Mitsui & Co., Ltd.

IR Meeting on Financial Results for the Year Ended March 31, 2012
Questions and Answers

1. Time: May 8, 2012, 14:00-15:30

2. Location: Tokyo Kaikan 12th Floor Royal Room

3. Speakers: Masami Iijima, President and Chief Executive Officer
Joji Okada, Senior Executive Managing Officer, Chief Financial Officer
Keigo Matsubara, Managing Officer, Deputy Chief Financial Officer & Global Controller
Kenichi Hori, General Manager of Investor Relations Division

4. Question and Answer Session

Q *In the Energy Segment, you are forecasting a ¥48.1 billion drop in net income, from ¥188.1 billion in the year ended March 31, 2012 to ¥140.0 billion in the year ending March 31, 2013. Please give me a breakdown of the reasons behind this decline.*

A In rough figures, one-time factors have a negative effect totaling around ¥16.0 billion. These negative impacts include changes in Japanese corporate income tax rate at ¥5.0 billion; an increase in allocation of headquarters costs at ¥6.0 billion; and a decrease in income from the sale of shares in listed companies of ¥5.0 billion.

In addition to these one-time factors, an increase in volume is expected to add ¥7.0 billion. Factors related to crude oil and gas prices should add ¥14.0 billion, while the impact of reduced coal prices is a negative ¥13.0 billion for this segment, leaving a net positive impact of ¥1.0 billion on price factors. Foreign exchange accounts for a negative ¥3.0 billion, an increase in exploration costs in Mozambique and other locations for a negative ¥6.0 billion and higher depreciation—including on U.S. shale gas—for a negative ¥14.0 billion. Among other factors, although oil trading delivered favorable returns in the last year, repeating these results is likely to prove difficult. Reflecting this as well as our forecast that dividends received will be reduced, the total of other factors is a negative ¥17.0 billion.

Non-temporary factors therefore amount to more than a negative ¥30.0 billion. Adding these in, the total comes to a negative ¥48.0 billion.

Q *All Other / Adjustments and Eliminations are a positive ¥10.0 billion from the negative ¥42.8 billion recorded in the year ended March 31, 2012, which is the second largest change after the Mineral & Metal Resources Segment. There appears to have been a change in allocation of headquarters costs, but what is the impact on individual segments?*

A Roughly, the negative impact of shared headquarters expenses on individual segments are as follows: more than ¥1.0 billion in the Iron & Steel Products, around ¥8.0 billion in the Mineral & Metal Resources, nearly ¥5.0 billion in the Machinery & Infrastructure, nearly ¥3.0 billion in Chemicals, around ¥6.0 billion in Energy, nearly ¥5.0 billion in Lifestyle and nearly ¥3.0 billion in Innovation & Cross Function.

Q *You comment that it takes time for the realization of returns in your non-resource businesses, but whereas up to now you have enjoyed the benefit of sales prices and volumes from high-quality assets such as those you have secured in Brazil and Mozambique, in non-resource areas where results are affected by the market you have posted negative growth. Also, you do not appear to have completely captured trends in emerging economies such as downstream development, industrialization and growing consumption. How do you plan to capture these trends going forward?*

A Since 2000, the operating environment has been characterized by ongoing upstream inflation and downstream deflation, resulting in favorable outcome in the resource and energy sectors. In non-resource areas, we have had fairly extensive valuation losses, centered on listed stocks, which reflects substantial volume of cross-shareholdings made in the past. Looking ahead, we expect our chlor-alkali and bioethanol projects with The Dow Chemical to start contributing to some extent from the year ending March 31, 2014. We also see the construction period on infrastructure projects including power generation and water projects as being from three to four years. In agricultural businesses, we are cultivating new farmland for Multigrain. We expect that these businesses will gradually contribute to earnings. Many of the projects in the non-resource areas are greenfield projects, which will take time to produce results.

On the other hand, in resource business existing projects are contributing to earnings, and while this is the case we are working on projects for the future, mostly through exploration. Recently the barriers to entry are high for resource and energy projects. To secure resource and energy projects that are cost competitive, we need to take on some risk and be fully involved from the exploration stage. That is why we got involved from the exploration stage in Mozambique, Mozambique has been confirmed as a major resource, currently estimated at 17–30 TCF. There are prospective areas that have not yet been explored, so this figure could increase further. We have the potential to expand our collaboration with the government of Mozambique involving projects such as infrastructure, ammonia and petrochemicals. These potential projects should provide us with a source of future strength.

