

# Strategic Initiatives to Manage through the Commodity Down-cycle



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Mitsui & Co., Ltd.

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# Strategic initiatives to manage through the commodity down-cycle

## ① Reinforcing downside resistivity and enhancing underlying earning strength

- ◆ Downside resistance of cash flow: estimated three-year total Recurring Free CF of the Medium-term Management Plan at ¥950 billion to ¥1 trillion
- ◆ Enhancing our underlying earning strength
  - (1) Minerals and Energy: taking advantage of market conditions to acquire good assets and reduce costs
  - (2) Capitalizing on our strengths: further bolstering profitable businesses
  - (3) Developing new areas: concentrating resources to new business areas where our expertise can be utilized, and deploying our successful business models in emerging markets
  - (4) Swift response to problematic projects and group-wide streamlining of operations

## ② Strict adherence to investment discipline

## ③ Shareholder return emphasized on Core Operating Cash Flow

# ① Reinforcing downside resistivity and enhancing underlying earning strength

- ◆ Cash generating capability (Recurring Free CF) maintains certain downside resistivity
  - Three-year total RFCF forecast: ¥950 billion to ¥1 trillion
  - However, latest market conditions are downward pressure on operating cash flow

## Recurring Free Cash Flow forecast

(¥ billion)

	Mar/15 Result	Mar/16 Forecast	Mar/17 Forecast
Core Operating Cash Flow	660.0	470.0	approx. 350.0
Asset Recycling	340.0	460.0	
Investment to Existing Business and Projects in the Pipeline	-530.0	-770.0~ -820.0	
RESOURCES (Recurring Free CF)	470.0	460.0~510.0	

Three-year total forecast	
Announced in Mar 2016	Announced in May 2015
approx. 1,500.0	1,700.0
800.0	900.0
-1,300.0~ -1,350.0	-1,500.0
950.0~1,000.0	1,100.0

# ① Reinforcing downside resistivity and enhancing underlying earning strength

## (1) Mineral resources and Energy: take advantage of current market conditions to pursue acquisition of good assets and cost reduction

- ◆ Pursuing acquisition of good assets and realignment of portfolio with partners (Kipper gas field in Australia, etc.)
- ◆ Further improvement of competitiveness through streamlining operations (mining engineering) and cost reduction
- ◆ Completion of major developing projects without delay (Mozambique (natural gas/coal), Italy (oil), Australia (natural gas/oil), etc.)
- ◆ Undertaking associated infrastructure businesses to secure stable earning base (Cape Lambert port in Australia, Cameron LNG in the US, etc.)
- ◆ Higher priority on iron ore and gas projects

**Maximizing upside potential through reinforcement of three key strengths: output, reserves and cost competitiveness**

# ① Reinforcing downside resistivity and enhancing underlying earning strength

## (2) Bolstering profitability in areas of particular strength

Strategic domains	Areas of particular strength	Examples of bolstering profitability
Hydrocarbon Chain	Chemical business in the US on the back of competitive feedstock (e.g. shale gas) and strong product demand	<ul style="list-style-type: none"> <li>• Methanol production in the US: full-year contribution from the next fiscal year</li> <li>• Expansion of US tank terminal business (full-year contribution from Phase-I next fiscal year, Phase-II from the year after)</li> <li>• Acrylic resin feedstock (MMA Monomer) production</li> </ul>
Mobility	Strong automobile sales, automotive components, automotive materials and commercial logistics business in the Americas	<ul style="list-style-type: none"> <li>• North America: strong automobile sales, full-year contribution from truck leasing from the next fiscal year</li> <li>• The Americas: growing automotive components manufacturing business (Gestamp)</li> <li>• Strengthen automotive material business in response to demand for lightweight components</li> <li>• Brazil: implementing value-up plan by VLI in the integrated railway logistics business</li> </ul>
Infrastructure	Growing the group of infrastructure projects that generate stable cash flow	<ul style="list-style-type: none"> <li>• Mineral resources and Energy basic industry: additional stake in natural gas distribution business in Brazil to fully contribute from the next fiscal year, construction of Cameron LNG to be completed by the year ending March 2019</li> <li>• Power generation: several construction completion in the next several years (Brazilian hydropower in the next fiscal year, Oman in the year after, Morocco in the year ending March 2019, Thailand/Malaysia/Oman in the year ending March 2020)</li> </ul> <p><i>~continued on the next page~</i></p>



# ① Reinforcing downside resistivity and enhancing underlying earning strength

## (2) Bolstering profitability in areas of particular strength

Strategic domains	Areas of particular strength	Examples of bolstering profitability
Infrastructure	Growing the group of infrastructure projects that generate stable cash flow	<p>~continued from the previous page~</p> <ul style="list-style-type: none"> <li>• Logistics: container terminal in Indonesia to be completed in the next fiscal year, Santos port in Brazil through VLI to be completed in the year after</li> <li>• Marine: three FPSOs to start contributing by the year ending March 2018</li> </ul>
Food and Agriculture	Expanding the business by utilizing market presence	<ul style="list-style-type: none"> <li>• Novus in the US (feed additives): planned expansion of production capacity and introducing new products</li> <li>• Ventura in the US (edible oils processing): acquisition to contribute from the next fiscal year</li> <li>• Agricultural material: contribution from Kocide (copper fungicide) and expanding sales of agrochemicals in the US and Europe</li> </ul>
Medical / Healthcare	Expanding peripheral businesses around the core hospital network, and supporting pharmaceutical companies	<ul style="list-style-type: none"> <li>• IHH: expanding through M&amp;A and organic growth</li> <li>• MIMS: Applying successful models in the Asian market</li> <li>• Increasing contracts to meet outsourcing needs by pharmaceutical companies</li> <li>• Expanding healthcare staffing business</li> </ul>

