FY March 2024 (April 2023-March 2024)
Financial Results Announcement Q&A Session

[Date]	May 7, 2024 (Tuesday) 10:00-11:30	
[Speakers]	Kenichi Hori	Representative Director, President and CEO
	Tetsuya Shigeta	Representative Director, Senior Executive Managing Officer, CFO
	Masao Kurihara	Managing Officer, General Manager of Global Controller Division
[Moderator]	Hideaki Konishi	General Manager of Investor Relations Division

<Q1>

Given the unallocated Management Allocation amount at the end of the previous Medium-term Management Plan (MTMP) and the expected 560 billion yen of unallocated Management Allocation at the end of the current MTMP, I think there is still room to improve capital efficiency. Please explain in a little more detail about how you plan to use the Management Allocation. Also, please explain the reason why you are now describing the shareholder returns as a percentage of Core Operating Cash Flow (COCF) as a *forecast* of over 40% rather than a *target* of around 37%, including how this change relates to the next MTMP.

<Hori>

I will answer from the perspective of investments and shareholder returns that are both related to capital allocation. After the COVID-19 pandemic subsided, Mitsui revisited and took another look at projects all around the world, and began to quickly materialize new projects. As a result, we have a very rich pipeline of investment projects, and we are in a position to select projects we want to prioritize. On the other hand, the company is aware that the hurdle rate is also rising, and with this in mind, many projects are being removed from the pipeline. First of all, I would like to emphasize that we are at the helm of this MTMP while carefully selecting investments. We currently have a rich pipeline of projects, and the Management Allocation that is shown on page 13 of the presentation material is the result of allocating capital to such projects. We will consider things such as high-quality investment projects that may appear in the future, projects other than those we have already allocated to, and additional shareholder returns, in a flexible manner.

As a result, we will examine each opportunity one by one, but based on the strength of our balance sheet, I'd like you to understand that while steadily increasing our disciplined investments as well as our base profit, we have the option of stepping into making more shareholder returns at the same time. The range of options we have at our disposal here is the key point. We will announce each project in turn as they come into shape, but there are both investments that can deliver results in the near term with relatively quick contributions, and projects that widen our horizons or strengthen our base profit over a 10-year time span.

In particular, regarding the latter type of projects that will strengthen our base profit over the long term, many of these are projects very close to those that we are currently involved in, and we are also looking at large-scale projects that align with the three Key Strategic Initiatives. By firming up these projects, we would like to strengthen our earnings base, and as a result, further raise the foundation for which shareholder returns is based upon and in turn enhance those returns. Therefore, regarding your question regarding the forecast of over 40%, we have visibility that shareholder returns as a percentage of COCF will exceed our target of 37%, and will exceed 40% over the three years of the current MTMP. As for the final results, I would like to discuss them through engagement with investors, but we will firm up our base profit during this MTMP and, although it is still early, we will link this to the next MTMP. I hope you can understand this in the context of us continuing to enhance shareholder returns.

<Q2>

Regarding page 13 of the presentation material, the amount of growth investments (*investment decision made* and *policy confirmed*) has been revised from 1.17 trillion yen to 1.8 trillion yen. I'm assuming these are investments that are expected to generate returns exceeding the cost of equity, but do you really have so many high-quality investment projects lined up? For example, you invested in a shale gas project in Texas last year, but then recorded an impairment loss of 9.4 billion yen in Q4 of FY March 2024. Please explain this bearing in mind whether capital is being used effectively.

Also, while the forecast for new investments has been increased, the return on investment from new businesses on page 14 remains unchanged at an increase of 60 billion yen. Please explain this too.

<Hori>

Regarding high-quality investment projects, please refer back to the answer I gave to the first question. As for South Texas Vaquero, as an operator, we have been adjusting our production plans to match market conditions. This impairment loss was the result of an accounting valuation based on the fact that the North American shale gas market is currently lower than was previously expected, which led to production adjustments based on the judgment that there was no need to increase production under these market conditions, resulting in the production plan being pushed back, and there was also the effect of the current low prices. We intend to recover this and will approach the matter diligently.

