Medium-term Management Plan 2026

Q & A

[Date]	May 9, 2023 (Tuesday)	10:00-11:30
[Speakers]	Kenichi Hori	Representative Director, President and CEO
	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

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<Q1>

In the new Medium-term Management Plan (MTMP), I understand that in terms of tactics, you see the previous MTMP as not being wrong and that you are by and large adhering to the fundamentals of it. What is the point that you, as CEO, would most like to appeal to shareholders in three years' time when the current MTMP has been completed? You have stated you are *aiming to be the Partner of Choice,* but what are your thoughts on the difference between Mitsui and other trading companies, the positioning of your company among global companies, etc.

<Hori>

Considering the increased volatility in the world, including geopolitics, and the many global issues we are facing, we have chosen *Creating Sustainable Futures* as the theme of this MTMP.

As a global company with its roots in Japan, we cannot survive as a top-tier global company unless we accumulate the ability and experience to build a high level of global collaboration and consortiums among companies. Therefore, we hope to become such a company by implementing various measures in this new MTMP.

As a trading company, we have various Business Units, and as I explained today, we will quickly lower the barriers between Business Units and promote cross-industry collaboration. We cannot respond globally unless we have a thorough understanding of each country, so we will penetrate more deeply into regions where we have particular strengths, and use the company's know-how to link to industrial collaboration. Only then can we function as a corporate entity that can be a globally competitive and sophisticated consortium, and that is what we intend to keep in mind as we move forward.

In the case of our company, we are involved in business not only in Japan, but also in the US, Asia, and businesses from the southern hemisphere, and we are also working on new initiatives in Europe. In addition, the importance of China as a market is indisputable. Since we are engaged in such a variety of activities on a global scale, it is important to maintain a global balance. I do believe that this is a point that people understand and commend us on.

We have a long history as a business entity, but we will work as one to increase our presence.

<Q2>

Regarding the *optimal capital structure* on P33 of the presentation material, while you have presented various KPIs this time, it is not clear from the outside what the balance sheet will look like in three years' time. Currently net DER at the end of FY March 2023 is 0.5 times and looking at this from the outside it appears that it will certainly decline, moving closer to zero. What are your current thoughts on the appropriate capital structure? For example, what will be the size of the balance sheet three years from now, and how will you utilize the approximately 1.2 trillion yen of cash remaining from the previous MTMP?

<Hori>

As I have previously communicated, it is true that we have in excess of 1 trillion yen as Management Allocation from the previous MTMP still in our hands.

I explained that we would apply this to strengthen our balance sheet, and as management, we feel that we have made sufficient preparations for the volatile business environment that the company faces.

In terms of how we will utilize this reserve, we have tried to get an understanding of what the world will look like when the outbreak of the COVID-19 is over, and all employees on the front lines of their business operations have taken part in this process, taking another look at the projects on the ground. Currently, we have projects in the pipeline that will add up to many times more than what we have built into our investment plan. Fortunately, employees around the world were able to move more freely in the latter half of the COVID-19 pandemic, and because of this, we were able to put together some projects a little earlier than expected. These projects are piling up, although they were not completed in time for cash outflow to be recorded in the previous MTMP, so they will be completed in the new MTMP. We will give priority to executing these projects because they are excellent opportunities, but it is important to achieve high profitability with an abundant group of projects. As is true for any company, our analysis shows that the cost of capital is on the rise, and when it comes to selecting projects that make sense from a price perspective in an inflationary economic environment, we need to be very selective.

Thus, it is necessary to carefully select and qualify projects, or to have control over the time element for these projects. It is possible that some of these projects will be of excellent quality, and I believe that the preparations we made at the end of the previous MTMP, which I mentioned earlier, will be effective in various ways.

Considering this situation, we are considering investments as a result of careful selection in the three-year model shown in the cash flow allocation, the amount of money we want to return to shareholders, our financial strength to respond to opportunities when they arise, and our ability to withstand an extremely challenging business environment.

Although the debt to equity ratio has fallen to a low level, we like the idea of having room to be flexible.

ROE is important, so we need to increase capital efficiency, and we need to commit to a certain level of shareholder returns. We have taken an all-round approach to how we allocate capital in this way, and this is the quantitative plan that we have presented in our MTMP.