Q *Through the year ending March 31, 2013, shale gas accounts for a major portion of the increase in "cost in Energy & Mineral Resources." What is the current status of these operations? How do you anticipate production to increase, and how long do you expect* *the losses to continue?*

A On shale gas, we are carrying the development costs of the operator as our consideration for participation, and depreciation of these costs will be concentrated on the first several years, meaning it will take a while longer to absorb them. Also, North American gas prices have fallen, so profitability is lower than we had forecasted. Over the long term, we expect gas prices to rise as supply/demand factors take hold. Under the current situation, it makes business sense to slow down the production profile from our initial expectation. In addition to Marcellus we hold assets in Eagle Ford, which is liquid rich. From a portfolio standpoint, we are considering to maintain a good overall balance by accelerating production in liquid rich areas.

Q *LNG-related dividend income was substantial in the fourth quarter. Why was this? As it seems that you are not forecasting an amount of this level for the year ending March 31, 2013, your net income figures appear to be lower than the market consensus would indicate. Is there any background which makes it difficult for you to forecast this amount, and how do you see the possibility of any increase from your estimate?*

A Sakhalin II was the main reason for substantial dividends in the fourth quarter, but we cannot disclose the exact amount. We also anticipate dividends and capital redemption in the year ending March 31, 2013, but we are not in a position to disclose the amount or timing of these. As to dividends on Sakhalin II, Sakhalin Energy determines these based on its cash flow and other considerations. Dividends for the previous year were higher than our forecast and we are expecting these to be lower in the year ending March 31, 2013.

Q *What is the main reason you expect the ¥400.0 billion figure in the year ending March 31, 2013 to increase to ¥450.0 billion in the year ending March 31, 2014? Does this consist of investments that have already been made in projects with strong potential and can we assume that returns from future investment would be added?*

A We expect our equity share of iron ore, coal, crude oil, gas and other items to increase. We also anticipate contributions from the chlor-alkali and bioethanol projects with The Dow Chemical, the water business with Hyflux in China, the Hezhou IPP business in China and the Paiton 3 power plant that was commissioned this March. With increased performance from IHH’s hospital business, as well as Multigrain and other companies, we should strike a balanced increase in revenues from areas other than metals and energy, so expectations of a ¥50.0 increase should be firmly grounded. We expect some of this to be from contributions from new investment in line with the new Medium-Term Management Plan, but the majority is likely to be the result of projects in which we have already invested.

Q *One of the strategies in your new Medium-Term Management Plan is the "Evolution of portfolio strategy", and this includes the reinforcement of investment discipline and the introduction of base cash flow as a new performance evaluation indicator. Looking at past investment, there seems to be some question as to whether investment discipline was functioning appropriately in non-resource areas. While you are planning to invest ¥1.4 trillion in the next two years, what kind of effect are you targeting to attain from using the new indicator?*

A Our aim is to reinforce investment discipline and instill cash flow management. For the future, our goal is to invest within our free cash flow, however this was not reflected in the standard we used in the past to evaluate investments. Base cash flow and risk return have been added as indicators in order to address this issue. Projects are not considered successful unless they deliver operating cash flow, and the indicator emphasizes the importance of dividend income as well as operating income. In the past our approach to risk return was to use PACC (Profit After Cost of Capital), but the calculation of capital cost was complicated and it was not easy for the concept of their own capital cost to fully sink in among people in the business units. We have introduced this concept that emphasizes return while being conscious of risk assets. We are reinforcing our investment discipline through these two indicators.

Q *One of the key strategies for energy in your new Medium-Term Management Plan includes commercialization of the Mozambique project and participation in new LNG projects. In addition to Mozambique, are you also planning other projects such as the already-announced Browse project?*

A In addition to Mozambique, we are involved in Browse in Australia, the conversion of North American shale gas to LNG (which has already been announced), and we are studying the possibility of a third train for the Sakhalin II Project. We are also considering other projects, but are not ready to disclose those at the moment.

Q *Sakhalin II is contributing to cash flow, including through capital redemption, so your investment amount should be down substantially. From the standpoint of Sakhalin Energy's optimal capital, isn't capital redemption likely to end soon? Also, with cost recovery completed in March and moving over to production sharing, if dividends are to fall, do they have a specific plan to use capital? Is the basic idea to use retained earnings to cover the capital expenditure for the potential third train?*

A We recognize that there is a limit to capital redemption, and they will probably reach some sort of balance between capital redemption and dividends. At the same time, decisions need to be made considering the project's capital investment and whether or not there are any future large-scale projects. These are things that the joint venture will need to deliberate going forward. Although I cannot disclose the details of the production sharing agreement, we have an agreement in place with the Russian government, and the joint venture will make these decisions based on the level of surplus cash. It is difficult to forecast dividends, and the fourth-quarter dividend amount exceeded our forecasts. We are taking a variety of factors into consideration, and we have incorporated a level of dividend that we deemed reasonable at the budgeting stage. At the same time, the joint venture partners will continue to monitor the situation and discuss the matter.

