Summary of Q&A at Investor Presentation

Time and Date: 9 May (Wed) 2018, 10:00-11:30

Presenters: Tatsuo Yasunaga, President and Chief Executive Officer
Takakazu Uchida, Executive Managing Officer, Chief Financial Officer
Kimiro Shiotani, Managing Officer, Global Controller

< Questioner 1 >

Q1: Mitsui has been making growth investments, how will these contribute to stronger profits in the fiscal years to March 2019 and 2020?

A1: We have invested 200 billion yen in growth areas, but 80 billion yen of that overlaps with core areas. Our investments and loans to expand and develop existing businesses including PTL and Gestamp will contribute to profits from the current fiscal year, and the same is true of other investments including Bigi Holding and Columbia Asa. For other investments such as R-Pharm and Soda Aromatic where we are developing the business platform, realizing profits will take a little longer.

Q2: Also, regarding cash flow you seem to have made progress in recycling assets in year 1 of your plan, but investments seem to be somewhat below target. What are your plans?

A2: The reason for not changing our planned total investment amount for the three-year plan period is that although we are following a strictly disciplined approach to investment we are aware of a future final investment decision and subsequent cash out for our Mozambique LNG project. During the year ended March 2018 we were able to conduct sales on favorable terms so recycling was ahead of plan. At the moment, the year to March 2019 is shaping up to be more of a fallow period.

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Q3: What is your thinking on the allocation of free cash flow after shareholder returns, in particular given the rise in interest rates, what is your stance on debt repayment?

A3: Basically, there is no change in our policy on shareholder returns, and while maintaining consistency and stability we will consider dividend increases and share buybacks. Also, while preparing for major projects such as Mozambique LNG, we see the reduction of debt and keeping sound finances as important.

Q4: Are you planning to reduce strategic shareholdings in response to revisions of Japan's corporate governance code?

A4: We see this as not only a corporate governance issue, our management team is constantly assessing shareholdings from the perspective of whether they contribute to business and profits or not. External directors also contribute by providing their third-party perspective and we will steadily reduce holdings where there are no sound business reasons for holding the shares. In principle we have no intention of increasing holdings.

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Q5: After Mozambique LNG enters the development phase what stake will JOGMEC have?

A5: Please ask JOGMEC about their policy and intentions. Even assuming JOGMEC decide to sell their stake and we decide to take it, we don’t intend to continue holding a 20% stake. Our basic long-term stance is to hold 10%. By the way, the process of securing agreements needed for the final investment decision is proceeding on track.

Q6: There have been some problem areas such as Multigrain and Caserones, what is the current situation? What have you learned from the Multigrain issue and what is your policy on upstream agriculture and food businesses?

A6: With our decision to withdraw from Multigrain we have now fully stemmed that bleeding. With Caserones we have taken quite a large asset impairment. As for lessons learned in agriculture, we needed to penetrate not just the upstream but in a more integrated way with downstream and midstream businesses, and to grow ancillary business that arises from that platform. In Africa, where we have just invested in ETG, we are applying what we have learned. We are utilizing its farm network and synergy effects are already evident.

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Q7: What are the criteria you are using to measure financial improvement?

A7: Net DER is an important indicator and it is steadily improving. Looked at over the long-term, our asset mix is shifting from liquid assets generated by distribution and sales to riskier, non-liquid assets. We are using a number of indicators to manage our financial buffers corresponding to those risks. Within our framework for cash flow allocation we plan to continue to strengthen our financial base while achieving a balanced cash flow allocation.

Q8: The production volume profile of your Energy business has increased compared to your medium-term plan. What is the outlook?

A8: During the year to March 2019, Tempa Rossa in Italy (oil) and Kaikias in the US (oil) will start production. Although Waitsia (gas) will contribute a little later, we expect AWE’s currently operating gas fields to contribute in the year to March 2019. In the year to

March 2020, the start of production from the Greater Enfield oilfield and improved shale business operations will contribute to increased production.

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Q9: You are targeting 200 billion yen profit after tax from non-resources areas in your 3/2020 plan. Can you achieve that from your existing investment plans?

