Condensed Transcript of Q&A Session Regarding Results Briefing for First Quarter Ended June 30, 2023 (August 1, 2023)

Presenter Makoto Shibuya, Managing Executive Officer, CFO Mizue Nakazawa, General Manager, Corporate Accounting Department

First Questioner

Q. What are the reasons for the weakness in Automotive Division compared to other trading companies, and what is your outlook for Q2 and beyond.

A. Shibuya, CFO:

Regarding the Automotive Division, we withdrew from the distributor business in Thailand at the end of last fiscal year, and thus we need to grow new and existing revenues. Each business has its own regional characteristics. As for business in Puerto Rico, sales and profits are expected to increase due to rise in sales volume. As for the US dealer business, we continue to see the impact of semiconductors, but we see a trend of gradual recovery. We do not know if this is related, but the composition of the market is such that the demand for used cars has fallen a bit, while this is being supported by the demand for new cars.

There are some aspects of the profit margin that are not rising as well as last year. However, the level of overall profits remains the same.

Although we expect the assembly and sales business in Pakistan to grow, we have to raise the prices due to the depreciation of the local currency, and in addition, inventories are thin due to foreign currency restrictions. Sales in the Philippines are also declining due to the depreciation of the local currency against the US dollar.

On the other hand, the used car dealerships in Australia and the EV distributor in Norwegian are also proceeding as planned.

Overall progress is a little weak, but we believe that the Automotive Divisions will be able to accumulate solid profits.

Q. What kind of ideas are there as the Company tries to achieve the goal of PBR exceeding 1 times with a short period of time remaining in the Medium-Term Management Plan 2023?

A. Shibuya, CFO:

At the beginning of this fiscal year, we explained that our plan to allocate

cash, earned and acquired through asset replacement, to investments for growth and shareholders return.
The basic line is to raise the share price based on the expectation that the company will be able to grow by generating profit from investments and building on this track record in areas of strength.
We would like to share our company's direction for the formulation of our next medium-term management plan.

Q. How do you plan to use the ¥80.0 billion in free CF projected for FY2023?

A. Shibuya, CFO:
The use of earned cash for investment in growth and shareholder returns will remain unchanged, but the balance and allocation will be discussed for the next medium-term management plan.

Second Questioner

Q. What are the prospects for Consumer Industry & Agriculture Business Division to achieve the full year forecast, considering the low progress at 11%?

A. Shibuya, CFO:
In the fertilizer business in Thailand, progress in Q1 was slow, but since the fertilizer sales season runs from June to August, we expect a slight delay in sales to be recovered from Q2 onward.
Although raw material prices are currently coming down, we are not holding inventories at high prices, and we expect to be able to raise earnings sequentially, after the rains begin in July and goods are flowing.
We recognize that farmers' willingness to apply fertilizer is high to a certain degree, and we expect to be able to make up for the delay in 1Q.

Q. Do you think the share buyback are effective in achieving a PBR ratio of over 1 times?

A. Shibuya, CFO:
Although we feel that the share buy-back might have little effect on share price appreciation, this does not mean that we will not do so. We will continue to discuss within the company how to return profits to shareholders.
New investments are being made in areas where we can make profit and where high growth is expected.
As we formulate our earnings plan for the next three years of the medium-term

management plan, we are going to consider how much new investment and shareholder returns, including whether we will do share buyback or pay dividends.

Third Questioner

Q. Progress in Metals, Mineral Resources & Recycling Division appears to be sluggish. With respect to the coal business, what factors other than market conditions are contributing to the decline in profit?

A. Shibuya, CFO:
Coking coal prices were slightly higher than the initial assumption of US$230/t at the beginning of this fiscal year, due to some contracts that were already in place in the Q1. Due to shipping and other factors, some sales scheduled for the Q1 were pushed back to the Q2, offsetting the impact of market conditions, and resulting in 25% progress.
As for Gregory, not much change is expected in production volume for FY2023 from our assumption made at the beginning of the fiscal year.

Q. It was announced at the last financial results briefing that pit mining is scheduled to begin at Gregory Crinum coal mine in August to September. I would like an update on the current status.

A. Shibuya, CFO:
We will operate and develop our own underground mining operations. We originally planned to start coal production in this August, but we have been able to start the production since July ahead of schedule.
However, the Gregory's coal production in this fiscal year is not included in the initial plan as it is a ramp-up period, and costs are high in the early stages of coal production, so there would not be much positive impact on earnings. We aim to achieve full capacity byFY2024.