On the potential third train, whether a capital increase is needed or whether this can be covered by Sakhalin Energy's retained earnings will need to be studied, taking into consideration a number of factors such as the overall balance and the LNG price movement. At the present, both are possible.

Q *MCH's fourth quarter results were in the red. Were there any production-related or other problems?*

A MCH's product mix in open-pit mining was noticeably affected by concentrated heavy rains in the fourth quarter. Even among coking coal, production of hard coking coal fell, while production of lower grades of coking coal increased. Overall production volume was down, the product mix deteriorated, and prices fell. On the cost front, we have carried out pre-stripping in some coal mines in order to prepare for future operations, and this has temporarily increased the operating costs. Once operations stabilize, we expect steady earnings from the year ending March 31, 2013 onward.

Q *Under your new Medium-Term Management Plan net DER is expected to decline; what would you consider as an appropriate level? You have increased your consolidated dividend payout ratio to 25%, but from your balance sheet it appears that this number could be higher. Please share your thoughts on this, including balance sheet and shareholder return considerations.*

A While it is forecasted that our net DER will decline, we are undergoing internal discussions concerning the appropriate level. The quantitative image that we had announced in the past indicated that our projected target for today is 1.2–1.5 times. We are currently generating 80–90% of our earnings from resources and energy, while they only make up less than 40% of total assets. For the time being we consider it appropriate to maintain a level of net DER which is close to those of resource companies and to build up shareholders' equity. We need to be able to respond to unforeseen incidents, such as the oil spill incident in the Gulf of Mexico, and at the same time we want to maintain a position that will allow us to act promptly when opportunities to take part in excellent new projects arise. For the present, and until we can see that our operations in non-resource areas have been strengthened and returns from these projects are clearly visible, we would like to maintain a strong shareholders' equity base. However, our new Medium-Term Management Plan calls for an ROE figure above 14% and close to 15%, and while this plan is in effect we plan to maintain a level close to 15%. We also want to be flexible with regard to shareholder return. When formulating our new Medium-Term Management Plan, some internal discussions suggested a consolidated dividend payout ratio of 25–30%, but we want to maintain flexibility rather than fixing the maximum level. While investment demand is relatively strong, for the foreseeable future we aim to maintain a minimum of 25%.

Q *Regarding you past and future investments and loans, I would like to know the breakdown between expansion of existing projects and new projects. Recently, you have been involved in fewer investment and loan projects compared with other companies. Is this because you are losing out to competition, or is it because project acquisition costs have been high recently, making it difficult to find projects that pass the investment hurdle?*

A We do not have a breakdown between new and existing projects, but I can say that the barriers to entry are high on good quality new projects in resources and energy. Although there are risks, we are making a steady effort from the exploration stage and are in the middle of negotiations on a number of projects. In non-resource areas, we consider projects individually, and we will not pursue projects that we believe are priced too highly. Various rumors about projects are circulating, but we are not even considering involvement in some of the projects that we have been named to be involved; I wouldn't say that we are losing out.

Q *Why is it that although crude oil and gas volumes are increasing, sensitivity to price is falling?*

A Sensitivity to the oil price is determined by collecting information from our subsidiaries and related companies. Sensitivity contains a number of elements, one of which is our hedging activities. Each company analyses individually to what extent their bottom line is directly linked to the oil price, and although there are differences between each company, we disclose the total sum as an overall indicator.

Q *What conditions would need to be satisfied for you to raise your consolidated dividend payout ratio to 30%?*

A At this point, we have not set any specific conditions, but I believe we would need to increase shareholder return if we found ourselves in a situation where no good investment and loan projects were available. The total planned investment and loan amount for the two years of our new Medium-Term Management Plan is ¥1.4 trillion, but the figures that our business units have drawn up are more than double that figure, and we looked at those numbers from the standpoint of certainty and our desire to turn free cash flow into positive. If and when demand for investment stabilizes and the investment opportunities for our future growth become scarce I believe we would need to consider raising the dividend payout ratio.

