

# Q1 Financial Results Briefing for the Fiscal Year Ending March 2022

## Q & A

[Date]	August 3, 2021(Tue.)	16:45 – 17:45
[Speakers]	Takakazu Uchida	Representative Director, Executive Vice President, CFO
	Tetsuya Shigeta	Managing Officer, GM of Global Controller Division
[Moderator]	Masaya Inamuro	GM, IR Division

---

### <Q1>

I had an impression that you achieved significant increase in profit in Q1. You raised your yearly forecasts for the Mineral & Metal Resources Segment by JPY160 billion. Please tell us the breakdown of this revision.

### <Uchida>

We reviewed the assumed prices mainly of iron ore, coking coal, and copper. Given the size of our business and the fact that iron ore prices increased considerably above our initial assumptions, it is fair to assume that the majority of the increase is related to the iron ore business.

### <Q2>

You have raised your yearly forecasts and made decision of the share buyback in Q1, which gives me the impression that your company is becoming more flexible, as you have advocated. Will you continue to review your yearly forecasts at an early stage on quarterly basis?

### <Uchida>

Since it has only been three months after the initial plan was released, we will maintain the internal process of not reviewing the performance, and do not basically revise the yearly forecasts in Q1. However, the price of iron ore and other commodities, such as coking coal, crude oil, and gas, remained considerably higher than the initial assumptions which have large impact. Therefore, we thought that we should provide the revised yearly forecasts as early as possible if it meets the market expectations and direction, and thus have revised yearly forecasts in the Mineral & Metal Resources and Energy Segments, considering mainly the impact of assumed market price and related dividends. As the forecast of Core Operating Cash Flow was revised upwards, we anticipated that the market expectations will be higher towards the time of the announcement of the Q2 financial results, therefore, decided to implement the share buyback at Q1 in advance.

### <Q3>

Regarding the concept of cash flow allocation, while the forecast of Core Operating Cash Flow has been raised to JPY900 billion this time, there is no update on the capital allocation in the 3-year Medium-term

Management Plan on your slide. Please explain the current situation of recycling and investment. If investment cash flow and recycling remain the same, amount of Management Allocation will be further expanded. I would also like to know how you are thinking about the flexible additional share buyback.

<Uchida>

We have not reviewed the 3-year cash flow allocation from the plan announced at the previous financial results. We believe that there will be no major changes in the inflow and outflow compared to the plan announced other than the increase in the Core Operating Cash Flow. Our intention is to review it again at 1<sup>st</sup> half closing. The JPY50 billion of buyback will be an addition to the shareholders return in the cash flow allocation framework that we previously presented. As for the addition shareholders return, we would like to examine it carefully based on the changes in the environment up to the 1st half closing period.

<Q4>

As for the segments other than the resources, the progress rate against the initial plan was high in each Segment. I would like you to explain whether the strong performance in the Q1 is going to be sustained over the Q2 and beyond in relation to the full-year plan. In addition, please tell us how confident you are as CFO as I believe improvement of core earnings in these Segments would lead to additional dividend.

<Uchida>

As for the segments other than resources, although there were timing differences in earnings between Q1 and Q2 onward, those did not have large impact. Business environment in general was favorable, and the strong performance is continuing.

In Machinery and Infrastructure Segment, the robustness of the automobile business was outstanding, including PAG and PTL, which are engaged in sales, and the automobile and commercial vehicle business in North America. Trading of ships also performed well. In Chemicals Segment, trading business of materials has been very strong due to the recovery in demand and global production activities since the previous fiscal year. Strong performance is continuing in general, for instance, Novus has also seen a recovery due to methionine price improvement, and terminal business has been returning to normal mode. In Lifestyle Segment, trading of grains and other commodities continue to be strong, and there are some signs of a recovery in the dining out, textiles, and fashion industries from the impact of COVID-19. In some cases, the road to recovery is still not clear, but we can say that we are on a slight recovery track. In Wellness, IHH is showing a rapid recovery compared to the last fiscal year, and received orders of PCR tests as well as the operating rate of normal medical activities are increasing. Also, due to various measures for cost saving taken during the last fiscal year, net income is recovering quite rapidly. In addition to IHH, PHC was also a contributor for our results through good performance of ultra-low temperature freezers in relation to COVID-19.

There was a general increase in demand, and while there were supply chain constraints caused by various factors, such as shortage of containers, extremely cold weather in North America in February, and confusion due to unseasonable weather, we believe we could make full use of our logistics and marketing functions which led to revenue generation. I understand that there are concerns in the capital and financial markets that the pent-up demand may have peaked out. My personal view is that the figures for Q2 will continue to be strong, considering that there are some companies which have lag in consolidating results. On the other hand, we recognize that the extent to which this business environment is sustainable is a major risk factor, thus we will be watching it very carefully. Up until now, we have been focusing more on improving the quality

of existing businesses than making new investments. I feel with some wish that our base earnings is increasing. We will review regarding to what extent the base earnings have been raised as well as the businesses environment, at the Q2 financial closing.

<Q5>

I would like to know the continuity of the strong performance in Q1 in the trading business and Lifestyle Segment. Do you think that the strong performance in the trading business is temporary due to steady market situation and pent-up demand, or it will continue for certain period of time as a result of your efforts to strengthen profitability?

