

2nd Quarter Financial Results Announcement for FY Ending March 2020

QA Session (translation)

Time and Date: October 31, 2019 (Wed.) 10:00 – 11:30

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

[Speaker 1]

Q1. Given that free cash flow after shareholder returns excluding lease liability repayments in the cumulative period of the medium-term management plan is 80 billion yen, why have you set the share buyback at 50 billion yen?

A1. At the halfway point of the final year of the current medium-term management plan, based on the results of cash flow allocation and careful analysis of the progress of investments as well as the outlook for the second half of the year, we decided to allocate about 50 billion yen this fiscal year resulting from reduction in investment spending to additional shareholder returns.

Q2. What measures will there be in the next medium-term management plan to achieve growth in light of the downward revision to forecasts for non-resources areas in the current fiscal year?

A2. The forecast for non-resources areas in the year to March 2020 is 165 billion yen. This reflects a downward revision recognizing that we will not achieve the target of 200 billion yen for this fiscal year set in the beginning of the medium-term management plan. Even so, excluding one-time losses, profit level is above 180 billion yen. The shortfall can be accounted for in part by the postponement of profit contributions resulting from time spent on efforts to curtail future losses, and it is our assessment that we have been doing what is necessary from an overall perspective. The mission of management is to achieve the numbers and we will be pursuing measures to realize further cost reductions and topline growth in non-resources areas.

[Speaker 2]

Q3. In H1, some segments performed strongly while others were weak. What is your outlook for H2 in the context of performance discrepancy among different segments?

A3. With expectations for a gradual downturn in the market overall towards the end of the current fiscal year, our outlook for H2 is conservative. FVTPL gains and losses will be

mostly unchanged. We expect the economic downturn to continue to have an impact on Chemicals, Lifestyle, and Iron & Steel Products segments, but our outlook may change depending on future economic conditions.

Q4. Looking ahead to next year, what will be the level of contribution from projects on which investment decisions have been made so far?

A4. In Energy, production has begun at the Greater Enfield oil field ahead of schedule and within budget. The crude oil produced is in high demand as a base material for low-sulfur heavy bunker oil, and this has contributed to increase in trading volume at METS. Cameron LNG has come online and will begin contributing this fiscal year. In iron ore, dividends from Vale have been suspended since the dam accident. Contributions will resume in the future when there is recovery. In Machinery & Infrastructure, some IPP businesses have begun operation and we will achieve capital gains through a develop-and-sell strategy. In Chemicals, we expect to see contribution from the fertilizer and agrochemicals businesses we acquired in the Americas and Europe as we focus on PMI and rebuilding.

[Speaker 3]

Q5. With the full-year dividend for FY Mar/2020 unchanged from the previous year, what does the CEO mean by his comment that you will “Aim to continue increasing the total dividend payout in alignment with business performance improvements”? Is it an expression of confidence of stable profit growth amid forecasts that price assumptions for iron ore will decrease from the next fiscal year?

A5. The share price is a reflection of the market’s assessment of management performance and it goes without saying that it is management’s duty to increase the share price. Our basic policy is to consistently and stably increase shareholder returns while clearly demonstrating conviction in Mitsui’s growth potential and profitability.

In resources areas we have a balanced portfolio of iron ore and oil & gas and we are strengthening downside resilience by extending existing LNG projects and implementing cost reductions. Moreover, we have achieved a system under which Energy can cover declines in iron ore prices. In non-resource areas, there are some projects behind schedule but others are coming online and we can fully expect these to come to fruition and be sources of profit during the period of the next medium-term management plan.

Q6. With abundant projects in the pipeline, as you say, what will be the direction of investment spending in the next medium-term management plan?

A6. At this time, we are identifying projects in our pipeline that are in areas where Mitsui is strong and we are pursuing improvements. If the right opportunity arises, we may make

large scale investments similar to the case when we became the largest shareholder in IHH.

While our base profit is solid, we will strengthen investment discipline and select investments carefully amid the heightening sense of an economic slowdown. When considering the overall balance of cash flow, there may be cases where we can allocate more to shareholder returns. Improvements to shareholder returns will be discussed in the next medium-term management plan.

