3rd Quarter Financial Results Announcement for FY Ending March 2020
QA Session (translation)

Time and Date: February 4, 2020 (Wed.) 17:00 – 18:00

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 is the real earning power of the Machinery & Infrastructure segment? Am I correct in understanding that it is about 100 billion yen considering that gain on sales from asset recycling is deemed real earning?

A1: Since our asset recycling and develop and sell activities are a key part of the business, we believe that it is at level where we can reach 90 to 100 billion yen, although there may be some fluctuations depending on the period. We have an asset recycling project that is certain to be finalized in Q4, and the full-year forecast has been revised upward to 95 billion yen.

Q2: Has there been any impact from the Novel Coronavirus? Which sectors are impacted?

A2: Although the quantitative impact has not materialized, there is concern that overall economic activity will decline in the future, causing wide-ranging effects. In segments where we were expecting to see a bottoming out of the market, including Iron & Steel Products and Chemicals, we could see that cancelled out by the effects of the Novel Coronavirus. On the other hand, we are already in February of Q4, and our view is that any downward pressure on earnings this fiscal year is likely to be limited. We will continue to closely monitor progress, since the effect will relate toour earnings for the next fiscal year and beyond as well as forming assumptions for our Medium-term Management Plan.

[Speaker 2]

Q3: What is the background to the strong performance of METS' crude oil trading, automobile, and gas distribution businesses? Do you expect it to continue trending strongly?

A3: Crude oil trading at METS was business captured by anticipating an increase in demand for low-sulfur crude oil stemming from stricter regulations on marine fuels. It was trading aimed at capturing an arbitrage opportunity, so we are unable to say whether it will continue.

In the automotive business, our overseas automobile dealer business and sales finance business have been relatively strong. Given that profits have been strong in this weak environment, we expect a certain degree of resilience in the future.

Our gas distribution business has remained steady due to the fact that the Brazilian economy in which it operates has bottomed out to a certain extent, and also because it has the characteristics of an infrastructure business.

Q4: Your three-year cumulative free cash flow after shareholder returns will be 90 billion yen, including corporate pension contributions of 40 billion yen. After excluding the impact of leases of 50 billion yen, you have 40 billion yen remaining. How do you plan to use it?

A4: Regarding additional contributions to the pension fund scheduled for Q4, pension financing deposit has been insufficient due to various prior factors. As a result of a budget recalculation, and based on various circumstances, we have decided to make additional contributions. The contribution amount is expected to decrease from the next fiscal year onwards. Note that in our consolidated financial statements, we recognized retirement benefit obligations of approximately 56 billion yen at the end of December. This is a one-time treatment and does not affect our shareholder returns policy.

Although a straightforward calculation shows 40 billion yen remaining, we expect that cash in and cash out will fluctuate to some extent through to the end of March. Unless something very significant occurs, we believe this framework is near fixed for the current Medium-term Management Plan period. We will continue to study our shareholder returns policy for the next Medium-term Management Plan period.

[Speaker 3]

Q5: Given that an impairment loss for Mozambique coal and infrastructure projects was recorded this quarter, how have the profit forecast and the depreciation schedule changed?

A5: The main factor for the impairment loss was the decrease in mineable reserves which led to a revision of production plans. From March, we will conduct large-scale renovation of the coal handling and preparation plant with the aim of realizing a system capable of annual production of 15 million tons in the second half of 2020. I cannot comment on the depreciation schedule as I currently do not have the data.

Q6: You have recognized the receipt of dividend income following the resolution of interest on equity from Vale, but what is interest on equity?

A6: Interest on equity is one form of shareholder returns recognized under the Brazilian taxation law. It differs from normal dividends in that it can be deductible from taxable income as interest paid. Due to the similarity in nature, Mitsui has recorded it as income from dividends recognizing an accounts receivable, but the time of payment by Vale is not yet decided.

[Speaker 4]

Q7: What will be the mineable reserves and remaining book value of investment and loans after the impairment loss at Mozambique coal and infrastructure projects?

A7: Mineable reserves decreased due to the exclusion of high stripping ratio areas from the new mining plan, but we are not disclosing specific numbers. Please refer to Vale's upcoming announcement. With regard to remaining book value, please refer to figures as of end September which were announced last year.

Q8: The forecast for Chemicals is unchanged at 20 billion yen. Are ITC forecasts already incorporated in this figure? Could actual performance be significantly higher than forecasts depending on the status of ITC?

A8: ITC has already reached approximately 70% of the original operational capacity. That recovery is already incorporated in the forecast so we do not expect a significant upside.

[Speaker 5]

Q9: What is the real earning power of base profit in the Chemicals segment if one-time factors are excluded? Are there any variables heading into Q4?

A9. Of the 12 billion-yen profit in Q3 attributable to Chemicals alone, valuation gain accounted for between approximately 6 and 7 billion yen and asset recycling accounted for approximately 1 billion yen. We regard the 4 billion yen to 5 billion yen that remains after excluding these factors to be the real earning power.

Q10: What is the reason for the decrease in investment and loans and asset recycling from the previous announcement?

A10: In asset recycling, the decrease was mainly due to the rescheduling of projects to the following quarter. In some cases, sales were achieved at a higher than expected price. In investments and loans, since making an additional investment in IHH last year, we have been highly selective with new projects and we have continued our trend, as in Q2, of reducing investment and loans and implementing additional shareholder returns.

[Speaker 6]

Q11: In Iron & Steel Products, full-year forecasts were revised downwards by 5 billion yen consecutively in Q2 and Q3 from the original forecast of 15 billion yen. What are the reasons for the revisions and what is the outlook for the next quarter?

A11: Iron & Steel Products was impacted by slow automobile sales and a decrease in the price of steel. Margins were lower at Game Changer Holdings as a result of sluggish growth in the price of steel in the United States. Gestamp's automotive pressing business was also impacted. New factory depreciation and lower prices driven by a worsening of business confidence were also factors.

Q12: You described Machinery & Infrastructure as being strong overall, but what are the reasons for the double-digit decrease in construction and industrial machinery, VLI, FPSO, etc., from the same period in the previous fiscal year?

A12: FPSO has been steady. In this fiscal year we have raised the project value by issuing a project bond as part of refinancing, but we recorded a one-time cost associated with the cancellation of interest rate swaps. FPSO orders are building up and revenue generation is promising due to a strong portfolio. Construction and industrial machinery performance was worse than the last fiscal year, but it has been in recovery since Q2 and is holding firm. VLI was impacted by a decrease in freight volume. We also recognize the possibility of weak performance resulting from a tough competitive environment.

[Speaker 7]

Q13: What will be the amount of investment needed for a large-scale renovation of Moatize coal mine?

A13: We are planning to renovate the coal handling and preparation plant beginning in March of this year. This is not expected to be a large-scale investment cash-out.

Q14: What are the factors behind the large decrease in core operating cash flow in the Energy segment in Q4?

A14: Core operating cash differs in the Energy segment due to the timing of receipt of LNG dividends and so it means the dividend received in Q3 is not expected in Q4. The fact that the tax burden is concentrated in Q4 is also another factor.