Questions and Answers

1. Date & Time: August 6, 2014 (Wednesday) 16:30 – 17:30
2. Location: Conference call
3. Speakers: Joji Okada, Executive Vice President and CFO
   Keigo Matsubara, Managing Officer, Deputy CFO, Global Controller
   Michihiro Nose, General Manager of Investor Relations Division

4. Questions and Answers

Q: The downturn of iron ore price does not appear to have had much of a negative impact on profits of your iron ore business subsidiaries (MIOD, MII), so what are the factors behind the increases and decreases?
A: MIOD (the Mineral & Metal Resources Segment holding portion) reported a decline of ¥3.8 billion in after-tax profits from the same period last year, with a negative impact of ¥7.0 billion attributable to prices and a negative impact of ¥1.0 billion attributable to foreign exchange, but a positive impact of ¥1.0 attributable to higher sales volume. In addition, there was a positive impact from income of an undisclosed amount for infrastructure usage from this quarter. Despite a negative impact of ¥2.0 billion attributable to price, MII's earnings remained largely unchanged from the previous year due in part to increased sales volume and other factors.

Q: Mitsui remains highly exposed to business involving energy and other resources in Russia, and is also involved in automotive-related business there. Given that, have the political uncertainties in Russia impacted the company in any way?
A: Although we engage in much business involving exports from Russia of natural gas, grains, forest products and other natural resources, Russia's political uncertainties have not yet impacted our operations. However, a situation involving international trade restrictions being imposed on any of that business would potentially have an impact.

Q: Have your operations in areas other than energy and resources been impacted?
A: Not as of this point in time.

Q: Iron ore prices have declined significantly since the beginning of the fiscal year, though they are apparently levelling off now. Do you think sales volume will offset the impact of falling iron ore prices? Or, do you perceive downside risk to the profits of your iron ore operations and the Mineral & Metals Resources Segment?
A: The iron ore price was on a downward trajectory from April all the way to June, as is apparent from figures for the iron ore price index of 62% Fe, CFR North China. The price now seems to have bottomed out, but Q1 results do not fully reflect the extent of that decline. Because the iron ore produced through our iron ore business is extremely high-quality and cost-competitive, we should be able to partially offset the decline in prices with increased volume. We are also taking steps to reduce costs. Still, given that the full extent of the decline in prices does not wholly translate to lower earnings, we are prepared for slightly lower results.

Q: Although the New Medium-term Management Plan sets forth a 10%–12% ROE target for the year ending March 31, 2017, I think that ROE for this year will be close to the 10%, bottom of the ROE target range, due to higher shareholders’ equity as a result of adopting IFRS. As such, do you intend to achieve ROE in the target 10%–12% range in individual years, or only in the final year of the management plan?

A: We are aiming to achieve the 10%–12% ROE target every year, not just in the final year of the management plan. Still, we will probably narrowly hit that target this year, given our current level of shareholders’ equity and our target of ¥380.0 for profit for the year attributable to owners of the parent.

Q: Does that mean that you intend to aim for an increase in profits while allowing for flexibility with respect to capital policy in order to achieve ROE of 10% –12% this year?

A: Yes.

Q: Coal business subsidiaries and associated companies BMC and MCH generated combined profits for Q1 of ¥2.0 billion. Against a backdrop of low coal prices, will you be able to maintain that profit level in future quarters as well? Also, could you explain the impact of market conditions and sales volume on results?

A: MCH and BMC both performed well in Q1 in terms of operations. For MCH, production at Dawson, German Creek and Bengalla is going well, and at this point in time the numbers are expected to remain in line with the plan. For BMC as well, operations of both South Walker Creek and Poitrel are going well, and as such we expect BMC to achieve the initial target of an 8% increase compared with the same period last year. Cost cutting measures also remain on track.

Q: Given that coal prices are set to remain unchanged during the July-September period, should we assume that profits for the year will amount to the ¥2.0 billion for Q1 times four? And, is that figure in line with the initial plan at the start of the fiscal year?

A: We have not disclosed the initial plan, so I am unable to confirm that. However, we need to keep a close eye on prices given that they are a factor in this regard.

Q: What are your daily shale gas and oil production volumes? Also, what are your views on current production levels? Are the forecasts for the Energy Segment roughly in line with the plan?
In terms of shale oil and gas volumes, the Eagle Ford project in Texas is yielding approximately 11,200 barrels oil equivalent per day. Marcellus project is yielding approximately 43,000 barrels per day. For the Energy Segment, our results thus far are in line with our initial plan of ¥140.0 billion.

**Q:** Am I correct in my understanding that increases in shale oil and gas production will continue this year as well?

**A:** Yes. In the previous year we made a decision to move forward with further development of shale oil as well, and production is also increasing in that regard. We are also set to achieve profitable results from these operations, including Marcellus project, from this Q1.

**Q:** In relation to shale operations, MEPUSA, which owns Marcellus project, posted strong Q1 earnings. Given that those results are presumably attributable in part to high gas prices during the winter months in the U.S., what were the actual price levels? Also, would taxable income stay in positive territory at current market levels?

