Mitsui & Co., Ltd.

<u>IR Meeting on Financial Results for the Six-Month Period Ended September 30, 2013</u>

<u>Questions and Answers</u>

1. **Date & Time:** **November 6, 2013, 13:30-15:00**
2. **Location:** **"Royal Room," 12F Tokyo Kaikan**
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, General Manager, Global Controller Division
   Michihiro Nose, General Manager, Investor Relations Division

4. Questions and Answers:

Q: *Mitsui Raw Materials Development (MRMD) continues to record losses. When will the effects of restructuring result in profitability?*

A: The scrap metal recycling business in which MRMD invests is working toward a recovery, such as appointment of new CEO, divestiture of underperforming businesses, optimization of asset portfolio, and maintaining disciplined investment standards that are consistent with the market environment and business forecasts.

Scrap metal recycling operators have struggled over the past three-to-five years, and MRMD is working with the management of the company in which it invests, including with the new CEO, toward a swift restructuring of the business. Market prices for scrap metal have also been rising recently, and we are planning to improve the company's position over the next fiscal year.

Q: *Would you give us your thoughts at this time regarding the next Medium-term Management Plan and what direction Mitsui plans to take?*

A: As I mentioned, we will thoroughly discuss the next Medium-term Management Plan at the Corporate Management Committee, and we will announce the details after we have formulated a fully developed plan.

The main points will be how many years to designate as the medium-term framework; how to position the next Medium-term Management Plan in terms of where we want to be relative to the Long-term Management Vision for 2020, which we announced in 2009; how to generate positive free cash flow (FCF) after the past three consecutive years of negative FCF; shareholders return policy which you may be most interested in; and how to set a strategy for further growth. We intend to formulate specific measures after fully discussing these issues, so please await our announcement with expectations.

Q: *The economies of the BRICs countries of Brazil, Russia, and India have recently been showing some weakness. How do you view the economic situation in these countries and the earnings environment for Mitsui?*

A: Mitsui has significant exposures to Brazil and Russia, mainly related to Vale in Brazil and the Sakhalin II LNG project in Russia.

While we are in discussions regarding a variety of projects in Russia that have not materialized at this time, in Brazil we are increasing our exposure in addition to Vale with investments in a hydropower project and an integrated logistics business. We believe there are business opportunities in both countries as they have growth potential and abundant resources.

We do not have a significant exposure to India, but we have made several investments in Lifestyle businesses and Iron and Steel Products businesses, and we would like to move further into India in stages. We will do this carefully, however, given the political, taxation, and legal risks that exist.

Brazil's economic growth rate is expected to rise to roughly 2.5% this year, from 0.9% last year. With a presidential election next year, economic stimulus measures are likely to be introduced, and there will be infrastructure investment ahead of next year's World Cup and the Olympics and Paralympics in 2016. The unemployment rate is close to full employment, and my impression is that the country's economy is not as bad as it is generally reported. The logistics infrastructure is weak and there are problems with regard to the international competitiveness of the manufacturing sector, to the extent that there is said to be a "Brazil cost," but this is covered by robust domestic demand. As the economy in developed countries picks up, I expect Brazil's economy to recover from last year's performance.

With regard to Russia, there is talk that the GDP growth rate will fall below 3.0% this year, but it is likely to rise to 3.5% next year. With businesses expanding into the eastern part of the country, and far-eastern Siberia in particular, they are working on new distribution systems and economic development, and a trend of gradual recovery appears likely.

Q: *How is the Mozambique LNG project progressing?*

A: We are currently in the FEED stage. Our target for FID in 2014 and commencement of production in 2018 remains unchanged and progress is on track.

Q: *I would expect the amount of investment in MEP Mozambique to increase going forward. How do you plan to cover this investment while also achieving positive FCF?*

A: Speaking strictly in terms of the Energy Segment, it is true that investment in this project will be heavy, but our plan is that cash inflow from our business going forward will balance with the cash outflow for MEP Mozambique.

Q: *I understand that the current impairment loss on the investment in Caserones is due to increase in initial capital expenditure. If there are no changes to market price projections going forward, can we expect this impairment loss to be a one-time event?*

A: If market prices remain the same and construction and operations proceed on schedule, there will not be additional impairment losses.

Q: *Would you explain why you are forecasting a drop in second-half earnings in the Energy Segment compared with the first half?*

A: The major reason is the difference between the first half and second half dividends from Sakhalin II LNG project. A slight difference in our foreign exchange projections is another reason.

Q: *Do you intend to reduce investments going forward to achieve positive FCF? If you do reduce investments, how will you do that?*

A: The significant increase in investment this fiscal year and last fiscal year has been related to mineral and metal resources. Prior to fiscal year ended March 2011, the breakdown between mineral and metal resources and energy, and other businesses was roughly 40:60, but during the past two years it has been 60:40. This shift is mainly because of additional investments related to iron ore which were planned and carried out as scheduled. We expect the amount of investment in mineral and metal resources to decline and return to cruising speed from next fiscal year.

