Questions and Answers

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Q: As you approach the commencement of the next Medium-Term Management Plan, what will the Company’s dividend policy be going forward? Why are you carrying out a share buyback at this time, and will this be a one-time event or will there be additional returns to shareholders? Will you be focusing on dividends or share buybacks?

A: We are currently formulating the next Medium-Term Management Plan and we are considering these issues as part of that process. The decision will continue to comprehensively take into account various factors, including trends in the operating environment and investments as well as free cash flow (FCF) levels. I therefore cannot say at this time what the combination of dividends and share buybacks will be, but we will continue to study this.

Q: Are we correct in our understanding that you are placing a significant emphasis on the share price level, ROE, and capital efficiency?

A: Yes, that is correct. We are also taking into account a variety of share price valuation indexes.

Q: Earnings outside the Mineral & Metal Resources Segment are solid, and earnings were significantly better quarter-on-quarter in the Machinery & Infrastructure Segment, even taking into account the rebound from the one-time loss. Could you please provide us with some more details on this improvement?
A: Third-quarter profit in the Machinery & Infrastructure Segment was up ¥5.7 billion from the second quarter. The main contributing factors were strong results at the IPP businesses in Indonesia and Hezhou, China, and sales of listed equities. There was also a rebound from the impairment loss on goodwill recorded in the second quarter as well as strong growth at the North American automotive business and the construction machinery business in the Americas.

Q: Can we expect the current solid performance to continue in the fourth quarter and beyond?
A: Yes. We do not consider the current performances at the IPP, North American automotive, and construction machinery businesses to be a temporary situation.

Q: I have heard that the core theme of the Medium-Term Management Plan beginning from the next fiscal year will be to exercise discipline in investments, with the aim of achieving positive FCF. Has there been any change to this core theme?
A: The general direction of the next Medium-Term Management Plan has not changed from our explanations to date. We will strive to develop and generate returns from the groundwork laid during the period of the current Medium-Term Management Plan and to make a solid earnings contribution. These efforts will involve developing value chains from our proactive investments in upstream businesses and tying these businesses to network-based trading businesses. At the same time, a financial strategy that emphasizes the achievement of a positive FCF through investment discipline and strategic asset divestiture is an important consideration. Beyond this, I would ask for your patience until the next Medium-Term Management Plan is announced.

Q: I believe you are making progress in acquiring long-term sales contracts for the Mozambique LNG project. How are these efforts progressing? I believe basic agreements for long-term sales contracts with Asian customers have been concluded. Do these agreements include an offtake portion for Mitsui?
A: Our marketing for the initial production volume of 10 million tons is focusing on Japan and other Asian countries. Several customers have expressed interest, and we believe we can conclude long-term sales contracts for the initial portion by the time of the FID. Our basic aim is for five million tons to be allocated to Japan. We are conducting joint marketing with Anadarko.
Q: Are all of the long-term sales contracts to third parties? Do they include an offtake portion for Mitsui?
A: They do not.

Q: Current-year earnings are trending ahead of the net income forecast of ¥370 billion for the fiscal year ending March 2014. What is the likelihood of a one-time loss or impairment loss in the fourth quarter? Including the gain from the sale of Mitsui Oil Co., Ltd. shares, how much of an overshoot are you expecting?
A: We had an extremely strong third quarter, with net income topping ¥100 billion, so our full-year forecast of ¥370 billion means a drop-off in the fourth quarter. This drop-off will be a reflection of the large amount of LNG-related dividends received in the third quarter, mainly from Sakhalin II. We are also factoring in lower fourth-quarter iron ore and coal production volumes relative to the third quarter because of seasonal cyclones. Our figure is conservative overall, but I cannot say how much of an overshoot to expect.

Q: Do you anticipate any impairment losses or any other one-time profits and losses at this time?
A: We expect a gain from the sale of Mitsui Oil shares. We conduct impairment tests quarterly, but I do not expect any surprises. It depends on market conditions, however, and I cannot say for sure that there will not be any losses. We will be looking at the situation closely going forward.

Q: Would it be correct to assume that in terms of actual earnings strength excluding one-time profits and losses we should see a solid recovery and improvement this fiscal year?
A: Yes, that is correct.

Q: The upper limits for the recently announced share buyback were set at 40 million shares or ¥50 billion. Why was the amount held to roughly 2% of total shares outstanding?
A: I cannot go into the details of our calculations, except to say that the decision comprehensively took into account the progress of asset divestitures up to the third quarter, the trend in investment demand for the next fiscal year and beyond, FCF levels and the period of the share buy back program.
Q: Going forward, do you intend to continue considering share buybacks beyond the current one? Mitsui has not carried out share buybacks in the past, but would it be correct to assume that share buybacks are being incorporated into the Company's capital strategy?

A: We have mentioned share buybacks as an option in the past, but the current share buyback is the first for Mitsui. Previously, we used funds to address abundant investment demand rather than for share buybacks, but mineral and metal resource related investment is slowing, and we currently have solid operating cash flow. Therefore, this time, we decided to repurchase shares.

