

IR Meeting on Financial Results for the Three-Month Period Ended June 30, 2012

Questions and Answers

1. Time: August 2, 2012, 17:00-18:00

2. Location: Conference call

**3. Speakers: Joji Okada, Senior Executive Managing Officer and CFO
Keigo Matsubara, Managing Officer, Deputy CFO, and Global Controller
Kenichi Hori, General Manager of Investor Relations Division**

4. Questions and Answers:

Q. *Even without the dividends from Sakhalin II your energy-related earnings seem to be good. Could you provide some more information about other factors, such as crude oil prices, production volumes and mining costs? Was production better than forecast in your business plan, and will it continue?*

A. We have benefited both from rising crude oil prices and increased production. Both factors have had a positive effect on MOECO, MEPME and MEPAU. Volume trends remain firm.

Q. *Concerning your perception of the business environment, you have said that you expect China's growth rate to remain at a certain level, but your performance in areas such as iron and steel products and chemicals seems weak. Are trends in these areas fluctuating? For example, are iron and steel raw material shipments falling? Are current iron ore prices lower than your assumption in your forecast for the current year?*

A. Iron and steel products have been affected by falling steel prices, influenced largely by the Chinese economy. Chemicals have also been affected by the weak demand in China, and we have recorded negative results from our trade in basic chemicals. We are now closely monitoring China's moves to stimulate its economy and implement monetary easing measures.

Downstream steel demand, which forms the base for crude steel production in China, has declined, causing iron ore prices to drop to around US\$120, which is lower than our assumption set forth in our forecast for the year. If current market conditions continue, prices will be weaker than predicted in our forecast. While this pattern may continue in the short term, in the medium term, we expect firmer trends in areas such as infrastructure investment, in moves to close economic gaps between inland and coastal regions.

- Q.** *The first-quarter dividend from Sakhalin II seems high. Was this decision made based on cash flows in the January-March period? What is the outlook for future cash flows and dividends?*
- A.** Decisions on dividends for Sakhalin II project are based on multiple factors, including the equity capital, capital investment and current cash flows, so it is difficult to predict the amount. In the previous fiscal year, dividends were higher than predicted, and the budget for the current fiscal year is based on the assumption that they would not reach the same level. It is difficult to predict the future, but there may be an increase in capital redemption.
- Q.** *Why is the interest expense-net negative when there has been no significant change in net interest-bearing debt?*
- A.** Several factors are responsible for this deterioration in the interest expense-net. Interest income was lower due to the continued redemption of Valepar preferred shares. Interest cost increased because Multigrain became fully consolidated from the second quarter of the previous fiscal year. Other factors include higher U.S. dollar interest rates and increased foreign currency borrowing.
- Q.** *Financial results for affiliated companies show a profit increase for Road Machinery. What are the reasons for this, and what is the future outlook?*
- A.** Road Machinery handles construction and mining machinery in the United States and Mexico. Its higher income reflects healthy growth in its service business, including repair and maintenance.
- Q.** *IHH made an IPO (initial public offering) at the end of July. Will it show a profit in its results for the second quarter and beyond?*
- A.** We expect that gains related to equity dilution will be recorded.
- Q.** *Multigrain reported another loss in the first quarter. What is the outlook for the second quarter and beyond?*
- A.** Multigrain became our wholly owned subsidiary during the previous fiscal year, and we are now aiming to stabilize its financial performance in the near future by measures including improvement of inland transportation systems, which have been a bottleneck, withdrawal from unprofitable areas, reinforcement of management control systems, and cost reductions. We are also making steady progress with other strategies, including the reinforcement of inland origination and marketing operations, infrastructure improvement, and the opening up of new land and soil improvement in the agricultural business. However, Brazil is also

experiencing a drought this year, and we expect harvests to be smaller than last year's excellent crops. There is a risk that income from the agricultural business will be lower.

Q. *What progress is being made on shale gas/oil projects? Which is being produced more steadily, oil or gas?*

A. As far as gas is concerned, the pace of development is being slowed down, as we have planned. Profitability is high at Eagle Ford, which is mainly producing oil, and we aim to increase production as quickly as possible. Both crude oil and gas are basically in line with the plan.

Q. *Recent media reports have stated that joint venture partners are delaying their resource-related investment. Have your investment plans been affected by this?*

A. There have been no decisions made. We expect them to proceed on schedule.

Q. *Based on current resource price levels, are there any concerns that you may record an impairment loss on your resource-related assets?*

A. There are no such concerns at present. Many of our assets were acquired a considerable time ago at low investment costs, and there are no concerns of impairment at the level of current resource prices.

