Mitsui & Co., Ltd.

# IR Meeting on Financial Results for the Six-Month Period Ended September 30, 2014
## Questions and Answers

**1. Date & Time:** **November 7, 2014 (Friday); 10:00 – 11:30**

**2. Location:** **Tokyo Kaikan**

**3. Speakers:** **Masami Iijima, President and Chief Executive Officer**
**Joji Okada, Executive Vice President, Chief Financial Officer**
**Keigo Matsubara, Managing Officer, Deputy Chief Financial Officer, Global Controller**
**Michihiro Nose, General Manager of Investor Relations Division**

**4. Questions and Answers:**

Q: In relation to the share buyback, why wasn't it implemented in the second quarter, and what was the in-house discussion in this regard? Although cash flow is abundant, I think a simple calculation based on the business results forecast for the current fiscal year shows that reaching the Medium-term Management Plan's target ROE of 10% to 12% would stretch Mitsui to the limit.

A: With respect to the share buyback, we have not changed our stated existing approach of taking measures in a prompt and flexible manner as needed in light of ROE, net DER, other benchmarks, investment demand going forward and business environment. As you pointed out, free cash flow in the second half of the current fiscal year is abundant. However, given that some existing investments and investments in the pipeline will be postponed until the coming fiscal year and beyond, we want to analyze the current fiscal year's free cash flow and the progress of investment implementation a little more before considering share buybacks. We view share buybacks as one of the current fiscal year's important matters. Although we didn't implement a share buyback in the second quarter, we will continue discussing this matter in-house in the third quarter onward.

Q: The Medium-term Management Plan projects profit for the year attributable to owners of the parent and EBITDA increasing constantly. However, with greater-than-expected falls in resource prices, the present situation differs considerably from the assumptions used when preparing the plan. If the current resource prices continue, how will they affect the cash flow management strategy and the achievement of the ROE target set out in the Medium-term Management Plan? Which will the Company give priority to: the target ROE of 10% to 12% or cash flow management?

A: As you said, iron ore and crude oil prices have weakened and fallen considerably. We would like to make responding to this situation one of our tasks going forward. At recent meetings of the Corporate Management Committee in the near future, we will discuss a variety of business management issues. We will hold very detailed, in-depth discussions and conducting a range of simulations. The issues we intend to consider include business management from the coming fiscal year and business targets from the Medium-term Management Plan's second year; how to achieve and maintain positive free cash flow in accordance with the Medium-term Management Plan; and how to realize ROE of 10% or higher.

Q: At the same time as resource prices are falling, the yen is depreciating dramatically. Moreover, our shareholders' equity—the denominator of ROE—is rising. Meanwhile, simply calculating based on the sensitivity of businesses to current resource prices, growing earnings in the coming fiscal year appears challenging. If this proves to be the case, Mitsui will not meet the target for ROE of 10%. Since announcing the Medium-term Management Plan, however, you have stated your commitment to reaching each fiscal year's targets. Can you explain your commitment to achieving the target ROE of 10% to 12% at the present juncture?

A: To be precise, this is the target during the period of the Medium-term Management Plan, and achieving it for each fiscal year may not be possible. However, we want to remain committed to and mindful of this numerical target as we move forward. Therefore, we will consider various measures. These include considering the possibility of share buybacks as well as steps to heighten earnings or recycle assets. Through such measures, we want to reach the target during the three-year period.

Q: Another general trading company that has recognized significant impairment losses is considering fundamentally reforming how it screens investments. In this respect, I do not think there are significant differences among trading companies generally. What is Mitsui's view on this point?