We will also be even more disciplined in terms of investment and, at the same time, work to recover cash through strategic asset divestiture.

Q: *With regard to the copper business, equity production volume has increased attributable to solid recovery at Collahuasi and acquisition of Anglo American Sur. However, thinking about long-term growth, with the increase in initial capital expenditure as seen with the impairment loss at Caserones, how do you expect these large reserves to be economically produced to gain profit?*

A: The situation at Collahuasi is improving after last year’s malfunction of mill and lower ore grade, and if this pace of improvement continues I believe we will be able to achieve certain level of profit again.

Although mine development at Anglo American Sur is progressing, certain mines are slightly behind schedule due to lower ore grades, and we will work to improve this situation and increase earnings going forward. Going forward, we envisage raising production volume with the new development of a nearby mine, and pursue synergies with current operating mines.

Q: *Did the ¥23 billion downward revision to the initial plan for full-year earnings in the Mineral & Metal Resources Segment represent impairment losses recorded in the first half? The profit amounts for the first and second halves are roughly the same, so if no impairment losses are recorded in the second half can we expect full-year earnings to be higher?*

A: The main reasons for the downward revision were an approximately ¥14 billion impairment loss on our investment in Caserones and roughly ¥6 billion from lower profits including the impairment loss at the scrap metal recycling business. In addition, we see the drop in coal prices and the rise in iron ore prices roughly offsetting each other in terms of the impact on full-year earnings.

Q: *Excluding one-time profit, both the Lifestyle Segment and the Innovation & Corporate Development Segment seem to show profits of roughly zero or a loss. Under the next Medium-term Management Plan, will you again be selling assets from next fiscal year, or are you looking for growth in any of these businesses?*

A: In the Lifestyle Segment, the Food Resources Business Unit is experiencing some difficulty overseas, including Multigrain operations. Nevertheless, our target for annual global grain distribution is to handle 20 million tons. During the first half, we handled 8 million tons, so distribution is generating solid profit. Therefore, if Multigrain reaches cruising speed, I believe we will see some growth. Concerning the Food Products & Services Business Unit, although we are behind other trading companies in the area of food wholesaling, I believe we will be able to generate a steady profit going forward, including through our tie-up with Seven & i Holdings. In the Consumer Service Business Unit, we are expecting a large profit from the planned sale of assets later this fiscal year. Also, this unit is building its medical and healthcare business into a major pillar of operation. With IHH Healthcare and MicroBiopharm Japan generating steady profits and with solid base profits from service businesses including AIM SERVICES and from media businesses, we will formulate a solid strategy for growth going forward.

The Innovation & Corporate Development Segment is facing the most difficulty, but, as the segment's name indicates, it bears costs while providing services to other business units, which makes it quite difficult to turn a profit. We will take a close look at the business, including its structure, to put in place a profit-generating system.

These segments are able to generate a certain degree of profit through their regular businesses; they also hold firm salable assets that could be sold to create profit. We plan to carry out asset divestiture as appropriate in the second half, and we also intend to achieve returns that have built up from investments to date.

Q: *I believe the shareholder return policy needs to be considered in combination with the issue of positive FCF. However, would this mean that if FCF does not become positive, there would be no new returns to shareholders? Also, what measures are you considering for shareholder returns – dividends or share buyback?*

A: We would like to generate a positive FCF under the next Medium-term Management Plan, while our ability to generate cash is already quite strong. With approximately ¥500 billion of operating cash flow and ¥200 billion cash inflow from divestitures, we are generating roughly ¥700 billion annually, and even after the payment of dividends we are usually generating at least ¥500 billion to ¥600 billion of cash annually.

While it is important to generate positive FCF, we will focus on shareholder returns as well, and, given that our net DER is currently less than 1 times, I consider it possible to pursue both shareholder returns and investments under a growth strategy.

Q: *Under the IFRS, general investment will be measured at market value, increasing equity and therefore lowering ROE. What is your countermeasure?*

A: We have not yet made an official decision regarding IFRS adoption. I understand your question to mean that because ROE will decrease do we intend to reduce equity; but, we would first like to raise ROE by increasing returns. In particular, Sakhalin II and other LNG-related investments are generating profits in amounts that correspond to their market values. This means that other assets with low profitability are holding down ROE and ROA, and we will work to improve the efficiency of these assets.