Q *Your new Medium-Term Management Plan calls for asset divestitures amounting to ¥300.0 billion, but this figure is below the ¥400.0 billion result over the past two years. The trend is toward increasing total assets and lowering ROA. Won't you need to accelerate asset divestiture, or do you consider divestiture to have run its course?*

A Since making major divestitures such as Sase Goa, the necessity for recycling of assets has taken root in our business units. Each year, we are planning divestitures of ¥150.0 billion to ¥200.0 billion. Management always has contingency plans, and we prioritize assets. If we decide that more divestitures than planned are necessary, we are always ready to sell off assets in accordance with such order. Before business began at Sakhalin II, we sold off a portion of our equity there. Our position is to remain flexible on the scale of divestitures, taking into consideration the company's overall earnings balance.

Q *Looking at iron ore supply and demand, while projects in Australia and Brazil are expanding, demand growth in China seems to be slowing down. There are some concerns that the supply and demand situation is easing. What are your thoughts on this? Also, although capacity is continuing to expand in Australia, your equity share of production volume is forecast to increase little in the year ending March 31, 2013. Why is this?*

A We are involved with three major producers, BHP Billiton, Rio Tinto and Vale. While all of them have plans to expand production, the pace of some of the projects might be somewhat slower than anticipated.

Looking at global supply and demand for iron ore, however, if you take the crude steel production in China as an example, last year it grew at a rate of 9%, but this year it is expected to rise by around 4%, to approximately 700 million tons. China's domestic production of iron ore is on the rise, but the grade or Fe content is falling and production is shifting to underground, lowering its cost competitiveness. For this reason, China has to rely on existing iron ore suppliers, including the three majors. However, overall supply has been keeping up, so it is difficult to believe that prices will be at last year's level of $180; prices are settling into a more reasonable range. Compared with the past, however, current price levels remain relatively high.

Q *Your quantitative image three–five years ahead calls for a net income of ¥500–600 billion. Considering your plans to strengthen non-resource businesses, what level of annual return from the major new projects would satisfy you?*

A Regarding expected returns in non-resource businesses, when you consider the invested capital, they need to satisfy the investment criteria of a 10% IRR, return on investments, loans and guarantees of 5%, and risk return of 20%. Quantitatively, we expect new projects to contribute ¥10.0–15.0 billion to profits.

Q *You have recorded large impairment losses in the IT business. Why is such a degree of impairment losses piling up here? Please provide some analysis of reasons for this. Is there some problem with your valuation, or is there a problem with the way in which you are analyzing market trends? Are you putting in place any measures to prevent this from recurring, other than introducing cash flow focused evaluation indicators?*

A A large part of our impairment losses in the IT business stem from investments in listed Taiwanese companies, such as TPV and Formosa Epitaxy. Affected by the global stock market downturn, it was disappointing that we had to post a major impairment loss within one year of making these investments. Although we will not necessarily hesitate when acquiring shares in listed companies in the future, we will need to proceed with a great deal of caution. That said, TPV's operating performance is growing solidly, backed by robust demand from Japanese manufacturers for the EMS business that we had anticipated, so as a business, TPV is on track.

Q *You have stated a consolidated dividend payout ratio of 25%. May we assume from this that you will not reduce the absolute dividend level below ¥55?*

A I cannot make any promises here with regard to absolute dividend levels, but I can say that we will do our best. For example, before netting out the payment for the settlement of the oil spill incident in the Gulf of Mexico, we had decided on dividends assuming net income of around ¥370.0 billion. Even though net income came to ¥306.7 billion after netting out the settlement payment, we did not reduce dividends. I think this is an example and we will continue to make efforts to maintain dividends.

Q *For the year ending March 31, 2014, you are forecasting net income of ¥450.0 billion, and your future vision calls for net income of ¥500.0–600.0 billion. Do these figures assume that resource prices and exchange rates remain at the same levels as during the year ended March 31, 2013?*

A Our assumptions for the year ending March 31, 2014, are the same. The figures in our future vision are approximate. Although we are assuming approximately the same levels, this number is not derived from strict accumulation based on the same set of assumptions.

Q *Have you included Mozambique and shale gas in your forecasts for the equity share in crude oil and gas production?*

A Shale gas is included, but Mozambique is not.

Q *Your new Medium-Term Management Plan focuses on upstream businesses. The food related grain origination and production business is different from resource businesses. What are your thoughts on the possibilities for this field?*

A We are currently involved in the grain origination and production business in Brazil with Multigrain. It is true that we are facing a number of issues in this business, but as we gain expertise we believe that the business will have ample future potential.

Ends