systematic.

<Q9>

I understand that especially in the Strategic Focus area, your focus is on projects that are expected to make profit contribution in the longer time frame. In terms of future allocation of management resources, I understood the balance between the core area and the Strategic Focus area. Please let us know your thoughts on the expected time frame in relation to allocation of management resources. If you focus on projects which are required longer term for profit making, there will be an increased uncertainty in terms of the possibility of realization and so on.

<Hori>

For example, you will notice that the additional interests in Collahuasi copper mine in the Mineral & Metals Resources Segment has an immediate effect. In the Machinery & Infrastructure Segment, FPSO and gas-fired power has their respective scheduled effects, and those will be an added profit. In the Chemicals Segment, we are conducting several acquisitions of relatively small and medium-sized companies in crop protection and agricultural inputs business, that will become business clusters, which will have an immediate effect.

Therefore, I would like to combine those businesses with the long-term businesses in the Strategic Focus area. What I would also like to emphasize is that, as is the case of health care, we need to rearrange our portfolio and make sure that we generate profit. It is difficult to budget for the benefits of restructured transactions, but we would like to make them apparent. I believe that this is the kind of portfolio management that we should be doing. Also, it is difficult to budget for FVTPL in terms of generating investment income. We would like to maintain a balance between long-term themes and immediate cash generation, while maintaining the image of basic earnings contribution.

<Q10>

I would like to ask the scenario for the pipeline projects in the core businesses. I understand that the main focus here will be to strengthen and improve the quality of the business portfolio. Will the focus be on business quality improvement, maintenance, renewal, and cost reduction, as well as downstream development and solution businesses rather than acquiring new projects? The figures for recycling-related business were lowered during the period of the Medium-term Management Plan. As some of them have already been implemented in Moatize and Caserones, but what will be the policy regarding the restructuring

of asset portfolio in core businesses? What are President Hori's thoughts on the movement of management resources in this area and how the core business will flow?

<Hori>

I understand that you are asking how we are thinking about recycling, quality improvement, etc. as a whole. In addition to some of the things I mentioned earlier about FVTPL, we will also be restructuring our portfolio in the context of the subject of greenhouse gas reduction. It is natural that we will be able to initiate transactions for some of our thermal power plant portfolio, and we are actually tapping into that, but in that sense, we would like to actively promote recycling as part of portfolio restructuring. On the other hand, in terms of improvement of our existing business, we can access places where people cannot easily access near the core business where we have a deep understanding, so we will do what we can see and are confident on. This can be an investment target, but I think this is a part of improving the quality of the existing business and expanding the existing business horizontally. We would like to be proactive in working on this type of initiative as long as we can secure the management talent in such domain. I hope you can understand that managing the entire group with such concept will lead us to the image of the capital allocation described in the Medium-term Management Plan.

<Q11>

You have been making upfront investments in Asia and the corporate value of IHH has increased, but I think the cash inflow is not yet commensurate with the scale of the investment made. Considering the investment in CT Corp, will the period of upfront investment continue in Asia for the next few years? Or will you pursue cash generation, including asset recycling in Asia as well?

<Hori>

We believe that CT Corp is company that will significantly grow in the long run. We decided to subscribe convertible bonds issued by CT Corp because there are restrictions on foreign investment in Indonesia. We will enter the market with convertible bonds with conversion rights, and while ensuring downward resistance, we will make contributions to further strengthen the business model of CT Corp and lead to a possible future IPO. Once the IPO is completed, we will be able to convert the shares without being subject to regulations, and exercise our conversion rights at our own discretion, which will raise liquidity.

Interest income on these convertible bonds has been factored in the full year consolidated plan for the year ending March 2022. Our final goal is to secure the liquidity and steady profit. We also aim to develop joint businesses with either CT Corp or third party, separate from the investment. We would like to use the convertible bond investment in CT Corp as leverage to target business opportunities and profits in the peripheral areas, which will ultimately lead to securing profits. You are right that the time frame is a bit long, but we would like to broaden our menu and secure our revenue base. As for IHH, we would like to increase the corporate value of IHH and generate cash through various restructuring in the overall healthcare portfolio. Portfolio restructuring of Columbia Asia is one example and would like to point out that cash generation in this domain can fluctuate.

<Q12>

Due to the ongoing unrest caused by terrorism, Total has declared Force Majeure on its LNG project in Mozambique. Please tell us about the company's policy on Mozambique LNG project, the financial impact, and the risks.

<Hori>

Palma, the city located near the LNG site was attacked, while the government of Mozambique has announced that they have completely stabilized the situation. Construction in a secured isolated area in the LNG project site was proceeding, but as there was serious security issues, Total, as the operator, decided to pull out and suspend the construction. The government of Mozambique is taking all possible measures to ensure the continued stability and sustainability of the security situation. We will keep a close eye on the situation, and resume construction when safety is confirmed. We would like to look at this in close cooperation with Total, and the government of Mozambique, the host country. We understand that Total commented that there may be a delay of approximately 1 year, but this is their own view that it may take that long if it requires longer-than expected time to ensure safety and security. Although Total declared Force Majeure on a part of their operation related contract, other principal contracts are still in force. Our intention is to maintain close contact with related parties and monitor the security situation, aiming for earlier possible resumption of the construction.

<Q13>

You indicated a figure of JPY650 billion of core operating cash flow for the fiscal year ending March 2023.

What are your thoughts on the continuity of the cash-generating capability, which looks like it has slightly peaked out? In particular, in the fiscal year ending March 2023, may I understand that you forecast the rise and peak out of the commodity market?

<Hori>

Forecast of the core operating cash flow for the fiscal year ending March 2023 is impacted by decline in Mineral & Metal Resources. Background of this is that we are expecting a decline of iron ore prices to historically normal level while we have not much changed the assumption of crude oil price. We do not feel that it is a peaking out, but rather, we think it is better to look at how much profit we can secure from our competitive commodity production business. Therefore, in reviewing the figures of the final year of Medium-term Management Plan, we have reflected near-term commodity forecasts.

What is also important is to reduce the costs in commodity production businesses and to raise the basic earning power of the company's various businesses including Machinery & Infrastructure, Chemicals, Innovation & Corporate Development, and Lifestyle including healthcare, year by year. I would appreciate it if you could understand that these are reference values to show a certain level of results of such efforts for the fiscal year ending March 2023.

<Q14>

Regarding your target of GHG reduction, halving the GHG impact by 2030 and achieving the net-zero emissions by 2050, you have indicated that your reduction contribution efforts will help you to reduce GHG impact, and that your reduction contribution is 2 million tons in 2020. Please provide the details of such contribution. I

assume that this is the part that is done by forests and company-owned forests, but I would appreciate it if you could tell us what this is and how it is counted.

<Hori>

In the area of climate change, we would like to count reduction contribution from our opportunity and transition initiatives we have took that actually led to the reduction of greenhouse gases worldwide. However, consensus has not been reached yet on what each country should officially count, thus it is necessary to keep this table updated and make necessary changes. We are involved in a variety of work in the afforestation and reforestation businesses in Australia and Asia, and 2 million tons include contribution from such businesses and others as well. We would like to disclose these types of corporate efforts and continue to show how the overall balance will be in the future.

[END]