<Uchida>

In trading businesses, we believe that the factors behind the strong performance in the steel products, chemicals, and food businesses are slightly different. While we saw strong temporary demand due to pent-up, we could also monetize high volatility caused by supply constraints due to various factors. It is very difficult to reply to the question of continuity. We are analyzing weather factors, geopolitical factors, and structural changes in the supply chain, but at this point, we do not have a clear picture of how long the current business environment will continue. In my opinion, structural changes may be taking place.

<Q6>

With regards to the quarterly performance of the Mineral & Metal Resources Segment, what factors other than commodity prices, such as dividends from Vale, should be considered?

<Uchida>

Although the iron ore price is a significant factor, the dividend from Vale is not included in our sensitivities which we disclose. While we develop our business plan considering the dividend formula of Vale with certain premise, we understand that Vale has been generating large amount of cash flow due to the high iron ore price and has announced to provide additional shareholder returns. On the other hand, it is necessary to consider the price sensitivities of metallurgical coal and copper, while they are relatively small compared to iron ore. There are no other major factors that we are aware of.

<Q7>

I understood that the major factor of the upward revision of JPY160 billion for the segment is from iron ore. Even if we take into account the dividend income from Vale which is not included in the sensitivity, I think you have considerably raised the assumptions for the price of iron ore. What is the background for the change in your outlook? Please update us again on how you are looking at the future.

<Uchida>

Please understand that we are not able to explain about the iron ore price assumption in detail as it is not disclosed. I would, however, like to mention that we have not changed our way of thought behind the price assumption. We recognized that the price of iron ore at the beginning of the fiscal year was considerably diverged from the normal level, thus we set the plan on the premise that it will normalize moderately or

decline towards the end of the fiscal year. Although we still believe that such way of thought is valid, the price in Q1 has risen contrariwise. It has been at a level of over USD200 CFR North China and has finally loosened up in the past month, and we think that the tide has actually turned a little. In short, we have not changed our outlook for the future, so we expect it will normalize slowly, however, the forecast is now based on the fact that the period has been delayed by 3 months compared with the timing of business plan announcement. As for the price assumption, we have not fixed the current strong price to continue in the remaining fiscal year and our view has not changed. I think we can say that since the start of price decline was moved back by 3 months, there will be difference in revenue accordingly. We referred to the view of research institutions and some futures markets and are assuming that the price will go down at a normal pace, although there may be opinions that such view is conservative.

<Q8>

In the Energy Segment, which you made upward revision, the profit of Mitsui E&P USA increased by significant amount YoY. Would you be able to explain this increase only by oil price or are there other factors? Also, have you factored in the gas price in addition to the increase of oil price, for the upward revision of JPY20 billion in the Energy Segment?

<Inamuro>

As you pointed out, Mitsui E&P USA recorded profit increase YoY. As for the breakdown, price, cost and volume are the main and multiple factors. The price of oil has remained almost the same YoY thus the impact is minor, while the increase in gas prices has been reflected.

<Uchida>

Your understanding is correct that we have factored in the gas price increase in addition to oil price factor, in our revised forecast.

<Q9>

Regarding the forecast for the next fiscal year, the initial plan was for an increase in profit due to an increase in profit from non-resource businesses. Is there any change in your view?

<Uchida>

We recognize that there is no need to significantly change our forecast for the fiscal year ending March 2023, which we announced at the beginning of the fiscal year. Although our performance will be affected by market conditions, we hope to achieve our plan for the next fiscal year through steady growth in segments other than Mineral & Metal Resources and Energy Segments. This time, we have revised our forecast upward as a result of reviewing market assumptions, however, looking at the progress of 1Q results against the annual plan, we do not see any need to revise or change this trend. We will carefully review our forecast at the time of Q2 results.

<Q10>

Please let me know if you as CFO have any concerns about issues such as COVID-19 and the global economy.

**<Uchida>**

One of our concerns is the latest impact of COVID-19. Globally, in Asia and the United States, for example, COVID-19 continues to re-expand, and we have a serious interest in its impact on the global economy and economic recovery. I also believe that a major issue is how long the current business environment and conditions will last. Increased volatility and higher commodity prices will lead to higher costs for projects. We are also taking internal precautions to ensure that these do not lead to counterparty risks. In the medium to long term, major challenge is how to transform our business portfolio under the ESG-related trends. As social needs change drastically, we recognize that it is a big challenge for us to figure how to respond to such needs.

**<Q11>**

Please show us the impact of production volume and cost factors on the financial result in the Mineral & Metal Resources Segment.

**<Inamuro>**

We saw the downward impacts in the iron ore business. For the cost factors in Q1, the negative impact was JPY4.0 billion due to sales commission increase following the price increase. In addition to that, the negative impact on production volume was JPY2.0 billion due to heavy rain and the construction of a link to the successor deposit in Robe River project. As for coal and copper businesses, the figures were not significant in Q1.

**<Q12>**

How do you see the impact and forecast regarding COVID-19 situation in Southeast Asian countries?

**<Uchida>**

I am aware that COVID-19 situation is becoming more serious especially in Asia. In some areas, we decided to evacuate employees seconded from HQ and to ensure remote work for the safety of employees and people concerned. In fact, we are not aware of any indications that would reflect as negative factors in our business operation. Since we have been experiencing recovery in demand especially in North America and China, we have not yet recognized any major concerns due to decline in demand in Southeast Asia, but we will continue to monitor the situation closely.

[End]