Mitsui & Co., Ltd.

IR Meeting on Financial Results of the Nine-Month Period Ended December 31, 2014

Questions and Answers

1. **Date & Time:** **February 4, 2015 (Wednesday) 15:30-16:30**
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: *You've recorded an impairment loss for the Eagle Ford project this quarter. Judging from the disclosed financial results of this project, is it correct to understand that deficits will continue if the current market level is maintained? Also, does this mean you have reviewed impairment possibilities for other projects under current market level as well?*

A: Mitsui E&P Texas, which is the subsidiary that runs the Eagle Ford shale oil and gas project, is currently producing steadily and generating profit. In our Data Book on Consolidated Financial Results for the Nin-Month Period Ended December 31, 2014, we have shown the pre-tax loss for this quarter of this company as ¥49.4 billion. But the pre-tax impairment amount was ¥52.7 billion after excluding the share attributing to non-controlling interests from the gross impairment amount of ¥58.9 billion. Without this impairment loss the company would have generated a pre-tax profit of ¥3.3 billion.

We conduct impairment tests on a quarterly basis as we have done for other projects as well this time around, and we have concluded that impairments were unnecessary for those other projects.

Q: *Although cash flow is being generated, the current oil and iron ore market levels suggest much difficulty for the next fiscal year in terms of profit.*

During the economic downturn that followed the bankruptcy of Lehman Brothers of 2008, you've responded to the changes in external business environment by cost-cutting measures and stricter selection of investments. Do you have similar thoughts in reaction to the current changes of external environment?

A: Although certain impact to our existing earning capability in the short term from the recent sharp decline of the oil price is unavoidable, we will be devoting much of our efforts to working together with the operators to reduce cost and improve profitability. With regards to investments, asset acquisitions under current market conditions can have difficult aspects to it, but generally speaking we believe opportunities to acquire good assets would increase. In our New Medium-term Management Plan we have anticipated about ¥1 trillion of Recurring Free Cash Flow. As a result of recent decline in market prices our Core Operating Cash Flow will decrease, but we will look to generate cash flow by stringent in discipline and be more selective of our investments and promote asset recycling.

Q: *Please explain why you have decided against share buyback despite of year-to-date cumulative Free Cash Flow of ¥200 billion.*

A: Our stance towards share buyback that we would act flexibly as needed taking in to consideration factors such as level of Free Cash Flow, ROE and Net DER, has not changed, and we will continue to pursue two objectives of investing for growth and shareholder return as we have indicated in our New Medium-term Management Plan. In revising down our annual forecast by ¥60 billion we have considered the order of priority in regards to returning to shareholders, and we decided to maintain our dividend payout that we forecasted in the beginning of this period. Although Free Cash Flow as of the end of third quarter is positive, we felt the need to assess the impact of falling oil and iron ore prices on the business environment, and therefore decided against share buyback at this time.

Q: *Downside risks are becoming apparent to the ¥1.8 trillion of Core Operating Cash Flow projected for the three years of the New Medium-term Management Plan. How you see Cash Flow Allocation under this situation?*

A: We have indicated our aim to accumulate ¥1.8 to 2.0 trillion of Core Operating Cash Flow as part of the Cash Flow Allocation in the New Medium-term Management Plan that we announced last May, but due to recent fall in commodity prices we are unable to stay optimistic about achieving this. We feel that our Operating Cash Flow will weaken despite of our efforts to cut costs. In light of the current business environment we will be more selective of our investments, and promote asset recycling. Our aim is to secure Recurring Free Cash Flow by the final year of the Medium-term Management Plan through these measures even if our Core Operating Cash Flow should decline.

