IR Meeting on Financial Results for the Three-Month Period Ended June 30, 2013

Questions and Answers

1. Time: August 2, 2013, 17:00-18:00
2. Location: Conference call
3. Speakers: Joji Okada, Senior Executive Managing Officer and CFO
   Keigo Matsubara, Managing Officer, Deputy CFO, and Global Controller
   Michihiro Nose, General Manager of Investor Relations Division
4. Questions and Answers:
   Q: You are progressing well ahead of the full year plan. Could you tell us how you are looking at the current status? You have not change the forecast, is this because you have any particular concern from 2nd quarter onward or you have not changed the forecast while you are trending towards being ahead of the plan?
   A: It is true that our progress in the 1st quarter has been quite strong. The increase in dividend income from LNG projects was one of the factors to push up the performance. The Iron & Steel Products, Chemicals and Machinery & Infrastructure segments recorded solid performance. Also prices of iron ore and energy were slightly higher than our assumptions in the original plan. In addition, there were foreign exchange factors as well as increased sales volume of iron ore. Going forward, our concern is how the slowdown in the Chinese economy may affect the iron ore prices and chemical trading. Moreover, MEPAU may take slightly longer in overhaul of FPSO used in Vincent oil field, and Multigrain is affected by drought in Brazil. So these are some of the negative factors, and therefore we would rather leave the full year forecast unchanged.

   Q: The dividend income from LNG projects is rather large. Can you give us your sense on whether the level is ahead or behind your original plan? How are we supposed to anticipate the dividend income from 2nd quarter onward?
   A: We are not in a position to answer questions on dividend income from LNG projects.

   Q: What is the factor behind the recovery of trading in the Iron & Steel Products and Chemicals segments? As for Chemicals, is an improvement based on the resolution of the issue of unprofitable contracts or the recovery of Chinese economy?
A: In Chemicals, we posted an increase in profit due to gain on sales of shares in Dicel Corporation. Excluding that factor, the trading activities restored its typical performance. It is not the case that the trading was stronger in particular. We resolved the issue of unprofitable contracts.

In Iron & Steel Products, there was a reversal of the foreign exchange losses in trade posted in the previous fiscal year. By excluding this factor, you can see the profit levels from our ordinary activities; however prices of steel products were declining especially due to excessive production in China, so the segment’s performance was not what we would typically see in better markets.

Q: What were the factors behind increases in profits at MIOD and MII? Assuming that prices of iron ore will not go down too much from the 2nd quarter onward, am I correct to understand that you will be outperforming the plan? Is it true that the share of sales based on pre-fixed pricing is getting smaller?

A: Compared to the same period last year, prices went down while the sales volumes went up and the foreign exchange rates were favorable to us. As for MIOD, the positive impact from sales volume was worth ¥1 billion, the negative impact from prices was worth ¥2 billion, and the foreign exchange factor had a positive impact of ¥6 billion (Mineral & Metal Resources Segment’s portion).

Prices have been fluctuating considerably and rapidly this year, and during the period between April and June, there were times when prices temporarily dropped significantly, so we expect the impact to be felt in the 2nd and 3rd quarters.

The majority of contract prices are based on pricing that reflects current spot market, but there are still contracts with a time lag of one quarter.

Q: As for cash outflow reflecting the change of working capital in the 1st quarter, trade receivables remained mostly unchanged while trade payables decreased as compared with last fiscal year. I suspect this was due to seasonality. What were the factors behind this?

A: There are differences in the change in working capital between the balance sheet and the cash flow statement. In the 1st quarter, cash outflow reflecting the change of working capital resulted from an increase in the volume of business that will entail financing burden due to the recovery in trading.

Q: All Other / Adjustments and Eliminations posted ¥2 billion in the 1st quarter, but the full year forecast was ¥10 billion in losses. I wonder what was happening in the 1st quarter, and how is the full year outlook.
A: We reversed almost all deferred tax assets in the last fiscal year; and for this fiscal year, we put together the business plan under the assumption that we would not post deferred tax assets any more. Therefore, for this fiscal year, while deferred tax assets are posted in each segment as before, we reverse these in the All Others / Adjustments and Eliminations. However for the 1st quarter, partly because of the recovery in trading, the taxable income of the parent company as well as consolidated domestic wholly owned subsidiaries improved compared to our business plan, and thus the tax expenses originally expected to be incurred in Adjustments and Eliminations did not materialize. Furthermore, there was a gain on sale of securities in the 1st quarter.

Q: There was a positive effect from foreign exchanges in the 1st quarter. Can we expect these forex-related extra profits to be maintained as long as the current rate of around ¥100 to the dollar continues? How is the impact of hedging?

A: There was a considerable impact from the foreign exchange gains in the 1st quarter. Our assumption in the business plan was ¥95 to both the U.S. dollar and Australian dollar. It turned out that the U.S. dollar stayed around ¥100 and the Australian dollar was also around ¥96 throughout the 1st quarter. Therefore, we were significantly affected by those forex rates. However, since the end of June, although the U.S. dollar remained close to ¥100, the Australian dollar has been depreciating against the yen, thereby offsetting any gain obtained from the exchange rate of the U.S. dollar. Therefore, it is hard to forecast what is going to happen to the foreign exchange gains or losses from 2nd quarter onward, as we could end up being almost neutral in terms of gains and losses. We do not disclose our hedging policies.

