**3rd Quarter Financial Results Announcement for FY Ending March 2019**

**QA Session (translation)**

**Time and Date:** February 1, 2019 (Fri.) 16:45 – 17:45

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

*[Speaker 1]*

Q1: In the first half of the year, forecasts for Machinery & Infrastructure were revised downwards by 10 billion yen, mainly due to a downturn in rail and automotive businesses. The flash report for the third quarter records a loss in the rail business. Is this just a one-time loss for this period?

A1: At our second quarter financial results announcement, we mentioned the downturn in rail and automotive businesses and a delay in contribution from certain power businesses in the US. In the rail business, some prior risks were realized as losses, but we are pursuing a number of initiatives for recovery and to ensure that the losses do not continue into subsequent periods. We are seeing a gentle recovery and increasing stability in the automotive business.

Q2: What is your outlook for supply and demand of iron ore in light of the Vale dam accident? Do you think the current spike in the market, particularly for futures, is sustainable?

A2. First of all, I would like to express my heartfelt condolences to all those affected by this terrible disaster. Vale's production will fall by 40 million tons, which equates to 10% of their annual production volume. Futures prices have been rising sharply, but there are factors such as port and distribution stock as well as quality spread, which need to be considered when we assess the impact on our financial performance.

*[Speaker 2]*

Q3. Looking at the plan for next year, the final year of the medium-term management plan, targets for Machinery & Infrastructure and Chemicals are 90 billion yen and 50 billion yen respectively. This seems challenging, however, based on performance in the current period. What do you see as the drivers of profit increase for next year?

A3. In Machinery & Infrastructure a number of projects are scheduled to come online in the next fiscal year, particularly in the power business. In addition, we expect to see growth in key companies such as Gestamp in Iron & Steel Products and PTL in Mobility. In Chemicals, the methionine market has deteriorated compared to our original assumptions and we need to carefully consider measures for recovery in this area as we develop our business plan for the coming fiscal year.

Q4. Could you confirm your policy concerning shareholder returns? Based on this year's assumption of 590 billion yen in core operating cash flow and the policy of allocating 25% of that to shareholder returns, there would appear to be room for a dividend increase or share buyback. What are your thoughts on this?

A4: The downward revision will not have a major impact on our outlook for core operating cash flow, so we do not believe it is necessary to change the annual dividend from 80 yen per share. Broadly speaking, there is no change to our existing policy, which is to increase dividends in line with stable core operating cash flow improvement.

*[Speaker 3]*

Q5: What is your outlook for market prices and supply and demand for methionine?

A5: What is happening structurally in the methionine market is in line with what we have explained previously. Production capacity expansions by competitors are driving competition for market share and increasing supply and demand pressure. Novus is implementing cost reductions in response, but the situation will not be improved in the short term.

Q6: What is behind the upward revision to Energy?

A6: The Energy market was fairly firm in the first half of the current fiscal year and it was pointed out that in spite of this our forecasts for growth was too conservative. Delays in posting profit were resolved in the second half of the year, which allowed us to revise forecasts upwards. The price of crude oil fell sharply in October through December but recovered to above US$60 a barrel on a Brent basis in a relatively short timeframe and we believe performance will be strong in the Energy segment over the full year.

*[Speaker 4]*

Q7: I understand that the main reason for the downward revision of 10 billion yen is a decrease in Vale dividend, but I'm wondering whether you calculated the potential to catch up during the remainder of the period and considered not revising the forecast.

A7: Vale dividends are incorporated into our business plans and forecasts, and because Vale announced a suspension of dividend immediately after the dam accident, we decided to clearly show the impact on our results and make a downward revision by the amount of the dividend reduction. Although iron ore prices have risen since the accident, the recent price increases are not reflected in the forecast.

Q8: My question is about progress on the Cameron and Mozambique LNG projects, in particular the impact of problems at Chiyoda Corporation.

