

Presentation on Food Resources Business Unit – Q&A Session

- 1. Date and time:** December 17, 2013, 10:00 – 11:30
- 2. Place:** Nikkei Conference Room
- 3. Speakers:** Kazuo Nakayama, Managing Officer,
Chief Operating Officer of Food Resources Business Unit
Masaya Matsuoka,
Operating Officer of Food Resources Business Unit
Michihiro Nose, General Manager, Investor Relations Division

4. Questions and Answers:

Q *What effect will the TPP (Trans-Pacific Partnership) have on Mitsui's business?*

A Changes in the industrial structure present major business opportunities for trading companies, so we are looking for a positive effect. In addition to changes in the industrial structure brought about by the TPP, as various industries reflect qualitative changes of diet from the contraction and aging of Japan's population, we would like to strengthen our cooperation with leading companies that will be able to survive in Japan. With Japan's participation in the TPP, we also expect an increasing number of Japanese companies to move their manufacturing bases overseas, and, along with supporting these companies' overseas expansion, we will help them import into Japan and sell in overseas markets.

Q *Why are earnings weak at Multigrain? Are management improvements having an effect?*

A Multigrain's founder managed the company like a personal business, but when Multigrain became Mitsui's wholly owned subsidiary in 2011, the corporate structure needed to change to conform to Mitsui's standards. Accordingly, we streamlined, and enhanced transparency to enable the company to generate profit in line with the size of the investment. Compared with two years ago, we have reached a point where profit can be expected, but going forward we will continue to invest and bolster human resources with a certain amount of discipline to

further increase future profitability and expand the business. We view Multigrain as an important company in our global grain strategy for the future as well. As for agricultural businesses, generated income basically consists of the amounts harvested multiplied by unit prices, but it can be heavily affected by the weather. So, figuring out how to reduce costs for fertilizer, agrochemicals, personnel, and depreciation on equipment is what leads to competitiveness in agricultural businesses. Through our agricultural production joint venture with SLC AGRÍCOLA, Brazil's largest agricultural company, we are introducing SLC's cost management techniques to raise the competitiveness of Multigrain's agricultural business, and, although this will take time, we will continue to work to stabilize the business.

Q *Why has the Food Resources Business Unit chosen to pursue the direction shown on slide 14?*

A "Increasing our commodity supply capacity by securing renewable food resources" is being pursued by the agricultural production business. This business is not only able to secure supplies for customers but is also able to secure resources through swap arrangements, making it possible to rapidly increase supply capacity via procurement from other parties.

"Enhancing our capability of selling and buying" is a trading company's core business. Buying capability means securing the capacity to provide a stable supply of high-quality goods at a reasonable cost. Selling capability means providing functions to build and maintain a deep customer base that makes it possible to increase market share, as in strengthening the logistics function at the grain business, for example.

With regard to "establishing the food value chain throughout from upstream to downstream," we consider it important to work with the Food Products & Services Business Unit throughout the entire food value chain. At the Food Resources Business Unit, we are engaged in both trading and investment, and, through synergies between those two activities, we are increasing our collection capacity and tying this to retail business to control the entire, long food value chain, from upstream to downstream areas.

Q *How do you intend to reach Mitsui's target for grain trading volume of 20 million tons?*

A We can reach 20 million tons through collection and sales at Multigrain, United Grain, Plum Grove, and Sodrugestvo. Even without huge investment in sales companies and shipping facilities, we believe 20 million tons can be achieved through organic growth. The increase to the 16 million tons projected for the current fiscal year from 13 million tons last fiscal year is the result of providing logistics functions. For now, we will work to secure business with the sub-majors at the next level below for grain majors.

Our projection of 16 million tons this fiscal year breaks down as 7 million tons of imports into Japan and 9 million tons of offshore trading. It is rather difficult to expect grain imports into Japan to grow, so we expect most of the growth to 20 million tons to come from offshore trading.

Q *As the result of a company split, Multigrain AG became Multigrain Trading AG, which is engaged in grain origination, and Xingu Agri AG, which is engaged in the agricultural business. How do you allocate fixed assets between the two?*

A Fixed assets are generally land, so we have moved this to the Xingu Agri. We have also reclassified US\$275 million of funding as capital of Multigrain Trading.

Q *What should we look for in terms of profit at the Food Resources Business Unit?*

A An effect from decreases in volume from bad harvests is possible, but price fluctuations have a limited effect on the business unit's earnings. Shortages can lead to increased opportunities for Mitsui to provide functions for the securing of goods or the procurement of substitute goods, and if that is the case, our profit will grow.

Q *What is your image of the size of the business and profit by business fields?*

A The agricultural production business is an area we have just begun to pursue, and a profit contribution will require time. Grains are our biggest source of earnings, and investment is weighted toward grains as well. Next, sugar is an area that can generate stable profit.

The business unit recorded a net loss of ¥1.6 billion in the year ended March 31, 2013, which was primarily from a ¥2.0 billion negative effect from the drought in Brazil, ¥2.0 billion of impairment losses on listed securities, and a ¥1.0 billion foreign exchange loss on borrowings denominated in U.S. dollars to match investments. This fiscal year, we are expecting effects from the drought and insect damage in Brazil, but we are forecasting a net income.

Q *You have said Mitsui is in the major producing regions on the supply side, but which regions are growing as sales destinations? Will investment be needed to increase sales volumes?*

A Outside of Japan, sales to Southeast Asia, the Middle East, and parts of North Africa are growing. We are looking to increase sales volumes by providing Mitsui's functions rather than by investing.