[Speaker 4]

- Q7. According to your previous explanation, Columbia Asia (CLA), which provides hospital services for the middle-class, was at the core of your healthcare strategy and that it would be classified in a different segment from IHH. Why have you now decided to sell the company?
- A7. In the three years since participating in CLA, we have contributed to increasing the corporate value. Following discussions and deliberations on whether we should seek to further improve CLA's corporate value or whether we should concentrate our resources to IHH as the largest shareholder, we considered the overall portfolio balance, and decided to prioritize IHH and seek for the profitable sale of CLA. We were able to sell CLA at a value that exceeded our expectations, making it an extremely favorable asset recycling transaction. Serving Asia's growing middle-class through IHH is one of our goals and we have established a healthcare fund in China in line with IHH's strategy of making further advances into China and India.
- Q8. With regard to the recycling of assets in non-core areas, you have pursued recycling in thermal coal and IPP, but in Iron & Steel Products there has been none since Champions Cinco.
- A8. In Iron & Steel Products, we entered into a strategic alliance with Nippon Steel Trading and increased our equity stake, and we are currently considering consolidating the many lines of businesses in the company. We have seconded dozens of Mitsui employees to Nippon Steel Trading and are also considering consolidating some of its overseas businesses in the future. Looking ahead, our strategy is to shift product sales to Nippon Steel Trading while leveraging Mitsui's strength in supply chain management to enter automotive parts businesses, such as Gestamp, and EV business via the materials field. We are allocating resources from a medium- to long-term perspective.

[Speaker 5]

Q9. What are the most promising major policy changes in the next medium-term management plan? (capital efficiency improvement, consolidation of affiliate companies, etc)

A9. We have further divided the business segments at the individual business and geographical level, and analyzed the degree of growth of each business, whether or not they are cash cows, and if the business is distressed, in order to help us clarify regional and business fields of focus. We believe the timing is right to look again at how we selectively invest capital and human resources.

Q10. Please comment on your shareholder returns policy in relation to market volatility

A10. We are holding discussions with external directors—the representatives of the market on our Board—on the appropriate allocation of capital and human resources on a business field basis. This is enhancing how we consider portfolio optimization and the optimal allocation of capital, and we are incorporating these learnings into the next medium-term management plan. In this way we can improve base profit and capital efficiency and develop the best approach to shareholder returns.

[Speaker 6]

Q11. What is the current status of and outlook for ITC and Novus in the Chemicals segment?

A11. The relevant authorities are still investigating the cause of the fire at ITC, but they have given permission to resume some operations and throughput is expected to recover to about 70% to 80% of pre-accident levels. This contribution is not included in H2 forecasts but we expected the Chemicals to settle to the revised forecast. For Novus, the methionine price wars continue amid increased competition. The market is expected to remain challenging and Novus is pushing ahead with comprehensive cost cutting. Nevertheless, with population growth and health-consciousness on the increase, the methionine market is seeing steady annual growth of about 6% and we expect that in time demand will catch up. We will make sure to protect our customer base, which is centered in the U.S.

Q12. In Machinery & Infrastructure, what will be the future areas of focus other than IPP, such as FPSO and gas distribution?

A12. FPSO is performing strongly. In addition to six orders already received, MODEC is receiving invitations to participate in further bids. The company is actively pursuing demand in Brazil, Mexico, and West Africa and it will be essential to fulfill new orders and existing charter contracts. We are promoting systems that make use of IOT

technology and using sensors to enable predictive and preventative maintenance to reduce downtime caused by power generator or compressor malfunctions.

Gas distribution is another business with little downward swing. Petrobras will implement a policy of concentrating capital upstream and we are examining what business opportunities that Mitsui may offer.

In Mobility, we are aiming to expand our alliance with Toyota. Mitsui has had a business relationship with Toyota mainly in South America for more than 40 years, and as Toyota pursues selection and concentration strategies, there is potential for business expansion for Mitsui. Moreover, as many OEMs move into the mobility business, Mitsui is looking for new business opportunities in EV and FCV.

[Speaker 7]

Q13. Please comment on the operational status of Vale and the outlook for dividends.

A13. As Vale has announced, it is forecasting a phased recovery of approx. 60 million tons of production between the second half of 2019 and 2021. We will be paying attention to the resumption of dividends while remaining aware of the need to consider the progress of the response to the accident and implementation of future safety measures as well as the intentions of the government and compassion for the local community.

Q14. With growth difficult to foresee during the period of the next medium-term management plan, please comment on the mechanisms that will drive improvement in corporate value and new KPIs that will be introduced.

A14. In some areas we expect to further increase base profit by improving existing businesses and we will continue to improve the capital efficiency of not only invested capital, but also human resources. Furthermore, based on economic growth trends, we have been further decentralizing functions locally and creating businesses under the leadership of local personnel. Looking ahead we will continue to pursue clearly defined and effective capital allocation.

With regard to KPIs in the next medium-term management plan, we are considering indicators and mechanisms that take into account risk vs return and efficiency improvement. We believe it is important to set KPIs that enable managers to communicate clearly when deployed on-site.