Regarding new investments, the target of 60 billion yen in improvements to base profit by the third year of the MTMP is based on what we had envisioned at the start of the plan. This is a moving target that will be revised if new projects or projects that will contribute to earnings in the near-term will appear in the future, but so far, we have been steadily making progress in accumulating profit.

<Q3>

In the COCF plan for FY March 2025, LNG dividends are planned to be up year on year for Energy, but given they were already large in the previous fiscal year, do you really expect them to increase? Excluding one-time factors, profit is expected to decline, so please tell us about the discrepancy between profit and COCF.

<Hori>

Regarding the business plan for COCF, there are two factors for Energy. First, there is a time lag between the accounting profit recognition of dividends and the timing of cash inflows. The biggest factor is that the cash receipt of dividends recorded as profit in FY March 2024 is delayed to FY March 2025. The second is LNG trading. This is budgeted based on certain assumptions, but there is potential upside if our demand and supply adjustment function is required more due to market movements, weather, etc.

<Q4>

In your explanation, regarding the balance sheet, you mentioned that the company has ample reserve. You are allocating 40% of COCF to shareholder returns and I don't think it would be easy to increase this to 60% or 70%, so I think this is a good level. On the other hand, the DE ratio at the end of March 2024 was 0.45x, and leverage continues to decline.

Questions have been asked regarding leverage at past financial results briefings and other events, but has there been a change in thinking here? Or, since you say that the investment pipeline is significant, does that mean the DE ratio will increase from current levels even if you don't allocate to shareholder returns as the investment pipeline builds up? Please provide additional information on your thinking regarding leverage.

<Hori>

Firstly, we would like to continuously increase ROE. In this MTMP, we are aiming for an ROE of over 12%. We are well aware that in order to continually achieve this level, it is important to allocate capital with capital efficiency in mind. Therefore, I think it is possible to have a somewhat flexible set of options for capital allocation that takes into consideration capital efficiency, or allocation that takes into consideration the strength of the balance sheet. At the same time, there are risks such as sudden changes in the operating environment, including geopolitical factors, so we will carefully monitor these risks and respond accordingly. Therefore, our core management philosophy of emphasizing capital efficiency has not changed at all.

<Q5>

You have listed the amount of investments for each of the Key Strategic Initiatives of Industrial Business Solutions, Global Energy Transition, and Wellness Ecosystem Creation, and I think the breakdown of the 1.8 trillion yen of growth investment has become more specific than when the MTMP period began.

You explained that you are seeing approximately 40 billion yen in profit as a result of investments executed in the first year of the MTMP. Please tell us if there has been any change in the ROI of these investments since the MTMP was first announced. Please tell us how growth investments increased to 1.8 trillion yen based on what kind of outlook for ROI for each of the Key Strategic Initiatives.

<Hori>

For each of the Key Strategic Initiatives, I will explain the current expectations for ROI or at least my impressions from a managerial perspective.

Industrial Business Solutions can be considered as our bread and butter and it is an area in which each move we make often brings stable profit over the long term. From a ROIC perspective, immediate effects can be seen to some extent, but I think there are also ways to secure long-term upside. Regarding Industrial Business Solutions, we expect ROIC to be in line with our past track record.

For Global Energy Transition, as previously explained, we plan to increase ROIC for assets on the whole from 5-6% (at the end of the current MTMP) to 9-10% toward 2030, and now, I think the likelihood has slightly increased.

It is true that there are some projects, such as those related to renewable energy, that we are currently trying to fix, but the level of experience has improved considerably. I also feel that a structure that makes profit distribution easier to understand is gradually being established throughout the entire value chain.

As we work on these areas, we are learning new things as we go along. In terms of ensuring the competitiveness of new projects, we have been active for some time, so we have a rich pipeline of investment projects, including projects that we can enter from the ground level with fairly low premiums or no premium at all. Therefore, it feels like the expected ROI has increased by about one percent.

