

IR Meeting on Financial Results for the Year Ended March 31, 2013

Questions and Answers

- 1. Date & Time:** May 8, 2013, 14:30-16:00
- 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
Michihiro Nose, General Manager of Investor Relations Division

4. Questions and Answers:

Q: *I view that there seems to be an oversupply for energy and metal resources. How much spending on capital investment and expansion projects are included in the substantial amount of investment that you expect to undertake in the year ending March 2014? As for areas other than metal resources and energy, what are your investment plans?*

A: According to our investment plan for the year ending March 2014, for the Metals business area, expansion projects account for the bulk of investment. In addition, we will also invest in the pressed automotive parts business of Gestamp Automoción. Our biggest energy-related investment will be the investment in onshore oil field project in Italy. Other investments will include shale-related projects. Planned investments in the area of Machinery & Infrastructure include infrastructure projects and the FPSO business.

Our investments may also include some M&A, but the amounts will not be large. The majority of investment will be made in expansion projects.

Q: *The effective tax rates in the year ended March 2013 and year ending March 2014 appear to be higher than in the year ended March 2012. What is the reason for that? Will the effective rate remain high?*

A: In the year ended March 2012, the effective tax rate was lower than normal because of changes to the Japanese tax system in relation to corporate taxation, as well as the recognition of deferred tax assets in connection to the enactment of the Mineral Resource Rent Tax (MRRT) in Australia. In the year ended March 2013, we began to reverse the deferred tax assets of the consolidated tax group in Japan as well as the tax effects related to MRRT in Australia, which would cause the effective tax rate to rise. While the reversal of deferred tax liabilities relating to listed securities held by MOECO had the effect of reducing the tax rate, the net effect was an increase. In the year ending March 2014, we do not expect to be able to post deferred tax assets for the consolidated tax group in Japan, which means that the effective tax rate will tend to move higher. We do not find it likely to be able to record deferred tax assets in the near future.

Q: *What is your thinking on dividend policy?*

A: The minimum dividend payout ratio under the current Medium-term Management Plan is 25%. However, during the two years covered by the current plan, there are many investment and loan projects with the potential to become our future growth drivers, and we are therefore determining the payout ratio based on a range of factors, including free cash flow, interest-bearing debt and the business environment. After taking various factors into account, including the fact that we are at the halfway point of the current Medium-term Management Plan, we decided to set a minimum of 25% for the current year also. We will consider our dividend policy for the next Medium-term Management Plan over the year, also taking into account the need for stability.

Q: *Would a share buy-back be a possibility?*

A: We currently have many investment and loan projects with the potential to become our future growth drivers, and the demand for funds for investments is strong. Thus, our thinking is that we would like to provide returns to the shareholders based on the payout ratio and through dividend increases triggered by the improved financial results. However, in formulating the next Medium-term Management Plan, we would like to consider share buy-back as one of the options for providing returns to the shareholders.

Q: *If the performance of your resource-related activities changes as a result of fluctuations in market prices and other factors, will your sensitivity to exchange rates change as well?*

A: The sensitivity figure stated in our published information only covers the effect seen when converting the net income in foreign currencies recorded at overseas affiliated companies into the Japanese yen. The level of sensitivity could change if there is extreme fluctuation in income.

Q: *The increase in “costs in Metals & Energy” in the year ending March 2014 compared with the year ended March 2013 includes a ¥22 billion increase in energy-related costs. Is this exploration costs?*

A: Most of it is depreciation costs, such as the depreciation costs of shale projects in the United States and projects that are already in the production stage in Australia and the Middle East. The net impact of exploration costs after the deduction of non-controlling interests is small.

Q: *What is the current situation of and outlook for the Mozambique and Browse LNG projects?*

A: In Mozambique we will be jointly building an LNG terminal for Area 1, in which we are participating, and for ENI's Area 4. Since there have been some delay in the awarding of FEED contracts, it is possible that the FID, which we were planning to make before the end of 2013, will be pushed back to the following year. However, our plan to start commercial production in 2018 is unchanged.

As far as Browse is concerned, the original plan was found not to be economically viable, and we therefore are starting the study for an alternative plan, considering both the floating LNG and tie-back to the North West Shelf. In either way, the investment decision that was originally planned for this year will be delayed.

Q: *What is the status of the third train for Sakhalin II?*

A: Three years ago the Russian government and Gazprom were indicating that they wanted to move forward with the third train for Sakhalin II preferentially, but the project is still being studied within Gazprom. At last year's APEC meeting, Gazprom and the Japanese Agency for Natural Resources and Energy signed a memorandum of understanding to enhance LNG export from Vladivostok, and it appears that priority is given to Vladivostok. The situation in Russia has become complex recently because of the entry of Rosneft and Novatek into the gas exporting business, which was formerly a Gazprom monopoly. Of course, the Sakhalin II participants are hoping to put priority on the third train for Sakhalin II or Sakhalin III, but we will need to follow the thinking of the Russian government and Gazprom.

