Overview of Medium-term Management Plan 2023 and FY March 2024 Business Plan Q & A

[Date]	May 2, 2023 (Tuesday)	17:00-18:00
[Speakers]	Tetsuya Shigeta	Representative Director, Senior Executive Managing Officer, CFO
	Masao Kurihara	Managing Officer, General Manager of Global Controller Division
[Moderator]	Hideaki Konishi	General Manager of Investor Relations Division

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<Q1>

Regarding the factor comparison on page 19 of the presentation material, please explain the details of the 159.0 billion yen decrease in base profit compared to FY March 2023. It is stipulated that trading etc. in which the company was able to demonstrate its functions in FY March 2023 will slow down due to the deterioration of the operating environment, but please elaborate on the specifics. Please provide a supplemental explanation of the factors behind the changes, if there are factors not stipulated in the material which led to an increase in the previous year, such as past return on investment, the results of ROIC, which was introduced as an internal management indicator.

<Shigeta>

With regard to the breakdown of the decline in base profit from FY March 2023 to FY March 2024, please understand that I can’t disclose exact amounts for each item but I can say that in FY March 2023 we were able to capture the upside potential of opportunities for post-COVID pent-up demand in the trading business (mainly for LNG, chemicals, grains, etc.) and in the mobility business. The LNG trading, in particular, has been a key driver of our growth as it has provided many profit-making opportunities amid the growing volatility caused by tight supply and demand. The fact that this has generally settled down has been the main reason for the forecasted decline in profit. In addition, as stipulated in the material, a decrease in profit due to us selling SMC, an Australian metallurgical coal business, is also expected to contribute to the total 159 billion yen decrease. On the other hand, the improvement of earnings power through the initiatives taken in the previous Medium-term Management Plan (MTMP) are included in Chemicals, Lifestyle, and Machinery & Infrastructure businesses, but are not specified in this slide due to the size of each as this slide only picks up the large items. Also in the trading business, there are cases where the decrease in profit due to commodity prices are expected to be offset by the increase in profit and effect of the expansion of platforms and products, which are not specified in this slide.

<Q2>

Regarding the capital allocation for FY March 2024, you are expecting 870 billion yen in Core Operating Cash Flow (COCF) and are targeting 37% of this to be committed to shareholder returns in the new MTMP, which should be approx. 320 billion yen. From this, if we deduct the dividend amount of approx. 220 billion yen (based on a dividend per share of 150 yen) and the remaining approx. 70 billion yen for share repurchases currently being executed, additional share repurchases for this fiscal year should be approximately 30 billion yen. I assume that the 37% shareholder returns ratio is the average for the three-year period, but please explain the concept of the ratio on a single year basis and what determines shareholder returns for a single year.

<**Shigeta>**

Your dividend calculation assumption is correct. However our target of returning around 37% of COCF to shareholders in not based on a single year but rather on the three-year period of the MTMP as a whole, so it is not our plan to achieve exactly 37% in each single year. In particular, we would like to continue to repurchase shares in a flexible manner, taking into consideration the share price level and the pace at which we see COCF generation over and above what we consider to be our stable base. So, although we would like to continue to flexibly carry out more share repurchases, we have not yet decided how much we will add to the 70 billion yen currently being executed.

<Q3>

With regard to Energy, I understand that the performance in FY March 2023 was very good, but the plan for FY March 2024 appears to be quite weak. You explained that the impact of cost factors and volume factors on profits will be a decline of 23 billion yen and 46 billion yen, respectively, and that LNG trading will slow down. Please tell us more about these factors if you can. If we subtract cost, volume, price, and exchange rate factors from the Energy segment's profit decline, we arrive at a figure of about minus 25 billion yen, but since there will also be a change in LNG dividends, should we not assume that the remaining 25 billion yen in profit decline is directly attributable to LNG trading?

<**Shigeta>**

As stated in the factor comparison slide, we are forecasting decreases in the Energy segment for commodity prices (80 billion yen), volume (46 billion yen), and costs (23 billion yen). The other factors are mainly due to lower expected profits in trading. The main reason for the trading business decline is that the plan is based on the assumption that the tight supply-demand situation that existed in the previous fiscal year will not continue into the current fiscal year. Although we cannot disclose the details of the amount, the decrease in profit from LNG trading is not insignificant, and it is mixed with the swing-back effect of various negative factors in the previous year, so your understanding is correct. I will now ask Masao Kurihara, General Manager of Global Controller Division, to provide additional information on costs, volumes, etc.

<Kurihara>

As for costs, exploration cost and depreciation cost are expected to increase. In MEPAU, we expect depreciation and exploration costs to increase, and in MEPUSA too exploration cost is expected to increase. OPEX is also expected to increase in Abu Dhabi LNG. Volumes are expected to decrease in the North West Shelf LNG business, mainly due to a swing-back from very strong production in the previous year and production decline in the gas fields. We also expect a decrease in MEPAU production volume due to the scheduled maintenance of the Greater Enfield oil field. To a certain extent, we have also factored in a decrease in MOECO production volume due to our holding of offshore Thailand interests until April 2022.

<Q4>

Regarding the dividend, which is expected to increase by 10 yen to 150 yen, you have previously explained the policy of returning profits through dividends if there is an improvement in baseline earnings. Have there been any recent changes to the policy, and since you have set the starting point of base profit for the MTMP at 750 billion yen, will we see a dividend increase if you exceed that profit level?

<**Shigeta>**

Under the new MTMP, we will continue to consider shareholder returns based on COCF, and our policy is to aim for a COCF-based payout ratio of around 37%. Regarding dividends, it was the policy of the previous MTMP to increase dividends steadily and gradually, and we will continue this approach in the new plan. We feel that the level of COCF, which we believe we can generate stably and continuously, has increased a little, and since we are continuing to repurchase our own shares, COCF per share has increased making it easier to reflect this in the dividend per share. Therefore, in continuation of such practice, if the stable foundation of our COCF grows, we would like to increase the dividend accordingly.

