Mitsui & Co., Ltd.

IR Meeting on Financial Results for the Fiscal Year Ended March 31, 2014

Questions and Answers

1. Date & Time: **May 7, 2014 (Wednesday); 16:30 – 17:30**

2. Location: **Conference call**

3. Speakers: **Joji Okada, Senior Executive Managing Officer and CFO**
Keigo Matsubara, Managing Officer, Deputy CFO, and Global Controller
Michihiro Nose, General Manager of Investor Relations Division

4. Questions and Answers

Q: *With regard to the shift to IFRS, Slide 17 of the Medium-term Management Plan presentation materials shows this resulting in fixed asset impairment losses at Australian coal, Eagle Ford shale projects, and so on. Would you give us more details, including the numbers?*

A: The fixed asset impairment loss of ¥43.0 billion represents the difference between U.S. GAAP and IFRS in methods for the determination and recognition of impairment losses. Under IFRS, the determination is based on discounted cash flow, meaning there are impairment losses not recognized under U.S. GAAP that are recognized under IFRS. Most of the ¥43.0 billion was related to coal in Australia, mainly from the drop in prices, and we recognized impairment losses on two blocks. For Eagle Ford shale, every year we make a long-term forecast and receive a third-party reserve evaluation. Taking into account the volumes produced from the wells that have been drilled to date, current results are slightly below our initial estimates, which has an effect on our production volume estimate for the entire life of the project, resulting in the recognition of an impairment loss. Nevertheless, we are working with our partners to increase productivity, and if we can do that we could raise our production estimate going forward, in which case Mitsui's earnings could be expected to improve. At Caserones, we recognized an impairment loss in the second quarter, but because the amount was included in the fixed asset impairment loss recognized by the local operating company in the fourth quarter, we recognized that difference in our consolidated results under IFRS in the fourth quarter.

Q: *Presumably, the application of deemed costs on the date of the shift will result in revaluations. Which projects will be affected, and how much of a profit improvement will there be?*

A: This is shown on Slide 17 as the decline in depreciation costs under others in the IFRS adjustment. This presentation slide is from the briefing on the shift to IFRS that we gave in December of last year, and the biggest component is the effect of applying deemed costs at the Marcellus shale gas business. The application of deemed costs will reduce the book value of fixed assets, resulting in a reduction in depreciation that will be reflected in net profit.

Q: *How much of a total decrease in book value should we expect from the reduction in book value from the application of deemed costs and the impairment losses recorded in the fiscal year to March 2014?*

A: I do not have the amount of the reduction in book value from the application of deemed costs with me right now, but please refer to the materials from the December briefing on the shift to IFRS.

Q: *Does that mean that the amount of the reduction in book value from the application of deemed costs on the date of the shift has not changed, and that this slide only shows the impairment loss recognized in the fiscal year to March 2014?*

A: That is correct.

Q: *There were considerably large positive one-time items at all segments in the fourth quarter. Would you give us the reasons and more details?*

A: The main one-time item in the fourth quarter was the ¥37.0 billion gain on the sales of securities. Other one-time items were a ¥3.0 billion gain from the sale of fixed assets, a ¥6.0 billion securities valuation loss, an ¥18.0 billion long lived asset impairment loss, a ¥4.0 billion mark-to-market gain at the IPP business, and, under other, an ¥8.0 billion positive revision of the tax-related loss at Vale.

Q: *What was included in the ¥18.0 billion impairment loss on fixed assets?*

A: There was a roughly ¥7.0 billion impairment loss on Vale's potassium project and an approximately ¥2.0 billion goodwill impairment loss at the Brazilian auto parts transport company Veloce. The rest is the aggregation of small items.

