Mitsui & Co., Ltd.

IR Meeting on New Medium-term Management Plan
Questions and Answers

1. Date and time: **May 8, 2014, 13:30-15:00**
2. Location: **"Fuji Room", 3rd Floor, Imperial Hotel**
3. Speakers: **Masami Iijima, President and Chief Executive Officer**
Joji Okada, Executive Vice President, Chief Financial Officer
Keigo Matsubara, Managing Officer, Deputy Chief Financial Officer, Global Controller
Michihiro Nose, General Manager of Investor Relations Division

4. Questions and Answers

Q: *One of the basic approaches used in the New Medium-term Management Plan is recurring free cash flow (RFCF). Are we correct to assume that this does not include the concept of an investment budget? It is stated in the plan that cash outflows for existing business and projects in the pipeline amount to ¥1.5 trillion. Will you consider investments other than existing business and projects in the pipeline according to your cash flow (CF) situation? Do you not intend to release investment and loan plans for each segment as you have in the past?*

A: Our prime objective under the New Medium-term Management Plan is to achieve a positive free cash flow (FCF). Therefore, our approach is to purse the cash flow based management. We are estimating that cash outflows on investments planned prior to March 2014 will amount to ¥1.5 trillion over the next three years, against core operating cash flow and cash inflow through asset recycling. Cash left over will be allocated for new investments and shareholder returns. In the past, we did assign a roughly defined investment budget, but this time we have confirmed the net amount of investments and divestitures with each business unit as an investment guideline. Our policy is that additional divestitures will need to be considered if a major investment is planned outside of the guideline.

Q: *The core operating CF, which is included in RFCF, does not take account of the effect of balance sheet changes, such as an increase in accounts receivables. The effect of these items is likely to be significant, but can we assume that they will have no impact on return to shareholder, such as share buybacks?*

A: Working capital (WC) is affected by short-term economic trends and may vary significantly at different times. In our case, for example, WC tends to increase if the closing day of a fiscal period falls upon a holiday. For this reason, we exclude WC from the core operating CF to provide a track of our basic earning capability.

Q: *Your plan toward 2020 vision appears to have changed compared with the time when it was first formulated. What are some of the parts you have changed, and what is the background for those changes?*

A: In our Long-term Management Vision, we took into account the possibility of upstream inflation and downstream deflation, the shift from resources to non-resources areas, and value chains and the growing importance of emerging countries. Basic trends and our view on the business environment remain unchanged. Our approach to the creation of value chains extending from upstream to downstream areas is expressed in a new term "key strategic domains." Another phenomenon that has caused tangible changes is the shale revolution. There are now clear signs of a massive shift extending along the entire hydrocarbon chain from upstream to downstream levels, and our objective has been made even clearer.

The environment in Japan has been changing. The world is moving from a structure in which the driving force for global economy was provided by the emerging countries to one in which the main impetus is provided by the developed countries, especially the United States. There are concerns over the future course of the Chinese economy due to the effect of China's structural problems. Japan is meanwhile starting to develop a new vision, as evidenced by the staging of the Olympic and Paralympic Games in Tokyo. We also aim to create a new vision for 2020. This year, 2014, will be a year of milestone events for us, including the start of construction of a new head office building and our temporary relocation.

Q: *Do you mean that if the investments go beyond your guideline, you will not be concerned about achieving positive FCF?*

A: We are very keen to achieve positive FCF. In those cases, we will need to consider large-scale divestitures. By aggressively promoting assets divestitures, we will not result in a negative FCF.

Q: *What were the reasons for the timing of the share buyback program that you announced in February? Could you be a little more specific about your flexible approach to share buyback programs, and the way in which you will achieve balanced allocation between growth investment and return to shareholder?*

A: We have always tried to implement share buyback programs whenever there was an opportunity. At the time of the announcement on the second quarter financial results, I explained that we would need to focus on two priorities: growth strategies and return to shareholders. The share buyback program was already on the horizon at that time, and we decided to implement it after considering a variety of factors, including investment demand, our FCF position, ROE and interest-bearing debt. Now that we have established a track record, we believe that it has allowed us to act more flexibility. We regard the improvement of capital efficiency as a priority on which the senior managements must focus at all times. We will take a flexible approach to future share buyback programs after considering a wide range of factors.

Q: *Your income growth rates by key strategic domains indicate that you are expecting high investment returns. Can you achieve those returns solely on the basis of past investment, or will new investments be needed? Investment discipline is expected to affect all segments, but what is the current situation?*

A: We believe that we can achieve those returns on the basis of existing business and through projects in the pipeline. There will also be new investments, but these are not reflected significantly. As far the investment discipline is concerned, our Portfolio Management Committee also monitored returns and CF for each project regularly under the previous Medium-term Management Plan and will continue to maintain consistent CF management by monitoring Portfolio Management Committee to ensure that investment discipline is consistently applied and that projects are selected stringency.