Regarding Wellness Ecosystem Creation, our existing hospital businesses tend to be growing organically in base profit. In addition, we have been able to create synergies between new projects in the area of protein, both from the perspective of sharing know-how and working on the supply chain through logistics, and we look forward to building on these in the future.

We expect to see a certain level of results in FY March 2025, so I think it's safe for you to assume that things are going as planned. I also think that the scope of our business is expanding, including through acquisitions in the nutrition field.

<Q6>

You explained that shareholder returns as a percentage of COCF is expected to exceed 40%. As we are at the beginning of the second year of the MTMP, I assume that the amount for investments for this year will be fixed by now. I would imagine that there will be a slight difference between forecasts for the ratio of capital allocated to investments versus shareholder returns for the beginning of the second year and the beginning of the third year of the MTMP.

There may be some exceptions, such as a major investment coming up, but can you give us your basic view on the remaining Management Allocation and whether there is a probability of a higher ratio geared towards shareholder returns?

<Hori>

Regarding Management Allocation, we believe that it is important for the management to have a wide range of options, and to explain this through engagement with our stakeholders in a careful and timely manner.

This overlaps with the point I made earlier, but while keeping in mind that sufficient shareholder returns will be distributed, we will raise the bar in our careful selection of projects in order to increase base profit. In executing our projects, we will be conscious of our points of strength in our global portfolio, and we will also work to take advantage of diversification and establish a good balance between developed and emerging countries in a way that will lead to an improvement in base profit.

Therefore, we are determined to pursue two goals, and we do not envisage a situation in which we overinvest which would then result in constraining shareholder returns. However, our current view is that we would like to maintain some flexibility in hand for the time being. We would like to continue engagement with our stakeholders.

I believe that there will be more visibility by the time the current second year of the MTMP is completed, so we should be able to talk about how we are going to finish the MTMP with more clarity.

<Q7>

Assuming that there are more good investment opportunities than originally planned, I would guess you have a better idea on what base profit will be for the next MTMP, more so than you had a year ago. If that is the case, I assume that more cash flow will be available in the next MTMP, but please tell me if you are beginning to gain confidence that you will be able to make shareholder returns in a more positive manner.

<Hori>

I believe that we will not be able to maintain a satisfactory level of ROE unless we are conscious of capital efficiency when thinking about your point in question. Therefore, I think we have a similar understanding of the situation.

<Q8>

Regarding the enhancement of base profit on page 14 of the presentation material, there are some businesses in which profit has decreased due to the deterioration of the operating environment. Do you intend to take additional measures to increase profit from these businesses during the second and third years of the MTMP?

<Hori>

Businesses listed on page 14 of the presentation material were selected as drivers for enhancing base profit, enabling the management to pay regular attention to these businesses.

In *strengthening existing businesses*, we are taking all measures that we can control with regard to businesses that have not been performing well due to the operating environment, and are working to increase profit by the final year of MTMP. We aim to steadily strengthen these businesses and to have them progress along.

As for *turnarounds*, there are businesses such as coffee trading and hydro-power generation in Brazil. We have a clear goal of making steady progress in these turnarounds. In addition, for companies that have unfortunately been consistently loss-making, we will stop taking losses through exiting those businesses.

By combining these with new businesses, we will work to enhance base profit which excludes the impact of foreign exchange, commodity market, and the macro environment. We will aim for constant, sustainable, and long-term enhancement of earnings power, aiming to raise the company's overall earnings base, which will also be supported by our *middle game* initiatives.

<Q9>

Regarding the new projects mentioned on page 15 of the presentation material, you explained that you are working on medium- to long-term projects with a 10 year time horizon as well as projects that will quickly contribute to earnings.

I also have the impression that the company has been allocating some capital to projects that are ready to contribute to earnings, especially in the past year, but larger scale projects seem to be medium- to long-term. Looking at the projects categorized in *FY March 2027 onwards*, the majority of the projects seem to have a longer time horizon than FY March 2027. I am concerned that there will be less earnings from new projects in FY March 2025 and 2026.

