Investor Day 2023 Initiatives Aimed at Enhancing Base Profit Q&A

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Q1: Future Outlook Concerning Performance Volatility

Mitsui is currently involved in businesses such as next-generation fuels. As you make various investments and reorganize your business, do you expect the volatility of your company's performance to decrease in the future? The next-generation fuels business, which includes ammonia, is not likely to expand in its initial phase without government subsidies. Therefore, it seems that the volatility would be lower than for conventional resource businesses. I understand that Mitsui is planning a range of investment projects, but from your perspective as CFO, how do you view the volatility of Mitsui's performance going forward?

Shigeta: As I mentioned in my presentation today, we expect that by reducing and stabilizing the volatility of our financial results as much as possible, we can lower our cost of capital. We are therefore working to increase performance stability.
It is true that some new technologies and next-generation energy and fuels pose uncertainty, and that it will take some time before they can contribute to our profitability. Accordingly, we would like to stabilize our business performance by combining these activities with projects that can be expected to generate profits in the short term.
We continue to focus on natural gas initiatives because we recognize its importance as a fuel in the energy transition. By maintaining these kinds of existing businesses or finishing those under development, we can forecast a certain level of earnings for the foreseeable future. By using these for support, we can continue to develop businesses that will only begin to contribute to earnings in the future. Moreover, we can incorporate multiple scenarios for those businesses that involve uncertainty or that will only be profitable in the future. However, we are not currently considering lowering our investment standards or requirements. While I can't deny there is a certain level of uncertainty to our earnings, our investment criteria have not been lowered. With the combination of businesses, we will strive to maintain stability in Core Operating Cash Flow and profit.

Q2: Progress of Efficiency Improvements and Turnarounds

Could you explain the section on page 2 of the presentation material, *progress of efficiency improvements and turnarounds*. The breakdown of 170 billion yen as continuous enhancement of base profit is shown here, leading to the forecast of 920 billion yen in FY March 2026. You have provided great examples of efficiency improvements and business turnarounds, and if you continued to build on them, it seems the figure would become quite large. Regarding the 40 billion yen improvement shown in the table, could you explain how much progress you have made so far, and if you are aware of any issues that will require further improvement efforts?

Shigeta: As an accumulation of small items, we have eliminated 20 billion yen of losses so far and intend to steadily build up this figure. Regarding the progress, please allow us some more time for us to make sufficient explanation. Across the company we have been making diligent efforts to eliminate losses, make fundamental improvements to low-profit businesses, and in some cases, promote asset recycling. We have a long-established practice throughout the company of exiting from unprofitable businesses, and we have not put these low-profitability businesses to the side.
Return on invested capital (ROIC) was adopted as an internal indicator since the previous Medium-term Management Plan. Although the numbers vary depending on differences in each segment and the risks associated with each business, there is a growing awareness of the need to be responsive and we have built up a track record of doing this. I believe we can achieve an improvement of 40 billion yen through efficiency improvements and business turnarounds.
At the same time, I would like to make sure to continuously check the 70 billion yen for strengthening existing businesses, including those that are expected to show continued improvement.

Q3: Project Risk and Country Risk

Today, you actively spoke about how you plan to achieve balance, timelines, and related aspects, as part of efforts to reduce the cost of equity.
You mentioned project risk and country risk exposure, and I wonder if there is any opportunity to flexibly review the quality of projects that are already in progress or for which investment process has already started? I understand that you perform impairment tests, however, changes could occur in country risk, for example. A previously required level of return on investment could increase, and there could be cases where additional measures might be required due to added uncertainty of the time frame to recover an investment. This is especially true when a resource related project takes longer than expected.
It seems there should be more flexibility in your discussion beyond whether to recognize impairment losses on assets. Perhaps this could have a direct impact on increasing stakeholder trust and reducing cost of capital. As CFO, could you share your thoughts on this?

Shigeta: By thoroughly explaining the stability and future prospects for our business, the reproducibility and sustainability of our business model, and the future growth potential, I believe stakeholders will understand our thinking, and this can then lead to a lower cost of capital.

We believe in taking on country risk to the extent that we can. While it becomes a totally different dimension when things escalate to the level of international sanctions on Russia, in general we would like to take on country risks to the extent possible. On the other hand, even if a country's risk premium increases, it does not mean that there are many projects in such a high-risk area and so we revisit the valuations for each individual project on an annual or quarterly basis.
While recognition of impairment loss is necessary for accounting purposes, we also discuss the reasons for holding the assets concerned and the significance of the related initiative, either at the same time or in advance. Another point that we focus on is ensuring an exit strategy at the time of making the investment. We respond to rising country risk premiums by reexamining whether the originally planned exit strategy is still viable, by reviewing the significance and meaning of each investment, and by reviewing valuations.

Q4: Continued Reduction of Listed Shares with Diminished Significance of Holding

Given the sale of the cross-shareholding of a listed stock recently observed in the automobile sector, I would like to ask a question regarding the *continued reduction of listed shares with diminished significance of holding* you state on page 7 of the presentation material. It appears that Japanese trading companies are continuing to reduce such holdings. However, the 105 holdings that you have on a standalone basis have a book value of 410 billion yen, indicating the scale of your holdings. I understand that the policy is to reduce these holdings in stages, but I would like to hear your explanation as CFO.

Shigeta: As of FY March 2023, the number of holdings we had decreased to 105, and since the beginning of the current period, there are now six fewer, so the number has dropped to less than 100. Our policy is to reduce the number of strategic shareholdings, but before selling, we do a quantitative check of each one in the same way we do for unlisted shares. We also take into account aspects such as dividends, interest costs, and trading benefits when setting criteria for quantitative levels. We have been reviewing those securities that do not meet our such criteria. Although there are quite a few cases where the level is at the very limit due to the balance with cost of capital, the minimum condition is that the quantitative criteria are met.
In light of the rising cost of capital, we would like to raise the criteria bar and continue our efforts to reduce strategic shareholdings, while utilizing stakeholder feedback for our management decisions.

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