Mitsui & Co., Ltd.

IR Meeting on Financial Results for the Year Ended March 31, 2015
Questions and Answers

1. **Date & Time:** **May 11, 2015 (Monday) 10:00-11:30**
2. **Location:** **Palace Hotel**
3. **Speakers:** **Tatsuo Yasunaga, President and Chief Executive Officer**
   Keigo Matsubara, Executive Managing Officer, Chief Financial Officer
   Kimiro Shiotani, Managing Officer, Global Controller
   Michihiro Nose, General Manager of Investor Relations Division

4. **Questions and Answers**

Q: Could you please elaborate on Mitsui's approach to dividends and free cash flow for the year ending March 2016? In light of cash flow and other factors, the Company has decided to maintain the dividend amount at the previous fiscal year's level. What level of cash flow is Mitsui forecasting for the year ending March 2016? Also, which factors most affect dividend stability?

A: Given market conditions, we expect core operating cash flow of about ¥500 billion in the year ending March 2016, compared with core operating cash flow of ¥660 billion in the year ended March 2015. During the period of the three-year New Medium-term Management Plan, taking into account a gradual pickup in the prices of iron ore, crude oil, and other commodities, we feel that core operating cash flow totaling ¥1.0 trillion for the year ending March 2016 and the year ending March 2017 is fairly certain.

As for returns to shareholders, given our strong cash generation capabilities, we want to give priority to stability and continuity based on an approach of combining shareholder return and growth investments. We view business strategies from a medium-to-long-term perspective because our mainstays are the Energy, Mineral & Metal Resources, and Machinery & Infrastructure segments and areas that require large-scale capital expenditures, such as the Chemicals and Iron & Steel Products segments. Similarly, with respect to shareholder return, we believe in giving priority to stability and continuity from a medium-to-long-term perspective.

Q: Although cash inflow is at a high level, profit for the year attributable to owners of the parent is declining. As president, do you have a sense of crisis about profit levels? Further, the Company expects gross profit to decrease more than ¥100 billion but selling, general and administrative (SG&A) expenses to increase upwards of ¥15 billion. Does Mitsui intend to secure profits, even if that entails reducing costs?

A: With regard to the decrease in profit for the year attributable to owners of the parent, we are undertaking business management with a great sense of crisis. The increase in SG&A expenses reflects the higher costs of overseas subsidiaries resulting from yen depreciation. It does not necessarily mean we are inflating SG&A expenses. Furthermore, we are working hard to reduce personnel expenses and other operating costs, focusing on resource- and energy-related projects.

While cost reduction is important, we think enhancing productivity is necessary. Presently, we are considering reducing the number of personnel in corporate staff divisions and increasing personnel deployment to operational divisions and operating companies. Further, we are considering steps to improve the efficiency of our decision-making processes to better reflect current conditions.

Q: In the non-resources area, I feel the gap is growing between Mitsui and other trading companies. As president, how are you planning to turn around this area? Also, according to the plan for the year ending March 2016, engine development with GE, agriculture in Brazil, chlor-alkali production, and other businesses will eliminate losses. Can we assume that Mitsui's non-resources area will grow as advance investment burdens diminish going forward?

A: Multigrain in Brazil and the chlor-alkali producing business in the United States are finally beginning to bear fruit. In Brazil, through an alliance with VLI, which we invested last year, we have established a system for increasing the efficiency of inland transportation and undertaking the selection and concentration of ports. Last year, the chlor-alkali producing business struggled due to a hike in the price of ethylene, which the business uses as a raw material, and a deterioration in market prices for EDC products (PVC intermediates). Now, however, profits are improving. In addition, engine development with GE has entered a phase of generating returns on the investment, and we do not expect to post further losses.

Apart from these three projects, we expect attractive, green field projects in the non-resources area, shown in the balloon chart, to contribute to profits steadily. We feel the green field projects are promising because we are managing them well, and each of the projects is due to start up over the coming several years. We have set out investing resources largely in the non-resources area as a goal for the year ending March 2016.

Q: It may depend upon the outcome of investment in Mozambique, but do you expect positive free cash flow in the year ending March 2016?

A: We have set positive free cash flow over the three years of the New Medium-term Management Plan as a target. In each fiscal year, the status of free cash flow will depend upon our needs for investment cash flow at any given time.

Q: In the year ended March 2015, Mitsui invested ¥190 billion in new businesses. Does the Company plan to continue investing actively in the non-resources area in the year ending March 2016? Also, my understanding is that the resources area is seeing an increasing number of project sell-offs as prices fall. Can you share your thoughts on “bottom-fishing” investment?