A8: The Cameron LNG project is scheduled to begin in the first half of this year, in line with the schedule previously announced. Although the EPC contractor has difficulties, we aim to remain in close discussion with them while working towards completion.

Meanwhile, at the Mozambique project we are making steady progress, and since our last presentation we have made steady progress by piling up sales and purchase contracts for LNG. There is an increasing likelihood of a FID (Final Investment Decision) being made in the first half of this year.

*[Speaker 5]*

Q9: In the Innovation & Corporate Development segment, the reason you have given for a 10 billion yen downward forecast revision is FVTPL loss due to a decline in share price. Please provide a breakdown of this.

A9: The main equities involved are Hutchison China MediTech and Mercari. The revision reflects the sharp fall in market prices at the end of December.

Q10: What is the situation at the Moatize coal mine?

A10: We are currently ramping up steadily. Production from January through September 2018 was 8.5 million tons, on a par with the same period of the previous year, but we did not reach planned output due to factors such as flooding and increased stripping activities. At Vale, 2018 forecast production has been revised downward from 15 million tons to 12 million tons, and we envisage output of 14 million tons in 2019 and 18 million tons in 2020.

*[Speaker 6]*

Q11: In Energy, when will the Kipper gas field and the Tempa Rossa oil field start contributing to profit?

A11: The Kipper gas field is already online and is now mainly contributing to cash flow due to early-stage depreciation costs. Tempa Rossa has not begun production yet, but we expect it to start contributing to profit from the next fiscal year.

Q12: Does the 90-billion-yen profit target for the Machinery & Infrastructure during the final year of the medium-term management plan include profit from sale of IPP?

A12: We currently do not expect any profit from asset recycling.

*[Speaker 7]*

Q13: Henry Hub natural gas spot prices rose sharply during the October to December period last year. What is the impact on Mitsui's shale gas business?

A13: Seasonality was a major factor during this period and the price temporarily rose to more than four dollars. To a certain extent, this worked as a supporting factor to Mitsui's shale gas profit. The price has already fallen to under three dollars and we expect it to remain at this level throughout the winter season.

Q14: Regarding Mitsui Oil Exploration Co., Ltd.'s (MOECO's) offshore business in Thailand, what is the impact of the concession period not extending beyond 2022?

A14: As you correctly point out, MOECO will only have rights to the production acreage until 2022. Up till now, we have set aside and booked reserves required during the project lifetime and we do not expect any additional expenses as a direct consequence of the non-extension.

*[Speaker 8]*

Q15: In the power generation business, what will be the scale of profit contributions as plants in Morocco and Oman come online?

A15: I can't disclose the numbers in detail. In the power generation business, we have power plants with an aggregated output of 2.5GW that will come online, but during the early stages the contribution to profit will be gradual, reflecting depreciation costs, etc.

Q16: In Chemicals, what will be the scale of Helios' contribution to profit?

A16: I can't disclose the numbers in detail, but contribution from Helios will be included from the fourth quarter of the fiscal year ending March 2019, using the equity method.

*[Speaker 9]*

Q17: Could you explain more about your thoughts on asset recycling? What is the likelihood that you will achieve the targets of 300 billion yen in the fiscal year ending March 2020 and 800 billion yen over the three-year period of the medium-term management plan?

A17: Asset recycling can be broadly divided into two approaches. One is "Develop & Sell" where we use our functions and capabilities to increase the value of the investment and exit once we reach completion or a certain stage of development. This is our approach with our power generation and real estate businesses. In the other approach, we conduct an ongoing review of our investments including listed shares, and we exit and recycle the ones where we are unable to fully utilize our strengths, or the significance of our ownership in the deal has decreased. Asset recycling is not simply about collecting cash from sales. Instead, Mitsui considers asset recycling as a process to improve the quality of the asset portfolio through constant decision making on the position of each of the portfolio businesses. We believe we have strong basis for our 100-billion-yen upward revision of the three-year cumulative asset recycling figure to 800 billion yen, which was announced at the time of our decision for additional investment in IHH last year..