Q: *The targets for three to five years out, included in the current Medium-term Management Plan announced in May 2012, are for total assets of ¥10 trillion to ¥12 trillion and consolidated net income of ¥500 billion to ¥600 billion. Do you believe an ROA of 5% is achievable in the future? Also, what is your view with regard to the measures to reduce assets that are being put forward in other trading companies' Medium-term Management Plans from the current fiscal year?*

In addition, the dividend policy under the current Medium-term Management Plan sets your minimum target dividend payout ratio at 25%. Even with this fiscal year's impairment loss, operating cash flow is strong, so should we understand that you may reconsider this minimum payout in light of the current net DER?

A: When formulating the next Medium-term Management Plan, we want to take into account such factors as assets, investment, and cash flow, in addition to profit. At Mitsui, we have had a quantitative vision of total assets of ¥10 trillion to ¥12 trillion and consolidated net income of ¥500 billion to ¥600 billion, and there is no change to that vision at this time.

The management of assets of ¥10 trillion to ¥12 trillion will require significant effort, and I believe there is a limit to the amount we can manage in terms of human resources. Regarding funds for investment, I believe we will get close to our limit in terms of borrowings, so I want to think about how to maximize profit under these circumstances. As to the timing of this decision, I would like to answer your question after we have carefully considered the next Medium-term Management Plan.

A large portion of Mitsui's investments are greenfield projects in which we are involved from the initial stages, and these projects will generate returns going forward. Examples of such projects include the chlor-alkali business and the methanol business with Celanese in the Chemicals area; the integrated logistics business in Brazil and the Gestamp related business; and the expansion of Cape Lambert for iron ore shipments at the Robe River joint venture. We expect considerable returns from these projects from 2015 through 2017. I therefore consider consolidated net income of ¥500 billion to ¥600 billion to be achievable, and, given our current net DER level, I believe we could increase our current ¥10 trillion of total assets by another ¥2 trillion to ¥3 trillion. The fact that profit is growing and cash generated is increasing means that cash that can be used for shareholder returns will also increase. So, rather than implementing measures to reduce assets, we would like to invest cash under a growth strategy and pursue both investment under a growth strategy and returns to shareholders. Accordingly, we recognize that our shareholder return policy is not just an issue for the current Medium-term Management Plan; it will also be an issue for the next one, and I would ask that you wait until that announcement.

Q: *Does this mean that you expect the profit contribution from new businesses to add roughly ¥100 billion from 2015 onwards to the current consolidated net income level of close to ¥400 billion?*

A: Both new projects and the expansion of existing projects generate returns, but the profit contribution from existing projects is greater. I believe we will be able to reach ¥500 billion with the addition of existing project expansions alone.

Q: *First-half earnings from shale gas producing operations, such as MEP USA and MEP Texas, are seeing a trend of improvement, while they included one-time factors. When do you expect shale gas (MEP USA) to become profitable? Also, what is the status of Cameron LNG exports?*

A: The profit posted by MEP USA for the second quarter alone was from higher gas prices combined with the one-time factor of a turnaround in the marked-to-market valuation related to gas price hedges from a loss in the first quarter to a gain in the second quarter. So, the project itself is still in the red. It is difficult to say when the project will become profitable, but the burden from the so-called "development cost carry payments" ended in July 2012 and this additional cash outflow has ended while we still face heavy depreciation costs from this. Therefore, I expect slight losses to continue, and although I cannot say for sure, we see profits are now within reach.

On the other hand, we still have "development cost carry payments" at MEP Texas' Eagle Ford, but this project has already achieved profitability. We plan to increase the number of wells with additional investment going forward, and we expect to see profit growing.

Regarding the Cameron project, we are waiting for export permission to be granted, and we are conducting marketing with a view toward annual LNG exports of four million tons. If all goes ahead as planned, we believe the project will be able to provide profitable gas. While we do not know the order of receiving approvals, we expect the timing to be by the end of this year or early next year.

Q: *Eagle Ford is already profitable and profit is growing as production volume increases. Can we expect this to be a major source of profit growth again in the next fiscal year?*

A: As development moves forward, investment will also increase, as will depreciation, so we believe it will continue operating in a balanced state for some time.

Q: *I suppose that future dividends from Sakhalin II will depend on the project's investment plan, but what discussions are you having now, and have you reached nothing specific?*

A: We are currently in discussions with Gazprom regarding the expansion (third train) at Sakhalin. Internally, Gazprom is also studying an LNG project in Vladivostok in parallel with the Sakhalin third LNG train.

The setting up of a third train would mean that the current upstream gas volume at Sakhalin II will be insufficient, and how we would develop and move gas from Sakhalin III is an issue.

Q: *What do you see as major factors boosting profit over the short term, namely, from this fiscal year to the next fiscal year?*

A: We expect major factors behind profit growth next fiscal year to include the absence of this year's one-time losses, including the impairment loss on our investment in Caserones, as well as a profit contribution if Caserones commences operations and the overhaul of FPSO at MEP Australia's Vincent oil field ends in October. In addition, the commencement of cogeneration in Brazil and the realization of returns from greenfield projects, including the chlor-alkali business in Chemicals, will contribute to profits.

