New Medium-term Management Plan

Driving Value Creat

Mitsui & Co. Investor Day 2017

In June 2017, we held "Mitsui & Co. Investor Day," an event that provided investors with explanations of our management strategies and major initiatives, centered on the new medium-term management plan. Videos and materials that were used and distributed on Mitsui & Co. Investor Day are available at the following URL. Please take a look.

https://www.mitsui.com/jp/en/ir/meeting/investorday/2018/index.html ion

This section provides a more detailed explanation of the major initiatives of the new medium-term management plan, which are listed on page 13.

P.13 "Key Initiatives"

Enhancing cash flow focused management under the new medium-term management plan

Keigo Matsubara
Senior Executive Managing Officer,
Chief Financial Officer (CFO)

Results for the fiscal year ended March 31, 2017

Looking back on the fiscal year ended March 31, 2017, the global economy showed signs of steady growth, primarily in the United States, as business sentiment improved in the second half with the bottoming out of the commodities market. While a gradual growth trend is expected to continue, the outcomes of government measures adopted by the new administration in the United States as well as heightened geopolitical risks in the Middle East and East Asia are issues that raise concern and need to be closely monitored.

In this environment, profit for the year attributable to owners of the parent improved significantly, to ¥306.1 billion (an improvement of ¥389.5 billion compared with the previous fiscal year), and core operating cash flow was ¥494.8 billion (an increase of ¥23.1 billion year on year), greatly exceeding our initial estimates. In addition to the strong performance of the commodities market, these results reflect our efforts to grow businesses with stable earnings that are not easily affected by the commodities market, and our efforts to enhance the competitiveness of our core Resources & Energy businesses.

Cash flow focused management under the previous medium-term management plan

(Period from April 2014 to March 2017)

Mitsui steadily implemented its cash flow focused management as a key initiative under the previous medium-term management plan. Over the three-year period of the plan, the cumulative total for recurring free cash flow (core operating cash flow plus funds acquired through asset recycling minus funds allocated for investment in existing businesses and projects in the pipeline) came to ¥1.3 trillion. Of this amount, ¥820.0 billion was allocated to growth investments, resulting in free cash flow of ¥490.0 billion. This means we realized the target adopted under the previous plan of returning to positive free cash flow for the three-year period, which was ¥115.0 billion, even after returning ¥375.0 billion to shareholders.

The impact of the weak commodities market on the Company's core operating cash flow was significant. However, by enforcing strict discipline in selecting targets for investment, we were able to steadily implement shareholder returns while realizing a return to positive free cash flow. As such, I can say with confidence that, over the past three years, we have sufficiently implemented cash flow focused management that realized a healthy balance between growth investments and shareholder returns.

A balance sheet that focuses on financial stability and capital efficiency

As of March 31, 2017, total assets amounted to ¥11.5 trillion, up ¥590.5 billion from the previous fiscal year-end, and net interest-bearing debt was ¥3.3 trillion, up ¥67.1 billion. Shareholders' equity totaled ¥3.7 trillion, a rise of ¥352.2 billion due primarily to an increase in retained earnings. The net debt-to-equity ratio declined from 0.95 times to 0.88 times. However, if we consider 50% of the subordinated syndicated loan of ¥555.0 billion that we have already procured as capital, then our net debt-to-equity ratio comes to 0.75 times.

The Company procures funds under a basic policy of securing the necessary funding to smoothly carry out its business activities and maintaining a sound and stable financial position. We procure long-term funds, with a maturity of around 10 years, primarily through long-term borrowings from domestic financial institutions and the issuance of corporate bonds. Also, for large-scale investments, we utilize funds borrowed from government-affiliated financial institutions and project financing. To retain flexibility in funding business development and minimize the effects when financing conditions deteriorate, we maintain cash and cash equivalents that cover two years' worth of interest-bearing debt repayments.

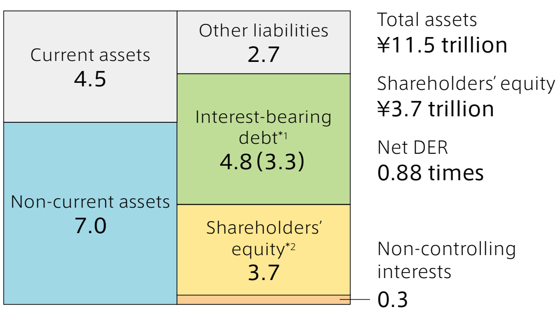
In addition, we work to improve profitability at each business unit, paying close attention to the profit-to-risk assets ratio. To maintain financial stability, we keep the amount of risk assets within 80% of shareholders' equity at a groupwide level.

ROE for the fiscal year ended March 31, 2017 came to 8.6%. While we were unable to achieve the previous plan's quantitative target for ROE of 10%–12%, due primarily to stagnating conditions in the commodities market, we aim to realize ROE of 10% as a quantitative target for the fiscal year ending March 31, 2020, by steadily executing the key initiatives adopted under our new medium-term management plan.

