IR Meeting on Financial Results for the Six-Month Period Ended September 30, 2011
Questions and Answers

1. Time: November 4, 2011, 13:30~14:45
2. Location: “Royal Room”, 12F Tokyo Kaikan
3. Speakers: Masami Iijima, President and Chief Executive Officer
   Joji Okada, Executive Managing Officer, Chief Financial Officer
   Keigo Matsubara, General Manager of Global Controller Division
   Kenichi Hori, General Manager of Investor Relations Division

4. Questions and Answers:
   Q. You made a downward revision to your forecast for the Mineral & Metal Resources Segment by JP¥10 billion. How do you see impacts by factor such as shipment volume, market commodity prices and foreign exchange rates? Also please give us your thought regarding the tendency of iron ore prices in the coming months.
   A. We can not elaborate on quantitative analysis by factor. In addition to negative impacts of shipment declines and cost increases, we incorporated in our assumption a certain level of drop in prices. The Australian Dollar in the assumption has been reduced from JP¥85/AUD to JP¥80/AUD, and Brazilian Real has been reduced from JP¥50/BRL to JP¥45/BRL.
   Although iron ore price plunged sharply during October, more recently the price has been picking up. The inventory volume of iron ore in China is said to be 99 million tons, which is equivalent to approximately two-month worth of inventory and is not too large of an amount. Furthermore, taking into consideration that imports of iron ore to China has so far tended to decline in October every year, we think the price will recover to a certain level.

   Q. What is the objective of holding shares of Moshi-Moshi Hotline, Inc. and Nippon Unisys Ltd., on which you recognized impairment losses in the six-month period ended September 30, 2011?
   A. Twice a year, we have management meetings where we review the objective of investing in each of the affiliated companies--once in March when we discuss the business plan and once in Autumn when we discuss the business portfolio. Through those processes we determined that there are benefits in us holding on to both Moshi-Moshi and Nippon Unisys as core companies of IT business unit.

   Q. In the first half, operating cash flow seems to have shrunk. Could you explain the background behind this?
   A. We had a decrease of approximately JP¥190 billion in operating cash flow due to an increase in working capital. Among the items included was the JP¥90 billion attributed to the settlement of the oil spill incident in the Gulf of Mexico. If we exclude this, operating cash flow was reduced by the increase in working capital by approximately JP¥100 billion, which generally means our business is growing. If we exclude the working capital effect, free cash flow was a slight surplus.
Q. (On slide No.10) Could you give us a breakdown on the revised forecast vs original plan for the full year by factor such as one time effect, prices and costs in energy and mineral resources?
A. We have not put anything detailed for the full year. We did not include one time effect in the latter half of the year. Although we drew up the annual revised forecast taking into account a certain level of decrease in prices, the actual prices may decrease further. Costs in energy and mineral resources should remain within our expectation. But improvement in business performance is going to be affected significantly by how the global economy plays out going forward.

Q. If you have some factors other than the market commodity prices already expected on your mind that would affect the net income next year and beyond, could you share them with us?
A. We find it difficult to predict what will happen during the next fiscal year at present in this fast changing situation of the global economy. Next week, in Yugawara, management will get together to have a meeting and will start discussing the business plan for the next fiscal year. As the European fiscal and financial concern deepens, and China is facing a potential slow down in its economy, we expect that the growth in the global economy to remain on a tight rope. Therefore, while we believe that the most likely scenario is the growth in the global economy led by the growth in emerging countries, we do find that there is a risk of precipitous fall.

Q. What sort of profit do you expect to see out of CODELCO loan project?
A. This financing arrangement is designed to provide economic benefits to us. If CODELCO executes the option to settle part of loan with a 50% indirect interest in Anglo American Sur acquired by it, that will also provide economic benefits to us. In addition, we also reached an agreement to proceed with strategic partnership with CODELCO to do business globally.

Q. If the large scale loan to CODELCO is realized, your investment allocation will differ from your original plan of one-third allocation to resource business and the remaining two-third to the non resource business. What do you think would be the optimum allocation?
A. The large scale loan to CODELCO is treated outside of the original investment and loan plan at the beginning of the fiscal year. Although it happens that resource business is proceeding ahead in investments, we have not changed our intention to maintain a balance between the resource and non resource businesses and in the next fiscal year we hope to prioritize non resource areas in terms of investment allocation. Furthermore, even though we have dipped deep into deficits in terms of free cash flow, our basic policy remains unchanged in that we will make investments within the amount of operating cash flow and we will stabilize the free cash flow in the positive territory.
Q. The shale gas business is making losses at the moment. When do you expect this business to turn into profits? Could you also update us on the current development status?

A. With regard to the development status in shale gas, well drilling is making progress within the scope of our assumption. The shale gas business operation is sustaining losses because we have to bear additional development expenses on top of our own in exchange for the interest acquired in this project and the amortization cost has been incurred initially. The shale gas business is expected to reach its peak in production around 2017 or 2018 and production is being ramped up steadily. We will likely see the business turn into a profitable operation sometime between now and then. On marginal income basis, it is already producing profits.

Q. Would you please explain the current co-working relationship with Anglo American with respect to the coal business?

A. Regarding our coal business with Anglo American, our first priority is to expand the existing businesses in Australia. In order to acquire interests in new coal projects, we are also in the process of negotiation with other partners.