Since various things can happen in the business environment in the future, our idea is not to focus too heavily on one indicator, but rather to manage by looking at our response capabilities, the breadth of our menu, and KPIs at the same time.

<Q3>

The target of 920 billion yen in base profit for FY March 2026 means an increase of approximately 220 billion yen from the approximately 700 billion yen I think you will generate in FY March 2024, excluding one-time factors. Please tell us which areas will contribute to earnings and how certain you are of achieving this plan.

<Hori>

The base profit shown in the new MTMP is calculated from FY March 2024, based on commodity prices and foreign exchange assumptions for FY March 2026. The 170 billion yen improvement in base profit set forth in the MTMP was formulated with all Chief Operating Officers of Business Units, and is basically the result of bottom-up calculation.

During the previous MTMP, commodity prices and market volatility were high, and we had many opportunities to exercise our trading company functions, but we are assuming that the situation will normalize during the new MTMP. Past results have shown that more volatility increases opportunities for our company to make profit. However, this is not something that is factored into the plan, hance the decline we are expecting.

Of the 170 billion in base profit improvement, profit contribution from the new investments listed in the chart on P35 will be approximately 60 billion yen. Breaking this down into three areas of what we call Key Strategic Initiatives, we have Industrial Business Solutions, Global Energy Transition, and Wellness Ecosystem Creation, and these should evenly each contribute about one-third of the 60 billion yen. This includes Wellness Ecosystem Creation's food science and protein-related projects that are not named specifically.

For the remaining 110 billion yen, this is to be derived from organic growth. Of that, Industrial Business Solutions contribution is at over 30 billion yen. These include various mobility business lines, global operations in automotive and other machinery in Asia, and chemical products such as methanol and ammonia. Ammonia is not a new energy source, but an existing business. We also expect organic growth in tanks and other logistics operations, as well as volume expansion to include materials, energy, and metal resources.

Wellness Ecosystem Creation contribution is at around 10 billion in organic growth in food and wellness.

We also expect around 40 billion yen for the entire company through business efficiencies and turnarounds by exiting or getting currently loss-making businesses back into the black. This includes the area of trading, such as coffee, where we had difficult results in FY March 2023. Trading in general was favorable in FY March 2023, but the numbers were a little weak only in coffee trading. We expect this to normalize and operations to deliver results.

Global Energy Transition includes some projects that are partially recovering profits from prior investments. Including these and other small items amount to about 20 billion yen, for a total of 110 billion yen.

<Q4>

Regarding the increase of shareholder returns as a percentage of Core Operating Cash Flow (COCF) to 37%, you are currently generating 1 trillion yen in COCF, but previously there was a long period during which the contribution was around 500 billion yen, and I think there is fluctuation depending on the environment at the time. Since you mentioned investment for growth, please tell us what the implications of this 37% target are, such as whether you will stick to this level even if free cash flow is in the red, or whether even in that situation this new commitment of 37% won’t be a problem owing to the capital accumulated in the previous MTMP. I think that volatility will increase in the future, so please tell us whether you think the ratio could reach a higher number such as 45% or 50%. Also, am I correct in understanding that you basically want to place more emphasis on dividends for your shareholder returns?

<Hori>

We are considering the appropriate level of shareholder returns based on base earnings calculated with neutral commodity prices and with a certain degree of normalization of volatility in the trading environment.

Since 2014, we have reached a certain level of share repurchases that lead to more efficient cash flow per share. We will continue to flexibly consider share repurchases in the future, but I believe that the efficiency per share that we are now targeting is being achieved based on the previous MTMP. In anticipation of this, we will calculate a minimum amount of dividend we would like to pay and continue to discuss this with you all going forward.

I think someone mentioned in his question that the Management Allocation of the previous MTMP was a buffer against the volatility we may see in the current MTMP. I understand that to be the case, and I hope you will understand that we have formulated our capital allocation based on the combination of this with the expected increase in base profit.

Our approach to share repurchases remains unchanged. We will consider share repurchases if we see more upside than originally anticipated, for example if commodity prices exceed the expected range and generate more cash flow than anticipated, or if there is major asset recycling. As in the previous three years, we would like to continue close dialogue with you all. We look at the stock price level, as well as whether our balance sheet is sufficient for the business environment we face. We will consider share repurchases in a flexible manner after analyzing various factors. However, I believe that one benchmark for allocation will be the ratio to cash flow.