Q: *You have maintained your dividend forecast while revising down the annual profit forecast. How has your thinking towards dividend changed from the initial plan of 30% payout ratio? Also, can you maintain this level of dividend if the current level of Free Cash Flow is sustained?*

A: In our New Medium-term Management Plan we have indicated our plan of 30% payout ratio, but we have decided to prioritize maintaining the forecasted dividend amount of ¥64 per share. With regards to our dividend policy for the next fiscal year and beyond, there are arguments against maintaining a steady 30% payout ratio when commodity prices are so volatile. We will be discussing this issue further while we formulate our business plan. We will formulate our business plan for the next fiscal year along with our dividend policy upon closely reviewing our cash flow projection for the period of the Medium-term Management Plan.

And we would like to maintain the ¥64 per share dividend for this fiscal year.

Q: *Please explain the price assumption used to determine the impairment amount, such as the timing of the forward curve used.*

A: While we cannot disclose actual figures, near term price assumptions were determined with the forward curve in mind. Mid to long term price assumptions were made by taking in to consideration forecasts by various think-tanks and our own view of the global political and economic environment.

Q: *Is it correct to understand that the forward curve was used for the first few years?*

A: Yes.

Q: *You have indicated your target ROE of at least 10% by the final year of the Medium-term Management Plan, but how is this being discussed internally now with the changing external business environment.*

A: We cannot deny the negative effects to our ROE target if oil and iron ore prices stayed at current levels. Profit growth can slow for the next fiscal year and beyond, and shareholders' equity could expand from weakening of the yen. There are negative factors, but we would like to achieve our target of 10 to 12% ROE by the fiscal year ending March 2017 by expanding our existing projects and executing our projects in the pipeline, as well as enhancing our efforts in the Key Strategic Domains. Also, although there is a view that share buyback can be one option to achieve the ROE target, as we have explained before we will not conduct share buyback just for that purpose, but do so flexibly by considering various factors comprehensively.

Q: *Please provide a forecast of the balance sheet as of the end of the current fiscal year.*

A: The balance sheet is susceptible to foreign exchange movements. Total Assets as of end of December 2014 was an increase of about ¥1.2 trillion from the same time previous year, but we believe that about 2/3 of this was caused by foreign exchange movements. Please expect more or less the current size to continue.

Q: *The price of copper falling and the financial results for Caserones and OCN, which invests in Anglo American Sur, are in deficits. Is it correct to understand that even with copper prices falling further in January there are no risks of impairment losses on these projects? Also, is it correct to understand that these results are due to current copper prices and without any special factors?*

A: As of the end of the third quarter, we have determined that there is no need to recognize impairment losses for these projects. We cannot comment on the future, but we check for signs of impairment every quarter and take appropriate actions if required, and we will continue to do so.

Q: *In forecasting your performance for the next fiscal year, would it be appropriate to multiply the sensitivity disclosed by the drop in prices and use the resulting figure as the potential drop in profits from this fiscal year to the next due to market factors? Also, please tell us if there are other factors that should be considered.*

A: We can expect volume increase towards the next fiscal year, as well as increase in revenue from the use of marine and railroad infrastructure in our iron ore projects that are not affected by the market. Therefore it is not appropriate to simply multiply the sensitivity that we provided at the beginning of this fiscal year. Additional factors such as cost reduction are also continuing, and therefore we believe the actual figure will be better.

Q: *In reassessing the achievability of the goals set in your Medium-term Management Plan in light of the fall in commodity prices, are the price assumptions being used the same as the assumptions used in calculating the impairment loss?*

Also, please give us your thoughts around the positive effects such as the reduced depreciation burden as a result of impairment or cost reduction efforts and effects of weaker Australian dollar that we may see towards the next fiscal year, as well as your projection of the level of decrease in profits and operating cash flow.

A: We will be considering our business plan for the next fiscal year in the coming months, and therefore we do not have any information that we can share with you today.

