

FY March 2025 Q1 (April 2024-June 2024)

Financial Results Announcement Q&A Session

[Date] August 1, 2024 (Thursday) 17:00-18:00

[Speakers] Tetsuya Shigeta Representative Director, Senior Executive
Managing Officer, CFO
Masao Kurihara Managing Officer, General Manager of Global
Controller Division

[Moderator] Hideaki Konishi General Manager of Investor Relations Division

<Q1>

I think the financial results were generally in line with expectations, but the macro environment and exchange rates are changing significantly, and there are concerns in the market that the performance of trading companies, which has been good up until now, may be approaching its peak. On page 14 of the presentation material, base profit is down 19 billion yen YoY. From your perspective as CFO, are there any areas that look slightly downbeat, especially in the non-resource areas, or other areas that we need to approach with a degree of caution going forward?

<Shigeta>

I feel the financial results were indeed in line with expectations overall. If you net *asset recycling* and *valuation gains/losses and one-time factors*, profit increased by 30 billion yen YoY. If you exclude those two factors and take into account *resources costs/volume*, *commodity prices*, and *forex*, and also the 19 billion yen decrease in base profit, that leaves a net total of minus 7 billion yen, which is essentially flat YoY. The weak yen was also a factor, but diversification in terms of the geography of the portfolio, types of businesses, and the value chain from upstream to downstream, all enable diversification effects and so I think that we have in place an earnings base that enables us to generate good earnings overall. We don't have concerns over any specific area, and I believe that by steadily implementing the initiatives to expand base profit outlined in the Medium-term Management Plan (MTMP), we will be able to achieve favorable results going forward.

Risks include the manifestation of geopolitical risks, which we continue to monitor, their impact on international commodities, and unexpected events such as logistics disruption, and we will prepare to avoid losses if we face such situations. Regarding the economies of the US and China, which both support the global economy, China's economy continues to be sluggish which is having a global impact. For the US, a soft landing looks to be on the horizon, but if an unexpected event leads to economic stagnation, this will also have a global impact, so we will continue to pay close attention to the situation.

The yen is strengthening and interest rates in Japan are rising, while expectations are high that there will be an interest rate cut in the US. In addition, we have seen that commodity prices have a certain level of downside support, so overall I feel confident that we can manage this mix of factors.

<Q2>

In June, you conducted a secondary offering for Mitsui shares owned by financial institutions. In the past, I think you had underwritten your treasury stock in the ToSTNeT market. When unwinding cross-shareholdings, please tell us whether you will acquire your shares as treasury stock or conduct secondary offerings, and how you will go about deciding this.

<Shigeta>

This was our first time conducting a secondary offering outside Japan. After confirming the sellers' intentions and timing regarding the share sales, we held discussions with the relevant parties and made the decision based on market conditions. The sellers had their own set of circumstances. Given that our desire to quickly eliminate the pressure on the share price in the market that would have emerged was in line with the sellers' desires to resolve the issue quickly, our aim was to achieve the sale of the shares in a smooth manner and improve liquidity. As for why we did not acquire the shares through a share repurchase, a major factor was that we were in the process of carrying out an ongoing share repurchase scheduled to end on September 20. We did acquire treasury stock in November 2022 through ToSTNeT-3, so we recognized that as one of the methods available to us. We would not always use this method for the sale of our shares by third parties, nor are we decided not to absorb them through share repurchases, so there is no change in them remaining as options.

<Q3>

The progress in the Energy segment is low, but I understand that LNG trading is expected to contribute in the second half of the fiscal year. LNG trading appears to have improved YoY, but please tell us about the situation in the Energy segment in Q1 and the possibility of upside in the full-year outlook.

<Shigeta>

As we do not disclose the business plan figures on an individual quarter basis, progress for each of the segments for Q1 is not clear from the outside, but I can tell you that the results are in line with the business plan. I'll let the General Manager of Global Controller Division provide additional information regarding LNG trading.