A: I cannot comment on the actual amount earmarked for growth investments in the year ending March 2016. However, as stated on page 14 of the presentation, the allocation of ¥1.1 trillion to growth investments (new investments) and shareholder return during the New Medium-term Management Plan is unchanged. This figure is the difference between cash inflow and investments in existing businesses and pipeline projects over the three years of the plan. We think investment in new projects in the year ending March 2016 will be higher than the ¥190 billion invested in the year ended March 2015 because for the Moatize project there will be a cash outflow immediately after the closing.

In the resources area, an increasing number of projects are on offer as resource prices fall. If we identify projects to be golden opportunities, we may make “bottom-fishing” investments. But, we would carefully evaluate such projects’ strategic value and profitability.

Q: The Company is emphasizing dividend stability. Can we assume that ¥64 per share is the lower limit for full-year dividends? Also, what kind of in-house discussions are you having in this regard?

A: As long as cash flow does not diverge from expectations significantly over the three years of the New Medium-term Management Plan, we want to implement dividend payments with an emphasis on stability and continuity. However, in-house discussions have concluded that maintaining a certain degree of flexibility in business management is desirable in case of unforeseen circumstances.

Q: Mitsui’s approach to share buybacks is flexible. Including the relationship with ROE targets, in which circumstances can we expect the Company to implement share buybacks?

A: There are many growth investments in the “deal flow,” meaning the range of potential projects on offer. We have significantly increased the stringency of the selection criteria that we use for investments. We want to keep share buybacks as an option that we will consider in light of cash outflow resulting from such investments, the stability of the Company’s financial position, and Mitsui’s credit rating. Moreover, share buybacks are an important option given that the New Medium-term Management Plan has maintained double-digit ROE as a target.

Q: As the newly appointed president, what are your business management goals and policies? Which aspects of existing business management policies do you intend to follow or change?

A: The undertaking of large-scale, complex projects from a medium-to-long-term perspective is the core of Mitsui’s business. We should not change our basic approach because the president or market conditions have changed. Therefore, our business management will remain consistent even under a new president.

On the other hand, as a “rejuvenator” of our business management, I want to focus on making sure we stay flexible and build long-term relationships with other companies. I would like to revise our internal meeting system so that we can fully direct our energies outward. Also, I want to make inroads into new business areas through exchanges with the senior management teams of partner companies and customers.

Further, in relation to narrowing down projects from the “deal flow,” along with cash flow management, I think we should adopt a more top-down approach to selecting projects. We discuss management of the Companywide portfolio at meetings of the Portfolio Management Committee. However, I want to lead efforts to raise our selectivity and accelerate our “metabolism” with respect to projects by relaying to front-line operations from an early stage which fields the senior management team thinks Mitsui should explore further.

Q: You stated that the goal of investing ¥1.5 trillion over the three years of the New Medium-term Management Plan in existing businesses and pipeline projects is unchanged. However, excluding delayed investment in VLI, if investment levels in the year ending March 2016 are at the same as those in the year ended March 2015, the Company may not reach ¥1.5 trillion. Could you please confirm the progress of investments in existing businesses and pipeline projects?

A: Our outlook of ¥1.5 trillion is unchanged because market prices and other factors led us to delay investment in certain pipeline projects that we had planned to invest in as of May 2014, which offset an increase in the investment amount that resulted from subsequent yen depreciation.

Q: Could you please give an update on progress in the Mozambique LNG project? At the end of last year, the government of Mozambique enacted related legislation. What other milestones have been reached? The pipeline project progress chart indicates start-up in 2019, but what progress has the Company made toward other milestones, such as the timing of FID?

A: At present, we are in the final phase of selecting EPC contractors. As for marketing, we have received interest in the purchase of about 80% of the sale volume. We are in discussions with partners aimed at FID by the end of the current fiscal year.

Q: What is Mitsui’s approach to asset recycling? What will the approximate amount be in the year ending March 2016? Also, can you share your thoughts on the replacement of resource-related assets?

A: We think we can achieve asset recycling of ¥900 billion over the three years of the New Medium-term Management Plan. Compared with ¥340 billion in the year ended March 2015, we expect asset recycling of ¥300 billion or less in the year ending March 2016. The Portfolio Management Committee will identify projects for recycling and recycle them steadily based on consideration of their priority ranking and liquidity.

My approach to resource-related assets is to acquire favorable assets and sell off unfavorable assets quickly. For example, fuel coal is a possible candidate for recycling given carbon costs. Further, we will select oil-related assets that we should dispose of due to production costs or geopolitical factors.

Q: Looking at the chart showing a breakdown of factors contributing to year-on-year changes in profit, resource-related cost reduction does not appear to be such a significant factor. What is your stance on cost reduction?