Could you tell us about the outlook for the accumulation of projects that will be ready to contribute to earnings in the near-term?

<Hori>

We are trying to select projects to build a portfolio where there is not a substantial gap between projects that we target near-term profit contribution and medium- to long-term projects. We believe that Mitsui is unique in that projects that are geographically diversified and that leverage our cross-industry strengths, so we focus on ones that generate such cross-industry premiums. For example, in the case of Global Energy Transition, the infrastructure, energy, chemicals, and food sectors are mutually collaborating. By including such cross-industry projects, we believe that we can achieve a balanced time frame in terms of contribution to earnings by diversifying our business across regions and industries.

Some of the longer-term projects in the presentation material are relatively well suited to our track record because of their competitiveness and large potential to capture the upside explosiveness in the macro environment. We are working on a combination of both stable and upside potential deals, so we would like to continue to engage with our stakeholders and explain the progress of realizing the opportunities and fill the missing pieces in our pipeline diagram.

<Q10>

On page 29 of the presentation material, you explained that the ROIC target of Global Energy Transition for FY March 2030 has been raised. The initial target you had set in the MTMP was 9%, so I think it has gone up by one percentage point and I would like you to add a bit more colour on this.

Also, growth investments in Global Energy Transition is 600 billion yen this time, but you previously explained at the initial MTMP announcement that the increase in invested capital was 1 trillion yen, although the wording is different. Please explain the background of this difference.

<Hori>

Regarding your first question, it is because there has been progress in forming various projects and now have more visibility, and also because the selection process has moved forward.

We are trying to formulate competitive projects based on cross-industry ideas. In global industrial development, some projects have shifted to a situation that requires more scarcity management. As a responsible supplier, we have to have more autonomy, so we have a lot of work to do and it will be challenging, but as we see ourselves formulating deals as we had expected, we are beginning to see an increase in profitability.

In the Global Energy Transition, in particular, we need to combine various elements, so if we can refine our ideas a bit more in such areas, the expected returns will increase.

As for the scale of investment, it is not that we have less investment opportunities; 1 trillion yen at the launch of MTMP included sustaining CAPEX for existing businesses. This number may change as new projects emerge in the future, but we will keep you updated on this.

<Q11>

I have a question about building up the investment pipeline and increasing the investment amounts. With the external environment becoming more uncertain, the hurdle rate for investment is being raised, and investments are being carefully selected, which I imagine may present difficulties in building up the pipeline. Please tell us about the background behind the significant increase in the investment pipeline despite a difficult operating environment.

<Hori>

There is a growing awareness globally towards challenges in decarbonization, geopolitics, and wellness ecosystems, and while we have more work to do, we are increasingly being asked to provide solutions as a single point of contact, as we are capable of doing so by combining the expertise we have across industries. This trend has become more pronounced over the past few years, and we believe the reality is that our project pipeline is naturally increasing.

On the other hand, we need to make a judgment as to whether a project is an efficient one to which we should allocate management resources or if we can fulfill our responsibilities, and we believe that ultimately, we will considerably narrow down the number of projects we take on.

As management, we have a sense that by carefully selecting from a wide range of options, we will be able to complete good projects that we can complete responsibly and that can guarantee a certain level of profitability in an efficient manner.

<Q12>

The number of the Mobility business clusters is expected to increase from three in FY March 2023, to five in FY March 2024, and eventually to nine in FY March 2026. Please tell us how these business clusters will increase and grow.

<Hori>

There are multiple categorizations but, I could give some examples like the marketing of mobility products which mainly involve automotives, direct sales to customers, and the financing business and fleet management associated with these products. For example, in the Penske truck business, we have a wide range of customers with a diverse menu of leasing, rental, and other services. By region, we operate primarily in North America, Latin America, and Asia, and we aim for nine business clusters as we move forward our initiatives in different product lines and regions.

We also have business clusters centering on mining machinery. Starting with sales activities at mine sites, we provide services including maintenance, add digital functions, and work together with customers and OEM companies to form the Mobility business clusters.

