IR Meeting for FY March 2024 1st Half (April-Sept 2023) Financial Results
10:00-11:30 on Wednesday November 1, 2023

FY March 2024 1st Half (April-Sept 2023) Financial Results (P1)

Good morning, I'm Kenichi Hori, CEO.
Thank you for joining us today.

I will begin with an overview of the first half operating results and the full-year forecast.
I will then hand over to Masao Kurihara, General Manager of the Global Controller Division, who will speak on this in more detail.

During the first half, the overall global economy continued to slow. Even in such an environment, Mitsui has been able to generate earnings exceeding the figures laid out in our business plan, that we announced in May, through our global business portfolio that spans across a wide range of industries.

Summary of Operating Results (P4)

I will now summarize our operating results for the first half of this fiscal year.

Core Operating Cash Flow (COCF) decreased by 136.4 billion yen year-on-year to 475.1 billion yen, and profit decreased by 82.8 billion yen to 456.3 billion yen, however both made solid progress against the business plan.

In light of this progress, we revised up the full-year forecast. Compared to the business plan, we have increased our forecast for COCF by 90 billion yen to 960 billion yen and profit by 60 billion yen to 940 billion yen.

Furthermore, as we were able to reconfirm the robustness in our cash flow which was enhanced through the previous Medium-term Management Plan (MTMP), we have raised the full-year dividend by 20 yen per share to 170 yen, which will be the new minimum level during the current MTMP, ending in FY March 2026. In addition, as we made progress with several asset sales, including a large-scale one, we have decided to implement additional share repurchases of up to 50 billion yen.

Progress Against FY March 2024 Business Plan (P5)

I will now explain our progress against the business plan.

In the Machinery & Infrastructure segment, there was a gain on sale of the electric locomotive leasing business in Europe and good performance in the automotive business. In the Lifestyle segment a revaluation gain on previously held equity in Aim Services was recorded. These and other factors have led to these segments maintaining a high rate of progress against the business plan.

In the Chemicals and Iron & Steel Products segments, the rate of progress was low due to the decrease in demand associated with the slowing of the global economy and the impact of the fall in prices.

In the Energy segment, profit contribution from LNG trading and dividends will be weighted towards the second half and on a full-year basis we expect earnings to be above those set out in the business plan.

[FY March 2024 Full-Year Forecast vs Business Plan
Core Operating Cash Flow (P6)]

As I mentioned at the start of my presentation, we have revised up our full-year COCF forecast to 960 billion yen.

The Mineral & Metal Resources segment was revised up by 30 billion yen mainly due to an increase in dividends from associated companies. The Energy, Machinery & Infrastructure, and Lifestyle segments were each revised up by 10 billion yen. COCF for the company as a whole is now forecasted to be 90 billion yen higher compared to 870 billion yen in the business plan.

[FY March 2024 Full-Year Forecast vs Business Plan
Profit (P7)]

We have also revised up our full-year profit forecast to 940 billion yen.
Based on the progress in the first half, the revised forecast for the Iron & Steel Products segment is lower than the business plan, whereas it is higher for the Machinery & Infrastructure, Energy, and Lifestyle segments. COCF for the company as a whole was revised up by 60 billion yen compared to 880 billion yen in the business plan.

[Cash Flow Allocation (P8)]

In this section, I will discuss Cash Flow Allocation for the first half. In the first half, we steadily made growth investments in line with the Key Strategic Initiatives set out in the MTMP, and also had major asset sales.

Cash-in for the period was 758 billion yen, comprising COCF of 475 billion yen and asset recycling of 283 billion yen. Out of the asset recycling carried out in the first half, in particular, we view the electric locomotive leasing business in Europe, MRCE, as a well-timed large-scale asset sale that will also contribute to ROIC improvement.

Cash-out will be 771 billion yen, comprising investments and loans of 572 billion yen and shareholder returns of 199 billion yen. The main investments and loans in the first half included growth investments such as the acquisition of shares in Nutrinova, which manufactures and sells functional food ingredients, Aim Services becoming a wholly-owned subsidiary, and completing the additional acquisition of shares in Relia. There was a business integration between Relia and KDDI Evolva and a new company known as Altius Link was formed on September 1.

[Timing of Profit Contribution from New Projects (P9)]

As I just mentioned, Mitsui is actively executing growth investments in the Key Strategic Initiatives specified in the MTMP. The start of contribution to profit by these new projects is also progressing as planned.