Q. I have the impression that your assets are increasing due to more aggressive investment. How do you plan to manage risks such as goodwill and intangible assets in the future?

A. Shibuya, CFO:
Goodwill has been growing along with acquisitions; scale of each acquisition is increasing than in the past, and the goodwill is accumulating.
We are investing in companies that are capable of conducting business hands-

on, in order to take advantage of growth opportunities, even if it means accumulating goodwill, and we will make sure that we do not fail to recover goodwill.
Rather than investing in equity-method affiliates and other projects where control must be limited, we are prioritizing investments where we can conduct our own hands-on business, and oriented toward controlling management while monitoring each business closely.

Q. Was there significant goodwill in Automotive Division in Q1?

A. Shibuya, CFO:
Automotive has a lot of M&A projects and goodwill is easily attached. Other businesses include the energy conservation services business in Australia.

Fourth Questioner

Q. How do you plan to achieve the full year forecast of ¥16.0 billion in Infrastructure & Healthcare Division?

A. Shibuya, CFO:
The LNG business company plans to receive dividends from investees in the Q4, so the figure tends to pile up in the Q4. Although some of the profit from asset recycling has been factored in, we expect to achieve ¥16.0 billion due to accumulation from renewable energy, IPP, and hospital PPP business.

Q. Is the Infrastructure & Healthcare division operating on a model where significant investments are made upfront, and profit come in later?

A. Shibuya, CFO:
Some projects to be developed require a little time to monetize.
One model is to complete the development, monetize it, and then sell it to earn profit.

Q. Could you give us a few more details about negative goodwill and the underperformance of overseas operations in Retail & Consumer Service Division?

A. Shibuya, CFO:
Unlike ordinary business investments, this project was an acquisition of a company that we have been doing business with for a long time, including an element of business succession. Since the acquisition was not made at a price

based on CF valuation, negative goodwill was generated.
The overseas retail business such as Ministop Vietnam has been affected by a decline in consumer confidence due to the poor economic environment in Vietnam, where the company is focusing its efforts.
In this area, the Vietnamese government has been stimulating consumption, and we have finally been able to break even. We would like to bring this project firmly back from the slow part.

Q. **Could you introduce a few areas that are getting better in Japan?**

A. Shibuya, CFO:
In Japan, the flow of people has already recovered. In particular, Royal HOLDINGS Co., Ltd. and JALUX Inc. are showing solid results in terms of figures. Royal HOLDINGS Co., Ltd. has revised its figures upward. JALUX Inc. has performed particularly well in merchandise sales figures.

Fifth Questioner

Q. **Please elaborate on the one-time loss of the China-related business in Chemicals Division. In addition, please reiterate the progress against the forecast.**

A. Shibuya, CFO:
In the Q1, there were concerns about recovery in the Asia trade business, and we posted a loss of not a small amount, resulting in low progress. We are also struggling to sell products to Japanese auto manufacturers in China. With these factors, it is a little behind.
Construction demand is also declining, and market prices are falling. In addition to the one-time losses, the external environment is difficult, and while we maintain our forecast of ¥16.0 billion, we see a weakening in the outlook.

Q. **Regarding return on investments, have there been any changes over the Q1, such as the timing of earnings contributions?**

A. Shibuya, CFO:
After the Q1, there were no significant changes, as expected. Although there have been some movements in investments made under Medium-Term Management Plan 2020, such as delays in Gregory’s production, there is no impact on the full year forecast as a whole at this point.

Sixth Questioner

Q. **Distributor sales volume in Europe for Q1 was almost zero. Is this due to the impact of Russia and Ukraine? Also, does this mean that the Russian business is down YoY?**

A. Shibuya, CFO:

In the previous fiscal year, we sold inventory that were available locally, but there were no such sales for Q1, resulting in a decrease in profit.

Since we are unable to export new vehicles to Russia, we are maintaining break-even of the business with after-sales service, etc., and is looking at the situation going forward.

Q. **I would like to know the BS impact of new acquisitions of subsidiaries.**

A. Shibuya, CFO:

The main impact is on inventories, goodwill, and intangible assets.

In addition, we have been able to make collection from aircraft-related transactions, and the volume is large that they are netted against the acquisition of new subsidiaries, making the increase in assets from new acquisitions difficult to understand.

Net DER was slightly deteriorated by share buybacks, dividends, and other payments, but we will control at around 0.75 times.