

Investor Day 2019 Panel Discussion (Capital Allocation)

Panel: President Yasunaga, CAO Fujii, CFO Uchida. Facilitator: Professor Hidetaka Kawakita, Kyoto University

Topic of questions (Submitted by investors in advance)	Responses
1. Investment situation and decision-making process	Confirmation of medium-term management plan cashflow allocation. Completed investments: core areas, 58%; growth areas, 45%. Strict screening and consultation process at investment proposal and PF committee meetings. Awareness of cost of capital; not a first-come-first-served approach.
2. Future vision	"Environment" and "Health". Shift from coal to gas irreversible. Exhibit comprehensive strengths through expansion of LNG global trading. Hospital business is growth platform at center of healthcare businesses. Pivot to "Mitsui & Co. of Asia". Become a company that routinely earns 500 – 600 billion yen.
3. Appropriate balance sheet	Stable financial base, ensuring liquidity are paramount. B/S is performing within scope of assumptions. Past pipeline projects are beginning to produce returns and improving capital efficiency.
4. Investment discipline	Target for "non-resources" is revenue base of ¥195bn (43%).(10% of 2012 highest profit) Steadily reducing loss-making businesses. Ability to handle the unexpected is important. Improve capital efficiency, including ROIC. Raise ROE target further from 10%.
5. Capital allocation priorities	No change to policy of balancing investment for growth, shareholder returns and debt repayment. Possibility of revising COCFx25% shareholder return level and minimum dividend in next medium-term management plan.
6. HR strategy	People that can create a global network and who have the drive to turn businesses around. Era of homogenous Japanese workforce is over.

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1. Is there an internal process for improving the right side of the balance sheet ? (which should be looked into before focusing on dividend policy)	There is need for an appropriate capital policy tailored for business PF. Finance and Risk Management staff also participate in PF committees. Fundraising is approved by the board of directors. From country risk and cost perspective, the roles of project finance by export credit agencies are significant. Looking ahead, individual mechanisms for refinancing will also be devised.
2. Possibility of consistent and consecutive increase in shareholder returns (as a result of improving revenue at existing businesses)	The basic strategy, which has been deliberated and approved by the board of directors, is to shift cash from “resources” to “non-resources”. IHH will be a pillar of Mitsui’s growth in Asia. There are not many similar opportunities. No loosening of investment discipline, but we do have a fairly full project pipeline.
3. ROE targets (history of reduction in leverage and ROE decline with achievement of positive FCF after shareholder returns)	We do not aim to be a resources company that takes full operatorship. Developing a counter-balance to market volatility. Aim to commit to achieving 10% ROE even amid accumulation of RE.
4. What is the relationship between capital allocation and improved corporate value at investee companies	As shareholder returns are decided based on CF, we need a mechanism for early realization of the amount by which corporate value increased (unrealized gain). E.g. outsourcing some hospital functions, etc.
5. Approach to asset recycling What businesses are not in the firing line?	For businesses Mitsui is unable to bring out specific strengths of, then the subject will be a target for recycling even in a cash cow status. We carefully determine the business connectivity. We insist on hands-on “creation.” We carefully/conservatively assess if investments could become stranded assets from an ESG perspective.
*Prof. Kawakita summary	Shareholder returns and growth strategy go together. If investors have requests in relation to that, they should be engaged with management. The strengths of general trading companies are their diversity of employees and business domains. If these are put together skillfully, conglomerates could be seen as advantageous. There is plenty of room for development.