The projects shown on this slide in bold have started to contribute to profit. As you can see, most of the new projects that were scheduled to start contributing to profit in FY March 2024 have already been implemented.

Furthermore, for projects that are expected to start contributing to profit from FY March 2025 onwards, investment executions or investment policy decisions have also been proceeding as planned. In the second quarter, we announced investment in a shrimp farming business, IPSP, in Ecuador, and a final investment decision on an offshore wind power project in Taiwan.

[Enhancement of Base Profit through FY March 2026 (P10)]

Next, I will explain the progress on enhancement of base profit as laid out in the MTMP.

This slide shows the FY March 2023 profit, excluding one-time factors and adjusted for commodity prices and exchange rates based on our FY March 2026 assumptions. Based on these assumptions, we will increase base profit by 170 billion yen over the three years of the

MTMP.

With regard to the enhancement of base profit from existing businesses, we aim to improve this by 110 billion yen over the three years of the MTMP. Specific initiatives aimed at strengthening existing businesses are progressing mainly in mobility, healthcare and retail.

An example of enhancement of base profit through efficiency improvements and turning businesses around is the steady progress being made in improvement of operations in the coffee business that recorded a loss in the previous fiscal year. Furthermore, progress was also made in initiatives aimed at exiting of several loss-making businesses.

As explained earlier, growth investments in new businesses are proceeding according to plan in each Key Strategic Initiative. Based on current progress, we have already accounted for around half of the 60 billion yen contribution to profit from new businesses expected in FY March 2026.

[Shareholder Returns (P11)]
Regarding our shareholder returns policy, as we were able to reconfirm the firmness in our cash flow we will raise the interim dividend by 10 yen to 85 yen, raising the minimum full-year dividend by 20 yen to 170 yen throughout the period covered by the current MTMP. Furthermore, as part of our flexible shareholder returns, based on the progress made in asset recycling, we have decided to make additional share repurchases of up to 50 billion yen. We will continue to consider the enhancement of shareholder returns offering both stability and flexibility, with a view to sustainably increasing ROE.

That completes my part of the presentation today.
I will now hand over to General Manager of the Global Controller Division, Masao Kurihara, for details of performance in the first half.

General Manager of the Global Controller Division section

[Operating Results (P12)]
I am Masao Kurihara, General Manager of the Global Controller Division.
I will now provide details of our operating results for the first half.

[FY March 2024 H1 Core Operating Cash Flow: YoY Segment Comparison (P13)]
First, I will explain the main changes in COCF by segment compared to the first half of the previous fiscal year.
COCF for the first half was 475.1 billion yen, a year-on-year decrease of 136.4 billion yen.

In Mineral & Metal Resources, COCF decreased by 91.7 billion yen to 177.8 billion yen mainly due to the decline in metallurgical coal and iron ore prices and the fall in dividends from associated companies and Vale.

In Energy, although there was an absence of the valuation loss on derivatives that was recorded in LNG trading in the previous fiscal year, COCF decreased by 47.3 billion yen to 77.5 billion yen mainly due to the impact of oil production facility maintenance, as well as a drop in oil & gas prices and a decrease in LNG dividends.

In Machinery & Infrastructure, although taxes associated with asset sales increased, COCF increased by 23.1 billion yen to 115.7 billion yen, mainly due to higher dividend income from associated companies.

In Chemicals, COCF decreased by 26.6 billion yen to 24.3 billion yen mainly due to a fall in prices of fertilizers, fertilizer raw materials and feed additives.

In Iron & Steel Products, COCF decreased by 6.1 billion yen to 1.2 billion yen, mainly due to lower dividend income from associated companies.

In Lifestyle, COCF increased by 10.7 billion yen to 29.7 billion yen, mainly due to higher dividend income from associated companies.

In Innovation & Corporate Development, COCF increased by 1 billion yen to 19.2 billion yen.

Other factors, such as expenses, interest, taxes, etc., which are not allocated to business segments, totaled 29.7 billion yen.

[FY March 2024 H1 Profit: YoY Segment Comparison (P14)]
Please turn to page 14.
I will now explain the main changes in profit by segment compared to the first half of the previous fiscal year.

Profit for the first half decreased by 82.8 billion yen to 456.3 billion yen.

In Mineral & Metal Resources, profit decreased by 112.6 billion yen to 134.6 billion yen due to the fall in prices of metallurgical coal and iron ore, the decrease in profit contribution following the sale of SMC, a metallurgical coal business in Australia, in the third quarter of the previous fiscal year, and impairment losses in the copper business in Chile.