Q: *The conditions for the exercise of stock option under the new system that you plan to introduce indicate that dividends are included in calculations of the Mitsui & Co. share price growth rate. Are dividends included in calculations of the TOPIX growth rate?*

A: Publication of the dividend-inclusive TOPIX index is limited, and we therefore decided to base comparisons on the normal dividend-exclusive TOPIX growth rate because of the need to ensure that our approach would be easy to understand. The PBR is below 1, and we aim to lift our stock price to a level at which it will be above 1. The new system is intended to express our determination that senior managements should also share in both the benefits and risks of improvement in our corporate value. When we undertook our review of directors' compensation, we decided to introduce incentives based on medium- to long-term perspectives. We have already introduced performance-linked compensation, and we have decided to introduce the new system to increase the management team's sensitivity to the stock price as well as to business performance, and to focus their efforts on the improvement of corporate value.

Q: *You have set an ROE target of 10-12% by the year ending March 2017. Do you expect to implement share buybacks once a year during the three-year period of the New Medium-term Management Plan?*

A: We cannot commit on either the timing or the amount, but we believe that the probability of being able or unable to implement share buyback will always be 50:50. Our credit rating is also important, and we also need to focus on the maintenance of our financial position.

Q: *To achieve a positive FCF, will you lift your investment hurdle rate higher than in the past? Will you be making any specific changes in order to generate more cash?*

A: We do not intend to change the hurdle rate. We will make the investment discipline more strictly and select projects stringently. Each business unit will be given a framework in the form of the investment guideline, and will be to balance cash inflows and cash outflows within that framework. We have also strengthened monitoring of past investments and tightened investment discipline.

Q: *Your new projects appear to be based on long-term perspectives, but long-term perspectives tend to result in wider latitude on returns. How will you achieve a balance between new projects that make an immediate strategic contribution and those that will contribute further down the track?*

A: If there is a project outside of the investment guideline that we decided we should take on, we will undertake asset recycling. All business units have contingency plans identifying which assets can be recycled, and they will implement asset recycling to cover projects that are outside of the investment guideline. The time frame for contributions to earnings varies from a project to a project. We will line up these timeframes and make investment decisions on medium- to long-term perspectives over a period of around five years.

Q: *What ratio of your new investment are brown field and green field?*

A: We have both types, but there are more green field projects.

Q: *You plan to divide the recurring free cash flow of ¥1.0-1.4 trillion between new investment and return to shareholders. How will you optimize this balance?*

A: We have focused until now on the achievement of a positive FCF, but from now on we will allocate our RFCF between new investments and return to shareholders. Previously it was possible that there would have been no return to shareholders with a FCF of zero, but going forward we will also take return to shareholders into consideration.

Q: *You have said that you will generate substantial RFCF over the next three years. Can you continue to generate RFCF toward 2020 after this Medium-term Management Plan?*

A: Basically we will continue to apply the concept that I have described in the New Medium-term Management Plan. This approach, including the investment guideline, is a new one, and we aim to evolve it further.

Q: *According to your balance sheet as of March 2017, interest-bearing debt will increase by ¥400 billion over the next three years. Surely debt will be reduced if FCF increases?*

A: Dividends will amount to almost ¥400 billion over the three-year period, and we should also consider WC. It is also possible that dividend payments will exceed the budget, and in that case interest-bearing debt will increase. Even if investment exceeds the planned level, we will maintain a dividend payout ratio of 30% by increasing interest-bearing debt.

Q: *Your quantitative target is EBITDA of ¥1 trillion. Do you expect EBITDA and net income (PAT) to follow a parallel growth trend? Depreciation will increase because of development of shale projects and other factors, and it seems unlikely that PAT will increase that much.*

A: As an indicator, EBITDA is little affected by transitional factors, such as impairment losses, and is linked relatively closely to cash flow. It more readily reflects our strong cash generation capability than PAT. EBITDA does not always move in parallel with PAT.

Q: *You say that shareholders' equity will reach ¥4.8 trillion three years from now. That means that PAT will also increase substantially. Yet the level of EBITDA is low compared with PAT. Surely you won't be able to achieve ROE of 10% unless you reduce equity by around one-tenth by the share buyback program?*

A: We have only disclosed PAT for the year ending March 2015, but to some extent we can also calculate our PAT in the years ending March 2016 and March 2017 on the basis of our shareholders' equity three years from now. I believe that our ROE target is fully achievable based on existing and projects in the pipeline, and that is the basis on which we formulated the new Medium-term Management Plan.

Q: *The activities of Mitsui & Co. are weighted heavily toward resources area. What will be the relative weightings of resource and non-resource areas three years from now?*

A: We believe that it will be around 70:30.