# ① Reinforcing downside resistivity and enhancing underlying earning strength

## (3) Developing new areas: concentrating resources to new business areas where our expertise can be utilized, and deploying our successful business models in emerging markets

### ① High-speed data communication

- PT Internux of Indonesia
- Afrimax of Sub-Saharan Africa

### ② TV Shopping

- QVC Japan
- CCTV Shopping in China
- Naaptol in India

### ③ IoT・Advanced analytics and prediction

- Farmers Edge in Canada
- Crayon Data in Singapore, Black Swan in UK

### ✂ Karugamo Works: internal business creation program aimed at promoting open innovation

- Hampton Creek (plant protein foodstuff venture) in the US, Axelspace (microsatellite development) in Japan

## (4) Swift response to problematic projects and group-wide streamlining of operations

- Multigrain: fundamental restructuring of the business including inviting partners
- Caserones copper project: improving the operating rate
- Raising productivity by transforming the way we work: mobile work, hourly annual paid leave, etc.

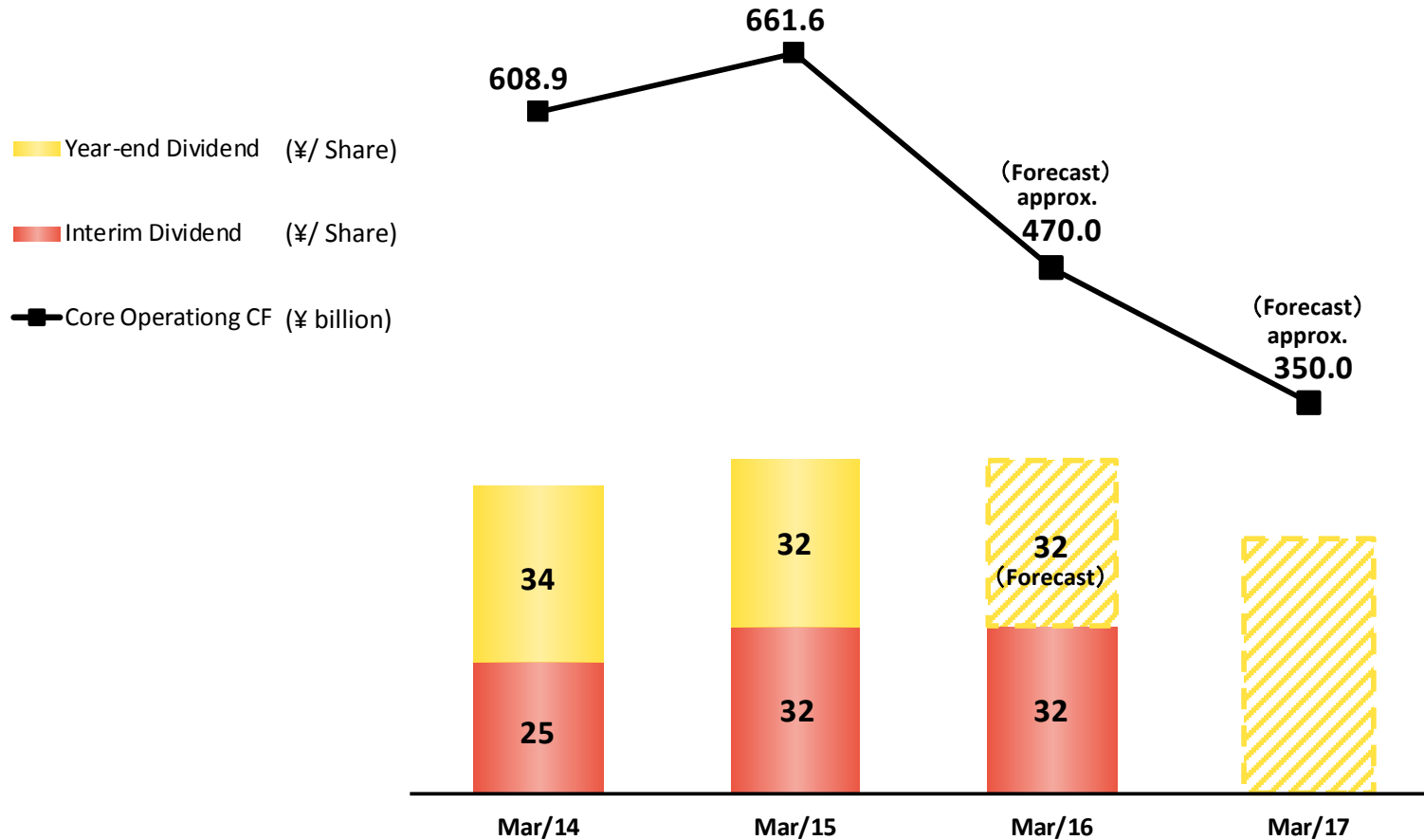
## ② Strict adherence to investment discipline

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- ◆ Prioritizing high value-adding opportunities
- ◆ Optimizing the timing of investment
- ◆ Actively taking advantage of cost deflation
- ◆ Realizing value through divestments and asset restructuring



### ③ Shareholder return emphasized on core operating cash flow



360° business innovation.



MITSUI & CO.