Investor Day 2020 Q & A

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[Moderator]	Masaya Inamuro	General Manager of IR Division

<Q1>

The heavy industries, where you possess particular strengths, are facing change amid the spread of COVID-19. In addition, ESG is becoming increasingly important. I would like to learn more about your long-term portfolio approach.

< Yasunaga >

- As you pointed out, certain heavy industry areas are seeing significant impact from COVID-19. We will reevaluate the business potential of those areas, including consideration for whether we should exit, and proceed with the reconfiguration of our portfolio.
- As for our main business, we intend to concentrate on businesses that have a sense of scale to compete globally. We are one of the leading players in iron ore and LNG in Asia and also globally. In energy, in the midst of a de-carbonization trend, coal will be the primary focus of our portfolio rebalancing. For crude oil, we will abandon the premise of maintaining our equity reserves and take a selective approach to improve the quality of our existing businesses and consolidate our organization. We will shift away from gas to electric energy storage and renewable energy if the cost comes down, but the role of gas will remain significant until 2050, as it has future potential as a transportation fuel. We will focus on construction of Area 1 in Mozambique and Arctic 2 in Russia. In terms of new business, we will be more selective, and businesses that are not competitive will be subject to portfolio rebalancing. Although the demand for railroads and other passenger systems has evaporated, they are still socially significant infrastructure, and we will continue to work on cost reduction and other measures in consultation with local governments. We will look closely at the extent to which the flow of people will return after COVID-19 settles and will discuss plans for rebuilding in the post-COVID-19 era with local governments.
- While we don't deny that our portfolio is currently biased towards heavy industries, we are boldly shifting our resources towards a Strategic Focus, as stated in our Medium-term Management Plan 2023. We will be redistributing our resources with an eye on the future energy mix and consumption behavior, while maintaining an ESG perspective.

<Q2>

With an acceleration in ESG movements, especially in Europe, how quickly do you plan to reconfigure your portfolio?

< Yasunaga >

- We have already withdrawn from the business which mainly produces thermal coal. Originally, we were looking to gradually sell off our coking coal and coal-fired power generation assets over the period to 2030, but there is an acceleration in changes to the environment, including ESG. The coal-fired power generation business has a visible cash flow supported by power sales contracts, but we will explore an exit path on the assumption that we can sell our assets at a reasonable price. We may sell the business next year, but the sale price is naturally important because it is an important revenue base.

- Coking coal is indispensable for the blast furnace method, however there is a clear shift from blast furnaces to electric arc furnaces and direct-reduced iron. While I can't specify a time frame, generally speaking we are working towards a withdrawal plan.

<Q3>

Six months have passed since the announcement of the Medium-term Management Plan 2023. How do you plan to use the Management Allocation of ¥300 to ¥500 billion?

< Yasunaga >

- At the beginning of the fiscal year, we estimated our core operating cash flow for the current fiscal year to be ¥400 billion, but as the impact of COVID-19 recedes, we expect to achieve a figure closer to ¥500 billion. From next year onward, we expect the commodity market will recover, and in the three-year band of the Medium-term Management Plan, we think we will be able to see ¥500 billion per year. On the other hand, with regard to the reconfiguration of our portfolio, amid rising new entry costs, we are seeking to improve the quality of our existing businesses as well as to demonstrate our capabilities in peripheral areas, seeking investment opportunities with favorable terms. We expect to be able to narrow down our cash outflows to a certain extent compared to our plan, and we believe that we will be able to secure the total amount of management allocation announced in the Medium-term Management Plan. However, we will take into account the losses associated with business restructuring in the current fiscal year when considering investors return. Acquiring new business platforms is important for the future of our company, and we will not hesitate to invest in such opportunities. We believe that investment for growth is important.

<Q4>

Six months have passed since the announcement of the Medium-term Management Plan. What areas are you particularly focused on that you weren’t during the previous plan?

< Yasunaga >

- Looking at the previous Medium-term Management Plan as a whole, what we are strongly prioritizing is to strengthen the profitability of existing businesses. We are not investing blindly and acquiring new assets, but are instead thinking about how to use funds to strengthen our existing businesses to the maximum extent possible. If not for the impact of COVID-19, we would have been able to achieve the quantitative targets of the previous Medium-term Management Plan, and we do not think we would have been wrong in what we did. However, looking back on the past six months, we understand that there may be more that we could have done. The business environment has changed significantly with COVID-19, and it is believed that we will never return to the way things were before. However, we have thoroughly considered the expiration date of each business area, and have made clear our plan of action, withdrawing from some businesses immediately or considering withdrawing after turning them around.

- We also plan to raise the capabilities of our employees to a higher level. We will revise our HR system to promote capable people to appropriate positions regardless of age, nationality and gender. We will ensure that consolidated employees are assigned to the right positions. We are currently coordinating with the labor union, and we believe we will be able to transition to a new HR system in the next fiscal year.

<Q5>

Regarding the details of portfolio reconfiguration from an ESG perspective. I understand your policy of not selling off coal-fired thermal power businesses, etc. at a low price, but there is a view that the value of the business will further decline over time. Could you share your thoughts on selling off businesses while raising profits?

< Yasunaga >

- Determining the life of a coal-fired power project is a difficult challenge, which is related to the length of the sales contract and the position of the project in the particular country (location, operating history, etc.). However, the four coal-fired power businesses we currently participate in enjoy relatively dominant positions as core power plants. In emerging markets, taking into account growth in demand and other factors, we do not expect to see coal-fired power disappear and a shift to renewable energy immediately after the energy mix changes. We will take into account the energy policy of the country in question, but the idea is to sell if the price is right. We are not disclosing our thinking on price, but we are prepared to execute the sales as long as the price is at a reasonable level where we will get our shareholders' approval. The policy of selling off coal-fired power plants has accelerated considerably.

[END]