A: The difference between the year ended March 2015 and the year ending March 2016 may seem small because we have been reducing costs in the Mineral & Metal Resources and Energy segments since the year ended March 2015. With respect to iron ore, we are conducting a review of costs that includes such items as automating operations, shortening truck transportation distances, and reducing personnel expenses, which is an area of focus in the iron ore industry as a whole. Also, we reduced costs considerably for coal through process reform and other measures in the year ended March 2015. In relation to the Energy segment, the entire energy industry is taking steps to reduce personnel expenses and other costs. However, because safety is paramount, we are reducing costs carefully.

Q: The latest outlook of ¥1.7 trillion for core operating cash flow does not seem much lower than the figure announced in the previous fiscal year. Realistically, profit levels are below the initial outlook due to falling iron ore and crude oil prices. Last year, Mitsui announced a target of ¥1.0 trillion for EBITDA in the year ending March 2017. What is the current target, and do you think it will enable the Company to reach core operating cash flow of ¥1.7 trillion? In other words, how much has Mitsui's profit outlook changed?

A: In the year ended March 2015, EBITDA was ¥788.3 billion. In the year ending March 2016, we expect profit to decline about ¥160 billion due to market prices. However, partly thanks to higher production volumes and cost reduction benefits, we anticipate EBITDA of ¥660.0 billion. Assuming EBITDA is around this level for the remaining two years of the New Medium-term Management Plan, we believe cash inflow of ¥1.0 trillion is achievable. Moreover, this target becomes quite conservative if we assume that resource prices will recover gradually.

Q: I would like to ask about simultaneously achieving cash flow allocation to growth investments and shareholder return. New investment in the year ended March 2015 was ¥190 billion, and you expect this to rise in the year ending March 2016. Therefore, new investment over these two years seems likely to reach about ¥500 billion. The latest outlook for recurring free cash flow is ¥1.1 trillion. How does this ¥1.1 trillion breakdown with respect to growth investments and shareholder return? What is the president's approach to simultaneously achieving this cash flow allocation?

A: We have not established a clear formula for this simultaneous achievement. The implementation of the New Medium-term Management Plan's medium-to-long-term measures—such as enhancing existing projects, increasing corporate value, and making new investments—requires us to adopt a similarly medium-to-long-term approach to shareholder return. That is why we give priority to stability and continuity and emphasize dividends in relation to shareholder return. As a result of in-house discussions, we decided to emphasize stability and keep the dividend at ¥64 per share.

Q: EBITDA for the year ending March 2016 is set at ¥660 billion, but a figure for the year ending March 2017 is not given. Am I correct in assuming that you expect EBITDA to plateau and that any rise in resource prices will increase EBITDA accordingly?

A: At this stage, I am unable to make any definite statements about the year ending March 2017. However, we think that supply-demand conditions will improve a little compared with those at present, thereby pushing up commodity prices and growing EBITDA.

Q: I get the impression that the Machinery & Infrastructure Segment's performance has improved quite significantly. Furthermore, the segment has ample pipeline projects. On a global basis, profit of ¥60 billion is expected. How much potential does the segment have going forward? For example, are you confident that the segment can generate profit of about ¥100 billion? How do you see the future for this segment?

A: We can envision a scenario where the Machinery & Infrastructure Segment grows profit from ¥60 billion to between ¥70 billion and ¥80 billion. However, whether or not profit of ¥100 billion is reached depends on how we approach asset accumulation. For example, in our IPP (Independent Power Producer) businesses, power generation capacity has risen to almost 10GW. Going forward, we believe that we need to take a hands-on approach, assume operatorship, and further develop our practical management capabilities. In this way, we will be able to take the lead in selecting and recycling projects. In other words, rather than simply accumulating assets, we will create and recycle projects. Through this process, we plan to raise profit margins above current levels.

We expect to reach a level of between ¥70 billion and ¥80 billion in the future. However, rather than surpassing the current 10GW power generation capacity, we envision operating at slightly less than 10GW. At the same time, for lease projects—one of the pillars of the machinery business—instead of accumulating lease assets, we intend to adopt a sound management approach of deftly incorporating capital from other entities without increasing Mitsui's net assets. Going forward, we would expect the Machinery & Infrastructure Segment to control the size of its assets while raising profit margins.

Q: The Lifestyle Segment seems to have fallen short of expectations. Will it really improve? Could you please explain this segment in a little more detail?

A: I also see the Lifestyle Segment as a challenge. The outlook for Multigrain, which was the main obstacle, is quite promising. As well as steadily moving Multigrain into the black, I am energetically visiting partners and customers related to the Lifestyle Segment. I am making sure related industries are left in no doubt about Mitsui's commitment to fostering this business segment steadily. Further, I feel confident that our employees can achieve tangible business results in accordance with the senior management team's expectations. I expect this segment to improve steadily.

