Summary of Q&A at Investor Presentation (translation)

Time and Date: August 2, 2018 (Thur.) 16:30 – 17:30

Presenters: Executive Managing Officer, CFO, Takakazu Uchida
Executive Officer, Global Controller, Kimiro Shiotani
General Manager Investor Relations, Yuji Mano

[Speaker 1]

Q1. Q1 progress in Machinery & Infrastructure appears to have been weak. Please discuss this and the status of IPP.

A1. As mentioned earlier, there is seasonality factors in the truck leasing business. There were no extraordinary factors impacting IPP performance. IPP profit declined year on year due to a decrease in equity method earnings associated with the disposal of some assets in the previous fiscal year, but we are seeing a gradual recovery in profit levels as projects under construction come online.

Q2. In May, President Yasunaga was positive about additional shareholder returns, but what is the policy now in the context of Q1 performance?

A2. Our basic thinking has not changed. We are making steady progress toward our target core operating cash flow of 570 billion yen and we will consider dividend increases when we see momentum towards achieving this.

[Speaker 2]

Q3. Could you talk about the divergence between actual consolidated oil prices in Q1 and current prices?

A3. The Q1 actual of $64 a barrel is lower than the current spot price. There is a maximum six months time lag until the oil price is reflected in the sales price, so current oil price trends will be reflected in the selling price by the end of the current fiscal year.

Q4. What will be the timing of Vale dividends in the current fiscal year?

A4. According to the new dividend policy announced by Vale, the minimum dividend will be 30% of EBITDA after deducting sustaining capex. Dividends will be paid semiannually. Based on Vale's recent earnings announcement, Mitsui's share for the first half of the year will be approximately US$100 million, to be received in September. Please note that with the acquisition of Valepar last year, recognition of income changed from equity method to dividend.

[Speaker 3]

Q5. Q1 progress in Mineral & Metal Resources was 23%, which seems low. What is the reason for this?

A5. Part of the reason was the increase in the cost of coal. Revisions to our mining plan to maximize medium-term efficiency, and challenging geological conditions in mining areas were factors, but we expect these to be resolved within the current fiscal year and believe we are on track to achieve our targets.

Q6. Energy looks quite weak even after considering dividends received and the time lag before higher oil prices are reflected. Are there any other factors?

A6. In Energy, LNG dividend increases, the postponement of exploration expenses, and price increases were partially offset by valuation losses on derivative contracts for physical trading, and market factors in trading transactions. (Valuation gains/losses on derivative contracts will be reversed upon delivery of the physical products)

Full-year LNG dividends are mostly in line with assumptions. Future dividend amounts and timing are not disclosed.

[Speaker 4]

Q7. Please explain the divergence between the sensitivity to market factors mentioned in your disclosures and the actual impact on your results.

A7. In iron ore, one factor is the increasing demand for high-grade ore, and the resulting price spread between low and high grades. In Energy, the time lag until current oil prices are reflected in the sales price is a factor.

Q8. In Q1, core operating cash flow progress to plan is 27%. Is it correct to understand that these numbers will improve further with the inclusion of dividends from Vale and the Australian iron ore business, which had been delayed?

A8. Large dividends will be reflected from Q2 onwards, so full-year progress is steady. Dividend from the Australian iron ore business was received in July.

[Speaker 5]

Q9. What is the status of the Lifestyle segment? Even excluding Multigrain, results appear to be strong, including at Xingu.

A9. Performance in the Lifestyle segment has been strong, even excluding Multigrain and other special factors. Non-resources profits exceeded 60 billion yen this quarter and were about 52 billion yen even when valuations gains and losses are excluded. Related companies and business performed very well.

Q10. What impacts are you seeing from US tariff increases on steel and aluminum, and the resulting trade friction?

A10. Some of our steel products and grains businesses are affected, but considering trade volumes and contractual agreements, the direct impact on our business is limited. That said, we need to pay careful attention to the risk of deceleration in the macroeconomy resulting from an escalation of trade friction. We also need to pay attention to any knock-on effects on economic growth in China and commodity prices.

[Speaker 6]

Q11. Is it correct to understand that Nippon Steel & Sumikin Bussan's contribution to profit is simply that company's Q1 profit times your equity interest?

A11. While there were one-off adjustments in the consolidation treatment, in future we will recognize our equity interest in Nippon Steel & Sumikin Bussan profit without any adjustments. The variance between the 3.6 billion yen in profit of equity method investment recorded in the Flash Report and the 2.7-billion-yen figure in the presentation materials is due to tax effects.

Q12. What is the status of the copper business?

A12. Production volume declined year on year at Caserones due to operational issues from January to March. We are now seeing a recovery as a result of recent revisions to our operation plan and technological improvements. At Anglo Sur, operational improvements and favorable weather have supported strong operations but negative factors such as a decline in copper prices and higher interest rates have made the situation somewhat difficult.

[Speaker 7]

Q13. Please talk about the progress of the Chemicals business, the sustainability of the strong performance of the US methanol business, and the status of Novus' methionine business.

A13. In methanol, periodic maintenance by producers in China and other markets are concentrated in Q1 and market conditions in Asia have been up considerably, so we expect to see some correction from Q2 onwards. In methionine, expansion plans by competitors and the resulting aggressive sales promotions have caused the exceptionally tough competitive environment to persist.

[Speaker 8]

Q14. What is happening with the strike at Caserones?

A14. Negotiations had been taking place between management and workers in timing with the expiration of agreements with one of the three local labor unions. The company's proposal was rejected following a member vote at the end of July, so they will now enter into a mediation process overseen by the local labor bureau. If an agreement cannot be reached, there is a possibility of a strike. The local company is taking the matter seriously and aiming for a smooth resolution through the mediation process.

[Speaker 9]

Q15. With regard to cash flow and the balance sheet. What is your take on investment cash flow of 200 billion yen and the 94.5-billion-yen increase in interest-bearing debt?

A15. Investment cash flow increased as a result of investment decisions made in the previous fiscal year, including AWE (and others where the timing of execution has been delayed), but it will not exceed the planned total amount for the full year and there is no change to the plan of 1.7 trillion to 1.9 trillion for the three years of the medium-term management plan. With regard to interest-bearing debt, the currency conversion was a big factor affecting US dollar denominated debt. Cash flow after shareholder returns was in a slight deficit but this does not impact interest-bearing debt.