Q *What are your thoughts regarding the buildup of assets at the Food Resources Business Unit overall? What investments will the business unit need to make going forward?*

A We need to work with the Food Products & Services Business Unit. The supply volumes we have secured through upstream businesses far exceed the volumes consumed by midstream and downstream customers. We do not intend to reach 20 million tons of grain trading by investing in midstream and downstream areas; we intend to reach 20 million tons by providing Mitsui's functions.

In the grain field, we need additional equipment for exporting and collection to bolster our supply capacity. In the sugar field, Thailand, Australia, and Brazil are the three major suppliers of raw sugar and refined sugar. If opportunities present themselves going forward, we would like to consider refining businesses in the other two countries in addition to Thailand.

Q *Are there any regions other than Brazil where you are considering developing agricultural businesses? Is an agricultural business in Japan a possibility?*

A Agricultural businesses have to deal with the weather, crops, soil quality, and legal frameworks, and we cannot simply take what we are doing in Brazil and set up businesses in other regions. On the other hand, we can utilize cost control as a common management method in Brazil and other regions. I would consider other countries in South America and certain countries in Africa to be potential targets, but I believe the next year or two will be a period of accumulating expertise in Mitsui's agricultural production business.

We are interested in starting an agricultural business in Japan, but those preparations will require some more time.

Q *How does Mitsui's grain business differ from those of other trading companies?*

A A major difference is that our origination business operates in several major producing regions, while other trading companies tend to concentrate on one producing region. In addition, some other trading companies do not operate origination businesses, and rather, only invest in shipping facilities. With the seasons being opposite in the Northern Hemisphere and the Southern Hemisphere, operating in multiple producing regions means that Mitsui is able to provide year-round supply.

Q *What is the size of trading volume by country?*

A Our wheat supply is primarily from the United States. Canada, Australia, and Russia also became significant for us this year. Soybeans are primarily supplied from the United States and Brazil, and the sales volume of soybean to China is increasing.. Multigrain in Brazil supplies parts of Africa and the Middle East, and we expect to see these volumes increasing going forward. Corn comes from the United States and is shipped to Japan and other parts of the Far East. Canola is supplied from Canada to Japan and elsewhere in the Far East.

Q *How does the business unit generate profit within the grain value chain? Is there a difference in profit structure between grain imported into Japan and offshore trading?*

A The business models for imports into Japan and offshore trading are different. Imports into Japan are primarily fixed price and fixed-rate commissions. On the other hand, offshore trading is done mostly through competitive bidding, making it important to connect producing regions with sales destinations. This business model involves investing in producing regions to secure sources of supply.

Q *Is the business unit's staffing structure and organization adequate? Do you intend to achieve appropriate sizes in the business and organization through business and capital alliances?*

A We can increase trading volume of grain to 20 million tons using our current structure. Looking into the future, we will need to expand if the agricultural production business reaches full scale. In terms of timing, I would imagine that we will gradually expand over several years.
We have many business alliances, and we can reach 20 million tons through organic growth without capital alliances.

Q *Does the Food Resources Business Unit have a target for asset efficiency?*

A Trading will be the driver of growth for the time being. We expect working capital to increase, but we do not anticipate a drastic increase in investment. Refining our functions will lead to profit growth, and asset efficiency will rise as a result. So, the Food Resources Business Unit does not have a specific target for asset efficiency. We do not set a clear target for working capital either, because of seasonal increases and decreases.

Q *What investments are you considering outside of grains? How will you raise investment efficiency?*

A Outside of grains, we would consider investment in palm plantations and sugar refining. With investment efficiency in mind, we would select projects that would increase our current profitability.

Q *What is the earnings model for the oils and fats and sugar businesses?*

A In the oils and fats business, it is preferable to have the right to take over crude palm oil from palm plantations. Swaps are also a useful way of enhancing competitiveness with supplies from advantageous regions. The palm plantation business has sufficient profitability despite the recent drop in palm oil prices. Compared with today, we expect the supply-demand balance to tighten over the medium-to-long term, and we are forecasting stable profits. In terms of palm oil distribution, it is important to provide logistics functions to increase our volumes supplied to the Philippines, Taiwan, and the rest of Asia, in addition to Japan. As an example, by working with the Chemicals segment, we are reducing logistics costs by exporting caustic soda to Southeast Asia using vessels on their return voyage from importing palm oil into Japan.

In the sugar business, in Thailand we purchase or have contracted production from sugarcane farmers and processed raw sugar from sugarcane. A portion of this is refined and sold in Thailand, but most is imported into Japan as raw sugar and supplied to sugar refiners. Being involved in the entire process, from sugarcane harvesting to consumption of finished products, gives us a stable source of earnings that is relatively unaffected by fluctuations in raw sugar prices. Moreover, it would be ideal to be involved from the sugarcane purchasing stage, if we were to develop businesses in countries other than Thailand.

Q *Are Mitsui's earnings affected by price fluctuations in grain futures?*

A The impact on earnings resulting from futures market fluctuations is extremely limited. The futures market is more hedging the risk of fluctuations in grain prices. The fluctuations of basis as a component of grain prices, including logistics costs, insurance premiums, and interest, have an effect on Mitsui's financial results. There is basically no way to hedge the risk of fluctuations in basis, so we generate earnings through profitable operations.

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