**A:** We cannot disclose actual sales prices of Marcellus project or taxable income.

**Q:** Were the favorable Q1 earnings a result of one-time factors?

**A:** Earnings results were as usual given steady production.

**Q:** In the Food Resources business, Multigrain Trading posted a loss in Q1, and agricultural producer Xingu Agri posted a profit, yet in the past the opposite appears to have been the case. Why is that?

**A:** Multigrain Trading's collection and sales business involves making advanced payment to farmers at the collection phase, which entails credit risk, and this quarter we have started to apply more rigorous credit risk standards in posting provisions related to those advanced payments. Consequently, Multigrain Trading's negative earnings were partially a result of expenses accrued for additional provisions recognized as a result of this change.

The agriculture business benefited from strong production this year, in contrast to last year's disappointing harvest due to poor weather conditions and insect damage to crops.

**Q:** With total divestiture for Q1 amounting to ¥50.0 billion, how far along are you in achieving your target for the year? Also, what is your target for year-end? As for investments, can you provide a breakdown of the ¥10 billion amount earmarked for new investments and loans by key strategic domains?

**A:** We do not release annual projections for investments, loans and divestitures. However, beginning this year our business units establish consensus on investment, loan and divestiture amounts to act as guidelines in that regard, and so far our investment, loan and divestiture figures are in line with those guidelines. Also, we cannot disclose details regarding a breakdown of the ¥10.0 billion earmarked for new investment.
Q: Can you provide a breakdown with respect to the ¥175.0 billion in investment and loans earmarked for existing business and projects in the pipeline?

A: We do not disclose those details, but we did provide specifics regarding our projects in the pipeline with the release of our New Medium-term Management Plan. Investment in the Brazilian integrated freight transportation business amounted to approximately ¥70.0 billion in Q1. It is difficult to say whether or not that should be considered one of projects in the pipeline given that we originally planned to complete that investment in the previous year. Let me just say that initiatives involving expansion shown on the slide (slide 3 of the presentation materials) fall under the existing business category, but otherwise we will not provide details as to whether specific initiatives are categorized as existing business or projects in the pipeline.

Q: The Iron & Steel Products and Lifestyle Segments have not made sufficient progress toward achieving the earnings target for the fiscal year ending March 31, 2015. As such, what is your outlook in that regard for Q2 and subsequent quarters?

A: The Iron & Steel Products Segment may face some challenges in achieving the year target. The Segment is up against a fairly harsh environment given a slowdown in overseas markets particularly caused by exports from China and sluggish transaction volumes. As for the Lifestyle Segment, certain special factors converged in Q1, including Multigrain Trading's one-time recording of provisions, as we explained earlier.

Q: Could you offer your views with regard to Sakhalin II dividend amounts? Also, in relation to that, have risks associated with the political uncertainties in Russia had any impact on the Sakhalin II project, particularly with respect to Train 3?

A: As for our outlook on dividends from the Sakhalin II project, in general, under the Production Sharing Agreement (“PSA”) the government's share tends to increase as the project moves forward and investment is recovered. As such, in our business plan, we expect dividends from Sakhalin II this year to be lower than what they were in the previous fiscal year. However, you should keep in mind that the amount of dividend income will be influenced by changes in oil prices and a variety of other factors besides the proportion going to the government.

Also, Sakhalin II expansion plans is now the preparatory phase for the FEED, and although sanctions on Russia and other such developments have not impacted the project as of yet, there is no telling what may happen going forward.

Q: With Q1 results out of the way, the Energy Segment will be able to achieve the initial full-year projection if it generates approximately ¥28.0 billion over each of the next three quarters (deduct Q1 results from annual plan and divide by three), which is rather low compared with the Q1 results. Does that mean you expect negative factors to emerge in the coming quarters, or does this suggest that results are bound to exceed the full-year forecast?
A: The Energy Segment performed very well in Q1. However, although MEPUSA’s Q1 results were strong in part due to higher gas prices in the U.S. during the winter months, we do not expect results approaching that level from Q2 onward. Moreover, while the plan factors in assumptions regarding exploration costs incurred over the full year, it now seems likely that those costs will increase from Q2 onward. Accordingly, we do not anticipate full-year results for the Segment at four times as many as Q1 earnings.

Q: What steps have you taken to cut costs in the coal business? And, have those initiatives delivered the results you had expected?

A: Efforts taken with partners in the coal industry to reduce costs have produced results, but no special cost cutting measures have been put into place other than those normally taken.

Q: Does that mean that the cost cutting measures were more successful than you had anticipated?

A: All mining projects are probably working to cut costs through efforts that include increasing capacity of coal processing plants. We are pleased to see results emerge from such cost cutting initiatives this quarter, and are aware of the need to persist with such efforts going forward.

Q: In the Machinery & Infrastructure Segment, water treatment company Atlatec and the rolling stock leasing business have generated strong figures. What developments have led up to this, and are these results likely to persist?