<Kurihara>

In Q1 of the previous fiscal year, there were transactions in LNG trading where losses were recognized ahead of profit to be recorded in subsequent quarters, but this year, price volatility has decreased, and profits have leveled out, resulting in an increase in profit YoY. As for the Energy segment as a whole, profits have a higher weighting in the second half of the fiscal year, so although progress in Q1 was low, it is safe for you to assume that progress is in line with the outlook for the year.

<Q4>

In the Machinery & Infrastructure segment, the progress of profit was 55%, and even excluding one-time profit, it was 30%, so progress was good. Regarding the full-year outlook, within the segment I expect that some businesses are performing better than expected while others are performing slightly worse. Please give us your insight on the progress of this particular segment.

<Shigeta>

We executed the asset sales of the Paiton power generation business and VLI, and also captured upside resulting from the impacts of the weak yen. In addition, in the automotive business, which is mainly in North America, and in the ships business, which is impacted by chartering and the sales of ships, we believe that we are in a position to capture the upside and expect to exceed our business plan, although this will also depend on the trend in exchange rates.

<Kurihara>

The Machinery & Infrastructure segment has made good progress in terms of profit, but there is a discrepancy between profit and Core Operating Cash Flow (COCF) due to certain tax burdens and time lag of receiving dividends from associated companies.

<Q5>

In the mobility field, have there been any changes when looking at the performance on a US dollar basis, excluding the impacts of the weak yen?

<Shigeta>

For the automotive business, which operates mainly in North America, in FY March 2023 and FY March 2024 pent-up demand after the COVID-19 pandemic continued, and operating performance was strong, and compared to then the situation has calmed down. However, profit levels have improved from the situation before the COVID-19 pandemic. We will closely monitor the economic trends in the US, but we expect to maintain reasonable performance throughout the year while monitoring the impact of interest rate cuts and economic trends.

<Q6>

In Q1, you steadily conducted asset sales, including planned large-scale deals, but I assume that there is a pipeline for asset selling in the same way you have a pipeline for investments. Please comment on whether we should reflect a certain level of asset sales in the earnings forecast for the current or following fiscal years.

<Shigeta>

Looking at our track record, asset selling has become recurring and a normal part of our operations. However, timing of sales is difficult to control, and we believe that it is difficult to constantly make large-scale divestments every year. On the other hand, ROIC has been introduced since the previous MTMP, and each business unit has now been looking at the portfolio with an increased focus on asset efficiency and replacing inefficient assets with more efficient ones. I explained that asset selling has become the norm, and I believe that our efforts will stabilize or accelerate toward the current MTMP or beyond.

<Q7>

Regarding the enhancement of base profit, it appears that among the core businesses, there is a mixture of areas that are showing growth and areas that are starting to show some signs of a plateau. For your investments, we would like to see businesses such as IHH, which start to contribute to earnings relatively early and show growth. While you are not expecting any major changes in the business plan, your base profit declined YoY in Q1, so please tell us whether you foresee any changes going forward.

<Shigeta>

We believe that the enhancement of base profit will lead to an increase in our corporate value, and we hope to gain everyone's trust by showing the results of our efforts. Our policy is to strengthen existing businesses, eliminate loss-making businesses, and work on turnarounds, while also striking a good balance in investments including new businesses that will start contributing to earnings as soon as possible. As shown on page 9 of the presentation material, we have made progress in projects that will contribute to earnings to a certain degree in FY March 2024, and FY March 2025, and we are focusing on achieving the goal for the final year of the MTMP. We hope to show progress in the 170 billion yen enhancement of base profit in the Q2 financial results.

<Q8>

Regarding the Lifestyle and Innovation & Corporate Development segments, it is explained in the presentation material that full-fledged earnings contribution is expected in Q2 onwards while the Q1 results excluding valuation gains/losses and asset recycling appear to be weak. Please tell us whether you evaluate the results excluding these one-time items as steady progress or whether there are some areas that are not as strong as expected.