Q: *With regards to the ¥1.0 to 1.4 trillion of Recurring Free Cash Flow targeted in the New Medium-term Management Plan, the lower end of this range seems achievable even with the impacts of lower commodity prices. Are you firmly maintaining this plan? Assuming ¥1 trillion of Recurring Free Cash Flow for the three years of the Medium-term Management Plan, which is about ¥330 billion each year, there would be ample funds for share buyback after paying dividends. Can you share your views again towards share buyback?*

A: In our New Medium-term Management Plan we have indicated Core Operating Cash Flow of ¥1.8 to ¥2.0 trillion, investments in to existing projects of ¥1.5 trillion and asset recycling of ¥700 to ¥900 billion during the three year period, but we feel that Core Operating Cash Flow may fall somewhat below this range. On the other hand, investments toward existing projects of ¥1.5 trillion seem to be on track, and we are now seeing ¥800 billion from recycling. We would like to raise the target for recycling to ¥1 trillion and cover for the decrease in Core Operating Cash Flow to achieve somewhere close to ¥1.4 trillion.

As for share buyback, our policy remains to pursue both new investments and shareholder return from Recurring Free Cash Flow.

Q: *You have selected to prioritize dividend payment of ¥64 per share over payout ratio for this fiscal year, but does this mean you are mindful of the dividend amount and that you see sufficient Recurring Free Cash Flow to increase the dividend amount for the next fiscal year?*

A: We cannot comment on the dividend policy for the next fiscal year. For this fiscal year, we determined that we would have ample funds to return the dividend amount, considering factors such as revenue from the sale of shares in Recruit Holdings. We would like to consider about the next fiscal year along with the business plan.

Q: *If we subtract the third quarter results from the new annual forecast, the fourth quarter comes to about ¥70 billion. What sorts of one-off or similar items are expected in the fourth quarter?*

A: We anticipate reversal of deferred tax liabilities of under ¥20 billion in relation to the income tax rate reduction in Japan. We also expect profits from the partial sale of shares in TPV Technology, and valuation gains of the same shares that remain with us due to discontinuance of applying the equity method of accounting.

Q: *With regards to the Caserones project, it is reported that it is currently operating at half capacity and full operation will not be reached until July. Please explain the current situation and any changes to the $4.2 billion project cost.*

A: The concentrator commenced production from last May and is producing copper concentrates. In working towards stable operation we are seeing the need for more time on some work such as collection of operational data to build an automation program, and construction of spoil tailing dams. Full operation is currently planned for August. In terms of investment, there are no changes to our forecast.

Q: *Regarding dividends received from LNG projects, please explain at which point it became lower than was forecast.*

A: We have not made any forecast of dividends from LNG projects. We have explained that the amount receive this period was less than that of the previous period. Also, we have mentioned that the annual dividend amount may be less than what was planned.

Q: *Please explain the current situation and what lies ahead towards the next fiscal year in the Machinery & Infrastructure Segment and the Chemicals Segment.*

A: Things are looking upward in the Machinery & Infrastructure Segment. New projects such as the railway transportation business in Brazil will start to contribute towards the next fiscal year. Different projects have different varying factors so growths of all the projects are not uniform, but the overall trend is showing growth from contribution from new projects and expansion of existing ones.

In the Chemicals Segment the market is volatile. In Japan-Arabia Methanol for instance, revenue is falling due to slowdown in operation of the plant, but the effects of falling oil prices on methanol prices need to be closely watched as well. Fertilizers are recovering relatively strongly. Other than that, in new projects such as the Chlor-alkali project, feedstock prices are rising when product prices are falling resulting in continuing negative margin. We will be taking improvement measures while watching market movements closely.

Q: *Are there any impacts from the falling commodity prices in the Machinery & Infrastructure Segment?*

A: There are to a certain extent. Machineries closer to the downstream businesses, such as automobiles, are faring better in the US compared to those closer to the upstream businesses, and we look to increase revenues there. We expect tough times to continue with businesses related to natural resource.

Q: *The book value of investments towards LNG projects was elevated when adapting IFRS. Please explain whether or not asset re-evaluation would result in equity reduction if current oil prices persist, and how the asset re-evaluation will be managed every quarter.*

A: Book value of major assets will be adjusted based on assessments by third parties. The changes will be reflected directly in shareholders' equity. This time we have reduced the book value of some of the assets by incorporating the effects of falling oil price.

Ends