Q: *Mitsui & Co. relies heavily on energy and iron ore business. Are we correct to assume that if your profit is reduced by declining commodity prices, you will achieve the ROE target by reducing shareholders' equity as the denominator?*

A: Basically that is true. We have based our plans for the years ending March 2016 and March 2017 on conservative commodity price assumptions. If income is shallow and equity increase, we will consider other measures.

Q: *You have stated that EBITDA will increase by ¥150 billion from the years ending March 2015 to March 2017. Does this mean that PAT will increase by a larger amount?*

A: Based on our targets for shareholders' equity as of March 2017 and ROE, we are aiming for PAT of ¥480-580 billion. Since we are determined to exceed the EBITDA figure of ¥1 trillion, we believe that PAT will increase by over ¥150 billion. We are aiming for ROE of 12%.

Q: *If PAT increases, you will be able to achieve ROE of 10%, but are you now focused on strengthening return to shareholders to achieve ROE of 12%?*

A: If shareholders' equity increases, ROE will fall below 10% unless there is a increase in income correspondently. We aim to achieve income that is commensurate with the increase in equity and thinks that the bottom line will be 2 digits of ROE.

Q: *Does that mean that you regard ROE of 10% as the minimum, and that if commodity prices fall and you are unable to achieve your income targets, you will adopt a policy of reducing shareholders' equity?*

A: We will need to keep a close watch on both our credit rating and our financial position. If there is no issue with credit rating, we could adapt our approach in various ways. When we implemented the share buyback program in February, we carefully considered the amount from various perspectives. Some people thought it should be ¥100 billion, but in the end we have decided it at ¥50 billion.

Q: *In the chart of RFCF, you have inserted the word "Net" alongside the investment CF for new projects. Does this mean that you do not intend the amount of investment in new projects to be particularly large? You are already strong in some of the seven key strategic domains, so does the word "Net" imply that the amount of additional investment in these areas would not be especially large?*

A: The word "Net" refers to cash outflows for new projects and simply means that any divestitures of new projects will be subtracted from new investments. It means nothing more.

Q: *You have put a "±" sign after "Borrowing/repayment of interest-bearing debt." Does the fact that you will not reduce interest-bearing debt even when FCF is positive mean that these funds will be applied to return to shareholders?*

A: We have provided an image in which debt increases by almost ¥400 billion if we pay a dividend when FCF is neutral.

Q: *Trading companies have traditionally been structured vertically, but your key strategic domains appear to be structured across the business unit. Will you create a new organizational structure to match this? How will you adjust, and how will you manage human resource exchanges?*

A: The role of the organization and the deployment of personnel will vary according to the business model. Under the previous Medium-term Management Plan, we brought together people from the Infrastructure Projects, Iron and Steel Products and Chemicals Business Unit to form the Shale Gas Division. Our client officers for companies like Petrobras and Vale also provide horizontal links across multiple segments. We will develop a variety of organizational structures as we move forward during the first year of the Medium-term Management Plan. For example, we may consider integrating the energy and chemicals segments.

Q: *Is there resistance to change within your company?*

A: A little. However, we frequently rearrange our human resource portfolio system and organizational structures, and our employees are becoming used to this.

Q: *You have used EBITDA as an indicator. Have you changed your stance on the recovery of dividend from equity investment? The recovery rate is already high, but will you continue to maintain this stance?*

A: We need to stipulate clear conditions about dividend policies in shareholder agreements concerning equity investment. We believe that our emphasis on cash flow will strengthen our stance on the formulation of shareholder agreements and our ability to influence the dividend policies of our partners.

Q: *Are the present values of projects in the pipeline net or gross?*

A: The present values of projects for which there have been cash outflows since April 2014, for example, represent the present values of cash outflows and the associated cash inflows. If we had indicated net present values, it might create the impression that cash outflows up to March 2014 had already been deducted. We have therefore stated present values by discounting cash inflows from the current time into the future.

Q: *Have you achieved an internal consensus about the increased investment discipline?*

A: We plan to invest ¥1.5 trillion, or about ¥500 billion per year, over the next three years in existing business and projects in the pipeline. There will also be investment funded by RFCF. We have not yet made any decisions about this, but we expect to be able to invest around ¥700 billion per year if everything goes according to plan. However, we cannot haphazardly increase our total assets with our existing human resource structure. We expect our total assets to peak around in the year ending March 2020. We cannot continue investing indefinitely, and we will need to maintain the practice of asset recycling. Our business units also understand this. We have thought about this as a company, and we have reached a shared understanding.

Q: *Why has Mitsui & Co., which operates on the B to B level, undertaken a branding project? Does it relate to the Mitsui & Co. premium?*

A: The year 2020 will be an important milestone for Japan. In the fall of 2019 our new head office building will be completed. We wondered what we could do to give everyone a true-to-life understanding of Mitsui & Co. This is another challenge for us. We do not believe that we can disseminate our brand strategy in the context of our B to B activities in a single year. This is a theme that we will need to consider during the current Medium-term Management Plan period, or perhaps during the period until 2020.