If the economic landscape stays as is, we anticipate these greenfield projects to begin to generate profits from next fiscal year and to generate higher profits from about the following fiscal year.

Q: *What is your view regarding iron ore supply and demand, and prices, over the near term?*

A: China's demand for iron ore will be the key point for iron ore prices. Currently, prices are stable, with China maintaining a high level of crude steel production. However, there is a gap between production capacity and demand for steel products, and we cannot be optimistic on this point. Over the short term, we will usually see seasonal factors in winter, such as lower output from Australia because of cyclones and reduced production from domestic mines in China. Normally, these factors would support prices through the winter, but we are watching closely to see how the Chinese government will eliminate excess production capacity as well as what economic policies it will put forward. Mitsui's iron ore is cost competitive, so we believe that even if prices fall somewhat, we can cover that decline with increased volume.

With regard to iron ore prices, China's crude steel production is on pace to reach a total 785 million tons this year, up from 716 million tons last year, and iron ore imports are expected to surpass 800 million tons, roughly 8% higher than last year. We see this relatively tight supply-and-demand balance for iron ore continuing. Our iron ore business has strong cost-competitiveness, and we expect to see solid earnings at current price levels.

Q: *The pace of investment in the Machinery & Infrastructure Segment was slow during the first half. Do you expect investment to be in line with the plan for the full fiscal year?*

A: With investment in the integrated logistics business and the hydropower project in Brazil, as well as in the power generation business in Australia scheduled for the second half, we expect the investment plan to be on track.

Q: *I would like to ask about the profit contribution from the Caserones project after it is launched next fiscal year, and the background behind the impairment losses even though an earnings contribution is forecasted. Also, what is your copper price projection going forward, and what decisions have been made regarding the construction period?*

A: At Caserones, we have recognized a level of impairment losses and reduced the investment amount to a point where we can maintain a certain level of profit. With regard to the construction period, there is the likelihood the pace of construction could slow during winter; therefore, we will try to complete construction work before then.

Regarding copper prices going forward, we see demand growing over the medium-to-long term, and we expect the supply-and-demand balance to tighten as there are less and less high-grade mines. However, the fact that the Chinese economy accounts for approximately 40% of copper demand is significant, and we are taking a relatively conservative view on this point.

Q: *Approximately half of the initial investment plan has been carried out, but with the yen weaker than at the time the plan was formulated, will the full-year investment amount exceed that of the initial plan? Also, is there a possibility that divestitures will exceed the pace initially planned?*

A: Of the ¥1 trillion of investment planned for the full fiscal year, we have made ¥550 billion to date, and with the yen’s weakening we expect the full-year amount to be roughly double this ¥550 billion. The trend of asset divestitures is also ahead of the initially planned ¥170 billion.

Q: *You mentioned a pickup in chemicals and steel products trading as a factor behind profit growth. Do you see this being sustained and continuing during the second half and next fiscal year?*

A: Regarding chemicals, in the past we had generated profit by taking rather large positions in naphtha-related and other products. However, after the weakness we experienced in the previous fiscal year, we have reviewed our trading positions, and the business is improving. The environment for exports from Japan is also improving, helped in part by the yen’s depreciation.

Nevertheless, there is still some weakness in the global economy, and we will be very cautious in our operations going forward. We also intend to change our trading business model by strengthening access to new materials, including shale-derived chemicals.

Steel products are benefiting from solid demand for automobiles in Asia and demand for reconstruction materials in Japan. We are aiming for long-term growth by integrating the manufacturing and processing businesses with trading.

Q: *Both investments and divestitures are growing on a gross basis, but can we expect the final net amount to be in line with the initially planned ¥830 billion?*

A: Yes.

Q: *You have left your forecast for full-year consolidated net income unchanged, so why have you reduced the initial outlook for the income tax burden?*

A: In addition to lower income before taxes and equity in earnings, we now expect equity in earnings to be less than initially planned.

Q: *Despite the impairment loss in the first half in the Mineral & Metal Resources Segment, you are forecasting roughly the same profit levels for the first and second half. Does this mean that the second-half forecast is conservative?*

A: We believe we have to take a rather conservative view with regard to coal prices in the second half. In addition, with regard to foreign exchange trends, we do not know if the yen will continue to be cheap against the US dollar as in the first half. Iron ore prices were also relatively solid in the first half while we have left our initial projections for prices in the second half unchanged. We have therefore factored in a variety of considerations.

Q: *What is the reason for the large volume of iron ore shipments from Brazil during the past few months? Have the country's infrastructure bottlenecks been eliminated?*

A: This trend reflects the timing of inventory buildups in China, and we recognize that shipments from Vale are solid. We do not see any domestic infrastructure problems in Brazil.

Ends