In Energy, although there was an absence of the valuation loss on derivatives that was recorded in LNG trading in the previous fiscal year, profit decreased by 29.4 billion yen to 26.0 billion yen mainly due to the impact of oil production facility maintenance, as well as a drop in oil & gas prices and a decrease in LNG dividends.

In Machinery & Infrastructure, profits increased by 74.7 billion yen to 164.4 billion yen mainly due to the gain on sale of a European electric locomotive leasing business and good performance of multiple businesses such as ships, VLI, and construction machinery.

In Chemicals, although a valuation gain was posted, profit decreased by 25.0 billion yen to 14.3 billion yen mainly due to a fall in prices of fertilizers, fertilizer raw materials and feed additives.

In Iron & Steel Products, profits decreased by 11.3 billion yen to 3.0 billion yen, mainly due to impairment loss in associated companies and a lower demand.

In Lifestyle, although there was the absence of the valuation gain on R-Pharm put options recorded in the same period of the previous fiscal year, profits increased by 43.7 billion yen to 69.4 billion yen, mainly due to valuation gain on the fair value of Aim Services and good performance of the processed food business in North America.

In Innovation & Corporate Development, although a valuation gain on the fair value for Altius Link was recorded, profits decreased by 9.4 billion yen to 26.1 billion yen, mainly due to a year-on-year decrease in profit from asset sales.

Other factors, such as expenses, interest, taxes, etc., which are not allocated to business segments, totaled 18.5 billion yen.

[FY March 2024 H1 Profit: YoY Factor Comparison (P15)]

This page shows the main factors that impacted year-on-year changes in profit.

Base profit decreased by approximately 61 billion yen. Although there was absence of the derivative valuation loss in the previous fiscal year in LNG trading, and performance improvements in IPP business as well as coffee trading, there was an increase in interest expenses, a decrease in profit contribution following the sale of SMC in the previous fiscal year, and lower profit from trading mainly in Chemicals.

Resources costs/volume decreased by approximately 32 billion yen mainly due to a decrease in production volume resulting from maintenance of some production facilities, as well as an increase in exploration costs in energy upstream businesses, and increases in fuel and labor costs in the Mineral & Metal Resources business.

Asset recycling resulted in an increase of approximately 62 billion yen mainly due to gains from the sale of MRCE, a European electric locomotive leasing business.

In commodity prices and forex, profit decreased by approximately 53 billion yen. For commodity prices, profit decreased by approximately 41 billion due to lower oil & gas prices, and 40 billion due to a fall in metallurgical coal, iron ore, and copper prices, which resulted in profit decrease by approximately 81 billion yen in total. For forex, profit increased by approximately 28 billion yen mainly due to the weaker yen.

Finally, for valuation gain/loss and special factors, although there was the impact of impairments in the copper business in Chile and the renewable energy business, there were also valuation gains through new growth investments leading to an increase of approximately 1 billion yen.

[FY March 2024 Full-Year Forecast:
Factor Comparison vs Business Plan (P16)]

Here we have a comparison of the newly announced full-year forecast against the business plan announced in May, with a summary of the factors involved.

Base profit is expected to increase by 12 billion yen. Although we expect lower dividends from the LNG business, good performance in the automotive business as well as contribution from LNG trading and the ship related business should lead to higher profits.

For resources costs/volume, although we anticipate cost improvements in exploration and other areas in the upstream energy business, inflation in Australia and Chile is continuing and there has been lower production volume in the Australian iron ore business. Mainly due to the above factors, we expect a 4 billion yen decrease.

For asset recycling, we expect an increase of approximately 39 billion yen mainly due to an increase in gains from the sale of MRCE, a European electric locomotive leasing business, as well as a timely sale of Thorne HealthTech, among others.

Commodity prices/forex is expected to generate a profit increase of approximately 67 billion yen. In forex, an increase in profit of approximately 64 billion yen is expected, mainly due to the weaker yen.

Finally, for valuation gain/loss and special factors, mainly owing to impairments in the first half, we expect a decrease of approximately 54 billion yen.

[Balance Sheet as of end-Sep 2023 (P17)]

Now let's take a look at the balance sheet as of the end of the first half of the current fiscal year.

Compared to the end of March 2023, net interest-bearing debt increased by approximately 200 billion yen to 3.4 trillion yen. Meanwhile, shareholder equity increased by approximately 700 billion yen to 7.1 trillion yen. As a result, net DER is 0.48 times.

That concludes my presentation.