

IR Meeting on Financial Results for the Six-Month Period Ended September 30, 2012

Questions and Answers

- 1. Time:** November 5, 2012, 13:30~15:00
- 2. Location:** “Royal Room”, 12F Tokyo Kaikan
- 3. Speakers:** Masami Iijima, President and Chief Executive Officer
Joji Okada, Senior Executive Managing Officer, Chief Financial Officer
Keigo Matsubara, Managing Officer, Deputy Chief Financial Officer, and
Global Controller
Kenichi Hori, General Manager of Investor Relations Division

4. Questions and Answers:

Q. *In the iron ore business, you have said that the price applicable in the second half has been reduced by \$30/MT from the price that was assumed at the beginning of the fiscal year and that this was the principal reason for the downward revision of ¥35.0 billion in the net income outlook for the Minerals and Metal Resources Segment. Would you describe the background to this revision?*

A. The estimated effect of the iron ore price on net income is ¥1.9 billion/US\$1/MT, and the influence of the price decline has been seen from the second quarter. Accordingly, for the nine-month impact, we think that is an appropriate level for the income reduction effect, including the minor holdings of the Asia Pacific Business Unit.

Q. *What are your thoughts about iron ore market conditions?*

A. In the current market, we expect about \$120 for Fe 62%, CFR North China. In the short term, conditions will still depend on China, but the key points will be the effect of the acceleration of ¥1 trillion yuan in infrastructure investment and the influence of the European financial crisis on exports. We think that the impact of the ¥1 trillion yuan will be substantial. There is a moderate tone of recovery in the steel products markets, and we will need to pay closer attention to how the accelerating infrastructure investment would impact the Chinese economy.

China's crude steel production has reached a pace of about 710 million tons a year, and iron ore imports are also up year on year on trade statistics. We are starting to see the effects of our expansion in transport capacity, and the situation is relatively positive. For next fiscal year, discussion is yet to begin, but basically we will proceed in accordance with the spot price at that time.

- Q.** *Calculated with the revised net income, ROE could fall below the target of 12%. Would you explain your thinking about ROE and the dividend payout ratio?*
- A.** Of course we will continue to manage the company with an emphasis on ROE, but for this fiscal year we decided to maintain a dividend payout ratio of 25%. For next fiscal year, we will consider a variety of issues, including appropriate levels for such matters as the payout ratio. In certain circumstances, it could be necessary to consider items other than the dividend payout ratio, such as the total amount of dividend payments, for example.
- Q.** *For the Energy Segment, please explain the reason for the decline in net income from the first quarter to the second, including whether there were dividend payments from Sakhalin II or not.*
- A.** First, we did not record any Sakhalin II dividends for the second quarter. Other major factors included fluctuation in mark-to-market valuation gains and losses at Mitsui Oil Exploration on the portion of the crude oil price hedges to which hedge accounting is not applied. Also, in the first quarter, we recorded a reversal of deferred tax liabilities related to dividends received from Mitsui Oil Exploration. In preparing our estimates for the second half, we did not anticipate any dividends from Sakhalin II. Rather, the estimates are based on the assumption of capital redemption.
- Q.** *In regard to the Goro nickel project, what will be the impact of the gain on the reduction in equity interest?*
- A.** We will refrain from disclosing the exact amount, but we can say that a positive impact is incorporated into our estimates for the second half.
- Q.** *For the Marcellus shale gas project, would it be correct to say that, while the amount of losses is increasing, variable profit is being generated at current gas prices?*
- A.** Yes. The basic reason for the net loss is the large burden associated with the depreciation of development expenses which we agreed to carry as a consideration to our equity stake when we joined this project.
- Q.** *Given your gross investments and loans in the first half and the current macroeconomic environment, has there been any change in your investment stance?*
- A.** Our gross investments and loans in the first half were ¥600 billion, including ¥230 billion for the CODELCO transaction. We also have investment scheduled for the second half, such as North Sea oil/gas fields. In resources, we are investing in projects with superior cost-competitiveness. On the other hand, over the long term, we need to be free-cash-flow neutral, and we will have to focus on our net DER with accelerating asset recycling.

Q. *Taking into account the one-time P/L factors in this second quarter, would you discuss real earning level and your evaluation of your rather weak non-resource business areas for the first half?*

A. For the second quarter, gain on sale of securities was ¥9.0 billion, while impairment loss was ¥7.0 billion, for a net gain of ¥2.0 billion in one-time items.

In the Medium-term Management Plan, we have envisaged a quantitative image of our future net income in the ¥500.0 billion range, and of that total we are looking for ¥150.0 billion contribution from non-resource business areas. Although the business fields of Food, Chemicals, and Machinery & Infrastructure will become the core of our operations in non-resource business areas, it will take some more time before certain businesses in these fields start contributing to earnings. Specifically, in infrastructure, time will be required for IPP and water-related businesses to make a contribution. In food, Multigrain is still in the cultivation phase on a 120,000-hectare agricultural production site, and there was a drought this year that adversely influenced harvests. In addition, the inland origination and sales business still needs to be restructured. Moreover, it was only quite recently that we invested in soy bean oil processing operations in Russia. In chemicals, meanwhile, we are currently moving ahead with two projects with the Dow Chemical Company, and we want to take some time to make sure that these projects are off to a solid start.

Q. *Would you provide more details about the reversal of deferred tax assets, which seems to be a major reason for the downward revision of the full-year forecasts for the All Other/Adjustments and Eliminations segment?*

A. We will refrain from disclosing the exact amount, but we recognized valuation allowance against deferred income tax assets, and we can confirm that it is not a large number.

