MITSUI & CO., LTD.

IR Meeting on Financial Results for the Six-Month Period Ended Sep, 2015 Questions and Answers

1. **Date & Time: November 9, 2015 (Monday), 10:00 – 11:30**
2. **Location: Imperial Hotel, Tokyo**
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 elaborate on the current state of cash outflow resulting from investments and loans and divestitures as well as the forecast for cash outflow for the second half of this fiscal year and on? Also, in the event that current conditions in the commodity market continue, would you clarify the Company's approach to shareholder returns, including dividend payments in the coming fiscal years?

A: Gross investments and loans for the first half came to ¥240 billion, and we acquired ¥100 billion through divestitures. From the latter half of the current fiscal year, we are planning investments and loans in large-scale projects, such as the Moatize coal mine project and partial acquisition of shares in Gaspetro. As such, there has been no significant change to our overall forecast for cash outflow resulting from investments and loans. For divestitures as well, although it may seem that divestitures are slightly behind schedule, we are steadily moving forward in such ways as selling off the Chlor-Alkali business in North America and the bioethanol business in Brazil, both of which we have already announced.

It is a bit premature to discuss dividend payments for the next fiscal year; however, our approach to dividends, as stated in the New Medium-term Management Plan, remains unchanged. With a core focus on consistency, continuity, and stability, and given that the Company has a strong ability to generate cash and is recording solid EBITDA, we will continue with the same approach as we have taken in the past.

Q: In regard to the plan the Company has presented in the New Medium-term Management Plan for gross investment of ¥1.5 trillion in existing businesses and projects in the pipeline over the three years of the plan, is there a possibility that the Company may revise this plan due to changes in the external environment? Also, concerning future investments in new projects, is the Company considering substantial investments in areas where its performance is weak?

A: While investment amounts are inflated due to the depreciating yen, we have delayed or cancelled some projects. Therefore, we will not make revisions to our planned gross investment of ¥1.5 trillion.

A: Since the establishment of new management, we have been engaging in initiatives to strengthen areas where our performance is weak, viewing this as an urgent task. In the non-resource areas of chemicals, machinery, and infrastructure, where we have a solid network of customers and a strong earnings base, our main priority is to provide support, including large-scale investments, in order to realize returns in a prompt and fruitful manner. In regard to other non-resource areas, rather than acquire a large business platform, we would like to initially revisit growth strategies with affiliated companies on an individual basis, and, in some cases, that will lead to these companies expanding their potential for growth by conducting M&A or forming business alliances. We believe the prompt realization of these goals is our first priority.

Q: This year's forecast for soybean production volume in Brazil is expected to be a record high. If that is the case, what are the reasons behind the poor business performance of Multigrain and Xingu, which conduct agricultural and origination operations in Brazil? Also, could you please explain to us the ways Mitsui is planning to bolster the business performances of these companies as well as provide us with an overview of their current business conditions and forecasts?

A: Under stagnant market prices, including that for soybeans, brought about by abundant harvests in North America and other regions, the origination business is facing difficult times. We are considering drastic measures, such as the review and disposal of assets, rationalization, which would include restructuring personnel and organizational systems, the optimization and improvement of the efficiency of inland logistics, and the bolstering of corporate functions by deploying personnel from our CFO divisions. As for the agricultural business, we are enhancing our ability to respond to risks related to regional climate change, and so on, by strengthening business alliances with our partners in the region. In order to optimize the personnel structure of each company, we have put in place various reinforcement measures, such as deploying members of our Japanese staff and appointing external personnel as on-site managers. While keeping a close eye on market reversal, we aim to improve the management of Multigrain and Xingu. Also, we will draw up a number of scenarios, from making improvements on an individual company level to reinforcing business alliances, and work to carry out these measures within a specific time frame.

Q: Six months have passed since you were appointed Mitsui's new CEO. What are the challenges you have seen during that time, and what kind of changes are you thinking of making going forward? Also, what is the current status of Novus, and how do you foresee its performance in the second half?

A: As a member of Mitsui's new management, my main goal basically boils down to raising the Company's earnings base. Specifically, in areas outside resources and energy, we need to make efforts in projects with high earning capabilities and strong market presence. Meanwhile, Mitsui's strengths are in resources and energy, and there are opportunities emerging in infrastructure and key industries that contribute to nation building derived from the resources and energy projects. Therefore, we will take measures that strike a balance between our resource and non-resource segments.