While we would like to maintain a neutral balance of cash flow after shareholder returns, we do not think it is necessary to deny the possibility of taking a flexible approach on debt levels depending on the situation. We believe that while we must be disciplined in the way we execute projects and in our investment decisions, we should maintain the flexibility to respond to good projects as they come about, so that we can broaden our menu of management options.

<Q5>

Could you explain the relationship between the 170 billion yen base profit growth and the cash flow allocation? According to the table on P34, the Management Allocation is 1.13 trillion yen. Given that shareholder returns is 37% of COCF, we can calculate this to be about 1 trillion yen. 750 billion yen is already planned to be used for dividends and share repurchases, about 250 billion yen of the 1.13 trillion yen will be used for shareholder returns and the remaining 900 billion yen can be used for additional investments. This is my understanding of the share cash flow allocation plan.

Is the 170 billion yen base profit growth based only on the projects in which investment decisions have been made and policies confirmed, or is it based on the assumption that a certain amount of Management Allocation will be allocated to growth investments as well? You explained that the 170 billion yen increase in base profit includes some growth investments from Management Allocation. From your perspective, does this mean that the current potential investments include projects that look favorable? Please give us an idea of how you view these investment projects overall.

<Hori>

Of the 170 billion yen in growth in base profit, I believe that many of the contributions from new investments have already been decided and policies confirmed for investment, but we also expect to make some investments with cash from the Management Allocation.

We would like to work on current projects to determine how many of the projects in the pipeline still make sense, and whether they can pass hurdles set by management.

In terms of investment projects, we have had intensive discussions with the Chief Operating Officers of each Business Unit in formulating business plans, and we have had a good response. For example, the supply chain for the Global Energy Transition is full of projects that can only be executed through collaboration among multiple Business Units within the company and also require collaboration from other big industry players outside of Mitsui.

For example, there are many projects that would not be possible without the chemical and energy businesses coming together, and in the area of mobility, there are many projects that are connected to our network of ships and automotives, as well as to the management of CO2 emissions at mining sites.

It takes a combination of work to make that into something that can generate sufficient returns in this current environment of high interest rates and inflation. And only by incorporating functions such as trading and finance in the periphery of the business can surplus profit be secured.

In order to get to that point, we need to make such preparations and improve efficiency and productivity, but we are looking into such details and are determined to make those projects work.

We intend to actively invest funds from our Management Allocation in deals that meet these assumptions, and by appropriately combining our trading capabilities, we will secure sources of earnings.

<Q6>

Your explanation was to maintain a management structure and size at a similar level and to improve productivity while not increasing the number of employees too much, but it is expected that shareholders' equity per employee will keep increasing into the future.
I believe that the target for ROE of over 12% will be reached naturally through the profit target of 920 billion yen, but what will you do after the MTMP period?
If you continue, the shareholders' equity will build up and in contrast, total assets need to be increased with leverage, and the amount invested per person must be increased to maintain ROE over the long term. What do you consider to be an appropriate asset size?
In the investment plan, there will be a net increase in Global Energy Transition's invested capital by 1 trillion yen. What is your policy for the future expansion of total assets?

<Hori>

If we deliver solid results as planned, we will build up capital, but of course we always keep capital efficiency in mind while also looking at shareholder returns.
In addition, the most important factor will be the number of employees who can promote various projects in a high-level global consortium.
This may be true for any company, but it can be the bottleneck. We need to cultivate the ability to hire and train while keeping a close eye on this, and we are constantly searching for ways to create an even more agile team by combining the project management employees at the head office with the excellent employees who have been nurtured at the group companies.
This is probably one of the most important issues. If there is a limit there, of course, we will not be able to do more projects, and we would like to try as much as possible to take that limit off.
From our perspective, we can honestly say that we do not consider the absolute volume of assets we can handle as a limiting factor. There are global companies that are expanding on a much larger and more respectable scale. We are striving for that level as well, so we need to raise our level even higher toward how well we can attract that kind of talent to our company.
In the short term, it is also true that considerable time saving can be achieved by the use of new *tools*, and we intend to thoroughly implement measures in this area over the next three years.
We call it *middle game* within the company to ensure the growth of our projects, and we believe that by eliminating waste, we should be able to more proactively create time for this middle game and innovation.