Q. *In regard to the alliance with CODELCO, you have indicated that not only you want to develop this project but will rather conduct wide-ranging development going forward. Could you provide more information about this?*

A. Specifically, when we talk about CODELCO, we are talking about not only copper, molybdenum, and lithium but also mining related business including the supply of tires and other mining equipment. Further, in addition to the business with CODELCO, we would like to expand our other operations in Chile. We have already announced a woodchip project, and other projects are under consideration. We expect to undertake significant development activities in a range of industries.

Q. *Could you describe the current progress and marketing status of the Mozambique LNG project?*

A. Verbal approval has been received from the government for the use of land for onshore liquefaction plant facilities, and we are now waiting for formal written approval. There has been no change to the project roadmap. After formal approval is received, we will enter the FEED stage, and then aim for the Final Investment Decision by the end of 2013. In marketing, we have commenced discussions with customers in Japan and other Asian countries. These customers have expressed interest in the project from the perspective of diversifying their procurement sources, and we will confirm the extent of that interest as we move forward.

Q. *For the CODELCO project, what are the respective contributions to profits made by the core businesses and the related businesses?*

A. We will refrain from disclosing specific numbers, but a full-scale contribution to profits will be made from next fiscal year. This fiscal year, profit will likely be recognized on a prorated daily basis, but it will not be a large amount. In regard to Chile-related initiatives, as we discussed a moment ago, we have specific projects underway, but since we are still in the negotiation stage, we will refrain from disclosing further details.

Q. *I think you previously mentioned that the price assumption for iron ore will be set at or around \$120 for the time being. In that case, would it be accurate to say that the second quarter marked a bottom for the results of the Australian iron ore business?*

A. We will continue to pay attention to macro trends in China including its inland regions. However, at this point we think that the second quarter was probably the bottom. In regard to price determination in contracts, there is an ongoing shift toward sales at the spot price, so a substantial part of the bottom end of the prices would have already been reflected in our second quarter results.

Q. *Could you tell us what one-time items, if any, are included in the second half forecasts?*

A. The forecasts include impairment loss on securities as well as a positive impact from the recycling of certain assets.

Q. *In the Medium-term Management Plan that was released at the beginning of the fiscal year, the net income forecast was ¥450 billion for the fiscal year ending March 31, 2014. What is the current status of this forecast?*

A. When we announced the Medium-term Management Plan, we explained that the plan included a total of ¥50 billion in profit increase from the first to the second year of the term. We assumed that commodities prices would be flat in the metals and energy business areas, and we took into account the positive effect of growth in production volume and the prospects for an increased contribution to profits by fruition of investment projects in fields other than metals and energy. Since that time, there has been an unforeseen decline in macroeconomic conditions. In the metals and energy business areas, however, the CODELCO project and the North Sea project are expected to contribute to profits right away as a result of new acquisitions. The key points now are the extent to which business conditions will recover in business areas other than metals and energy, as well as how weather risk will affect Multigrain. Because of these points, it will be premature for us to say that we will realize the ¥50 billion profit increase, but we will strive to reach that number. In regard to the losses in business areas other than metals and energy, we are now considering how to ensure that all divisions are in the black. On that basis, we will formulate the business plan for the next year.

Q. *This year, investments in the Metals and Energy business areas seem to have made favorable progress, but that does not seem to be the case for the Machinery & Infrastructure and Chemicals business areas. Would it be accurate to say that progress in these fields will be achieved in the second half?*

A. We have many projects underway in Machinery & Infrastructure, and there should be a catch up in the second half. On the other hand, in Chemicals, we think there is a possibility that we might miss the planned level of ¥50 billion in gross cash outflow for this fiscal year.

Q. *I think that shareholders have to accept a certain degree of volatility in commodities price, but would you explain your policies for determining the weight of resource areas and for providing a cushion for price declines? Also, how will you strike a balance between following those policies and providing a shareholder return in the form of dividends?*

- A.** We forecast exceeding the original investment and loan plan of ¥800 billion, principally in resource areas. This does not mean that we will not take steps to strengthen non-resource business areas. In consideration of Japan's current energy situation, it is necessary to move quickly in resources. Also, long lead time will be required from development to reach the production/shipping stage for these areas, so we need to take action now. The other point is that in the current Medium-term Management Plan, we are focusing on realizing a contribution to profits from previous investments in non-resource business areas. Additionally, in non-resource business areas, we will also devote management resources to upstream areas, such as phosphate rock. In regard to shareholder return, we need to determine the best format overall while maintaining a focus on ROE and dividend payout ratio.
- Q.** *Other companies are showing signs of improvement in the auto finance business in Indonesia. What is the situation with Bussan Auto Finance?*
- A.** The write-down of the loan receivables from the period of excessive competition continues to be a burden, but under the down-payment regulations introduced this year, we are seeing signs of gradual improvement in this area. On the other hand, the down-payment regulations have also led to an increase in Islamic- finance-based lending, and we will consider this situation going forward.
- Q.** *With the Browse LNG project, there are concerns that this project is costly. What is your view of this issue?*
- A.** We think that the Browse LNG project will be as competitive as the new LNG projects that will come on stream in the future. Cost-reduction discussions among partners are proceeding, and we are confident that we can increase the competitiveness of this project.
- Q.** *First half results and the second half forecast for the Mineral & Metal Resources Segment are flat, at about ¥50.0 billion each. Reflecting the lower iron ore prices, are there any positive factors for the second half?*
- A.** As you said, we expect a decline in profit from iron ore due to lower prices, but we have taken into consideration the positive impact of receiving the commitment fee related to the loan to CODELCO and of gain accompanying a reduction in ownership interest in the Goro nickel project.
- Q.** *SG&A expenses have already been reduced by ¥5 billion from the original plan, but is there room for further reductions in the next fiscal year?*
- A.** Currently, we are using conservative estimates for the second half, and we believe there is some room for further reductions.

Ends