As for greenfield projects in resources and energy, we have LNG, coal, and infrastructure projects in Mozambique. In addition, for existing projects, we are expanding and extending our vested interests in the Middle East as well as expanding the Sakhalin-II project in Russia. For these projects, I hold frequent meetings with related customers and government officials, and they have expressed to me their expectations regarding our ongoing contributions in areas where we perform strongly. We are leveraging our relationships with our business partners to move forward with these discussions on infrastructure and related projects.

In non-resource areas, it is extremely important to consider how we can establish a high number of top-to-top, trust-based relationships with our business partners in order to optimize the use of the Company's network. Such relationships will not only expand the range of our businesses, they will also provide a safety net in the event a problem arises. Also, we are enhancing the pipeline for potential projects. In the first half of the current fiscal year, we exited projects facing difficulty as well as conducted post-merger integration (PMI) by intensively assigning personnel. We also implemented business start-ups. In these ways, we directed our efforts toward promptly realizing returns in a fruitful manner. To accomplish these goals, I believe there is a need for rapid decision making and proper utilization of our consolidated management personnel, which comprises 47,000 people. I would also like to have affiliated companies consider their own individual growth strategies, and, if deemed appropriate from the overall viewpoint of the Company, I would like to have these companies carry out bolt-on investments, which are investments for business expansion. We are adopting this approach as a Companywide campaign.

In regard to Novus, while operating conditions at competitor plants were poor and production start-ups were delayed, demand for methionine was solid due to growing poultry demand. These market conditions are currently favorable for us. Methionine is a unique chemical product, and there is a high level of difficulty in its manufacture from various perspectives, including raw material sourcing and plant operational performance. Therefore, the entry barrier to this business is quite high. As the demand for poultry is expected to continue to increase, reflecting growing health awareness among consumers, we are considering the expansion of methionine production.

Q: Could you provide details of cost reduction initiatives in the iron ore business, and do you consider there is further room for cost reductions? Also, as the Company is focusing its efforts in non-resource areas, would you elaborate on the forecast for improvement in these areas?

A: Regarding cost reductions in our iron ore business, in the Robe River JV (a joint venture with Rio Tinto), for example, we reduced mining costs by shortening transportation distances for trucks as well as cutting idle hours. We also made a transition to carry out maintenance in-house, and we are working to reduce surplus labor. Moreover, in order to reduce transportation costs, we plan to introduce an automated driving system for rail transportation in the next fiscal year. We believe that this is how we can make further cost reductions. As for our joint venture with BHP Billiton, through the uniform management of operations, we are working to improve efficiency by revising maintenance periods and integrating mining equipment. Also, Vale is engaging in efforts to raise productivity through personnel reductions and more efficient operations, and we believe that further cost reductions are possible.

A: In Chemicals, contributions to earnings from the start-up of new projects and the acquisition of new businesses will start from the next fiscal year. Moreover, in the current fiscal year, earnings have been solid in not only the methionine business but also the chemical trading business, the latter being our strong point for many years. The opportunities for new investment that these businesses create have proven to be strengths for the chemicals business area. In addition, we are expanding logistics involving the Chemical tank terminal. We have decided to exit the Chlor-Alkali business due to changes in the strategy of our business partner Dow. However, we have entered into an offtake agreement with Olin, the company that acquired the Chlor-Alkali business from Dow, to continue to purchase products.

Regarding Machinery & Infrastructure, our IPP businesses posted a one-time loss. Nevertheless, we are steadily seeing returns from projects we have been investing in up until now. Combining both the Infrastructure Projects Business Unit and the Integrated Transportation Systems Business Unit, this segment has grown to a level where it can stably generate earnings of ¥50.0 billion a year. By further investing our resources in the Chemicals and Machinery & Infrastructure segments, we believe we can aim for even higher earnings going forward.

Q: Under the New Medium-term Management Plan, the Company has adopted a target of ¥1.1 trillion in recurring free cash flow over the three years of the plan. Could you tell us about the progress the Company is making toward realizing that target and the outlook going forward? In line with the dividend policy for the current fiscal year stated on page seven of the presentation materials, the Company takes into consideration EBITDA and core operating cash flow. Does this mean that even if recurring free cash flow is negative, the Company will pay a dividend, as deemed appropriate, provided there is solid operating cash flow? Please reiterate the Company's approach. As for another question, what progress has been made regarding the final investment decision (FID) for the LNG project in Mozambique? Also, could you share with us any feedback, particularly from the perspective of sales?