<Q5>
Regarding the Energy segment, on page 19 of the presentation material, it is stated that the profit for FY March 2024 will decrease by 46 billion yen due to volume, and on page 25, it is stated that the production volume is expected to decrease for both crude oil and gas. Please explain in detail the factors behind the decrease in production volume and the related decrease in profit, including the scale of the impact.

<Kurihara>
We expect a decrease in volume at JAL-MIMI and MEPAU. We believe that the impact will be in that order, but we are not disclosing a breakdown of the scale of the impact.

<Q6>
Regarding the business plan for FY March 2024 for the Machinery & Infrastructure segment, there is a substantial gap between COCF and profit. I assume that there are factors such as gains from the sale of coal-fired thermal power plants, but please explain in detail the expected increase and decrease in profit, including one-time gains and losses of each business. Please also tell us the outlook for the business excluding one-time gains and losses.

<Shigeta>
The gap is due to the fact that profit includes relatively large gains on asset recycling. The major gain on asset recycling is the sale of the Paiton coal-fired power generation project. In addition, other strategic asset recycling are planned, although we are not able to disclose the names of the projects and the amounts.
Regarding the outlook for the business, in Infrastructure Projects Business Unit, the Paiton project, which was mentioned earlier, has been continuously contributing to profit through equity method, but this will be reduced from profit in the future. On the other hand, we expect some profit increase in other projects. In Mobility Business Unit I, there was an upside in FY March 2023, as pent-up demand continued during the recovery period from the COVID-19 pandemic, but we expect a slight downtrend in profit as the impact of that demand is expected to decline. Excluding special factors, Mobility Business Unit II also plans to see a slight slowdown in the business environment, such as from a drop in pent-up demand during the recovery period from the COVID-19 pandemic.

<Q7>
You have explained about the mobility business as a result of strengthening base profit, including through bolt-on investments. In FY March 2024, although the momentum of the recovery from the COVID-19 pandemic is expected to slow down, are you seeing any signs of a major turning point in the US market, which was a major factor behind profit growth in FY March 2023, and in the Asian market as well? I believe that mobility will be an important pillar of the new MTMP, so I would like to ask you to explain what you are sensing and what you feel about the direction for the first year of the plan.

<Shigeta>
The base profit of the mobility business was very good in the previous fiscal year, and the plan for the current fiscal year is based on the level of profitability assuming that such level will settle down. In the new MTMP, mobility is included in one of the three Key Strategic Initiatives, Industrial Business Solutions. We will continue our efforts, including bolt-on investments and investments in adjacent areas, to further expand and increase our earnings power from such stable level. We are not looking at it as a turning point towards a decline, but rather we will work to support the company's growth as part of the new MTMP.

<Q8>
Regarding the energy related production volume on page 25 of your presentation material, is it correct to say that Arctic LNG2 and Mozambique are not included in these production figures for the next three years? Please advise the current situation.
<Konishi>
For Arctic LNG2, there is no change in the current production start-up schedule. As per the original schedule, the first train is scheduled to start production in 2023, so the production volume of the project is included in the graph for FY March 2024 onwards.
As for Mozambique, due to the local situation, it is difficult to determine the start-up timing at this moment of time. We are monitoring the situation as we go along, and we think it will take a little more time. We have not changed our view on either of these projects, and we continue to look at them in the same way as before.

<Q9>
In terms of volume for energy, a decrease of 46 billion yen is expected in FY March 2024. On the other hand, if we look at the decrease in production volume, it is 16,000 barrels per day. Multiplying this by 365 days per year yields 5.84 million barrels, and assuming an exchange rate of 130 yen per barrel and in turn a decrease in profit of 350 million US dollars, the marginal profit decrease per barrel will be approximately 60 US dollars. Please clarify the balance between the impact of volume and profit decline.

<Kurihara>
Basically, this is a swing-back effect of the production volume of the previous year. The large increase in production in the previous fiscal year includes a certain amount of upside from the market, so this factor is included. The difference between production volume and sales volume is not that large.

<Q10>
Please tell us about your Russian exposure on page 28 of the presentation material. It has partially recovered, but if you could explain whether this is due to foreign exchange or if there has been a review of future cash flows or discount rates, please let us know.
<Shigeta>
We have not changed our thinking since the previous financial results. In the case of investments and loans, we understand that there was also an impact of foreign exchange. With regard to Sakhalin II, we reduced FVTOCI by about half in the previous fiscal year, assuming multiple scenarios, but our thinking has not changed significantly since then.
The increase in our net position is largely due to the increase of the guarantee position, which is associated with the increase in overall exposure due to the progress of construction.

<Q11>
You explained earlier that profit will decrease in FY March 2024 as the outperformance of the previous fiscal year will revert, however can we assume that the company will be heading for an increase in FY March 2025 and onward?

<Shigeta>Your understanding is correct. In the presentation material for the MTMP, we have included a comparison of profitability between FY March 2023 and FY March 2026, using the same commodity prices and foreign exchange rates as in FY March 2026, the final year of the MTMP and excluding one-time factors, etc. At next week's explanation of the MTMP, we plan to explain that base profit will enhance toward FY March 2026.

Including the investments executed up until the end of the previous MTMP, we will expand business clusters in adjacent areas and enhance profit. In addition, under the emergence of geopolitical risks, we plan to enhance our base profit from FY March 2024 to FY March 2026, the final year of the MTMP, by increasing earnings through demonstrating functions of stable supply centered on the trading business.

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