A: Mitsui's system for screening investments is unchanged. I will refrain from commenting on our merits or demerits relative to other companies. To strengthen areas in which we do not have particular competence or areas of weakness, we need to begin with personnel development, which takes time. Accordingly, given that Mitsui is highly reliant on its Mineral & Metal Resources and Energy segments, we believe developing human resources and business foundations to strengthen other areas will take a little time. As we implement the required measures, we will ensure that we do not fail as a result of acting too hastily. In the Mineral & Metal Resources and Energy segments, we are mindful of the business foundations and partnerships that our predecessors have built. Thanks to working with discerning partners, Mitsui has accumulated significant experience. For example, in the energy area, we have approximately 100 technical experts in Japan and overseas, including the personnel of MOECO. This team has accumulated a considerable amount of technical expertise. Furthermore, MOECO is an operator and has accumulated operational expertise. Similarly, in the iron ore business, we are accumulating expertise through partnerships with such majors as BHP Billiton, Rio Tinto and Vale. We are fortunate in having great partnerships and human networks in the Resources and Energy industries during our history, which I believe helps us in properly making sensible investment judgment to some extent. Because realizing projects can take long periods, such as 10-to-20 years—particularly in the Mineral & Metal Resources and Energy segments—and because huge prior investment is required, major mistakes are a distinct possibility unless we proceed with due diligence. Therefore, we tell all of our employees to remain attentive as they tackle projects.

Q: There have been reports in the media that the Mozambique LNG project's FID is slightly behind schedule. Why is this?

A: In August this year, a certain amount of progress was made in establishing legislation for investment and gas development in Mozambique. However, such factors as a presidential election have delayed the legislature's deliberations slightly. Originally, we planned to complete the FID by the end of 2014 but we are a little behind schedule. Currently, we are in negotiations with representatives of Mozambique's government and Anadarko with a view to completing the FID by the end of March next year, that is to say, by the end of the current fiscal year.

Q: Mitsui has downwardly revised the business results forecast for the Mineral & Metal Resources segment by ¥38 billion. Can you break down this revision into its components? Excluding the more than ¥30 billion effect of Australia's mineral resource rent tax repeal and Chile's tax system reform leaves a downward revision of only ¥7 billion or ¥8 billion. I understand Mitsui has not disclosed iron ore price assumptions, but are you able to explain assumptions about the extent to which business results will decline from the first half to the second half or the difference in U.S. dollars between Mitsui's price assumptions and the forecast at the beginning of the current fiscal year?

A: You mentioned that the effect of Australia's mineral resource rent tax removal and Chile's tax system reform is more than ¥30 billion. This amount includes a negative effect of ¥17 billion arising from Chile's tax system reform. As for Australia's mineral resource rent tax, we previously recognized a reversal of deferred tax assets of about ¥14 billion. However, the elimination of the tax burden from October this year offset the effect of this reversal. As a result, the tax-related decrease is about ¥17 billion.

Q: I would like to ask about impairment loss concerns other than those for resources. The chlor-alkali producing business in the United States and the Multigrain businesses account for investment of roughly ¥100 billion. Will these two businesses' stagnation lead to concerns over impairment losses in the non-resource area?

A: The chlor-alkali producing business in the United States is in the red because of higher ethylene prices at present and a slackening of the supply-demand situation for such products as EDC and caustic soda. In the immediate future, conditions are expected to remain challenging. However, we are taking a range of operational measures to reduce this deficit. At this stage, we do not expect impairment losses. Furthermore, withdrawal from this business is an option for us in the same way that it is for Dow.

Multigrain's deficit in the first half of the current fiscal year is attributable to the introduction of more stringent standards for the recognition of provision for doubtful receivables, a slight loss incurred in trading and the reluctance of farmers to enter into sales contracts for their crops because current grain prices have decreased significantly. However, we view these factors as largely temporary. Based on this analysis, we do not anticipate impairment losses.

Q: The share price rose for a time thanks to the announcements of a share buyback in February and the new Medium-term Management Plan in May this year. However, the price book-value ratio (PBR) remains below 1. What are your thoughts on Mitsui's share price?