A: In the period covered by the New Medium-term Management Plan, a dividend payout ratio of more than 30% is our basic policy. Accordingly, we would like to maintain an annual dividend of ¥64 per share, which was determined at the beginning of the plan's term, providing we are able to maintain the overall framework for cash flow stated in the New Medium-term Management Plan. Based on our recent forecasts, net inflow from core operating cash flow will be ¥1.7 trillion and cash recovered through asset recycling will amount to ¥0.9 trillion. Gross investment in existing businesses and projects in the pipeline will total ¥1.5 billion. Core operating cash flow will likely decrease to some degree due to stagnant market conditions. However, we believe we will still be able to maintain the overall framework for cash flow stated in the New Medium-term Management Plan.

A: In the same manner as the development projects in Mozambique, we conduct investments in long-term projects by giving consideration to profitability and policies from a medium- to long-term perspective. In accordance with our shareholder return policy as well, we will place value on consistency, continuity, and stability from a medium- to long-term perspective. Before we can begin to talk about the next fiscal year, we must create a business plan and carefully examine cash flow forecasts. However, in accordance with our basic philosophy, we will continue managerial efforts in order to uphold our policy for shareholder returns.

Concerning the LNG project in Mozambique, I (the CEO) visited Mozambique in September and held discussions with related government officials, including the country's president, and members of Anadarko Petroleum Corporation, our business partner in the project. Also, I (the CEO) held meetings with our business partners when I visited India and Thailand. Following the recent discussions, we are basically looking at making the FID in the first half of 2016, or some time near then.

Q: During the next fiscal year, what is the likely impact on free cash flow in the event that the Company increases investment in new businesses even if crude oil and iron ore prices continue to decline and operating cash flow decreases?

A: We have not strictly reviewed investment plans in the next fiscal year alone as we will manage cash flow over the three years covered in the New Medium-term Management Plan. Even under the recent market conditions, we have already secured a core operating cash flow of ¥270.0 billion, which shows that it remains strong, in the first half. Accordingly, we expect to achieve core operating cash flow of about ¥500.0 billion during the current fiscal year. In the previous fiscal year, we generated nearly ¥700.0 billion in core operating cash flow, and, if we are able to generate ¥500.0 billion a year for two years, we will be able to achieve ¥1.7 trillion in core operating cash flow over the three years of the plan.

Q: In regard to resource-related investments, there is a trend among major companies in resources to thoroughly enforce cost reductions and strengthen their price competitiveness by securing a high volume of production. It seems to me this approach is connected to the further decline in commodity market brought about by softening demand for resources. Under conditions such as these, how does the Company view the gap between the pursuit of optimization in the micro environment (cost reductions and continuous supply) and the macro environment (market conditions)?

Also, in order to raise profitability, the Company has already conducted ¥75.0 billion in new investments during the current fiscal year. Do the projects that the Company has invested in exceed the high hurdle set in Mitsui's investment discipline?

Specifically, to what extent will these investments contribute to earnings?

A: I believe that companies with strength and competitiveness will survive the tough market conditions. Even with the current decline in crude oil and iron ore prices, our assets are in a condition where they can sufficiently generating cash. Therefore, we have the appropriate level of strength and competitiveness to endure these severe market conditions. On the other hand, companies that lack the necessary stamina and competitive power will have no choice but to exit the market. As a result, supply will gradually become tighter, which will lead to recovery in the market. We expect that the market for iron ore will recover by 2020 and the market for crude oil will recover at a slightly faster pace than that. In regard to new projects in resources and energy, our basic policy is to make decisions based on sound judgment to narrow down projects that can contribute to earnings, even under these difficult market conditions. In the case of the Mozambique LNG project, the cost of plant construction has actually given us a competitive edge as a result of the current market conditions. The agreement with Santos, which we announced this morning, is the result of our stance to take the necessary measures to secure projects with high levels of competitiveness.