Q: *There were one-time factors at all segments. Would you give us an overview of results for the full year, excluding the one-time items?*

A: Let me answer that by giving a rough estimate of the one-time items in the increase and decrease from the previous year by segment. Profit at Iron & Steel Products rose ¥21.9 billion, of which roughly ¥10.0 billion was one-time items during the year and the reversal of one-time items from the previous year, for a net increase of approximately ¥10.0 billion. The increase of the foreign exchange gain from trade transactions was approximately ¥8.0 billion, so the remaining ¥2.0 billion to ¥3.0 billion was from actual increases and decreases, mainly from strong trading. The increase at Mineral & Metal Resources was ¥4.1 billion, which included a roughly ¥17.0 billion positive reversal of one-time items from the previous year and a negative ¥47.5 billion from one-time items during the year, for a net negative impact of approximately ¥30.0 billion. Excluding this, profit grew more than ¥30.0 billion. Other factors included commodity prices, exchange rates, and resource costs, and excluding these, profit rose ¥17.0 billion, almost all from increased volumes. Profit at Infrastructure Projects grew ¥11.3 billion. Of this, ¥1.8 billion was a rebound from the previous year's one-time items and ¥3.3 billion was one-time items during the year, for a roughly ¥5.0 billion boost and an increase of roughly ¥6.0 billion without those factors. Of this, approximately ¥3.0 billion was a dividend tax effect, leaving a roughly ¥3.0 billion actual increase, mainly from solid IPP operations and FPSO leasing. At Integrated Transportation Systems, profit declined ¥1.6 billion, with a positive ¥0.4 billion of reversals from the previous year’s one-time items and a negative ¥3.6 billion from one-time items during the year, leaving an actual increase of roughly ¥1.2 billion. This increase was the result of strength at automotive-related businesses and in rolling stock leasing more than offsetting higher engine development costs with GE.

Profit at Chemicals rose ¥17.0 billion, which included ¥10.0 billion from the rebound of one-time items in the previous year and one-time items during the year. The remaining profit growth of roughly ¥7.0 billion was from strength at Japan-Arabia Methanol and in other trading. Profit at Energy grew ¥32.0 billion which included a negative ¥20.0 billion from the absence of the previous year’s one-time items and a positive ¥20.0 billion from one-time items during the year. Excluding market factors, actual growth was approximately ¥3.6 billion. The large amount of dividends boosted profit, but lower volumes reduced profit by about ¥9.0 billion.

At Food Resources, profit rose ¥5.6 billion, with increases of ¥2.6 billion from one-time factors during the year and ¥0.9 billion from the absence of items recorded in the previous year, for an actual increase of approximately ¥2.0 billion. Multigrain had strong collection and sales of soybeans and corn, and other global trading was solid as well. Food Products & Services recorded a large decline of ¥9.4 billion, largely from the absence of gains from the sales of equities recorded in the previous year. On a net actual basis, the decline was ¥4.0 billion, from weak results at Mitsui Norin and Mitsui Foods.

Profit at Consumer Service grew ¥10.0 billion, mainly from a ¥9.0 billion boost from one-time equity sales during the year. At the Innovation & Corporate Development, profit was basically flat. Net one-time factors were positive, with an ¥11.0 downturn in the absence of the previous year’s items more than offset by a ¥14.0 billion gain from the sales of equities during the year. On a net actual basis, profit declined roughly ¥2.0 billion, with the main factors being weakness at the TPV business and in MCRM trading. Overseas, the Americas recorded a roughly ¥3.0 billion actual increase, with profit growth at ITC and Cinco Pipe & Supply, but this was partially offset by lower profit at Novus. EMEA recorded roughly ¥4.0 billion in actual profit growth, with the major component being a roughly ¥3.0 billion gain from the sales of office buildings. Asia-Pacific recorded profit growth, primarily from iron ore.

Q: *What is the breakdown by segment of the ¥6.5 billion effect from the shift to IFRS? Also, how much would the negative ¥8.0 billion from one-time factors under U.S. GAAP in the year to March 2014 have been under IFRS?*

A: To answer your second question first, one-time factors on an IFRS basis would have been ¥84.0 billion – the ¥8.0 billion negative figure under U.S. GAAP plus the ¥76.0 billion of one-time factors included in "IFRS adjustment."

In answer to your first question, at this time we are not disclosing segment figures for the effect of the shift to IFRS. The IFRS accounts have not yet been finalized, so we are providing Companywide estimates only.