Q: *What is your thinking on the sale of working interests in Mozambique? No super-major is involved in Area 1. Will you be able to reach FID in that situation?*

A: Reliable access to energy is vital for Japan. Such decision needs to be considered carefully with all parties concerned, including the Japanese government/Ministry of Economy, Trade and Industry, and we do not intend to sell at this stage. We will first focus our efforts on investment decisions and development.

Participation of a super-major will be welcomed, but we expect that the unitization with Area 4 where ENI participates should stabilize the situation. In addition, Anadarko employs many former super-major employees with extensive experience in the LNG business, so even if no super-major participates, we do not anticipate major problems. Anadarko is also moving toward the sale of part of working interest it holds, so participation by a super-major is still a possibility.

Q: *You have said that you aim to achieve a positive free cash flow in the future. What time frame do you envisage?*

A: We intend to work toward a positive figure in the next Medium-term Management Plan.

Q: *What are the reasons for the reduction of the forecast for your iron ore equity share of production compared with the position a year ago?*

A: We have moderately reduced our forecast for iron ore compared with the forecast a year ago. After a close examination of our projects in Australia and Brazil, we lowered the figures slightly compared with the levels planned last year although we refrain from disclosing the details.

We anticipate an increase in gas production in our Marcellus Shale project. As for crude oil production, while we expect contribution from a new project in the North Sea, we also forecast a reduction due to the scheduled maintenance works of an FPSO in the Vincent oil field.

We expect production of copper to increase mainly because of the acquisition of working interests with Codelco.

Coal production is still being affected by earlier rainstorms in Australia. Rail services were halted for around 40 days and still have not been restored to full capacity. However, production will increase in the future.

Q: *What factors will help to boost earnings from the Chemicals and Lifestyle Segments in the year ending March 2014?*

A: We have liquidated or rebuilt unprofitable trading businesses relating to petrochemical intermediate materials during the year ended March 2013, and expect the profitability of trading activities in the Chemicals Segment to improve. We also anticipate a reversal effect of the impairment losses recorded during the year ended March 2013.

As for the Lifestyle Segment, we expect a substantial improvement in earnings from Multigrain in Food Resources Business Unit, whose profit declined in the year ended March 2013 because of the impact of droughts on its grain production business. For the Consumer Services Business Unit, we expect the contribution by the subsidiary/associated companies with robust results, such as QVC Japan, that was transferred to this business unit. We also plan strategic asset recycling.

We made a loss on the Iron & Steel Products Segment in the year ended March 2013, but since the one-time loss related to foreign exchange in connection to long-term contracts will be reversed in the year ending March 2014, we are expecting increased income.

We expect our net income to increase by over ¥60 billion in the year ending March 2014. This breaks down into around ¥20 billion from Mineral and Metal Resources and Energy and ¥40 billion from other segments. The projected increase in net income from resources and energy consists of ¥15 billion from increased volumes and ¥55 billion from the depreciation of the yen, offset by a negative effect of around ¥50 billion resulting from price declines and cost increases.

In segments other than Mineral & Metal Resources and Energy, there will be a reversal effect of around ¥15 billion, including impairment losses on listed stock in relation to iron

and steel products, as well as losses on exchange contracts that could not be covered by hedge accounting. The remaining ¥25 billion will come from various sources, including the Paiton 3 project, a thermal power station in Hezhou China, an LNG terminal in Mexico, and an FPSO leasing business for Petrobras in Brazil for the Infrastructure & Machinery Segment, as well as the income contribution from Multigrain in the Lifestyle Segment.

Q: *There will be an increase in your shareholders' equity if you adopt IFRS. Will the 12-15% ROE forecast in your quantitative image change as a result?*

A: If we adopt IFRS, our shareholders' equity will probably increase, leading to a downward trend in ROE. Under IFRS, shareholders' equity will be subject to market valuation. Thus, the "R" in ROE should be based not on net income but on comprehensive income. However, the concept of comprehensive income is not yet widely common in Japan, and we will need to carry out an internal study to determine which indicator will provide the clearest picture.

Q: *Metals and Energy will account for around 60% of your planned investment and loans of ¥1 trillion. Yet when we look at overseas trends, we see that resource companies are curbing their resource investment, and the Chinese economy is actually slowing down. How long will this high level of investment be maintained? What is your view of the long-term outlook for resource supply and demand?*

A: Barriers to entry (costs) in resource and energy projects are getting higher. For areas such as iron ore and coal, we are giving priority to the expansion of existing projects, especially in projects with high cost-competitiveness. In recent years, there have been numerous expansion projects by BHP, Rio Tinto and Vale, but we believe that this activity will peak out in the current year and level out in the next fiscal year and beyond. As for the Energy Segment, there is strong demand for LNG in Japan, and we expect world demand to double by 2025. If there are quality projects in this area, therefore, we would want to become involved. Our investment stance in such cases is to maximize returns by participating from the exploration stage, as is the case in Mozambique, rather than to target projects that have already been developed.

