

Financial Results Announcement for FY Ended March 2020
QA Session (translation)

Time and Date: May 1, 2020 (Fri.) 17:00 – 18:00

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

[Speaker 1]

Q1: Regarding the impact of COVID-19 on the FY Mar/2021 business plan, could you provide a business/segment breakdown of the 95-billion-yen decline in base profit vs. FY/Mar 2020 results? Also, have any current resources-related projects been impacted by COVID-19, or are there any upcoming developments that look likely to be impacted?

A1: Please note that as these figures have been calculated based on limited information, they include a certain degree of speculation. The breakdown is as follows: Mobility and Healthcare declined approx. 70 billion yen and materials including Iron & Steel Products and Chemicals declined approx. 20 billion yen. There was also a decline of approx. 10 billion yen from delays in recycling and sales of businesses and other factors. No resources- or energy-related projects have suspended their operations due to the impact of COVID-19.

Q2: There is a decline of 63 billion yen from the FY/Mar 2020 results to the FY Mar/2021 business plan in oil and gas under commodity prices/forex. If we apply last year's sensitivities to the consolidated oil price, the number easily exceeds this. Why the disparity?

A2: 63 billion yen is the result of us totaling the numbers. Due to various factors, the simple linear sensitivity that we have been discussing is not applied.

[Speaker 2]

Q3: In shareholder equity at the end of FY Mar/2020, FVTOCI declined by 349 billion yen YoY. Please provide a breakdown of the causes for this. What were crude oil price assumptions at the time when impairment losses or fair values were calculated? Please tell us of any additional impairment risks.

A3: FVTOCI declined because fair value of LNG-project related assets and others declined with the fall in oil prices. In addition, the market value of listed stock Mitsui holds at Vale

in Brazil and others declined. Crude oil price assumptions incorporate the forward curve at the end of the period. As oil prices were slumping at that time, additional impairment risks are not so significant at present.

Q4: In the FY Mar/2021 Business Plan, why will profit for the year for Machinery and Infrastructure fall to 35 billion yen (down approx. 55 billion YoY)?

A4: We formulated the plan on the assumption that demand for our automotive sales and financing business, aircraft businesses, and others would be close to zero. There is a high level of uncertainty in our forecasts, but they were determined based on the assumption that a lockdown situation would continue through April-June.

[Speaker 3]

Q5: Regarding the difference between Q4 performances and the original forecasts, please explain this downturn including the impairment losses in the Energy and Machinery & Infrastructure segments.

A5: The valuation gain/loss and special factors for Machinery & Infrastructure were an impairment loss of 3.7 billion yen for an overseas rail project and an undisclosed amount for the offshore support vessel business. In addition, while it did not occur this quarter, there was a decline in base profit due to the FPSO refinancing. In Energy, we recorded impairment losses at Eagle Ford, Greater Enfield, Tempa Rossa, Kaikias, and others.

Q6: What are the assumptions for the fall in profit at Vale in FY Mar/2021?

A6: Forecast annual production volumes for iron ore for 2020 are in line with those announced by Vale at 3.1 million to 3.3 million tons, and those for 2021 are from 3.75 million to 3.95 million tons based on the assumption of a gradual recovery. We would like to refrain from disclosing assumptions on dividends including interest on equity.

[Speaker 4]

Q7: Which of the LNG projects have a risk of impairment loss when measured at FVTPL? Wouldn't Tangguh, North West Shelf, and Cameron, etc. (investments accounted for using the equity method) be applicable?

A7: Those businesses measured at FVTPL for LNG and oil/gas development businesses are not significant. For those investments accounted for using the equity method, when there is an impairment loss, this has the impact of an equity method loss. Incidentally, at the end of the period there were no impairment losses at applicable projects.

Q8: How are you positioning the E&P business in your strategy going forward? Particularly with the continuing slump in the price of oil and its oversupply situation, will Mitsui have to change course from what has been a business focus and a strength?

A8: Since before the COVID-19 pandemic, there had been continued discussion within the company over the energy portfolio as a whole. Currently, we will continue to take a long-term perspective towards both Area 1 in Mozambique and Arctic LNG 2 in Russia (the FIDs for both projects were reached last year). We will continue to discuss and review the E&P business, in particular the direction of our crude oil development and production business.

[Speaker 5]

Q9. In your explanation about the oil prices used in calculating impairment losses, you mentioned that you incorporated a forward curve pricing. Could you please elaborate on these prices?

A9. In addition to incorporating forward curve pricing as of the end of the fiscal year, we have set price assumptions based on consideration of medium- to long-term outlooks from research agencies and financial institutions and consultation with the auditor.

Q10. The business plan for FY Mar/2021 forecasts a decline in non-resources areas. What will be the impact of COVID-19 on the Lifestyle segment? Also, what are the assumptions behind the outlook for asset recycling?

A10. In addition to the decline in occupancy rates at IHH, we have incorporated a certain level of negative impact to Food & Retail stemming from lack of demand from restaurants. The outlook for asset recycling assumes the postponement of what would have been profitable asset sales and IPOs in Machinery & infrastructure and a number of other segments, and this is a downward factor in the FY Mar/2021 business plan. The plan assumes that the stagnation of economic activity will continue through June and that we will see a gradual recovery in activity from July with a return to normal levels in H2.

[Speaker 6]

Q11. What is the basis for the FY Mar/2021 business plan assumptions for Mineral & Metal Resources, Energy, and Iron & Steel Products segments, in particular with regard to the impact of COVID-19 on business operations?

A11. The business plan has been formulated under a certain set of assumptions and it is possible that costs, prices, etc. do not fully reflect all aspects of the current environment. We will provide clarification of any changes, including reductions in investments resulting from thorough revisions of new and maintenance & renewal investments, in accordance with future developments.

Q12. In the FY Mar/2021 business plan factor comparison slide, COVID-19 is given as a negative factor in the decline of 95 billion yen, but what is the basis of assumptions regarding quarterly allocation and recovery?

A12. With regard to the impact of COVID-19, we are assuming the effect will be seen in H1 and that there will be a return to normalcy from H2. It can be thought of as a loss of H1 profits. Nevertheless, the situation is different from one country to another and it is important to understand that the plan has been formulated using assumptions that have a very high degree of uncertainty.

[Speaker 7]

Q13. What is the basis for the JCC crude oil price assumption of US\$33? In particular, what is the movement between H1 and H2?

A13. Taking time lag into consideration, we have set US\$39 as our consolidated oil price assumption for FY Mar/2021. That assumption is based on Brent crude at US\$30 in H1 and US\$35 in H2. The JCC assumption of US\$33 has been calculated based on those Brent crude prices.

[Speaker 8]

Q14. You explained in your presentation that asset recycling will take time in consideration of the current business environment, but can we expect proportionate recycling gains if the situation returns to normal in FY Mar/2022?

A14. Recycling is heavily dependent on market conditions. If the market environment recovers, it may be that we don't need to wait until FY Mar/2022 and it may in fact be possible to execute our plan in the current fiscal year. If the recovery is next fiscal year, we will pursue steady recycling through profitable sales in that period.

Q15. You have said previously that LNG contracts have a floor for oil prices, but is it accurate to say that if oil reaches US\$30, then LNG could fetch a slightly higher price?

A15. Generally speaking, most long-term LNG contracts for Asia are linked to the price of oil and have upper and lower limits for the reference oil price. In these cases, the movement with oil process is not a straight line—there is a cushion. We show the sensitivity as of the end of the fiscal year, but the figures do not necessarily move in a linear way.