Q: The progress of all of the existing and pipeline projects in the balloon chart is likely to become clear during your term as president. Looking five or six years ahead, when exactly will Mitsui's actual profitability reach a new level? What are your expectations?

A: This is a difficult question to answer, but one factor will be the pace of recovery in market prices, with the crude oil price being a representative example. Historically, we have been good at leveraging resource development to establish infrastructure projects or business-to-customer projects by committing ourselves to countries. Our business development in Australia, Sakhalin in Russia, and Brazil testifies to this competence. With this in mind, we believe that profits will rise significantly when we realize coal mining projects and LNG projects in Mozambique. Our businesses in the United States, a resource-rich country, are not limited to the development of Marcellus and Eagle Ford. We have broadened the scope of our efforts to include Cameron LNG; related downstream gas-based chemical manufacturing businesses, such as those producing methyl methacrylate (MMA) and methanol; gas-fired power generation; and gas pipeline businesses. We expect the level of profits will advance to a new level in 2019, by which time we will have completed the establishment of an integrated set of businesses that is not susceptible to gas price fluctuations because it generates profits from an entire value chain. For the time being, we will develop the brown field projects on the left of the balloon chart to ensure that they generate profits in accordance with expectations. When asked earlier about my goals, I omitted to mention I really stick to achieving results and profit. That may seem unsurprising, but I see my greatest task as ensuring all employees contribute as much as possible to corporate performance. We realize that we have to lift profit levels significantly, including those of existing projects and projects currently under development. Furthermore, I feel this sense of crisis has heightened employees' commitment and motivation.

Q: Under your current policy as president of concentrating efforts in the non-resources area, how has the Company established the hurdle rate for returns from businesses in this area? You explained that you intend to select projects to heighten the profit margin. As Mitsui has concentrated efforts on the non-resources area, have any projects actually emerged that could heighten the profit margin? Given that analysts' forecasts of business results should reflect applicable hurdle rates, could you please indicate what type of hurdle rates the Company has established for its initiatives going forward?

A: For new projects, regardless of whether they are in the resources area or the non-resources area, an IRR of 10% has been set as the hurdle rate. Our policy of selectively pursuing projects that can reliably generate returns above this rate is unchanged. However, because we can use existing platforms, it is comparatively easier for us to realize favorable returns by expanding existing projects or pursuing projects with parties we currently do business with. Also, in the non-resources area, we have to take on initiatives that will become "game changers." We have to comprehensively consider a range of factors, including the hurdle rate and such qualitative factors as strategic significance and developmental potential.

Q: In addition, I have a question about investments in new projects. Do you see new projects generating returns further ahead in the future than existing projects and pipeline projects or do you intend to give more emphasis to acquiring equity in earnings of operating companies that will contribute to business results immediately? In this respect, which type of investment, if any, do you intend to emphasis?

A: In response to the question of whether we intend to give priority to acquiring equity interests in brown field projects, as I mentioned earlier, we want to focus more closely on cash generation. We want to give priority to projects in which we can assume operatorship and that we can control through majority stakes. Of course, because we are a trading company, we need to select projects, fields, and countries in which we can assume majority stakes. I think increasing the number of projects that we control through majority stakes is important in order to proactively manage our portfolio in a way that reflects our ideas. When I envision “game changer” projects, these must entail exploring areas that are not directly related to our existing businesses. Therefore, I do not see us assuming majority stakes in projects in such areas. Obviously, we would invest in projects in these areas based on minority stakes. It is a difficult question to answer, but our stance of balancing the two types of projects as we select future projects is unchanged.

Q: This time, the Company has changed its outlook for core operating cash flow over the three years of the New Medium-term Management Plan to ¥1.7 trillion. Could you please breakdown the positive factors in the current outlook, including those in the non-resources area, that are counteracting the negative effect of falling resource prices.

A: Regarding core operating cash flow, depreciation and amortization has risen significantly, particularly in relation to the Energy segment. Depreciation and amortization is recognized as an expense in profit and loss statements, but it is added back in the calculation of operating cash flow.

Q: You anticipate a recovery in resource prices over the medium term. With Mitsui’s iron ore production volume likely to rise, how do you see the supply-demand situation unfolding? How much do you think resource prices will rise?

A: As for iron ore prices, port inventories in China are trending downward. However, iron ore prices will probably react sensitively to how the Chinese government continues to implement its economic stimulus measures. Prices have decreased rapidly because mining majors’ production increases have coincided with reduced capital investment in emerging countries. However, we believe demand for steel will pick up in the medium-to-long term as growth of the global economy and an increasing world population drive infrastructure development. Although issues remain regarding the balance between supply capacity and demand, my opinion is that the supply-demand balance will change around 2020 and prices will begin to recover gradually.

Ends