We believe that demand for essential commodities, such as water, food and energy is certain to increase as world population expands.

However, we also aim to achieve a positive free cash flow position as we move toward our next Medium-term Management Plan, which means that a brake shall be applied to investment in resources and energy, which requires the largest amount of money.

- Q:** *What would you do if you encounter a promising project that would surpass your investment budget?*
- A:** Our policy is to become actively involved. However, substantial asset recycling would be required in such a situation. We need to think constantly about portfolio recycling.
- Q:** *What is the situation of your trading activities, including the effects of the lower yen? Quarterly statistics for gross profit show an improvement in the fourth quarter. Does that mean that the yen depreciation positively affected the results in these areas beyond the sensitivity figure?*
- A:** Although not quantified, it is becoming easier to export steel to Asia and other markets as a result of the depreciation of the yen. In the Chemicals Segment, the figures show a firmer trend in trading in petrochemical materials. We expect that the benefits of the lower yen will continue to be seen in the year ending March 2014.
- Q:** *Your total assets are currently in excess of ¥10 trillion. If you invest ¥1 trillion in the year ending March 2014, your assets will be close to ¥11 trillion by the end of the current Medium-term Management Plan, reaching the range indicated in your quantitative image. What are your views on the scale of your assets? Will it be possible to increase your net income to the range of ¥500 billion to ¥600 billion, as stated in your quantitative image?*
- A:** We believe that a total asset figure of ¥12 trillion is appropriate for the company in its current form, including the staff size. If our assets increase above that level, we would need to reconsider the form of the company as a whole, including our work force on a consolidated basis.
- We expect to see returns realizing from 2015 to 2018, on the green field projects in which we have become involved to date. Projects that are expected to provide returns include the ITC tank terminal, the alpha olefin project with Idemitsu, and the chlor-alkali and bio-ethanol projects with Dow in the Chemicals Segment, as well as wind and solar power projects in Canada and a wind power project in Mexico. There are also energy-related projects, including the onshore oilfield project in Italy, and the Mozambique project. With these coming, we believe that it will be possible to achieve the ¥500 billion level in the medium-term future.
- Q:** *Has the anticipated rate of return for Browse LNG project fallen due to the delay in FID? What are your investment criteria in terms of the anticipated rate of return?*
- A:** In terms of investment discipline, our criteria are: consolidated IRR of at least 10%, a return on investments, loans and guarantees of 5%, and a risk return of 20%. We base investment decisions on these criteria while also taking qualitative factors into account.

- Q:** *What impact will copper have on your earnings from metal resources?*
- A:** Production at the Collahuasi copper mine fell by 38% in the year ended March 2013 because of the combined effects of low grades, equipment outage and other factors. We have taken measures to resume operation, and the operating situation has improved. However, we refrain to comment on when name plate capacity will be restored. On the other hand, we expect Anglo-American Sur to make a full contribution from the current fiscal year. For this project, we will continue to carefully monitor the situation.
- Q:** *What is the sustainable level of income from non-resource areas in the medium-term perspective? How do you expect the figure of ¥500 billion to be divided between resource and non-resource areas?*
- A:** We would like to see around ¥150 billion of the ¥500 billion total coming from non-resource areas.
- Q:** *You expect that selling, general and administrative expenses will increase by around ¥60 billion to ¥580 billion in the year ending March 2014. Will SG&A continue to rise in the future?*
- A:** We expect a significant impact of the depreciation of the yen. Gross profit is also increasing, and costs are rising in a proportionate manner.
- Q:** *Has the falling value of the yen had a major effect on the increase in amount of investment? To what extent will this increase in investment affect the initially projected IRR? How will you monitor investment quality when the amount of investment expands?*
- A:** Some of the increase in investment amounts includes those caused by cost overruns. However, when deciding whether or not to agree to additional investment, conformance to the hurdle rate is a requirement.
- Exchange rate is a significant reason for the increase in investment amount to ¥1 trillion. The difference between the current exchange rate and the prevailing rate when the Medium-term Management Plan was formulated causes the rise in the investment amount when converted to the Japanese yen.
- The exchange rate has no effect on returns, since we recognize returns on dollar investments in dollars. After the adoption of IFRS, however, appreciation of the yen could have an impact through foreign currency translation adjustments, and we will need to consider hedging in this regard.

Ends