Therefore, one of our goals is to thoroughly use *tools* including DX to increase the productivity of our people by the first half of this MTMP.

<Q7>
I would like to ask a question regarding the consistency from the previous MTMP. I understand that the three Key Strategic Initiatives are a development from the Strategic Focus of the previous MTMP, but how is Market Asia in the previous MTMP incorporated into the current MTMP?
It also appears that Industrial Business Solutions will allocate management resources to a wide range of businesses in general. Specifically, what kind of business model do you intend to expand? Could you please explain your policy based on the connection with the previous MTMP?

<**Hori>**
Regarding Market Asia, one of the Strategic Focus of the previous MTMP, the results of the capital alliance with Indonesia's CT Corp Group are emerging in various forms, and we expect the alliance to contribute to earnings with considerable impact in the latter half of the new MTMP, as well as during the subsequent MTMP.
In addition, regarding our recent announcement, we are planning to make a tender offer for Metro Pacific Investment Corporation, which is engaged in infrastructure business in the Philippines. We believe that this is a very good entity and that it will be able to capture the growing demand for infrastructure in the Philippines in the future.
CT Corp group I mentioned earlier is a conglomerate that is expected to grow in Indonesia, and including IHH, we see that a core business is being created in Asia.
We believe that we are now able to extend Market Asia, where we saw progress in the previous MTMP, in the new MTMP with the idea that part of it will be in Wellness Ecosystem Creation and part of it will be in Industrial Business Solutions. Furthermore, we are proud of the depth and breadth of the other two Strategic Focus.
Let me give you a more concrete picture of your question about Industrial Business Solutions.
For example, in the case of Chemicals, we have already achieved results in trading in FY March 2023, we intend to combine logistics and trading assets in such a way that they are both complementary and viable as businesses. Industrial Business Solutions will focus on businesses such as manufacturing, where we can manage the risk, or combining materials derived from fossil fuels with those derived from bio-derived materials, which will lead to a circular economy. We believe that business will expand from two points of view, regionality and cross-industry.
As for materials, we are focusing on businesses to reduce carbon intensity. Since we have been involved in the mineral & metal resources business for a long time, we are focusing on how we can move forward in this area, for example, how we can promote the direct reduced iron business in the future, which we believe will become one of the pillars of our business.
In this sense, Industrial Business Solutions can be seen as a field where we have knowledge and where we are adding new functions, such as carbon intensity, to the growing awareness of issues to improve people’s lives, and we will target the revenue streams generated in this process.

<Q8>
Let me ask a question about the incorporation of risk factors into the new MTMP. You mentioned earlier that the turnaround projects will amount to 40 billion yen, so I understand that you are reaping the projects where returns have not risen as expected after investment has been made. On the other hand, how do you manage and factor in figures for the expected downside?

<**Hori**>
Regarding overall risk management, we are very careful to manage the time frame of the project. When project costs rise in an inflationary economy, we have to consider how to manage it and the time frame of negotiation, and we will work on it with determination. In this way, we would like to proceed carefully so that each project will lead to the expected results.
Regarding the incorporation of figures, in our accounts and budgets, we always take into account everything that should have been for accounting purposes at the end of the previous period. Since we have determined that there are no items that should be taken as allowances in accounting at this point, we do not anticipate any negative side risks and factor them into our budgets like a buffer.

<Q9>
My question is about the balance between Global Energy Transition investments as shown on page 27 of the presentation material and shareholder returns. I understand that businesses such as CCS, hydrogen and ammonia do not generate profits in short-term, and the scale of business risks could be large.
Recently, some companies have been curbing or reviewing shareholder returns in order to invest in the Global Energy Transition area, which is a medium- to long-term initiative. Your company is trying to enhance the shareholder returns while proceeding with Global Energy Transition at the same time. What were the discussions that led you to this conclusion, and what are your current thoughts on whether shareholder returns will be a constraint when you move forward with this type of Global Energy Transition investment in the medium- to long-term?