With our new plan, we will continue to pursue the balance between maintaining financial stability and improving capital efficiency.

Balance Sheet (As of March 31, 2017)

¥ trillion



*1. Figures in parentheses in interest-bearing debt are "net interest-bearing debt," which is interest-bearing debt minus cash and cash equivalents and time deposits.
*2. Profit for the year attributable to owners of the parent

Credit Rating (Updated in May 2017)

Rating agency	Credit rating (Outlook in parentheses)	
Moody's	Short-term	P-2
	Long-term	A3 (Negative)
Standard & Poor's	Short-term	A-1
	Long-term	A (Negative)
Rating and Investment Information (R&I)	Short-term	a-1+
	Long-term	AA– (Stable)

Quantitative targets of the new medium-term management plan

Under the new plan, we have established core operating cash flow and profit for the year attributable to owners of the parent as the two main KPIs. By enhancing our cash flow generating capabilities through the key initiatives of building a robust profit base and thoroughly strengthening our existing businesses, we plan on raising core operating cash flow to ¥500.0 billion in the fiscal year ending March 31, 2018, and to ¥630.0 billion in the fiscal year ending March 31, 2020. We aim to increase profit for the year attributable to owners of the parent to ¥320.0 billion in the fiscal year ending March 31, 2018, and to the record-high level of ¥440.0 billion in the fiscal year ending March 31, 2020. Of this ¥440.0 billion, we expect ¥240.0 billion to come from the Mineral & Metal Resources and Energy segments, and ¥200.0 billion from non-resources business areas. In regard to the Mineral & Metal Resources and Energy segments, we anticipate increased profits through enhanced production and cost reduction initiatives under conservative estimates that do not have a large dependence on increases in commodity prices. For non-resources business areas, the further reinforcement of profitability in Machinery & Infrastructure and Chemicals should act as a driver for overall profit growth. In addition, as I stated earlier, we aim for ROE of 10% in the fiscal year ending March 31, 2020.

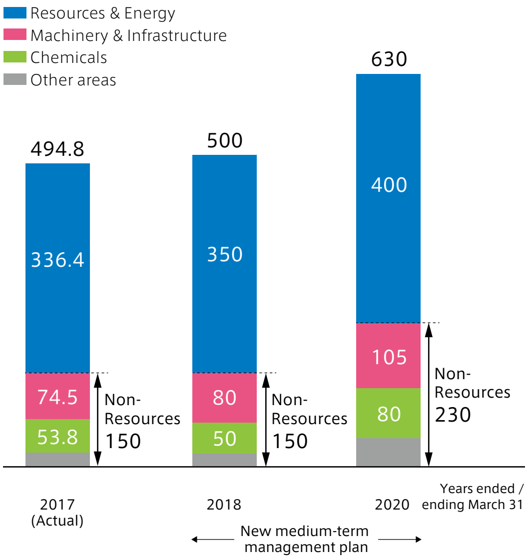
Cash flow focused management; Strengthen financial base

In our new plan, we will take further steps to enhance the cash flow focused management that we have implemented under the previous plan.

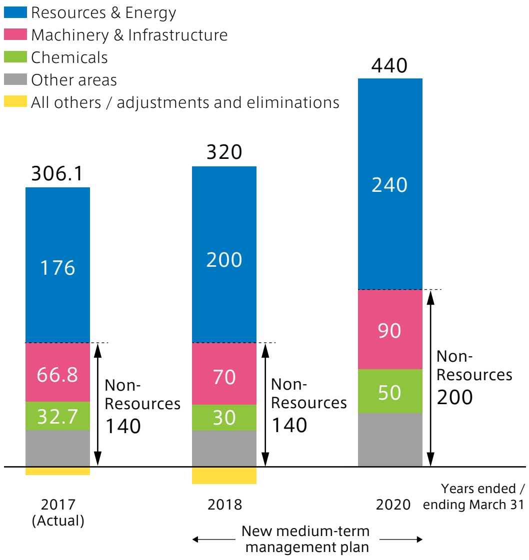
First, we will set a minimum dividend payment based on stable core operating cash flow, which refers to the level of core operating cash flow that we are able to generate in a stable manner with consideration to future trends in the commodities market. We will calculate a minimum total dividend payout based on this stable core operating cash flow and carry out shareholder returns accordingly.