A: As an example of the new investments undertaken during the first half, we have invested in a manufacturer of a turbine towers for wind power generation and a project in Africa for a high-speed mobile communications service, among other projects. The tower manufacturing business is a so-called brownfield investment, and, as such, we can expect, to a degree, immediate results. The high-speed mobile data communications project is a sort of innovation investment, therefore, returns are expected to come a bit further down the road. We will move forward with a healthy balance of brownfield and greenfield projects in our overall portfolio management

Q: With respect to the gas and condensate project the Company agreed to acquire from Santos, what assumptions has it made regarding prices? Also, in relation to the Cameron project, will profitability remain unchanged regardless of how the difference fluctuates between the LNG price linked to crude oil and the LNG price originated from shale gas? As for another question, the Company's comprehensive income deteriorated in the first half, especially in the second quarter when the Company posted a negative figure. How is Mitsui dealing with this situation?

A: The project to be acquired from Santos is an undertaking aimed at the domestic sale of gas as a flagship product in eastern Australia, mainly at a certain fixed price. Given this, we decided to invest in the project, as favorable conditions for the Company are anticipated. Meanwhile, as the preemptive right currently lies with other existing shareholders of the project, certain conditions must be cleared before we can actually carry out the investment. As for the LNG project in Cameron, the trade price for gas is linked to the Henry Hub spot price. Therefore, we can acquire a fixed margin regardless of the influence of market conditions.

A: There are two reasons why a negative figure was recorded in the second quarter for other comprehensive income. One reason was the decline due to valuation of fair value for investments in LNG projects, and the other reason was the decline in foreign currency translation adjustments brought about by the depreciation of the Australian dollar and Brazilian real against the yen. In regard to investments for long-term possession in minor currency, instead of bearing high costs that negatively damage the Company's profit and loss statements, our policy is rather not to conduct hedges. Going back to the first reason, market conditions were the cause of the decline due to valuation of fair value for investments in LNG projects.

Q. In the event that a large-scale yet attractive project appears that may exceed the framework for investment cash flow, would the Company consider exceeding the framework?

There are many overseas resource investment companies that are posting impairment losses. How do you recognize the risks related to impairment losses? Also, if a large impairment loss were to occur, can we expect that there will be no impact on the Company's dividend policy?

Additionally, how do you feel about recent feedback in terms of synergies between resource and non-resource businesses as well as feedback concerning coordination among non-resource businesses the Company has invested in?

A: In regard to our stance on investment in resource segments, if there is a feasible project in line with our investment criteria, then our basic policy is to invest in that project.

In the event we identify a project that would deviate from our framework for cash flow, provided the project meets our investment criteria, and we truly believe it to be worthwhile, we will move forward with the investment, adhering to an appropriate process in doing so. Furthermore, our five external directors are quite discerning when it comes to new investments.

As for impairment loss, we conduct objective tests based on certain rules every quarter. At this time, there is no need to consider additional impairment losses. In regard to our dividend policy, we believe consistency, continuity, and trust from the market, to be extremely important. As such, we maintain a standard of not allowing an impairment loss to affect the dividend.

Regarding the question on synergies between resource and non-resource businesses, we are seeing synergistic effects being generated in resources businesses within the Group, in such areas as automated operations pertaining to machinery businesses and ICT businesses. In addition, we believe it is rational for us to focus our efforts on chemicals downstream in the value chain for shale gas in North America.

We are also making efforts to enter resource areas in Africa. A related project that has emerged because of these efforts is the high-speed mobile data communications service provided by Afrimax, as is the transportation infrastructure business involving the rail transportation of resources. These are just a few examples of the synergistic effects that are being generated.

Q: In the Machinery & Infrastructure Segment, the Company made a downward revision of ¥6.0 billion due to such factors as the one-time loss that occurred in IPP businesses this fiscal year. Could you give us your assessment of this segment, including the forecast for the next fiscal year?

A: We are promptly working on a drastic measure to address the issue in the related IPP businesses in the current fiscal year. In such an infrastructure business, we refrain from disclosing the details of our countermeasures until they are completed, as we need to be mindful of the local governments and employment matters in the countries where these businesses are located. Excluding the IPP businesses, other infrastructure-related businesses are providing stable contributions to earnings. As for mobility infrastructure, the Brazilian integrated logistics business VLI, in which we invested in the previous fiscal year, is beginning to contribute to earnings. Further, the track leasing business in which we invested in North America is also becoming a stable source of earnings. Combining the automotive-related business based on conventional tie-ups with Japanese manufacturers in addition to the aforementioned new businesses, the size of the Machinery & Infrastructure Segment is beginning to underpin substantial earnings exceeding ¥50.0 billion a year, and we see this operating segment as one that we intend to continue to focus our efforts on in the next fiscal year and beyond.