Condensed Transcript of Q&A Session Regarding Results Briefing for the Three-Month Period Ended June 30, 2020 (August 4, 2020)

First Questioner

Q. The full-year forecast for the Metals & Mineral Resources Division was revised, resulting in a ¥10.0 billion reduction to the full-year forecast for consolidated profit attributable to owners of the Company. Could you please offer a breakdown of this revision and the outlook for the future with this regard?

A. A downward revision of ¥10.0 billion was instituted to the full-year forecast for profit attributable to owners of the Company in Metals & Mineral Resources Division. Roughly half of this reduction, or ¥5.0 billion, accounts for the lower demand for steel products while the remaining half reflects the sluggish conditions in the coal market. In regard the coal market, we had initially formulated our forecasts based on the assumption that the full-year average prices of thermal coal and coking coal would be U.S.$63.8 and U.S.$135.0 per ton, respectively, as it was explained when presenting our initial forecasts. The revision to coal-related forecasts was arrived at by replacing these price assumptions with the current spot prices and the forward prices based on these spot prices. As of June 30, 2020, we had secured between 30% and 35% of full-year sales volume forecast. Accordingly, the revision was a purely a reflection of the decline in the price of coal, not of a projected reduction in sales volumes.

Q. At the moment, what are your assumptions for the future impacts of the global COVID-19 pandemic?

A. Our initial forecast was that the impact of the global COVID-19 pandemic would amount to ¥23.0 billion on a full-year basis. We are now projecting that the total impact for the year will amount to ¥36.0 billion. One contributor to this amount is the ¥10.0 billion reflected in the reduction to the full-year forecast for profit attributable to owners of the Company, which accounts for declines in steel product demand and sluggish coal market conditions. Another factor is ¥3.0 billion in projected impacts for the sluggish consumer spending resulted from commercial facility and store closures in response to the stay-at-home requests and lockdowns seen in Japan and overseas. Adding these amounts to the initially projected amount of ¥23.0 billion produces the new forecast of ¥36.0 billion for COVID-19 impacts. Approximately ¥14.0 billion of this amount was concentrated in the three-month period ended June 30, 2020, and the remaining ¥22.0 billion will thus be felt throughout the rest of the fiscal year. As the second quarter of the fiscal year will be the most significantly impacted, we expect that approximately half of the remaining impact will be attributable to this quarter.

Second Questioner

Q. Under the revised forecast, there still remains ¥5.0 billion in structural reform expenses to be incurred. Should these expenses be considered as representing a risk?

A. At the moment, there are no worrisome projects that will require us to allocate such structural reform expenses. We are currently in the process of an internal examination on the fields in which such investments will contribute to improved earnings power and profitability during the period of the next medium-term management plan, and we are looking at both resource and non-resource fields in this process. Once this examination has been completed, we will move on to the phase of executing structural reform.

Q. Progress in new investments and loans was slow in the three-month period ended June 30, 2020, only amounting to ¥11.0 billion. What is your future outlook for investments and loans? Also, could you provide information on earnings contributions from investments and loans, progress toward the revised forecast, and future projections?

A. When formulating the initial forecasts, we had anticipated that new investments and loans would buoy earnings by ¥8.0 billion. Following the ¥10.0 billion downward revision to the full-year forecast for profit attributable to owners of the Company in response to COVID-19 impacts, however, we have lowered our expectations as earnings contributions from new investments and loans are also projected to be impacted by the pandemic.

Progress in new investments and loans is not particularly favorable as a result of delays in due diligence efforts stemming from the global COVID-19 pandemic. However, we are committed to carrying out investments and loans as these efforts are expected to contribute to improved performance during the period of the next medium-term management plan.

Third Questioner

Q. It was stated that price-related factors were a major reason behind the revision to the performance forecast for the Metals & Mineral Resources Division. Could you please offer information on the status of production and sales during the three-month period ended June 30, 2020? Also, what impacts have China’s restrictions on coal imports had on performance?

A. Looking only at the Gregory Crinum coal mine, production volumes and sales volumes did not deviate materially from our expectations and amounted to between 250,000 and 350,000 tons in the three-month period ended June 30, 2020. Coal businesses were expected to generate profit attributable to owners of the Company of around ¥0.5 billion in the three-month period ended June 30, 2020, but actual performance fell below this forecast. Price-related factors were a major reason behind this outcome, while other factors included higher extraction costs and lower sales volumes. As for China’s restrictions on coal imports, our coal business has not been developed in a way that is dependent on exports to China, but we cannot deny that these restrictions will have some effect on our operations.

Q. Progress in the Foods & Agriculture Business Division was strong. What is your outlook for performance in this division going forward?

A. In the three-month period ended June 30, 2020, we benefited from the recovery of rice prices, consistently low prices for raw materials, and rainfall in May and June 2020 on par with previous years. As a result, year-on-year improvements were seen in performance in three of our overseas fertilizer businesses, which are a central pillar of the Foods & Agriculture Business Division. July is generally a month of high demand for fertilizer in Thailand, but we have heard that rainfall was on the low side in this month. However, conditions are not as dire as they were last year. Accordingly, we anticipate that full-year performance in the Foods & Agriculture Business Division will be essentially as forecast.

Fourth Questioner

Q. The full-year forecast for profit attributable to owners of the Company in the Aerospace & Transportation Project Division is ¥6.0 billion, but this division recorded loss profit attributable to owners of the Company of ¥0.5 billion in the three-month period ended June 30, 2020. What large-scale projects is this division engaged in and what is your outlook for this division going forward?

A. The only large-scale projects that the Aerospace & Transportation Project Division is engaged in are projects contained within this fiscal year. The drop in air traffic seen in 2019 placed our part-out and business jet operations, mainstay areas of operation for this division, in a difficult position. Nevertheless, we intend to continue to secure orders for large-scale projects while taking advantage of all available opportunities in businesses centered on organic growth, such as our defense system operations.

Q. There was no revision to the forecast for full-year selling, general and administrative (SG&A) expenses of ¥165.0 billion, regardless of the ¥40.0 billion year-on-year reduction seen in the three-month period ended June 30, 2020? What policies will be adopted with regard to SG&A expenses going forward?

A. We had previously put forth a forecast for full-year reductions in SG&A expenses of ¥8.0 billion, whereas a ¥40.0 billion year-on-year reduction in these expenses was achieved in the three-month period ended June 30, 2020. We will continue to reduce costs going forward. For the time being, we plan to maintain the target of pursuing full-year reductions in SG&A expenses of ¥8.0 billion.