Mitsui & Co., Ltd.

Questions and Answers during Telephone Conference about Participation in Coal Mining and Railroad- and Port-Infrastructure Projects in Mozambique

1. **Date : October 3, 2016(Monday), 16:00-17:00**
2. **Participants :**
   - Jun Konno, General Manager, Coal Division
   - Mitsunobu Takagi, General Manager of Second Department, Second Projects Development Division
   - Yuji Mano, General Manager, Investor Relations Division
3. **Questions and Answers :**

Q:
- This question is about coal. According to the press release, production capacity will be increased up to 18 million tons per year. When do you expect to reach that level? What will be the breakdown of coking coal and thermal coal? You also stated that the thermal coal would be high-grade, but first and second quarter results from Vale indicate that the selling price has been low. Will the selling price change after the start-up of the infrastructure and other facilities?

A:
- We expect to reach 18 million tons in 2019. We are projecting that the ratio between coking coal and thermal coal production will be 50-50 in the long-term. Because the Nacala infrastructure has only just become operational, we are prioritizing capacity allocation to coking coal, with any surplus capacity allocated to thermal coal. As a result, thermal coal is sold mainly under spot contracts, and the price is lower than for long-term contracts. However, we aim to shift to long-term contracts going forward, and we expect the price to recover.

Q:
- I have a question about the infrastructure projects. The railroad spans Mozambique and Malawi. How are the projects secured legally in these two countries? I understand that the coal mine project is a long-term concession, but what is the structure for the railroad?

A:
- There is a framework agreement that stipulates various relationships across four concessions covering existing and new lines in Mozambique and Malawi. The railroad concessions have longer terms that the mining concession. The necessary amendments to the concession agreements with Mozambique have already been completed and written into legislation. We are in the final stages of the negotiation with Malawi.

Q:
- According to Vale, the cash cost of the coal mine was US$168 per ton in the first quarter and US$103 per ton in the second quarter. What cash cost level are you projecting when you reach full production in 2019?

A: ● The cash cost per ton is relatively high at present because Moatize mine is at the ramping-up stage. However, we expect the cost to go down as we make progress with the ramping-up for the both the mine and Nacala. As stated in Vale's disclosure, we are projecting that the pure cash cost, excluding borrowing costs and other items, will fall to a competitive level below $60 per ton when annual production reaches 18 million tons in 2019.

Q: ● What is your thinking about sovereign risk in Mozambique? How do you view your company-wide risk exposure, taking into account the selective default in April of this year, as well as plans for port expansion going forward, the upside potential of the reserves, and the possibility of development work on peripheral projects?

A: ● Since the revenue of this project will come from dollar-denominated sales of coal to overseas customers, there will be no direct exposure to fiscal risk in the two countries. Moreover, since the project will be an important source of foreign currency earnings for both governments, we believe that the probability that they will do anything to obstruct the project is very low. Also, as a participant in the project, Mitsui & Co. is bringing international financial agencies and institutions from various countries into the project finance consortium, and we believe that will mitigate the country risk of Mozambique.

● Under our country risk management system, our positions in countries subject to country risk management are monitored on a company-wide basis. Based on our internal standards, we have classified country risk in Mozambique as being within a manageable range.

Q: ● You said that the coking coal was highly regarded by customers. How will you secure your customers and formulate selling methods as production increases?

A: ● Vale has been shipping coking coal since 2011 and selling it to major customers in China, Europe, India, Japan, South Korea, Taiwan, Latin America and other markets. We will continue to sell to customers worldwide. The thermal coal has a high calorific value in excess of the 6,000 kcal/kg which is one of benchmarks for maritime trade. It is being sold for India, Europe, and Southeast Asia. Because we are still in the start-up phase, much of the coal is being sold on a trial or spot basis. However, we intend to increase sales under stable long-term contracts. In addition, we have offtake rights proportionate to our equity stake, and we will engage in joint marketing with Vale.

Q: ● We believe that you are anticipating stable earnings from the infrastructure business, but how will those earnings be affected by coal production levels and general freight? When will freight volumes reach the break-even point?

A: ● Most of the capacity of the Nacala infrastructure has been allocated for the transportation of coal from the Moatize mine, and earnings are underpinned by a take-or-pay agreement. The volume of general freight will be affected by demand and the competitive environment. Volumes are not large at present, so the contribution to earnings is limited. Having said that, general freight volumes are expected to rise dramatically in step with economic growth. Our business viability calculations do not include increases in freight volumes resulting from the expansion of inland grain production. This upside factor is another source of positive anticipation for us.

Q: ● What is your thinking on IRR for this investment? Do you view coal and infrastructure separately, or do you take a total view?

A: ● The coal and infrastructure operations are integrated, so we judge IRR on a comprehensive basis. Because of the change in business environment and schemes, we cannot make simple comparisons with information disclosed previously. However, the said project continues to be an excellent project, and, therefore, we have reached agreement.

Q: ● Please tell us about the deliberation process that you follow when you deal with a composite project of this type. For example, do you immediately start to discuss the project on a company-wide level across multiple business units?

A: ● The infrastructure component of this scheme cannot be separated from the coal component. The process of engagement in this business is based on a comprehensive approach involving multiple business units, including not only those in the metal resources segment, but also in the machinery and infrastructure segment, which possesses infrastructure-related knowledge and expertise.

Q: ● We understand that there have been changes to some aspects of the scheme since your announcement in December 2014. What led to these changes, and what are the conditions for the additional payment adjustment?

A: ● We cannot disclose the details, but the changes to the scheme reflect recent change in the external environment. Vale and Mitsui & Co. again reached agreement that would be beneficial to both parties under the said change. The earn-out provision will not be activated unless there is no improvement in the coal market or operating efficiency. This means that an earn-out situation would be extremely beneficial to Vale and ourselves. We are unable to respond concerning the actual earn-out conditions because of the confidentiality agreement with Vale.

Q: ● Are there any peripheral areas relating to the infrastructure business in which Mitsui & Co. could become involved?

A: ● Our most important focus at present is coal transportation. The next step will be to work through the concessionaires to expand freight volumes. In terms of accelerating the development of peripheral business from a shareholder perspective, we are considering various options, such as the use of the value chains to build relationships with cargo owners of agricultural products and mineral resources, the pursuit of multimodal transportation opportunities, and developing infrastructure such as electric power facilities, water, railroads, ports, airports.

Q: ● You have said that all of the coking coal is being sold and that you have secured offtake rights proportionate to your equity share. Are we correct to assume from this that you have basically secured customers for coking coal who will account for around one-half of output when you finish ramping up to annual production of 18 million tons?

● Concerning selling methods, you have said that at present coking coal is being sold under long-term contracts and thermal coal under spot contracts. What percentages should we expect for each of these methods going forward?

A: ● In general, coal is sold under a long-term fixed price that is used primarily in Japan. However, there are also transactions based on the spot price, which changes day by day. In addition, there is an index price based on the historical average of the spot price and other factors. The percentages of coal sold under each of these systems will be determined in the context of marketing activities by Vale and ourselves, with the aim of stabilizing and maximizing our business returns, while also taking the preferences of customers into account. At present we are focusing mainly on expanding our customer base through trial and spot contracts. Going forward, we will consider the best approach in the medium- to long-term perspective. We are unable to say more at this stage.

Q: ● I would like to ask about your thinking on total exposure. You have said that you will invest US$255 million in the coal mine and US$513 million in the infrastructure. Are we correct in assuming that you currently anticipate returns on this exposure?

A: ● You are correct in assuming that returns will be based on a total exposure of US$768 million.