16:45pm-17:45pm on Wednesday February 3rd, 2021
IR meeting for results of Q3 FY Ending March 2021

[3rd Quarter Financial Results for FY ending March 2021 (P0)]

Good afternoon, my name is Takakazu Uchida, CFO.
Thank you for joining us today.
I will begin by giving a summary of the third quarter operating results and yearly forecasts. I will then hand over to our Global Controller Tetsuya Shigeta for details of our operating results.

With business and economic recovery beginning to emerge in countries impacted by the COVID-19 pandemic, our operating performance also recovered at a rapid pace during the quarter. There was continued strong performance in areas that supported results in the previous quarter, such as iron ore business driven by demand in China and trading business related to the stable supply of lifestyle goods during the pandemic, but also a notable recovery trend in automotive-related business and other areas that have until now been impacted by COVID-19.

[Summary of operating results (P3)]
Please now turn to page 3, and I will summarize our operating results for the third quarter of the year.

Core operating cash flow for the period increased by 21.2 billion yen year on year to 493.4 billion yen, and profit for the period decreased by 136.2 billion yen year on year to 198.9 billion yen, reaching the yearly forecast announced in October last year. Of note, core operating cash flow recovered to pre-COVID-19 levels.

Recovery of operating results were supported by high prices in the iron ore business, trading operations that contributed to the stable supply to our customers as essential business, and FVTPL gains.

While there are still causes for concern, including regional disparities in the pace of economic recovery and the renewed spread of COVID-19 around the world, we are upwardly revising yearly core operating cash flow forecast by 120 billion yen to 600 billion yen and yearly profit forecast by 90 billion yen to 270 billion yen.

The annual dividend forecast remains unchanged at 80 yen per share.

The global economy appears to be on a recovery track, led by China, which was relatively quick to halt the spread of COVID-19. Although there is some good news, such as the start of vaccinations, renewed spread of the virus brings concern about the potential for a double dip of the global economy. We will continue to pay careful attention to the business environment and will be managing our company to realize and accelerate each strategy outlined in the “Medium-term Management Plan 2023 -Transform and Grow-” which we announced in May last year in order to build a mid to long-term competitive advantage.

[Corporate Strategy: Strengthen profitability of core businesses (P4)]

Please turn to page 4. Here I will cover the progress in our core business areas, outlined in the medium-term business plan, of Mineral & Metal Resources and Energy, Machinery & Infrastructure and Chemicals.

Total core operating cash flow from our core businesses in the third quarter was 420.9 billion yen, and profit for the period was 171.2 billion yen, accounting for more than 80% of consolidated group profit for the period.

In Mineral & Metal Resources and Energy, core operating cash flow for the period was 307.9 billion yen and profit was 103.6 billion yen. Overall progress was steady, supported by strong iron ore market. The profit for the period was 86% of previous yearly forecast, despite of additional impairment loss related to Moatize coal and Nacala infrastructure projects, and impairment loss due to assumption for lower long-term oil price.

In Machinery & Infrastructure, core operating cash flow for the period was 64.5 billion yen and profit for the period was 35.2 billion yen. Profits were accumulated in automotive, construction and industrial machinery businesses in the recovery phase from COVID-19 which led to results exceeding the yearly forecast. We are continuing to work on restructuring and reorganization in the Machinery & Infrastructure area.

In Chemicals, core operating cash flow and profit for the period also exceeded the yearly forecast, supported by a recovery in demand mainly in East Asia and rising market prices for petrochemical products, leading to sound performance in industrial and trading business.

[Corporate Strategy: Evolve financial strategy and portfolio management (P5)]
For an explanation on cash flow allocation results, please turn to page 5.

For the period, core operating cash flow was 495 billion yen, driven by high iron prices and FVTPL gains. In combination with asset recycling of 95 billion yen, total cash-in for the period was 590 billion yen.

Cash-out for the period was 475 billion yen, comprising investments and loans of 365 billion yen and payouts for shareholder returns of 110 billion yen.

[Corporate Strategy: Evolve financial strategy and portfolio management (P6)]
Let’s now turn to page 6 and review the balance sheet at the end of the third quarter.

Compared to the end of March 2020, net interest-bearing debt decreased by approximately 60 billion yen to 3.4 trillion yen. Shareholder equity increased by approximately 320 billion yen to 4.1 trillion yen, and as a result net DER was 0.83x.

[Impact of COVID-19 (P7)]
Please look now at Page 7. This page covers the impact of COVID-19 on third quarter results and the yearly outlook.

If we look at the first half and the third quarter, although we saw a significant impact from fall in demand and market turmoil in the first half, we practiced our company’s Materiality “Secure sustainable supply of essential products” and “Enhance quality of life” through essential businesses such as food, agricultural related materials, hospitals, resources and power.