Q: *Asset sales and recycling were above initial estimates, with roughly ¥100.0 billion carried out in the fourth quarter. Why was this, and what criteria will you be using in the year to March 2015.*

A: Yes, we did indeed progress in the fourth quarter. This was mainly from the sale of shares of Mitsui Oil, INPEX, and Brightstar and roughly ¥3.0 billion from the sale of office buildings. Some of these sales were being negotiated from the beginning of the year and, in principle, were the result of reviews of the reasons for holding the assets as well as our policy of recycling for quality assets based on the vision of respective business units. Our policy will be the same in the year to March 2015.

Q: *Is the significant increase in internal awareness of free cash flow part of the reason for the sharp increase in the pace of asset recycling?*

A: In the case of Mitsui Oil, we were in negotiations for a long time and concluded those negotiations in the fourth quarter. We also conducted rather extensive reviews during the second and third quarters on the reasons for holding publicly listed shares, and recycling picked up speed as those negotiations progressed. This will continue going forward.

Q: *The IPP business had a ¥3.5 billion equity-method loss in the fourth quarter. Did this include any extraordinary losses?*

A: The ¥3.5 billion loss was related to the impaired loan to Paiton 1. We had previously been recording interest on a cash basis, but with circumstances improving we changed our method of recognition to an accrual basis. This is why consolidated revenues, expenses, and net income at the parent company improved. Correspondingly, however, we had to recognize interest payments under equity-method profit and loss. Excluding this special factor, equity-method profit and loss is strong. This is an one-time effect and will not be seen in fiscal year ending March 2015.

Q: *With regard to returns to shareholders, you have said that returns will be funded by operating cash flow. What is the breakdown of the ¥520.0 billion of operating cash flow by resource and non-resource areas? Also, what should we consider to be the biggest variable in operating cash flow?*

A: I do not have those specific figures with me right now.

Q: *My impression is that large depreciation from projects such as shale gas and dividends come in as cash, and because Energy accounts for about half of net income, is it correct to understand that Energy account for a larger portion of operating cash flow?*

A: That is generally correct.

Q: *With regard to Vale's REFIS, why was there an ¥8.0 billion recovery in the fourth quarter?*

A: Payments for back taxes made via REFIS became deductible as a loss for corporate tax purposes, and there was an adjustment in this item in the fourth quarter. Therefore, the effect to Mitsui was approximately ¥8.0 billion.

Q: *What was the reason for the fourth-quarter loss at Oriente Copper, which invests in Anglo America Sur? Also, were there any impact from Chile's tax code revisions?*

A: We understand that a bill has been proposed in Chile's legislature to raise the corporate tax rate in stages, to 25% from 20%, and that there is a possibility that this will be passed this summer. The passage could have an impact on Mitsui, mainly at Anglo America Sur, but we are not disclosing any quantitative amount at this time.

A: I do not have the details on the loss at Anglo America Sur with me, but I will check and get back to you.

Q: *In terms of cash flow, the amount of free cash flow generated in the fourth quarter seems low relative to the amount of assets divested. Why was that? What is your free cash flow forecast for the fiscal year to March 2015?*

A: We maintained a good pace in the fourth quarter. Free cash flow may have been affected by outlays for working capital, but in principle we generated normal cash flow.

Q: *What is your projection for this year?*

A: We are targeting positive free cash flow this year. However, as I explained, our roughly ¥70.0 billion investment in VLI has been pushed back to this year, so there could be a slight deficit.

Q: *Is your thinking under the current Medium-term Management Plan to achieve positive free cash flow even with dividends and share buybacks, or will you achieve a positive free cash flow and then pay dividends and repurchase shares as a result?*

A: Dividend payments and share buybacks will be the result. Our definition of free cash flow has not changed, but as we will explain tomorrow at the briefing on the new Medium-term Management Plan, dividends will be based on a balanced allocation between investment for growth and shareholder returns, with recurring free cash flow as the source of funds. Free cash flow is always determined before paying dividends (which is from financial cash flow).

Ends.