Q: You have said that the repurchased shares will be cancelled. Will other treasury shares as of the end of December 2013 be cancelled as well? Mitsui currently has a large number of shares outstanding relative to other trading companies. Do you see this continuing, and what do you consider to be an appropriate level of shares outstanding?

A: We had roughly four million treasury shares as of December 31, 2013, and we are thinking in the direction of cancelling those shares. We do not have a particular target with regard to the number of total shares outstanding.

Q: With regard to coal, third-quarter earnings at Mitsui Coal Holdings (MCH) weakened relative to the second quarter. Why was this, considering that market prices are rising and production at certain mines is improving?

A: We recorded impairment losses on an undeveloped coal deposit in the third quarter. Shipments were solid at 2.4 million tons, which was higher than in the second quarter. Shipments at certain mines were down because of rain, but mining operations are generally on track. Results going forward will depend to some extent on coal prices, but MCH is making progress in reducing costs, and we do not expect a significant weakening in earnings.

Q: The share buyback will reduce shareholders’ equity. What is your thinking regarding the desired level in relation to credit ratings?

A: Credit ratings are very important for us. We will fully take into account the decline in capital due to share buyback and its balance with the liabilities as we consider the impact on credit ratings. Our basic stance of maintaining or raising our credit ratings is unchanged.
Q: Would we be correct in assuming that share buybacks will continue if profits build?
A: We are always considering share buybacks as an option.

Q: A strong IPP business drove large profit growth in the third quarter. Were there any one-time factors, or can we expect this level of profit growth to continue in the fourth quarter and beyond?
A: Core profit, excluding mark-to-market gains and losses, totaled ¥16.9 billion in the third quarter, for a ¥7.1 billion year-on-year increase. Paiton 3, in Indonesia, and Hezhou, in China, are contributing to profit growth, and earnings from the gas-fired plant in Puerto Rico and the coal-fired plant in the United Kingdom are solid. We booked mark-to-market losses of ¥2.1 billion, but this was a positive factor because the loss narrowed year-on-year.

Q: The share buyback is an epoch-making event for the trading company sector. Share buybacks that aim to raise capital efficiency are a welcome development. You have indicated that you will continue to consider additional buybacks going forward, but will ROE be a main theme in the next Medium-Term Management Plan? As things are now, ROE will continue to decline. Are you considering or discussing ROE of 12% to 15% under the next Medium-Term Management Plan?
A: ROE has always been important, but improving ROE was not the sole reason for the share buyback. Under the current Medium-Term Management Plan, we are aiming for a minimum target dividend payout ratio of 25%, with ROE of between 12% and 15% in three to five years. However, we intend to take another look at this based on more recent figures. The importance that we attach to ROE is unchanged.

Q: Putting aside the level of ROE, are you looking for an improvement?
A: That is correct.

Q: Investments this fiscal year are above plan, but is this because investments planned for next fiscal year were brought forward? Can we expect planned investment amounts from next fiscal year to be reduced? Divestitures are also above plan. Are you considering further increases under the next Medium-Term Management Plan?
Exchange rate movements are the main reason investments are set to exceed ¥1 trillion. We did not make investments this fiscal year that should have been made next fiscal year. Exchange rates are also a factor in divestitures, but the absolute amount is also trending ahead of our initial plan. We have made large additional investments in the Mineral & Metal Resources business during the previous and current fiscal years, but investment is slowing and we expect a significant decline next fiscal year.

**Q:** To the extent that you are aware, by how much will next fiscal year’s iron ore related investment decline relative to this fiscal year?

**A:** We are currently putting the numbers together, and I cannot yet give you an answer.

Copper production and sales volumes have been increasing by the quarter, and they rose again in the third quarter. Why is that, and what is your outlook going forward? Also, what is the status of production and development at the Caserones copper and molybdenum deposit development project in Chile?

**A:** The Collahuasi mine in Chile is the main reason for the recovery in copper production volumes. Progress had slowed because of equipment repairs through May 2013, but all along we had expected a quick rebound once the repairs were made, and production has now recovered as per that expectation.

At Caserones, we aim to start test ore processing with the copper concentrates production equipment this month. In terms of overall copper concentrates production, we plan to begin in May.

**Q:** Why did third-quarter profit in the Iron & Steel Products Segment grow relative to the first and second quarters? Do you see this strong pace continuing next fiscal year, or is further growth likely?

**A:** The main reasons for the strong third-quarter performance were one-time gains of roughly ¥2 billion from the sale of listed equities and ¥1.5 billion on the exchange of shares in Nippon Steel Trading Co., Ltd.

**Q:** Assuming that crude oil prices remain flat, can we expect this fiscal year’s level of dividends from Sakhalin II to be maintained next fiscal year? Have capital redemptions ended?
A: I am sorry, but, as is always the case, I cannot discuss our outlook for future dividends or capital redemptions at Sakhalin II. I can say, however, that production is proceeding on track.

Q: The Chemicals business continues to struggle. What is your outlook going forward?
A: Market conditions are a factor, but methanol operations are currently strong. In the area of fertilizers, on the other hand, demand for phosphorus ore in India has not been growing, and prices are declining. We expect results next fiscal year to remain tied to global market prices for chemicals.

Ends.