IR Meeting on Financial Results for the Nine-Month Period Ended December 31, 2011

Questions and Answers

1. Time: February 2, 2012, 17:00-18:00
2. Location: Conference call
3. Speakers: Joji Okada, Executive Managing Officer, Chief Financial Officer
   Keigo Matsubara, Global Controller
   Kenichi Hori, General Manager of Investor Relations Division

4. Questions and Answers:

Q. There was a positive impact of ¥20 billion due to a reduction of the Japanese corporate income tax rate in the third quarter. Could you give us the breakdown by segment? What sort of one-time positive and negative impacts did you see in the third quarter alone?

A. With regard to a reduction of the Japanese corporate income tax rate, there were positive impacts of ¥10 billion in the Mineral & Metal Resources, ¥6 billion in the Energy, ¥3 billion in the Machinery & Infrastructure Projects, and ¥2 billion in the Adjustments and Eliminations, respectively, and a negative impact of ¥1 billion in the Consumer Service & IT.

With regard to the one-time positive and negative impacts in the third quarter, we recorded a ¥3.5 billion impairment loss on shares of TPV Technology, and a ¥1.1 billion loss on preferred shares of Valepar S.A. reflecting the decline related to foreign exchange translation loss in the investment value of the current portion of the shares. There were other miscellaneous items of small value each.
Q. There is a positive impact of ¥45 billion due to the increase in iron ore prices for the nine-month period ended December 2011 comparing with the same period of the previous year. How much impact have you experienced from the change of pricing method for the iron ore contracts? How do you see the prospect of impact due to the change of pricing method in the fourth quarter?

A. In the current third quarter, the pricing method of iron ore has been partially modified. Previously average of prices during the three-month period starting from 4 months before used to determine the prices for the following quarter, but some of the contracts have changed their pricing method in the third quarter in that prices were now set based on the average of more recent spot prices. Prices applied are, for example, the average of the current quarter or average of the shipment month. Not all the contracts were shifted to these new pricing methods but their share in the total mixture of prices is increasing. Due to this change, contract prices applied in the third quarter were closer to the actual price level in that quarter. Incidentally, Vale’s results are reflected in our books with a time lag of one quarter. As for the mixture of pricing method, this new pricing trend is likely to be continued in the fourth quarter.

Q. In the Energy Segment, if you subtract the positive impact of ¥6 billion due to a reduction of the Japanese corporate income tax rate, net income generated were only worth ¥40 billion in the third quarter. Considering the recent trend in energy prices, one would be under the impression that you could be doing better in net income. Moreover, dividend income from LNG projects in the third quarter declined from the second quarter. Are there any particular reasons behind this?

A. Net income in the Energy Segment has declined in the third quarter compared to the second quarter. The main reason is that the dividend income from the Sakhalin II project was not paid out in the third quarter, while second quarter posted such dividend income.

Q. Net income for the nine-month period reached 79% of the full year forecast. Are there any particular concerns in the fourth quarter in addition to market and commodity prices?

A. In the Energy Segment, we expect an increase in exploration expenses in the fourth quarter. In coal and iron ore businesses, we also consider impacts of cyclones to be a possible uncertain factor. Otherwise, we do not see any major concerns in the fourth quarter.
Q. You are committed to a 23% dividend payout ratio in this fiscal year. I’m interested to know if you are ready to take a more flexible policy on dividends in the next medium-term management plan. In other words, suppose your net income goes down, are you willing to increase the dividend payout ratio?

A. With regard to the dividends for the next fiscal year, we are just about to begin our discussions on the next medium-term management plan. So, we are not in a position to make any comments. We would like to continue to improve the performance of the company taking into consideration the return to our shareholders.

Q. In Mineral Resources and Energy business area, you have focused on the expansion of your existing projects in this fiscal year. On the other hand, in non-resources area, the key may be reinforcement of your investment discipline. How do you think about your investment approach in the next fiscal year? In non-resource area, you recorded significant impairment losses in this fiscal year, so I am wondering exactly what measures you could take in this regard.

A. We are rather disappointed about the impairment losses. The basic intent is to keep free cash flow at break-even or positive. We hope to keep free cash flow in good balance. We are just about to begin our discussions on the next medium-term management plan. Regarding our investment plan, we would probably aim for somewhere close to the level of net cash outflow for this fiscal year. For resource area, the focus will be on expansion of existing projects as well as new acquisition including participation from the exploration stage, as in the case of the LNG project in Mozambique. It may mean that the balance between resources and non-resources may swing more to the resources side. For non-resource area, we envisage a contribution to earnings by reaping the benefit of our past investments while making selective new investments.

Q. On the Americas Segment, can you explain why net income for the third quarter declined from the second quarter, and what the expectations are from now on?

A. On the Americas Segment, the largest negative factor is a decline in profits at Westport Petroleum, whose margins were squeezed as market conditions deteriorated. An additional factor is a reversal effect of gain on sales of a senior living facility at MBK Real Estate in the second quarter.

Q. What are the factors behind the negative figure for the Adjustments and Eliminations?

A. That comes from impairment losses on investments recognized in the third quarter.
Q. Your equity share of coal production in the third quarter was 2.7 million tons, the highest in recent quarters. How is production going right now? Can we really anticipate 9 million tons for this fiscal year and 11 million tons for the next fiscal year?

A. Coal production in the third quarter was indeed good, but for the fourth quarter we consider impacts of bad weather to be a possible uncertain factor. As for volume on a full year basis, we are working hard to come in at the projected level.

Q. There was the news about the expansion of the phosphorous ore development project in Peru. Would it mean more time required before that operation realizes its earnings potential in full?

A. On the expansion of phosphorous ore development project, our basic position is to seek long-term capacity expansion and therefore we do study such opportunities. However, no decision has been made yet beyond the production capacity of 3.9 million tons per year. Production is ramping up on track. It is currently at a 2.5 million ton-per-year level. Costs are higher in this initial ramp-up phase but should come down once operation stabilizes. Our primary focus is to make sure the current phase is successful while also duly preparing for expansion over the longer term.

Q. Can you tell us about the outlook for Bussan Auto Finance? Its earnings for the third quarter improved from the second quarter. Does that mean that it has passed the bottom?

A. Performance at Bussan Auto Finance declined from around 2009 as competition against Honda heated up and there was excessive competition on the financing front resulting in severely compromised terms. Delinquency rate was high and bad loans had to be written off. But the company has now switched its focus from quantity to quality, to improve its loan portfolio through enhanced screening and collection procedures. As a result, the delinquency rate is improving now and we hope to bring this operation back to profitability on a full-year basis in the fiscal year ending March 2013.

Q. Mitsui E&P USA has been in the red, reflecting lower natural gas prices. What is the status of the Marcellus shale gas project? Is there a risk of impairment? Is the operation unprofitable at the present gas price?

A. The arrangement with Anadarko is to effectively fund their share of development expenses, up to US$1.4 billion. The development is still in the early phase, so depreciation weighs heavily and therefore losses at this stage had been anticipated. The recent decline in natural gas prices has brought down earnings below anticipated levels. Therefore, we are carefully reviewing plans, and at the same time have conducted impairment testing, but so far no impairment is due. Once depreciation is over, we expect to make profits.

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