In the second half, although we are seeing differences in business sectors and regions, markets are recovering, and by making further dynamic use of our capabilities as a sogo-shosha, we believe we will be able to improve profits in each business area.

In areas where the pandemic has caused a significant change in the business environment, we will continue to thoroughly implement damage control. Moreover, we will challenge to search for signs of new business opportunities in parallel with portfolio reconfiguration in order to strengthen our mid to long-term business competitiveness.

[Review of progress in FY Mar/2021 action plan (P8)]

Please turn to page 8, where I will review our progress on the action plan for the fiscal year ending March 2021 that we announced at the start of the period, covering the areas we progressed during this quarter, namely 'Preserve and maintain existing businesses', 'Maintain network of customers and partners', 'Pursue business in line with Materiality' and 'Create new businesses'.

We made steady progress implementing projects, including making a final investment decision for the Western Australian gas field and achieving stable operation at the U.S. Cameron LNG project.

We also reorganized US oil and gas business subsidiaries and ICT-related subsidiaries as part of measures to strengthen existing businesses.

In trading, which we position as one of our essential businesses, we achieved stable supply in areas such as food and food ingredients, materials, agricultural related materials and power generation fuel, and also made progress by aiming to demonstrate our comprehensive capabilities in new ways, as evidenced by our decision to participate in the plastic bottle recycling business.

As explained at our first half results presentation and Investor Day, we have been making progress in our portfolio reconfiguration in order to strengthen our business competitiveness , centered on Mineral & Metal Resources and Energy. In Mineral & Metal Resources, we made the decision to sell some assets. In E&P, we will shift our strategy to put more priority on the quality of each opportunity rather than to increase reserves which was our focus in the past. We will continue to pursue ways to optimize our portfolio and to review our existing businesses.

[FY Mar/2021 Revised Forecasts: Core operating cash flow (P12)]

Pages 9 to 11 will be explained shortly by our Global Controller, so please turn now to page 12.

As I mentioned earlier, we have upwardly revised our yearly core operating cash flow forecasts to 600 billion yen. This reflects high iron ore price and the outcome of efforts to maximizing the contribution from FVTPL portfolio companies by boosting their corporate value.

[FY Mar/2021 Revised Forecasts: Profit after tax (P13)]

Please turn to page 13. We are upwardly revising our yearly profit after tax forecasts to 270 billion yen, reflecting factors such as solid contribution to profits from strong iron ore operations, trading businesses and the results of higher corporate value in our FVTPL portfolio.

[Shareholder returns (P14)]

Please now look at page 14, for an explanation of shareholder returns.

The annual dividend forecast is unchanged at 80 yen per share.

During this quarter, our cash generation capability grew and core operating cash flow recovered to pre-COVID-19 levels.

Looking ahead, we aim to pursue continued growth in shareholder returns in line with improvements in operating performance, while aiming to improve capital efficiency.

That completes my presentation today, so I will now hand over to our global controller Tetsuya Shigeta for details of third quarter performance.

＝ **Global Controller Division part** ＝

Thank you, my name is Tetsuya Shigeta, Global Controller, and I will now provide details of our operating results for the third quarter.

[Core operating cash flow YoY segment comparison (P9)]

Please turn to page 9.

First, I will explain the main changes in core operating cash flow by segment compared to the third quarter of the previous fiscal year.

Core operating cash flow for the period was 493.4 billion yen, a year-on-year increase of 21.2 billion yen.

In Mineral & Metal Resources, core operating cash flow increased by 35 billion yen to 205.2

billion yen, mainly due to higher sales prices at iron ore operations in Australia and increase in dividends received, even though sales prices declined at coal mining operations in Australia.

In Energy, core operating cash flow decreased by 81.4 billion yen to 102.7 billion yen, due to a decline in oil and gas prices, and a decrease in dividends received relating to LNG projects.

In Machinery & Infrastructure, core operating cash flow increased by 4.6 billion yen to 64.5 billion yen.

Chemicals achieved core operating cash flow of 48.5 billion yen, a year-on-year increase of 21.2 billion yen, which was mainly due to a one-time factor at overseas affiliates, and good performance in chemicals trading and agricultural related businesses.

In Iron & Steel Products, core operating cash flow increased by 0.9 billion yen to 2.1 billion yen.

In Lifestyle, core operating cash flow was 11.3 billion yen, a year-on-year increase of 0.6 billion yen.

Innovation & Corporate Development achieved core operating cash flow of 40.1 billion yen, a year-on-year increase of 41 billion yen, mainly due to FVTPL profit and strong commodities trading.

Other factors, such as expenses, interest, taxes, etc., which are not allocated to business segments, totaled 19 billion yen.

[Q3 Profit: YoY segment comparison (P10)]
Please turn to page 10.

