

**Presentation on Chemical Segment – Q&A Session**

1. Time : July 8, 2011 15:30~17:00
2. Place : Mitsui & Co., Ltd., Headquarter
3. Speakers: Yoshihiro Hombo, Managing Officer,  
Chief Operating Officer of Basic Chemicals Business Unit  
Toru Suzuki, Managing Officer,  
Chief Operating Officer of Performance Chemicals Business Unit  
Kenichi Hori, General Manager of Investor Relations Division
4. Questions and Answers :

Q *Could you please provide some information on the current status of the various investments projects in Basic Chemicals and Performance Chemicals as well as the contribution of trading income to profitability?*

A On a global basis, net income is about ¥24 billion for this Segment. Of this total, ¥10 billion is from Basic Chemicals and ¥14 billion from Performance Chemicals. Basic Chemicals include salt, methanol, and the ITC businesses with a total of ¥6 billion. In addition, in the Asia Pacific, the contribution of trading income is substantial. As a result, the profit ratio of investment projects to trading business is about 6 to 4. The ratio of Performance Chemicals is 7 to 3, with Novus and KPA mainly generating investment income.

Q *Please explain when you are aiming to accomplish the visions for 3-5 years ahead and what the scale of your investments will be for this purpose.*

A If we assume that there are many projects where we will be building up from the grass-roots level and it takes three years to bring them to fruition, we think it will be good if we can complete them by 2016. Regarding income that will be in addition to what we are generating now, we will be less dependant on trading business than we have been in the past, and we believe most will be realized from profit generated by the investment projects. The scale of investments, at least during the current fiscal year, will be between ¥40 billion and ¥50 billion, out of a total allocation of ¥110 billion to Global Marketing Networks in the investment plan for the fiscal year.

Q *What is the contribution of the agricultural chemicals field, and how will you develop this business going forward?*

A The contribution is about ¥10 billion. We believe the keys will be the expansion of the existing ammonia business and stabilizing the logistics for the phosphorous business.

Q *Please explain the growth strategy of Novus.*

A There are a number of alternative choices, such as focusing on methionine strategy or collaborating in areas where there are synergies with feed additives business. We want to consider this carefully.

Q *What is the outlook for market conditions in the ammonia business?*

A Based on the consensus that the overall demand of 170 million tons will grow at a rate of between 3% and 5% annually, the balance between supply and demand is likely to tighten as the new plant in the Middle East that was scheduled to start operations this fiscal year is lagging behind schedule. Looking forward, we are going into the season when fertilizer is not in demand; so, we think things will probably settle down.

Q *In the phosphorous ore business in Peru, could you give us a general idea of performance leading up to the full-scale production of 3.9 million tons in 2014?*

A We are aiming to produce two million tons during the fiscal year ending March 31, 2012. If this goes well, we are anticipating that we can go into full-scale production the next fiscal year. This outcome will depend on market conditions, but we expect this will generate about half the earnings of the agricultural chemicals business.

Q *What is the current positioning of petrochemical trading, and how do you see this business developing as you go forward?*

A Petrochemicals trading is a core business of the Chemical segment, and there will be no change in this positioning, but the direction for development will not be just to expand the unit volume we handle. Expansion in trading contributed historically to our earnings during Japan's period of rapid growth in the past, as demand for and production of petrochemicals expanded. However, at present, the outlook for demand and production is not so clear, and growth is not likely just through dependence on trading. Looking forward, in addition to trading, it will be necessary for us to make proposals for downstream development in resource-producing countries, such as those in the Middle East and South America, that will involve production and consumption within those specific regions.

Q *Please give us some specific examples of your collaboration with the Energy business.*

A When you look at the same project from various operating divisions, it will be able to see different aspects and opportunities; so, instances of collaboration will increase going forward. As you know, our Energy segment is supplying the Chemical segment with raw materials, but one of their core activities is the exploration and production (E&P) business. We are discussing with the Energy segment the fact that the important things are the products, which are the end output. The condition for using shale gas as a petrochemical raw material will be the pipeline network. However, if we are thinking on a calorie basis, the cost of shale gas will be attractive. In addition, we believe that sulfur, which is a by-product of the scrubbing (sulfur removal) process, presents major business opportunities.

Q *Please provide an explanation of the environmental chemicals business, especially in the domestic market.*

A There is an issue here of how to view the impact of the nuclear power plants, but in the mega solar business, extensive land areas are necessary; so, we want to make effective use of idle land in the public and private sectors.

Q *What is the ROA of the segment?*

A As a company, ROA is not one of our key performance indicators, but, on a global basis, we have total assets of just under ¥800 billion, and, since our earnings-generating capability is about ¥24 billion, our ROA is about 3%. For the company as a whole, it is about 3.5%; so, we want to raise it to that level.

Q *Are we correct in understanding that your enterprise investments will be in joint projects with chemical manufacturers in Japan?*

A We believe it will be difficult for relatively small chemical manufacturers in Japan to undertake activities overseas on their own in relatively large frameworks that involve raw material procurement, as in petrochemicals. Therefore, we believe there is room for us to make a contribution in those cases. For manufacturers that have excellent technology and products and are seeking to develop their activities overseas, we can secure raw materials on competitive terms in the local markets and offer a business base, and we are going to take initiatives in business models that involve bringing in manufacturing and sales of chemical products and derivatives. Domestic manufacturers may become our partners in the formation of such joint projects in many cases, but we have no intention of limiting our activities to such cases and will enter aggressively into activities with a global perspective when manufacturers who are excellent and have leading positions are available to collaborate with.

Q *Our understanding that the reason why you have been lagging behind other trading companies in the trading business, especially in Asia, was because of operational problems. But after listening to your presentation today, I think it may be because you have not been focusing on this area. Would you agree with that view?*

A The reason for the performance was mainly because of the really heavy logistics cost burden for tankers, tanks, and other items. We are taking action to make improvements in business profitability by properly upgrading our logistics in line with the market environment. Therefore, we believe this business will make a contribution during the current fiscal year. However, as I have explained, this does not mean we are going to only focus on trading businesses.

Q *Please explain your relationship with Mitsui Chemicals?*

A Looking at our relationship from the perspective of results, we had to write down the value of their share, and there have been no prominent results as to the new initiatives. We will probably not increase our shareholdings going forward. However, there have been discussions and efforts trying to find new business at various levels, and our understanding of one another is deepening. We have come to the point where we should be able to show some specific results fairly soon.

Q *Are you not going to instigate a realignment in Japan's chemical industry?*

A It is a fact that chemical is an industry where structural change does not tend to happen. We are not going to instigate a realignment in the industry, but we are paying careful attention to trends. Speaking from an overall perspective, while the industry has technology, there are limits to growth in domestic demand. We think that trends will be set mainly along with the shifting of the geographical location of demand.

Q *Please provide information on the ratio of actual net income, which totals between ¥40 billion and ¥50 billion, from the basic chemical versus the performance chemical businesses.*

A In general terms, we estimate that Basic Chemicals are generating more than ¥20 billion and that Performance Chemicals are contributing somewhat under ¥30 billion.

Ends