A9: Excluding valuation gains and losses our non-resources businesses are already at the 170 billion yen profit level. In particular, the investments we have made in Machinery & Infrastructure, Chemicals, and Iron & Steel products are bearing fruit, and we think a profit of 180 billion yen this year and 200 billion yen in the year to March 2020 is achievable. Some of our growth investments are expected to start to contribute from after 2020, but I am pushing each Business Unit to realize returns swiftly. Also, for some of our projects, depending on the country or market the timescale is different for strategic reasons.

Q10: Is there a reason for the limited growth implied in your 420 billion yen profit forecast for the year to March 2019 and 440 billion yen for the year to March 2020?

A10: Regarding the 440 billion yen figure, our policy is to steadily build on results so that we can achieve our target. Through the initiatives we have taken in Resources & Energy over the past few years we have improved our cost competitiveness, and we also take a conservative view of commodity markets so we can expect to exceed profit targets. Regarding the fiscal year to March 2019 we have no significant plans for asset recycling, but despite that we are confident of achieving the 420 billion yen target.

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Q11: How is progress towards your 3/2020 non-resources profit target of 200 billion yen?

A11: Panasonic Healthcare is making good progress. The three main pillars are blood glucose monitors, electronic patient records, and refrigeration equipment for drugs. There is room for further growth and after fostering other growth pillars we will consider an IPO. As of the end of March 2018, CIM had exceeded the targets set at the beginning of the fiscal year. From the year to March 2019 fee revenue on asset management and return on assets can be expected from this business and we are expecting a profit contribution.

Q12: What will be the timing of cash outlays for Mozambique LNG development and what is the outlook for cash outlays in the extension phase?

A12: In terms of the overall picture the first key priority is to properly establish the 12 million ton phase. We expect completion of construction for that phase in the early 2020s, until then we are not expecting to make an investment decision or to make cash outlays on the extension phase. Currently demand from China is increasing and there is some tightness in the market, while Australia and the US are increasing production. In the medium- to long-term we will monitor the supply/demand balance and consider our next step.

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Q13: If the plan for the year to March 2019 is being achieved as presented, is there significant room for a dividend increase?

A13: Yes. There is room for an increase in the dividend. However, while considering the financial environment and growth investments we will consider share buybacks and higher dividends. I also believe that the time to consider raising the minimum dividend level is approaching, but before we consider this, we first need to confirm that the business performance and environment are in line with our projections.

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Q14: How confident are you that the Chemicals business in the core area will achieve profit after tax of 50 billion yen?

A14: Along with US shale oil/gas development and production, US petroleum product exports are increasing and our ITC tank terminal business is steadily generating profits with room for expansion. Novus is seeing a rise in the methionine price and we expect its results to recover in the year to March 2019. In the Peru phosphorus mine business, we are partnering with Mosaic to implement operational improvements together with its fertilizer business. European industrial paint firm Helios, in which we have recently invested with Kansai Paint has a lot of industry contacts in areas where Mitsui's other Business Units are strong. Our trading business is also performing well so we believe a profit contribution of 50 to 60 billion yen is achievable.

Q15: What are the initiatives of the Digital Transformation team?

A15: This won't be about jumping on the latest fads. The basic premise should be that AI and IoT should be tools to improve the profitability of our businesses. We don't plan to venture deeply into the business side of AI and IoT—what's important is that we can prove its worth to our businesses operations.

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Q16: What is your assessment of the profit of the first year of the medium-term plan? Do you think you will exceed the 3/2020 target? What are your plans for asset recycling?

A16: Despite the fact that no significant asset recycling profits for the year to March 2019 is planned, we are forecasting 420 billion yen profit, which shows that we have made progress in improving our business base. It will be important to achieve this convincingly and this year will be critical as we head towards the final year of the plan. On asset recycling we don’t have any detailed plan for the year to March 2020, our basic stance is that we would like to sell assets when they are at the highest price.

Q17: With the debt/equity ratio declining, what is the outlook for your capital policy?

A17: We don’t have specific targets, but we expect to reduce leverage. US dollar interest rates are expected to increase, but in a scenario where higher rates accompany a stronger economy we can expect higher profits in corresponding businesses, so we do not necessarily plan to reduce debt levels simply because interest rates are going up. We would like to retain flexibility in the liability structure in accordance with the business environment and our asset makeup.