Next, by realizing a positive cumulative three-year total of free cash flow even after carrying out shareholder returns, we will work to manage our

Core operating cash flow*1 (for each segment)
(¥ billion)



Profit for the year*2 (for each segment)
(¥ billion)



*1. [Operating cash flow] – [Cash flow from increase / decrease in working capital]
*2. Profit for the year attributable to owners of the parent

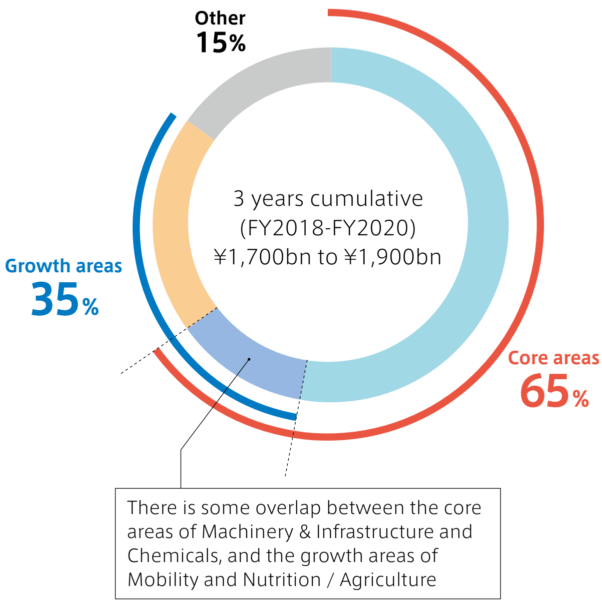
level of interest-bearing debt in order to strengthen our financial base. Also, depending on operating conditions and the business environment at the time, we will allocate free cash flow after carrying out shareholder returns to additional shareholder returns, the repayment of interest-bearing debt, and additional investments.

Through these efforts, we will work to maintain our current "A" credit rating while striving to raise it in a sustainable manner.

As for cash flow allocation based on the above policies, over the three-year period we expect to generate ¥1.7 trillion in core operating cash flow and ¥700.0 billion through asset recycling, giving a cumulative three-year total of ¥2.4 trillion in cash inflows. The main business areas in which we will carry out asset recycling are Machinery & Infrastructure, Resources & Energy, and Lifestyle. Meanwhile, we anticipate between ¥2.0 trillion to ¥2.2 trillion in cash outflows, which consist of investments totaling ¥1.7 trillion to ¥1.9 trillion and minimum dividend payments totaling ¥300.0 billion. As a result, we expect free cash flow after minimum dividend payments of between ¥200.0 billion and ¥400.0 billion.

In regard to investments, we will carefully select projects while continuing to enforce strict investment discipline. Of the ¥1.7 trillion to ¥1.9 trillion, we are expecting to use for investments, roughly 65% will be allocated to our three core business areas (Resources & Energy, Machinery & Infrastructure, and Chemicals) in an effort to maintain and enhance our ability to generate core operating cash flow. Roughly half of such investment amount will be directed toward the business area of Resources & Energy. The remaining 35% not allocated to core business areas will be used for investment in growth areas with the aim of establishing the next pillars for profits.

Allocation of Investment



Outlook for cash flow allocation (FY2018-FY2020)

		3 years cumulative
Cash-In	Core operating CF··· ①	¥1,700bn
	Asset recycling ··· ②	¥700bn
Cash-Out	Investment ··· ③	–¥1,700bn to –¥1,900bn
	Minimum dividend ··· ④	–¥300bn
FCF after minimum dividend ··· ①+②+③+④		¥200bn to ¥400bn

Allocation*

Additional shareholder returns | Debt repayment | Additional investment

* FCF after minimum dividend payment will be allocated to additional shareholder returns, debt repayment, and additional investment by management determination.

Basic policy for shareholder returns

Through discussions at the Board of Directors' meetings in which external directors were involved, we have decided on two basic policies for the distribution of profits. First, in order to increase corporate value and maximize shareholder value, we will meet investment demand in core and growth areas through increases in retained earnings while also allocating a portion of profits directly to shareholder returns. Second, in relation to share buybacks aimed at improving capital efficiency, the Board of Directors will flexibly determine buyback amounts and buyback timing taking into consideration various factors such as the business environment, future trends in investment demand, free cash flow, interest-bearing debt levels, and ROE.

Based on these policies, we set the annual dividend for the fiscal year ended March 31, 2017 at ¥55 per share and carried out share buybacks amounting to ¥47.5 billion as an additional means of providing shareholder returns. As a result, we returned ¥145.0 billion to our shareholders. Under the new plan, we have established ¥100.0 billion as the minimum for annual payout under the assumption that we will generate ¥400.0 billion in stable core operating cash flow per year. For the fiscal year ending March 31, 2018, we intend to increase the annual dividend by ¥5, to ¥60 per share. Guided by our aim to continuously raise dividends through increases in core operating cash flow, we will give consideration to additional shareholder returns in a flexible manner in the event that we determine that the necessary amount of retained earnings to promote our business strategies has been secured.

August 2017

Shareholder returns policy

Dividend	Minimum total dividend payment set at ¥100bn per year
Share buyback	Flexible response depending on the business environment