

1st Quarter Financial Results Announcement for FY Ending March 2020

QA Session (translation)

Time and Date: July 31, 2019 (Wed.) 16:45 – 17:45

Presenters: Senior Executive Managing Officer, CFO, Takakazu Uchida
Managing Officer, General Manager of Global Controller Division,
Tetsuya Shigeta
General Manager Investor Relations, Masaya Inamuro

[Speaker 1]

Q1: What are your views on COCF and investment & asset recycling performance in Q1?

A1: I have said previously that we would assess if we could achieve a stable level of 600 billion yen COCF, and we have strengthened validation that we are on track to achieve that objective, even if sustained high iron ore prices are excluded as a factor. Investment and asset recycling also look like being in line with the business plan for the full year.

Q2: Progress of PAT and COCF in non-resources areas seems weak. What is your outlook for achieving targets?

A2: There are strengths and weaknesses depending on each segment but overall we are on track to meet targets. In the Innovation & Corporate Development segment, excluding FVTPL factors, the performance of ICT-related companies continues to be strong, and profits are expected to be stronger for the second half of the fiscal year. Iron & Steel Products had a slow start, with Gestamp and Steel Technologies impacted by the decline in automobile sales in Europe and China, and the decline in steel prices in North America, respectively. In Chemicals, Novus continues to struggle, and reaction to the downward trend in the economy has weakened electronic components and other businesses. Commodity prices are weak in the base chemicals field but the segment as a whole is showing resilience. Lifestyle profits declined year on year, due to one-time factors such as the absence of gain on reversal of provision related to Multigrain, which was included in Q1 of the previous fiscal year, but our plan expects profits to increase from Q2 onwards. As such, we are in line with the planned PAT of 195.0 billion yen for non-resources areas.

[Speaker 2]

Q3: Even if the absence of FVTPL effect is excluded from base profit, I don't get a sense of growth. How are past investments contributing?

A3: Q1 base profit growth is difficult to see because of the FVTPL factor and also the lag in profit recognition for other businesses. As we implement initiatives to achieve the targets of the business plan for this year, we aim to show concrete contributions from base profit from Q2.

Q4: What is your outlook for iron ore prices?

A4: It's necessary to pay close attention to the timing of when supply anxiety caused by the Vale tailings dam failure and the cyclone in Australia alleviates and to the sustainability of infrastructure demand in China. The general consensus is that the current level will not persist.

[Speaker 3]

Q5: What is your outlook for performance trends from Q2 onward? Please answer in reference to Machinery & Infrastructure and Chemicals segments, the progress of projects such as Cameron, and seasonal factors.

A5: Machinery & Infrastructure had a slow start in Q1 due seasonal factors in automotive-related businesses and a delay in contribution from aircraft businesses, but is on track to pick up in Q2. Moreover, IPP-related operations will come online sequentially from this fiscal year and overall we consider the segment to be progressing in line with plan. Chemicals had a good Q1, in part due to the shift in business model to one with commodity-price resilience in trading. Commodity prices and the trading environment are weak, however, and we must continue to pay close attention to changes in business sentiment. Cameron train 1 came online in May this year, and trains 2 and 3 are scheduled to come online in the first quarter (Jan.-Mar.) and second quarter (Apr.-Jun.) of 2020, respectively. When the three trains are at full production capacity this project is expected to make profit contributions to the order of more than ten billion yen.

Q6: Do you intend to revise your outlook for shareholder returns in Q2? Will there be additional shareholder returns?

A6: Our policy has not changed from our FY ending March 2019 earnings announcement. If feasible, we would like to consider additional shareholder returns based on future COCF and business progress. While iron ore prices are trending higher than in our assumptions, other products are in line with or weaker than assumptions and there is still uncertainty in the macro environment. We will consider additional shareholder returns after reviewing the outlook for full-year performance again in Q2.

[Speaker 4]

Q7: What is the reason for the year-on-year increase in resource-related costs?

A7: This is mainly due to an increase in royalty payments to state governments as a result of the increase in the sales price of iron ore.

Q8: The cash flow allocation table shows cash-in of only 20 billion yen from asset recycling. What is the reason for this and what is the outlook for the future?

A8: Cash-in from asset recycling was 20 billion yen for Q1, but on an annual basis we believe that it will increase in line with plan. We will continue efforts to improve the quality of projects and raise asset efficiency in Q2 and beyond. We will continue to pursue aggressive asset recycling that will lead to portfolio enhancements.

[Speaker 5]

Q9: What is the current status of and outlook for ITC operations?

A9: With the exception of the damaged tanks, operations are resuming as we get approvals from the relevant authorities, and we are cooperating with the investigation into the cause of the incident. This quarter we recorded both a revised projection of costs related to the incident and some insurance payment. These amounts are not material, however, and nor is the divergence from plan.

Q10: What is the current status of Novus and its expansion plans?

A10: We understand that some major players have announced the price of methionine and that prices may have bottomed out.. Nevertheless, the market environment has not changed much from three months ago and we don't anticipate significant recovery in the supply and demand environment in the short term. With regard to capacity expansion, we continue to consider our options.

[Speaker 6]

Q11: What is your outlook for profit and loss in Energy, including contributions from AWE?

A11: Q1 was strong with the recording of deferred tax assets at MEPMOZ, through which Mitsui holds its interest in Mozambique Area 1, and the recognition of accounting gains resulting from a change in how that company is classified. The strong trading performance by METS was a one-time factor, and oil prices are softening in the near term, so at this time we can expect a merely slight outperformance against the business plan. It should be noted, however, that AWE costs are front-loaded and the forecast is for negative returns to persist for the time being.

Q12: What is the outlook for the resumption of dividends from Vale?

A12: We have not factored it into our business plan. Although we believe that Vale will recover production capacity and at some point dividends will be financially feasible, Vale must also take into account its response to the accident and measures to prevent a recurrence, all of which we will be paying close attention to.

[Speaker 7]

Q13: In initiatives in growth areas, how is the investment in a shrimp producer and processor in Vietnam different from past initiatives? What scale of revenue are you aiming for?

A13: Mitsui acquired 35.1% of Minh Phu, a shrimp producer and processor in Vietnam, in June this year, but we have been investing in Minh Phu Hau Giang, a processing plant subsidiary of Minh Phu, since 2013, providing functions related to inventory management, price risk management, and internal control. In this transaction, we sold our shares in the processing plant and invested in the parent company, Minh Phu, with the aim of expanding the company's sales by leveraging Mitsui's global network and raising its corporate value through the provision of various aforementioned functions. We will explain the profit contribution when the company reaches the scale to be disclosed individually..