Q. *Will production and profit from the Eagle Ford shale oil project continue to rise in the second quarter and beyond?*

A. We plan to increase output gradually, but we cannot say for sure that we would be able to see clear increases in each quarter. We will monitor performance each quarter and target sustained growth.

Q. *BAF still had deficits in the first quarter. What progress has it made with restructuring, and what is the outlook for its financial performance?*

A. We believe that the new regulations on down payments introduced in Indonesia will actually have a positive effect on BAF. In the past, BAF was drawn into excessive competition, with lowered down payment ratios. It is now selecting customers with whom it is able to maintain higher down payment ratios, and we believe that while this may cause a moderate decline in sales, it will improve the quality of its receivables. Because there is a time lag, it will still be necessary for BAF to record provision for doubtful receivables. However, we expect that the amount will reduce gradually, and that eventually such provisions will be reversed. It may not be possible to achieve the high earnings gained in the past in this

environment, but we are determined to maintain a reliable income stream. We expect that we will be able to see the results of the restructuring in the near future.

Q. *Is the positive result for MCH in the current period attributable to the fact that it no longer faces the heavy burden of pit expansion costs which affected its results in the fourth quarter of the previous fiscal year?*

A. MCH carried out pre-stripping in the fourth quarter of the previous fiscal year. Work continued in the first quarter to improve the product mix, but costs are improving. On the other hand, prices have fallen.

Q. *Do you expect to record gains related to equity dilution of IHH in the second and subsequent quarters?*

A. During the first quarter, IHH issued new shares to cover part of the purchase price of hospital business that it acquired in Turkey. This caused our shareholding to fall from 30% to 26.6%. We have recognized the difference between the diluted portion of the shareholders equity and the increased shareholders equity due to the issuance of new shares as "gains related to equity dilution."

In the second quarter, IHH issued new shares when it made an IPO on stock exchanges in Singapore and Malaysia, resulting in a similar dilution. We therefore expect to report a certain amount of gains related to equity dilution.

Q. *Were gains related to equity dilution of IHH taken into account in your forecast for the current fiscal year? Do you expect the results to exceed your forecast?*

A. They were taken into account with certain assumptions. We cannot comment on whether the results would exceed our forecast or not.

Q. *Your energy-related earnings were strong, thanks to volume growth and dividends from Sakhalin II. Were these factors taken into account in your forecast for the current fiscal year? If you take out the first quarter results, are the figures in the forecast being exceeded?*

A. Our forecasts for the current fiscal year are calculated on an annual basis, and the first quarter result was higher than the simple one-fourth of the amount set forth in our annual forecast. As for the production, it is currently proceeding as planned, and we are making good progress.

Q. *How does the situation relating to iron ore and copper compare with your forecast for the first quarter? You do not disclose your assumptions concerning iron ore prices, but is your approach based on the use of a uniform price throughout the fiscal year?*

- A.** Our assumptions concerning iron ore prices take into account the conditions prevailing at the time when we formulate the annual budget. We have set a uniform price that takes into account the price fluctuations from time to time. Iron ore volumes remained firm in the first quarter, and the price was within the anticipated range. Ore grades are declining at the Collahuasi copper mine, and we are currently implementing remedial measures within the joint venture. Copper volumes were somewhat lower compared to the same period of the previous year.
- Q.** *Concerning the iron ore contract prices, the percentage of sales at spot reference prices increased from the third quarter of the previous fiscal year. Has the ratio since declined?*
- A.** Majority of transactions are made based on spot reference prices, and such situation in the fourth quarter of the previous fiscal year remains basically unchanged in the first quarter.
- Q.** *MOECO is reported to be increasing production in the Gulf of Thailand. How much is the project producing at present, and do you plan to increase output further?*
- A.** Gas production is on schedule and is continuing steadily. We do not disclose the actual volumes.
- Q.** *Forecasts for NOVUS tend to be conservative. Was there a gap between the forecasts and the results as of the end of the first quarter?*
- A.** When we were preparing the initial forecasts for NOVUS, we assumed that the price of methionine would fall because of the global supply-demand environment. Judging from the first quarter results, the price has not fallen as much as anticipated, and the results are somewhat better than predicted. However, there was a one-time loss on products other than methionine.

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