I will now explain the main changes in profit by segment compared to the third quarter of the previous fiscal year.

Profit for the period decreased by 136.2 billion yen to 198.9 billion yen.

In Mineral & Metal Resources, profits decreased by 59 billion yen to 76.9 billion yen due to factors such as impairment losses at Moatize coal and Nacala infrastructure and the Caserones copper mine projects, along with a decline in the sales price at coal mining operations in Australia, which exceeded gains from higher sales prices at iron ore operations in Australia and increase in dividends received.

In Energy, profits decreased by 69.4 billion yen to 26.7 billion yen, due to factors such as a decline in the prices of oil and gas, an impairment loss at the Tempa Rossa oil field project, and decrease in LNG dividends, despite the recording of deferred tax assets associated with the reorganization of a group of US energy subsidiaries.

In Machinery & Infrastructure, profits decreased by 26 billion yen to 35.2 billion yen due to impairments at Moatize coal and Nacala infrastructure projects along with an impairment loss recorded at a rolling stock leasing business.

In Chemicals, profits increased by 15.8 billion yen to 32.4 billion yen mainly due to strong trading performance in chemicals and agricultural related businesses, and a gain from one-time factor at overseas affiliates.

In Iron & Steel Products, profits decreased by 6.3 billion yen to negative 2.8 billion yen, mainly due to a decline in demand for steel products and operation rate associated with decrease in automotive production.

In the Lifestyle segment, profits decreased by 18.5 billion yen to negative 0.4 billion yen due to the absence of reduction in corporate income tax burden recorded in the previous fiscal year and the impact of decline in dining out and purchasing demand at affiliated companies in food, retail and fashion.

Innovation & Corporate Development achieved profit of 37.4 billion yen, a year-on-year increase of 31.4 billion yen, mainly due to FVPTL gains and strong commodities trading.

[Q3 Profit: YoY factor comparison (P11)]
Turning now to page 11, here we will look at the factors influencing year-on-year changes in third quarter profit.

<u>Base profit</u> increased by approximately 9 billion yen due to iron ore dividends and FVTPL recovery, despite of decrease in LNG dividends.

Looking at resource-related costs/volume, as a result of cost reduction efforts in each project in Energy, profit increased by approximately 6 billion yen, but on the other side production decline at the MOECO Thai offshore field led to a volume-related profit decline of approximately 14 billion yen.

Asset recycling resulted into a decline of approximately 21 billion yen, due to the absence of a reduced corporate tax burden included in the same period of the previous fiscal year, despite a gain on sale of power generation businesses in North America.

In Commodity prices/Forex, a decline in the prices of oil and gas, and coal were the main factors behind decline in profit of approximately 41 billion yen and approximately 21 billion yen respectively. Higher iron ore prices contributed to a profit increase of approximately 20 billion yen. In Forex, Australian dollar appreciation against the U.S. dollar resulted to a decline in profit of approximately 16 billion yen.

Finally, Valuation gain/loss & special factors were reason behind a decline of approximately 54 billion yen due to an impairment loss at the Moatize coal and Nacala infrastructure projects etc.

The financial results for the period highlighted recovery in general for each business segment. As a result, it is difficult to clearly distinguish between “recovery from COVID-19’s adverse affect on profit” and “profit improvement by our own efforts”, therefore we are not disclosing the COVID-19 impact related to non-resources business areas.

[Core operating cash flow: Revisions to yearly forecasts (P12)]

Please turn to page 12. I will now explain the factors by segment in the yearly forecasts described earlier by Mr. Uchida.

The core operating cash flow yearly forecasts have been revised upwards to 600 billion yen. In Mineral & Metal Resources, the strengthening trend in the price of iron ore and higher dividends were the main factors in an upward revision of 55 billion yen. In Energy, a positive trend in oil and gas prices and less hurricane impact contributed to an upward revision of 10 billion yen. In Chemicals and Lifestyle, strong trading performance is reflected in respective increases of 20 billion yen and 10 billion yen, while in Innovation & Corporate Development FVTPL gains and strong commodities trading contributed to an upward revision of 10 billion yen.

[Profit after tax: Revisions to yearly forecasts (P13)]

Please turn to page 13

The profit after tax yearly forecasts have been upwardly revised to 270 billion yen.

In Mineral & Metal Resources, favorable iron ore prices trend and higher dividends contributed an upward revision of 35 billion yen. In Energy, a positive trend in oil and gas prices and less hurricane impact are the main factors contributing to an increase of 20 billion yen. In Chemicals, favorable market and strong trading performance contributed to an increase of 15 billion yen, and in Lifestyle business, strong trading performance and a recovery in hospital business contributed to an increase of 10 billion yen.

That concludes my presentation. Thank you.