<Shigeta>

We are aware of the low progress against the business plan for Lifestyle and Innovation & Corporate Development segments, and we have closely reviewed this. While we set the business plan to be reasonably challenging, the profit is at the same level recorded in the past. In Lifestyle, contributions from some new businesses have started, and in Innovation & Corporate Development, gains from the sale of some assets including real estate properties are expected in Q2 onward. We would like to steadily capture each of these gains and achieve what we set in the business plan. Although it will not be an easy task, we are not overly concerned that we will fall short of the plan at this stage.

<Q9>

Regarding the line in the slide on page 10 of the presentation material, *continuously considering to enhance shareholder returns in line with increase in cash inflows*, there are changes in the macro environment, weak commodity market conditions, the trend of a stronger yen, etc., and since you have a large weighting towards resources, I wonder if you can really expand cash inflows in this operating environment.

Another point is that I am very grateful that you have disclosed the YoY increase of 3.6 billion yen in profit from *new businesses* in the base profit on page 14 of the presentation material. I know it is difficult to judge only by the results of Q1, but I would like to know what kind of return we can expect in the future, so as CFO, please comment on your current thoughts in this area. I would also like to know the progress of the discussion on the use of the 1.2 trillion yen surplus capital from the previous MTMP.

<Shigeta>

Regarding the first point, cash inflows, in addition to COCF, we need to look at the end result of asset recycling after the three-year period of the MTMP, but at this point, I can confirm that we are making good progress and perhaps are even on track to exceed the level set in the MTMP. Based on the combination of these factors, we have stated our intention to make solid shareholder returns, at least within the framework of the cash flow allocation, and in the context of expanded Management Allocation.

On the other hand, we have received various suggestions and advice regarding the maintenance and expansion of ROE and leverage, and we will continue to strive to increase returns through the bottom line and the expansion of COCF, the realization of COCF that exceeds the business plan, and the realization of asset recycling beyond the MTMP. We will also continue to review if any adjustment is required when considering the appropriate level of capital.

<Q10>

COCF of 216 billion yen in Q1 looks a little low, but you also explained that there is a time lag in receiving some dividends in Machinery & Infrastructure. I suppose this may have had some impact, but how do you assess this within the Company?

<Shigeta>

We have good level of confidence that the payment of large dividends will come in Q2 or later and will be realized during this fiscal year, so we do not have any major concerns about

achieving the business plan overall. We think that progress is in line with the plan, due to the time lag of the relatively significant dividend.

<Q11>

Regarding the copper business of Anglo American Sur and Collahuasi, I think the profit is a little weak considering the copper price and exchange rate. What is your understanding regarding the copper business seeming to be a little underwhelming in the context of the operating environment.

<Shigeta>

In particular, we see the Anglo American Sur in Chile exceeding the business plan as a stand-alone business, due to rising copper prices and cost reductions, but the overall business continues to face difficult conditions due to the increasing interest rates.

From the perspective of improving production efficiency and reducing costs, the operation will change from two plants to one. We continue to think that this is a business where we should focus on turning it around, so we are making every effort to capture the upside from the increase in copper prices.

<Q12>

I understand that both profit and COCF in Chemicals are strong, with progress exceeding 25%. On the other hand, the profit from FVTPL of Eu Yan Sang is included, how big is the impact here? Is it quite a big impact, and if this is excluded, is the performance of Chemicals underwhelming? What is your view of the current situation?

<Shigeta>

We have recorded a one-time profit related to the acquisition of additional shares in Eu Yan Sang, but it is not to the level that would make results look bad without it. Progress exceeded 25% with the help of this upside. We have set a high target regarding the business plan, but we are making good progress in line with it, and we believe that we have got off to a good start in Q1.

<Q13>

Novus posted a profit of 500 million yen in Q1. Is it correct to assume that the turnaround was successful for Novus and that profitability is now firmly established?

<Shigeta>

Novus continues to face challenges with the need to optimize sales and reduce costs, as we expect methionine market to remain tough due to start-up of competitor's plants. On the other hand, Novus is expanding its specialty business of feeds for livestock other than methionine, called Gut Health Solutions, which is supporting Novus' earnings. We see that the methionine business continues to face challenges, and we will need to tackle these.

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