Q. How do you see the prospect of iron ore price for the next fiscal year and beyond?

A. Iron ore prices exceeding USD200 would be too high. We believe that in the 21st century iron and steel will remain among the most important materials due to its competitiveness. While the current global crude steel production is 1.5 billion tons, due to the projected increases in world production and demand growth in the emerging world including Africa, crude steel production will continue to increase. On the other hand, since the existing projects in Brazil and Australia will further expand in the coming years while new iron ore development projects such as the one in Guinea in Africa will make its progress, supply of iron ore should grow as well. Therefore, we project that supply and demand for iron ore will be balanced by 2015.

On the other hand, development cost has been increasing recently and the emergence of resource nationalism in some resource-producing countries has led to increase in royalties. We think that, based on these circumstances, iron ore prices are unlikely to drop to the 2-digit level as it had in the past.

Q. You have raised your annual forecast in net income for the Energy Segment by JP¥ 40billion. If you have any specific quantitative factors such as changes in prices in mind, could you share them with us?

A. The oil price assumption has changed from USD94/BBL to USD104/BBL. In addition, we have factored in various positive items such as coal price increase and petroleum trading which has been performing well.
Q. In your Medium-Term Management Plan, the non-resources business was identified as an area to be strengthened. How do you assess the progress you have made thus far? On the other hand, if there are any specific areas where you are considering asset recycling or business restructuring, please share it with us.

A. If you exclude the impairment losses, the business is growing as planned and the original projection of JP¥100 billion in net income in the non-resources business is well within an achievable range. In the infrastructure business, we have already taken initiatives envisaging 3 to 5 years into the future. Our equity generation capacity in IPP business has been increased towards achieving 6 GW. In water-related business, we have taken the necessary measures although this business can take time before we can bring it to profitability. In the gas value-chains, a gas distribution company in Brazil is already contributing to the overall earnings. While phosphorus ore project and medical healthcare project, both of which we have invested in recently, are expected to bear fruit in the 2nd half of this fiscal year or in the next fiscal year, it takes some time before green field investments such as a chlor-alkali operation as well as a bio ethanol project in Brazil with The Dow Chemical start contributing to the earnings.

Just after the Lehman shock, we refrained from making new investments. But this time, our policy is to proactively make investments when we identify quality assets. However, our policy is not to buy assets for the sake of increasing them. We have a solid policy to support our asset recycling activities, recycling the entire asset, or partially diluting it to work with even better partners.

Q. In the 2Q, you posted significant profits at Multigrain amounting to JP¥ 3.5 billion. What is the reason behind this, and do you think the profitability can be sustained over time?

A. The soil fertility has improved, leading to increased soybean harvest. This represents an operational gain in the area of agricultural production although it is somewhat seasonal. We are making efforts to resolve the business challenges one step at a time, and have not changed our position about working hard to achieve to turn Multigrain into a profitable company during this fiscal year.

Q. Your coal business has also been profitable this quarter. What is the background for this improved profitability, and how sustainable is it?

A. The negative effects of the flood still remained in the 1Q, but this was largely resolved in the 2Q. Because the production volume increased, we were also able to enjoy the effects of the higher prices. Although there are some climate-related factors that could influence the 2H, our team is making efforts to catch up the original shipment goals for the fiscal year.

Q. In the Foods & Retail Segment, improvement in mark-to-market valuation gains and losses on coffee forward contracts was a significant contributing factor to the increased net income. What is the reason behind this?

A. In the previous fiscal year and into the current fiscal year, coffee prices had been rising. When the coffee contract balance at the end of fiscal year ended March 2011 was evaluated as derivatives, it recorded a mark-to-market valuation loss. Then in the current fiscal year, the coffee was delivered at contract prices, while the valuation losses recorded in the previous fiscal year have been reversed.
Q. You indicated that share buyback is always an option. What is the trigger for you to start considering such an option?
A. We determine our shareholder return policy taking into account business environment, future investing activity trend, free cash flow, NET DER and return on equity. Due to the abundance in demand for investment and financing, for the time being, we believe that it is better to spend on our future growth strategy rather than buying back our shares, and this is ultimately more beneficial to our shareholders. We continue to consider share buyback as an option.

Q. In the Chemical Segment, it appears that there is no profit being generated in the 2Q, if you exclude the one-time gains by Shark Bay Salt. You have had some difficulties in your trading operations from the past, but what is your prospect for improvements in this area?
A. We are struggling in the Basic Chemicals trading field. However, if you look at the overall picture, for trading of Methanol and Ammonia, which are our key products, the performance is favorable. There has been a reduced cargo movement out of Japan, making it difficult to trade in large volumes. We believe that there will be recovery in this segment in the 2H.

Q. You have recorded an impairment loss within one year of investing in TPV. Have you identified any insufficiencies in your investment criteria?
A. The effects of foreign exchange and stock prices have led to a significant impairment loss from TPV Technology. On the other hand, when we made our investment in TPV Technology, we promoted strategic initiatives in the area of EMS for Japanese LCD panel manufacturers. These strategic initiatives have been making good progress, and the results that we are seeing in that area are much better than what we had originally anticipated. We are being even more stringent on our investment decisions, particularly under the very severe fiscal and financial turmoil expanding from Europe.

Ends