Our strategy is to expand our business clusters in this matrix and establish an earnings base on a global basis.

<Q13>

In the Machinery and Infrastructure segment, profit level used to be at the tens of billions of yen level and have now reached the 200-billion-yen level. Are there any segments where you expect the level of profit to similarly increase from tens of billions of yen to more than 100 billion yen? For example, I think the Lifestyle segment may have such potential, but what are your expectations for such areas?

<Hori>

Looking back over a long period of time, the Machinery and Infrastructure segment has risen from the tens of billions level into the hundreds of billions level for profit, which we believe is the result of the accumulation we have made to date. In addition to the steady accumulation of profit, there are cases, for example, with the Penske Group in North America, where business consolidation and capital investments have resulted in large growth in profit. In addition, we are working on a variety of projects in the surrounding areas, realizing synergies.

We have similar expectations throughout the company and in all segments. In the Lifestyle segment in particular, there has been progress in the investments we have made in the past year, such as the business we acquired from Celanese in functional food ingredients, or the new M&As in chicken and shrimp, in the food, nutrition and wellness initiative.

A large portion of the Chemicals segment consists of trading business, but there are also new business opportunities that are born out of trading. Considering the role that the

Chemicals segment plays in the energy transition, we believe there is considerable potential to increase the growth rate here.

There is much I would like to say about the other segments as well, but we would like to widen our scope in each segment and improve base profit.

<Q14>

On page 14 of the presentation material, you state *FY March 2026 profit outlook from new projects accumulated to plus 40 billion yen as of now*, while the MTMP 2026 Target is *plus 60 billion yen from new businesses*. The progress for FY March 2024 is 10 billion yen. Am I correct in understanding that of the investment projects in the pipeline, the estimated earnings contribution from the projects that have already been decided or executed is 40 billion yen, and the earnings contribution from the already invested projects for FY March 2024 is 10 billion yen?

<Hori>

Your understanding is correct. For example, there are projects that we invested in FY March 2024, but only contributed to earnings for a few months during FY March 2024, due to the timing of their execution. These projects are expected to contribute to earnings in full for FY March 2025 onwards, and since we expect a certain level of organic growth, we expect a larger contribution to earnings from FY March 2026. In FY March 2024, the contribution to earnings from new projects will have been the smallest because of the short time frame for the contribution to earnings from each new project. The total contribution to earnings from these projects that have already been decided or executed, and those that will be decided or executed in the future, is 60 billion yen.

<Q15>

Is my understanding correct that the *40 billion yen increase as of now* refers to the expected earnings contribution for FY March 2026 from the pipeline projects listed on page 15 of the presentation material, and that the 20 billion yen difference from the planned 60 billion yen increase is from projects other than those listed on page 15? Or is the 20-billion-yen difference also from the pipeline projects listed here?

<Hori>

The projects listed on page 15 are not all of our pipeline projects and we have a more detailed list of such projects, but the basic idea is as you understand it. We expect an increase of 40 billion from FY March 2026 onwards from the investments that have been decided or executed as of now, and the difference of 20 billion yen includes the future earnings contribution from the projects that are not yet listed in this page.

<Konishi>

Just to provide some additional information, of the pipeline projects on page 15, those in green are projects in the pipeline for which investment decisions have not yet been made. The figure of the 40 billion yen increase is the accumulated earnings contribution from the projects that have been decided and executed, so the 60 billion yen increase also includes the earnings contribution from pipeline projects on page 15 that have yet to be decided.

<Q16>

In the MTMP, the plan for profit in FY March 2026 for Lifestyle, and Innovation & Corporate Development segments are 100 billion yen and 80 billion yen, respectively. Looking at the current plan, it seems that they are making steady progress, but Innovation & Corporate Development includes FVTPL. Please tell us whether the MTMP profit target of 100 billion yen and 80 billion yen for Lifestyle, and Innovation & Corporate Development segments, respectively, are achievable.