A: Rapidly raising the PBR to 1 is always our goal. We are focusing efforts on IR activities to raise the share price, including the ¥50 billion share buyback we announced in February this year. Following the announcement, the share price rose steadily, reaching ¥1,820 in September. We felt that if it surpassed ¥2,000, the PBR would reach 1. Subsequently, however, general trading companies' share prices fell quite significantly. Having fallen as far as ¥1,500, Mitsui's share price is above ¥1,600 at present. Our desire to reach a PBR of 1 remains as strong as ever. In addition to existing methods, in the current fiscal year we are advancing initiatives so that various stakeholders fully understand Mitsui's true value as is. Regarding the overseas IR activities that President Iijima leads, this year we have increased the number of visits to investors in Europe and North America from once to twice a year. We intend to continue such efforts.

Also, as I said earlier, we need to implement share buybacks in a prompt and flexible manner as required. If we have financial leeway, we want to consider a range of methods to raise the PBR. We will closely keep watching share price movements. At the same time, we want to incorporate considerations of how to increase Mitsui's share price when deliberating growth strategies.

Q: In the Energy segment, you have kept consolidated oil price assumptions almost unchanged, but revised exchange rates assumptions toward yen's slight depreciation side. What are the factors of the ¥40 billion upward revision of the segment's forecast versus the forecast at the beginning of the current fiscal year?

A: The largest contributions to the ¥40 billion upward revision came from higher LNG project dividends and rising oil and gas volumes. Other contributory factors were increases resulting from cost reductions in certain areas and yen depreciation.

Moreover, rising oil and gas volumes reflected steady production at MOECO's operations in Asia.

Q: Can you explain the Mineral & Metal Resources segment in a little more detail? My understanding is that cost reductions had progressed further than expected at the beginning of the current fiscal year. Currently, how is the segment reducing costs? Also, does the segment expect to achieve further cost reduction benefits from the coming fiscal year?

A: In the first half of the current fiscal year, improvements in the coal area were quite significant. Specifically, at MCH and BMC, we are increasing the operating rates of mining machinery and improving the efficiency of truck operations. The improvements are particularly large at MCH. In addition, iron ore costs are improving steadily. For example, Rio Tinto and BHP Billiton are improving truck transport distances, reducing idle time, reducing surplus personnel and introducing automated railroad transportation systems. The coal area has seen the largest improvements since the beginning of the current fiscal year. From the coming fiscal year, however, we believe tangible cost reduction benefits will emerge in the iron ore area.

Although resource prices are lower than they were when we prepared the Medium-term Management Plan, cost reductions are having a positive effect. Therefore, in response to questions about whether we have a certain level of confidence about future business results, our intention to realize numerical targets according to the plan remains unchanged. We are continuing efforts to recover impact calculated by sensitivity due to decreasing iron ore and other resource prices

Q: Mitsui envisions total assets of ¥13 trillion when the Medium-term Management Plan ends in March 2017. At the end of the second quarter, total assets stood at ¥12.3 trillion. In light of yen depreciation going forward, how does Mitsui intend to manage total assets?

A: Total assets rose to ¥12.3 trillion at the end of the second quarter. Quite a significant portion of this increase stemmed from yen depreciation. If the yen depreciates, it will contribute significantly to business results and cash flow; yen denominated business results will improve and dividends received will rise on a yen basis. On the other hand, viewing balance sheets at certain junctures will reveal increases in total assets, including increases in our shareholders' equity. To some extent, Mitsui controls risk by hedging when investing overseas. However, rather than stopping investment because total assets will increase to ¥13 trillion or ¥14 trillion if exchange rates reach ¥120 or ¥130 to the U.S. dollar, we believe we will have to manage overseas investments and assets on a foreign currency basis.

Q: In relation to an update about existing businesses and projects in the pipeline, from the second quarter the VLI began contributing to earnings on a small scale, approximately ¥1 billion. Mitsui invested approximately ¥70 billion in this project, and VLI plans new investment of ¥400 billion over the coming five years. How much return on investment does Mitsui expect? Can you give a sense of the scale and schedule going forward?