A: Atlatec have added its affiliate to its scope of consolidation from this quarter, given that results of such affiliate is now seen as material. Therefore, Atlatec recognized all past retained earnings of such affiliate in its consolidated profit and loss which had a positive impact on our consolidated statements Although the rolling stock leasing business performed well, those figures exceed actual performance of the business due to one-time factors recognized in Q1.

Q: What is your assessment regarding the company’s having achieved 34% of its full-year earnings target?

A: The reasons we achieved such strong results and 34% of our full-year earnings target are as follows. First, Q1 LNG dividends, including those from the Sakhalin II project have been significant, and oil and gas prices have also been firm. Also, lower iron ore prices are not yet fully reflected in Q1 results, and increased volumes, cost reductions and exchange rates in Q1 were sufficient to cover the decline in iron ore prices. Furthermore, the Machinery & Infrastructure Segment achieved a high proportion of its year earnings target due to strong results mainly in IPP and automotive. As for the entire year, however, we think it is still too soon to revise the ¥380.0 billion profit forecast given the economic environment in terms of trends in the Chinese economy, potential timing for tighter monetary policy in the U.S., and geopolitical risks, and also taking into account market conditions, declining iron ore prices, and other such factors.
Q: Am I correct in my understanding that there has been a change in how Sakhalin II dividend payments are made, and that such payments are now made on a more frequent basis? And if so, does this mean that dividend amounts being paid out each time have decreased? Also, should I assume that Mitsui's share decreases in line with the amount of investment recovered under the PSA?

A: The contract stipulates various arrangements in that regard, and such matters also depend on production trends, cash flow and other factors. As explained earlier, generally under a PSA the host country's share of income increases as production progresses. However, it is not possible to give an explanation of such dividends beyond that.

Q: The Chemical Segment earnings decreased compared with the same period last year. Is that downturn attributable to any particular factors? Also, what is your outlook for Q2 and beyond?

A: A major factor behind the decrease is that as of Q1 the Chemical Segment no longer takes in gains involving KPA of Indonesia because that business came to an end at the end of the previous year following transfer of KPA assets in line with the Build-Operate-Transfer (“BOT”) agreement for that venture. Also, even though the chlor-alkali business with The Dow Chemical in North America has commenced operations, profits still fell due to a soft market at this point in time for caustic soda and EDC. Results of that business going forward will hinge on conditions in the market.

Q: In the Energy Segment, I believe you forecast that over this year and next the equity share of production would temporarily reach peak levels and then level off. However, can we expect increases in production each quarter of this year? Also, when do you expect to reach peak levels, taking into consideration shale output and other factors over this year and next?

A: Oil and gas production volumes increased because of U.S. shale production and also due to this quarter's resumed production in Australia's Vincent oil field, following suspension of production last year for FPSO refurbishment. On the other hand, we are likely to see diminishing production as existing interests gradually decrease, and also as a result of sales of some assets last year in New Zealand, Egypt and other countries. In May, we announced that oil and gas production would likely remain flat over the year ending March 31, 2015 to the year ending March 31, 2016. This is due to the fact that production levels will be impacted by the positive and negative factors just explained. Thereafter, we expect to see an upward trend in production emerging from Temap Rossa of Italy and other such ventures.

Q: Should we have some expectations with respect to increasing production volumes this year?

A: The specific production figures for the first half and second half of the year are difficult to estimate. Therefore, we suggest that you consider the figures on a full-year basis, with production of 243,000 barrels per day achieved in the previous year and a forecast of 263,000 barrels per day for this year.
Q: Your plans call for investment and loan of ¥1.5 trillion over three years, which would come to ¥500 billion on a yearly basis, and it looks like you got off to a good start in Q1 in terms of progress toward the ¥500 billion. In that regard, do you suggest that we use as a barometer of your investment activity the amount of current investment and the gross amount of divestiture, or should we use the net amount of investment and divestitures?

A: Whereas our investment plan released under the New Medium-term Management Plan calls for ¥1.5 trillion total investment comprised of existing business and projects in the pipeline, we do not release details on a per-fiscal year basis. Meanwhile, our business units reach agreement on investment plans, with figures determined in that process used as guidelines. Accordingly, we find that our numbers are essentially in line with those guidelines as of the end of Q1. Also, although we are likely to see variation in figures for individual quarters, given that the guidelines factor in the ¥1.5 trillion in investment for existing business and projects in the pipeline, we are roughly on target in this regard, with the inclusion of divestitures.

Q: Does this mean that progress made with divestitures does not particularly have an impact on the investment plan?

A: If we are to achieve positive free cash flow within three years, we may need to divest additional assets in order to generate the cash we need when new investment exceeds expectations, irrespective of our existing projects and projects in the pipeline. Therefore, we will have to keep a close eye on what kind of new investment projects crop up, while also considering divestitures and other strategies for reshuffling our portfolio of assets to address opportunities as they arise.

Ends