<**Hori**>
We are showing you the overall capital allocation including shareholder returns, after looking at how many opportunities we have on hand. Our basic thinking is that we can probably make the investments we would like to work on with the model we currently have. We are not holding anything back.
On the other hand, to give you an idea of how we arrived at this point, there are many potential projects, and if we were to take on all of them, it would require a very large amount of money, and it does not mean that we are investing on all.
If we set a new hurdle for projects that can produce results even in the current macroeconomic environment, the number of projects will be limited to a certain extent, or we will have to make a considerable breakthrough at the stage of building the project.
In the case of our company, for example, the Chief Operating Officers of our Business Units understand this, and they are proceeding with the projects. Therefore, we believe that there is a path that can produce sufficient results with a certain degree of control, rather than increasing the amount of investable assets.
Based on this policy, we would like to actively invest the amount of money shown in the current Management Allocation if we are certain that good projects can be built.
As for the time frame, for example, each country has various support programs, which we would of course like to take advantage of, but ultimately we need to come up with a plan in which the business is viable on a stand-alone basis.
In our case, it is also important to select partners in terms of how we share the risk with each other. In addition, we need a combination of adjacent trading chain, financing, and a little bit of traditional assets that will bring profit for the new businesses in a low-carbon society. I believe that we can proceed with such a combination of relatively low marginal costs.
We are of the view that the scale of the project will remain within a certain level because it is difficult to develop a good project without such a combination of techniques.
If a large-scale opportunity comes up and we are overwhelmingly convinced as a result of our proactive scrutiny, we should work on this. We believe that we can do this under the new MTMP, and there could be a phase in which we will work on it, while carefully watching our balance sheet and engaging with our stakeholders.

<Q10>
On page 26 of your presentation material, you explain various investment pipelines in each region, and among these, I have a question particularly about the investment in the LNG business. LNG business has price risk, and if you stick to the ROIC targets of 5% in FY2026 and 9% in FY2030, it would be difficult to invest in LNG due to concerns on price risk and policy risk.
LNG is very important for your company's cash flow. Please tell us how you plan to continue to invest in the LNG business, which is subject to price risk, while maintaining consistency with ROIC.

<**Hori>**
ROIC analysis is performed for each project individually, so we add them up vertically here. However, please be assured that we do not use this vertical addition as a reason to distort the ROIC judgment for each individual project.
As you mentioned, there is a time lag from investing and profit contribution in LNG business, but even if all LNG projects around the world, including the ones we are currently involved in, were to start operating as scheduled, our medium- to long-term analysis indicates that there would not be enough LNG projects supply to meet the needs of the market.
In that case, taking into account a certain contribution from its scarcity, the LNG projects we are working on now can be calculated on ROIC with a sufficient time horizon, so I do not think that we should reduce our LNG investment now because of ROIC.
On the other hand, this ROIC target of 5% in FY2026 and 9% in 2030 is what you get if you add up all the projects vertically, but as the next-generation energy type projects start up, they are expected to catch up with conventional energy considerably.
The result of this internal discussion is that when we add them up vertically, we can see about 9% in the fiscal year ending March 2030, and this is the image that we are showing you.

<Q11>
With regard to invested capital related to ROIC, you have given the example of reducing 100 billion yen in the Lifestyle segment, but if we look at the company as a whole, how much of the low-profit assets that are being challenged are there?

<**Hori>**
We have not established any particular macro KPI for reducing investable assets or denominator of ROIC, while we are trying to make steady progress in all business areas, one project at a time. As we are working on our business plans one by one, for example, lifestyle industry is close to food, and we are talking about 100 billion yen. However, generally, if you look closely at any business area, you will find something like that in the billion-dollar range. Therefore, I would like you to understand that we are working throughout the company to verify the efficiency of the ROIC denominator in such units.

<Q12>
Could you please explain the achievements of the Moon Creative Lab after its operation or what you expect in the future?

<**Hori>**
Moon Creative Lab is there to create 1 from 0 through innovation. This organization is a lab that thoroughly examines how to build business models and what new businesses can be created based on the understanding and knowledge gained from the work we are undertaking. We are working with sharp discussions, based on the idea that in order to incorporate strategic design thinking and access a broader market, we need to change the way we think and the way we assemble our consortium.

Moon Creative Lab has already made some achievements. For example, in addition to the realization of DX-related business, a Moon Creative Lab graduate is working on virtual currency linked to physical gold. This is very practical work, and graduates are taking the lead in such areas, which our derivatives trading division is working on right now.

We are gradually seeing Moon Creative Lab playing an incubation role, and we would like to continue to make this a stronger platform.

[END]