A: The VLI began contributing to earnings in the current fiscal year. This project is part of a set of projects that include railways and ports encompassing a wide area of Brazil. Plans call for procuring locomotives and freight cars and developing and expanding railroad networks and port terminals. Mitsui will, for example, use the capabilities of Portek, the subsidiary responsible for managing the project's headquarters, to increase value. Going forward, this is a business that should grow earnings and value even further by exploiting the Integrated Transportation Systems Business Unit's procurement capabilities for railroad-related infrastructure, locomotives and freight cars. It is difficult to comment on the profitability of individual projects. However, given this project's considerable potential, the future is very promising.

Q: Mitsui has downwardly revised the business results forecast of the Lifestyle Segment by ¥14 billion versus the forecast at the beginning of the current fiscal year. Can you break down and explain this revision?

A: Overall, there are three reasons. The most significant reason was the lackluster performance of Multigrain's origination and sales businesses in the Food Resources Business Unit. This poor performance led to the change from the forecast of profit at the beginning of the current fiscal year to the current forecast of a loss. Further reasons for the downward revision were unfavorable coffee trading in the Food Products & Services Business Unit and the recognition of loss on investment in equity accounted investees.

Q: I would like to ask about how Mitsui will use cash when free cash flow becomes positive. When the Medium-term Management Plan was prepared, it was explained that Mitsui would allocate recurring free cash flow between new businesses and returns to shareholders in a good balance. In the first half of the current fiscal year, Mitsui invested ¥20 billion in new businesses. Approximately how much has Mitsui earmarked for investment in new businesses? Also, will the Company use recurring free cash flow, net of expected investment in new businesses in the current fiscal year, to fund returns to shareholders? Or will it deduct debt repayment before funding returns to shareholders? Also, can you clarify Mitsui's position on returns to shareholders?

A: At this juncture, I am unable to reply about the amount of expected new investment. However, investment is progressing roughly in accordance with plans. Meanwhile, the new Medium-term Management Plan incorporates the concept of recurring free cash flow. Our policy of allocating investment in new businesses and returns to shareholders in a good balance has not changed. Debt repayment is not included in this policy.

Under the Medium-term Management Plan, we have adopted a different approach by aiming to achieve and maintain positive free cash flow. During the three years of the Medium-term Management Plan, we will invest ¥1.5 trillion in existing businesses and projects in the pipeline and realize recurring free cash flow of ¥1.0 trillion to ¥1.4 trillion. Also, we will implement returns to shareholders during these three years. Of course, each fiscal year will result in further accumulation. We want to consider returns to shareholders in light of how much we expect to invest in the current fiscal year, which is the first fiscal year, and in the remaining two fiscal years. In the first half of the current fiscal year, our extremely disciplined approach to investment partly reflected our stringent investment screening standards. Many potential new investments still exist. Therefore, deciding how to select good quality investments is a management task.

When considering new investments, we will maintain the same disciplined approach that we use currently. However, certain investments have been postponed until the second half of the Medium-term Management Plan's period. Going forward, we will announce further investments, like a case of participation in a passenger railway transportation business in Brazil that we announced today.

Q: You explained that MEPUSA moved into the black in the first quarter because of temporary earnings in winter. Excluding temporary factors, can we attribute the second-quarter profit to normal earnings?

A: The company is producing steadily and is on track to remain in the black throughout the current fiscal year. As you pointed out, in the first quarter, high gas prices during winter contributed to earnings significantly. However, the company remained profitable in the second quarter. Of course, it depends on gas prices going forward, but the company can stay in the black if the present situation continues.

Q: At the end of the second quarter, liabilities were up. Amid positive free cash flow, is Mitsui simply funding repayments with new borrowings? In particular, why is long-term debt increasing?

A: One reason is a rise in borrowing needed for VLI and U.S. shale gas and oil businesses due to yen depreciation. Another reason for the increase is that, based on current interest rates, we are in the process of changing over borrowings from short-terms to long-terms.