<Hori>

I think that MTMP targets for Lifestyle and Innovation & Corporate Development segments are ambitious, but I believe that we can do it through accumulation. In Lifestyle, our core businesses such as the organic growth of IHH, Aim Services becoming a subsidiary, and a healthcare staffing business in US, are growing considerably, and the pipeline projects will also contribute a little, and projects related to nutrition and protein that I explained today are adding up. I believe that we can achieve the targets through the accumulation of these businesses. It is important to execute each of these projects one by one, and that is what we are focusing on. In Innovation & Corporate Development, there is indeed some profit expected from FVTPL, but I think that this is part of the business model itself. Buyout and real estate businesses using so-called trading company type characteristics are basically businesses in which we buy, develop, and sell, which reach a certain level of profit each year, and we have an idea of how much we can realize from such ongoing asset-recycling type of business during the MTMP period. Trading in the commodity market is difficult to predict without knowing the volatility of the market, but we have a mechanism in place to capture volatility while maintaining a certain level of control, and I think that we have improved our reproducibility here as a result. Judging from these factors, I believe we can achieve our targets with a certain degree of certainty, and we are working diligently to achieve this.

<Q17>

I understand that a stable energy supply is important from a materiality viewpoint, but the production cost of shale is expensive within energy, and there are various discussions regarding the environment, and some institutional investors have established an exclusion policy. Please tell us again about your stance on the US shale oil and gas business, including these perspectives.

<Hori>

Regarding the environmental issues of North American shale, including those in which we or other companies are the operators, I think that we must constantly monitor the situation, and operate with transparency. While basic environmental measures are a prerequisite, we believe that natural gas as a global transition fuel and LNG, which has the characteristics of transportation, are necessary for the energy transition to take place, for example, 30 years from now. We have an LNG project in North America, and there is a significant value to have our own raw material natural gas to be supplied to the project. Ammonia and methanol are refined from natural gas and are strategic chemical commodities for us, and in combination with carbon capture, we think that they will play a certain role in the energy transition. Given the importance of North American shale gas in terms of the conversion of production to green molecules, we are of the opinion that we should hold it strategically at a certain scale. We continue to see the significance of holding it as a strategic commodity while taking into account the management considerations you have pointed out.

<Q18>

Regarding automotive and ships on page 24 of the presentation material, which are listed as the main negative YoY factors in basic profit for FY March 2025, for example, looking at the actual results for the fourth quarter of FY March 2024, it does not appear that Machinery & Infrastructure has declined, nor does the current situation of mobility portfolio appear to have fallen that much. Ships include solid tanker business. Please explain this decrease in profit based on the current operating environment.

<Hori>

In automotive and ships, there was a two-year period of product shortages and an extremely favorable tanker market through FY March 2024, and we have factored in some normalization here into the budget. In automotives, the semiconductor shortage has calmed down a bit, and inventories in the overall supply chain are normalizing to a certain extent, and in a high interest rate environment, it is difficult to pass on these costs to clients in the rental and other such businesses, so we should look at this area with some caution. On the other hand, the leasing business is relatively strong. For ships, when we prepare the budget, we consider the intelligence from our people on the ground, such as their view that we should see a little more normalization in tanker business. The progress of this budget should be viewed neutrally.

<Q19>

Regarding the explanation on the right side of page 16 of the presentation material, please explain the meaning of *execution of multiple M&A deals taking opportunities from industry restructuring in Japan and overseas* and *aggressive reduction of listed stock holdings*.

<Hori>

We are always paying attention to restructuring that takes place in industries in both in and outside Japan, and as our pipeline increasingly includes cross industry projects, we have been approached by other companies regarding such opportunities. Also, when we take action ourselves, we can often see what potentially could take place as restructuring in industries unfolds before us. Please understand that we have described some of the features of our project pipeline.

We are carefully looking at the reduction of listed stock holdings one by one, and the number of listed stock holdings is decreasing every year, and this is part of the reason why we have included this information in the material. There is no deep meaning behind it, just that we intend to continue to address this issue.

END