Q: Your investment and loan plan is ¥1 trillion for the full year. You executed about ¥250 billion in the 1st quarter, which appears to be well in line with the plan. Recently, there have been a number of cases, in which resource-related investments overseas are either postponed or cut down. Has there been a change in your investment stance from your original business plan and Medium-term Management Plan?

A: In iron ore, we have announced acquisition of interests in Jimblebar. Jimblebar is one of the best mines that BHP Billiton owns. We decided to go ahead with this acquisition as it is almost like an expansion of existing interests rather than an acquisition of green field mine, in terms of reserve size, cost and infrastructure. For iron ore, our business plan remains unchanged, that we will continue to focus on expansion.

For copper, although in the previous year we newly acquired interests in Anglo American Sur through a joint venture with Codelco, our investment stance remains unchanged.

For energy, we will continue to seek opportunities to expand on existing projects. As is the case of Mozambique, we think participating from the exploration stage is important. We would like to consider the projects carefully.
Q: *Can you give us the reasons of a decline of operating income and your future prospect? What is the reason for the underperforming derivative trading at MCRM?*

A: A major factor of the operating income decline is that Innovation & Corporate Development Segment's gross profit has declined in correspondence to an improvement of ¥12.5 billion in the foreign exchange gains and losses posted in other expenses-net. Excluding this factor, operating income would actually increase.

Among derivative transactions, there are commodity future contracts for which buying and selling are denominated in different currencies, such as the U.S. dollar and the Japanese yen. When outstanding future contracts are marked to market, valuation differences due to commodity prices are reflected in gross profit, while valuation differences due to foreign exchange are booked as other expenses-net. The final gain or loss would have been locked in at the beginning, the actual realized gain would be exactly as originally planned. However, for contracts extending across multiple quarters, there will be ups and downs every quarter on both the gross profit side and the other expenses-net side as an artifact of mark-to-market valuation.

As for the loss at MCRM, that is related to the Dodd-Frank Act. Tighter regulation of derivative trading has reduced market liquidity and the resulting unfavorable market environment has led to underperformance in our trading. That is why MCRM remained in red. Our current policy is to stabilize profit by reducing our proprietary trading position and by increasing the percentage of transactions with limited risk exposure. Current losses should therefore be understood as transitional.

Q: *There is a sign of economic deceleration in emerging markets including China. Are there any concerns you have that we might need to watch out for?*

A: With regard to iron ore, we are keeping close watch on the market in China. Crude steel production showed high growth in the April-to-June quarter. On the other hand, steel product prices have fallen and demand was not high. Steel mills have managed to balance the inventory at ports and their production nicely. We are, however, cautious about weakening of the demand and supply balance. Prices are falling for steel products from China and thereby squeezing margins.

Q: *On your shale gas projects in the United States, can you give us an update on the status of depreciation as well as development?*

A: For the Marcellus shale project, the development cost carry payments have all been completed in July 2012. Depreciation for the development cost still continues, but that will gradually come down and profitability shall improve.

For the Eagle Ford shale project, thanks to its liquid-rich nature, profit margins are good. Once the development carry payments are completed, profitability should be even better.
Q: Would you provide more details on an impairment loss on investment in an LNG project? Is there any concern of impairment on other resources-related projects?

A: We cannot name the LNG project that we took an impairment loss for. It was investment in a non-consolidated group entity, for which fair value measurement resulted in a write-down of book value. As long as commodity prices stay at the current level, impairment should not be necessary for our resources-related projects.

Q: It appears to me that the impact of foreign exchange is much larger than the sensitivity provided in your material. Why would this be the case?

A: In the 1st quarter, progress to the full year plan was rather large, so the relevant foreign-exchange denominated amount is larger. Another factor is the increase in dividends received from LNG projects including Sakhalin II.

Q: I hear that the overhaul of FPSO at the Vincent oil field is taking more time than planned. MEPAU posted a net loss in the 1st quarter, but what about the 2nd quarter?

A: Production activity at the Vincent oil field was totally shut down during the 1st quarter due to the overhaul of FPSO. It is expected to come back on line in October, but until then, we are not expecting profit contribution from this oil field.

Q: What is the outlook for the Lifestyle and the Americas segments, which are showing slow progress against the full-year forecast?

A: For the Lifestyle Segment, progress in the 1st quarter against the full year forecast may appear to be slow for the Food Resources Business Unit and Food Products & Services Business Unit. But this is only seasonal. The Food Resources Business Unit may fall short of the full-year forecast due to negative impact of a drought at Multigrain. The Consumer Service Business Unit recorded an impairment loss for an associated company, but is expected to be back on track with asset divestitures planned in the 2nd quarter onwards. For the Americas Segment, there was a one-time effect of an impairment loss for SunWize, but excluding that, we shall be in line with the full-year forecast. Novus is currently falling short of plan, with products other than methionine struggling, and with methionine prices falling, but we are trying to bring it back in line on a full-year basis.

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