Q: Why has Mitsui upwardly revised the full-year forecast for the Machinery & Infrastructure segment? Also, given that the segment's earnings are expected to be higher in the second half than they were in the first half, can we expect an increase in earnings in the coming fiscal year?

A: The main reason for upwardly revising the full-year forecast and expecting earnings to be higher in the second half than they were in the first half is the favorable performance of IPP businesses. Earnings from the Valladolid power station in Mexico and other existing projects are rising. In addition, the gas-fired thermal power plant in New York City and new FPSO projects are beginning to contribute to earnings. In the second half, these projects will contribute to further increases in earnings. Accordingly, earnings are on track to continue rising in the coming fiscal year unless something unexpected happens.

Q: Continuing from the first quarter, dividends received from Sakhalin II were recorded in the second quarter. Previously, however, it was explained that returns from this project were unlikely going forward. Do you expect continued high earnings in the future? Can you please explain the current situation, including the likelihood of the rise in LNG prices in April this year having a positive effect?

A: At this point, we are limited in what we can say about Sakhalin II because we do not have any particularly new information. Because operations remain steady, we expect they will continue contributing to earnings.

Q: How do you view current crude oil prices and the outlook for crude oil prices?

A: Bearing in mind the supply-demand relationship and geopolitical risk, previous crude oil prices remained comparatively high. Now, prices are declining amid such trends as the end of QE3 in the United States. We need to pay attention to how Saudi Arabia and other oil-producing countries respond. Currently, psychological factors are a fairly significant component of crude oil prices. For example, the establishment of a long-term crude oil price of US$75 by Goldman Sachs has affected market sentiment.

Q: If crude oil prices fall, how will this affect the FPSO business?

A: Mitsui's model for the FPSO business is based on contracts concluded for long periods, such as 10 or 20 years. Therefore, a decrease in crude oil prices will not immediately have a negative effect on projects Mitsui is currently advancing or on future delivery projects. Of course, in the medium-to-long term, a slowdown in relation to offshore development projects could lead to a decrease in the number of projects that Mitsui is engaged in. However, conditions have not yet changed in this way.

Q: When overseas investors ask what a general trading company is, what do you think is an effective way of explaining this? I understand Mitsui does not disclose resource prices. With this in mind, for example, not even disclosing quantitative differences between the price assumptions of targets and actual results makes it necessary to consider how to have the conglomerate discount understood as a premium. This is an issue that also applies to other companies. If the general trading company sector incurs significant impairment losses, particularly in a falling-resource-price phase of the type that we are in presently, this point unavoidably represents a risk for the whole sector.

A: With respect to explanations targeting overseas investors, at present we are using specific examples and figures to explain how we are progressing in the seven Key Strategic Domains set out in the new Medium-term Management Plan. Next week, at a meeting of the Corporate Management Committee, we plan to explore this point further.

Also, it is my understanding that the only prices we do not disclose are those for iron ore.

Q: How do you reply to questions about the kind of business format general trading companies are based on? For example, how does Mitsui explain specifically the way in which the goal of innovating various types of business that Mitsui's corporate slogan expresses relates to Mitsui's engagement with mineral resource businesses?

A: We seek to explain our involvement in mineral resources in the context of value chains that extend from raw materials to the production of iron and, further still, to the automotive industry and other industries that require such products. In addition, apart from the seven Key Strategic Domains, we want to explain Mitsui's background. In other words, we want to explain our history, focusing on how we have transformed and evolved our business format and the roles we have played as Japan's industrial structure has changed in different eras and as globalization has advanced. Also, the media have asked what Mitsui is. Because we are always evolving, we are difficult to grasp, like an ameba. However, if we cannot answer this question properly, we will be unable to resolve the issue of the conglomerate discount that is associated with general trading companies. Therefore, we have a strong sense of crisis in this respect and view addressing the question as an extremely important task.

Ends