

## **Q&A at Investor Meeting of Financial Results for the Six Months Ended September 2011**

Presentation Date: November 4, 2011 (Fri.) 16:00 to 17:30

Presenters:

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### **[Questions and Answers]**

#### **(1) Financial Results for the Six Months Ended September 2011**

##### **Q. Please explain the change in earnings at Mitsubishi Development Pty Ltd (MDP).**

A. MDP's net income declined by 10.6 billion yen, from 95.6 billion yen in the first six months of the previous fiscal year to 85.0 billion yen in the same period of the current fiscal year. While sales volumes and prices jointly contributed additional earnings of approximately 30.0 billion yen, this was outweighed by an approximate 41.0 billion yen increase in the negative impact of foreign currency fluctuations and costs.

Although sales prices increased, sales volumes declined from 17.1 million tons to 13.4 million tons over the same period due to the after effects of bad weather in the previous fiscal year and periodic strikes, among other factors. In terms of forex effects, while a weaker yen against the Aussie dollar had a positive effect on earnings, the Aussie dollar's run-up against the U.S. dollar had a negative impact. Further, higher royalty payments and costs related to the after effects of bad weather last year also had a negative impact on earnings.

##### **Q. It is said that MDP's forecast earnings for the full year account for around two-thirds of the Metals Group's 230.0 billion yen net income forecast. Has this changed? Also, please comment on the first-half net income result at MDP of 85.0 billion yen in terms of achievement.**

A. The first-half result was largely in line with forecast, so there has been no revision to the full-year forecast. Furthermore, in the second half we are anticipating some seasonal factors to have an impact, but not to the extent of the January-March quarter of 2010.

**Q. First-half shipments appear to have been sluggish relative to the recovery in coking coal production. I hear that steelmakers have moved to reduce their dependence on BHP. Has there been any sort of structural change in the market?**

A. BMA's production volume in the first quarter of the current fiscal year was approximately 5 million tons compared to approximately 7 million tons in the first quarter of the previous fiscal year. In the second quarter of the current fiscal year, BMA's production volume was approximately 5.3 million tons, compared with 6.5 million tons in the second quarter of the previous fiscal year. Production volume has recovered compared with the fourth quarter of the previous fiscal year when there was a marked drop-off due to the impact of heavy rains in Australia. However, lingering effects of those heavy rains meant that production volume has only recovered to about 80% to 90% of output. With production strong in the same period of the previous fiscal year, we do not believe that sales were sluggish per se relative to production volume. This year, production volume and sales volume were both down year on year in the first six months.

**Q. You said that BMA's production has recovered to around 80% to 90%. What is the outlook for production volume?**

A. Production volume is expected to fully recover by the end of 2011. Some time has been required because rainwater cannot be discharged as is due to environmental concerns. There has been no change in the full-year forecasts of either MDP or the Metals Group.

**Q. MDP has announced expansion plans. Who are the assumed customers? What is the outlook for demand from China?**

A. MDP's expansion plans call for production capacity to increase 8 million tons a year from 2015. Global seaborne trade demand for coking coal is expected to rise over the medium and long terms, and China is likely to continue to have a major impact. We cannot comment specifically on the buyers, but firm growth in demand is expected overall, including from China, India and other regions.

**Q. Why is the Energy Business Group's second-half net income forecast of 34.6 billion yen lower than the first-half net income result of 65.4 billion yen?**

A. The first-half result was strong mainly because of higher sales volume and rising crude oil prices. The second-half forecast takes into consideration uncertainty surrounding energy policy and commodity prices.

**Q. The Living Essentials Group booked a write-down on shares in The Nisshin Oillio Group, Ltd., meaning that the achievement rate for the first six months of the current fiscal year was only 41%. Given this achievement rate, do you think the Living Essentials Group can achieve its full-year forecast?**

A. Yes, we think the Living Essentials Group can still achieve its full-year forecast because seasonal factors tend to boost earnings in the second half of the fiscal year.

Mitsubishi Corporation generates the highest earnings of any general trading company in this business domain. We have long generated earnings from trading activities, and on top of this base we have necessarily held shares in many companies to build value chains. Incurring some write-downs like those on our shareholding in The Nisshin Oillio Group, Ltd. is unavoidable when the share market is depressed. Going forward, we will make investments to develop our value chains overseas. A prime example is the investment we announced in June this year with China's COFCO Limited to build a value chain for pork and poultry.

**Q. The Machinery Group seems to have performed above expectations after issuing a conservative forecast because of the impact of the Great East Japan Earthquake. But what impact do you expect the floods in Thailand to have at present?**

A. Automobile-related operations have been hardest hit. We understand that Isuzu Motors Limited and Mitsubishi Motors Corporation suspended operations at local plants from the latter half of October to November 4.

## **(2) Investment Related**

**Q. You have reached the halfway point of Midterm Corporate Strategy 2012. But you have only made investments of 640.0 billion yen so far, suggesting you are behind with your plans. What is the outlook for investments?**

A. Having reached almost the halfway point, there have still been no changes in our business environment to prompt a major change in our investment strategy. Therefore, we still plan to invest between 2 trillion yen and 2.5 trillion yen over the 3 years covered by the medium-term management plan.

**Q. Are there any resource-related fields you are thinking of investing in other than Jack Hills? Has it become easier to make investments?**

A. In coal, we plan to expand coking coal assets and increase thermal coal rights. In uranium, copper, nickel and energy resources, we will expand fields we have invested in to date. While energy supplies are tight globally, large investments are now required for individual projects, meaning that we must skillfully team up with governments and business partners. In the context of Japan's energy policy, we think we must move to secure resources while taking on risk and contribute to the industrial society.

**Q. The deadline for making a final investment decision on Jack Hills is looming in the January-March period next year. What progress have you made toward a final decision? Assuming you decide not to invest, have you considered share buybacks or other actions?**

A. We are currently conducting a feasibility study that is premised on making a final investment decision by March 2012 and beginning shipments in 2015. At this stage, we think the investment is sufficiently economically viable, so stopping is not an option. We must skillfully coordinate the feasibility study promotion structure, infrastructure development, partner economic situations and other factors, so there is a chance the deadline of the investment decision could change slightly. In terms of risk, the final investment decision is conditional upon an investment that is within our equity capacity.

**Q. Are there any investment prospects you are looking at now that could contribute quickly to earnings? Or is it best to assume that ROE will remain low for the next two to three years? What are your expectations for ROE going forward?**

A. Of the investments we are considering at present, there are some that should contribute immediately to earnings after investment, while others will take some time to make a contribution. During our previous medium-term management plan, INNOVATION 2009, we made substantial investments. We have been working hard since then to convert those investments into earnings. As a result, even if there is a time lag in the earnings contribution of the investments we are currently executing, we believe that continuous earnings growth is well within reach.

**Q. My question concerns investments in resource fields. On an investment asset basis, what are your current investments and what are your plans? I think you set a goal for limiting investments in resource fields to a certain proportion of investment assets from a risk management standpoint. Will that proportion change going forward?**

A. We plan to invest close to half of the 2-2.5 trillion yen earmarked for investment under Midterm Corporate Strategy 2012 in resource fields. As a result, we estimate that investments in resource fields will account for 40% of investment assets, with investments in non-resource fields accounting for the remaining 60%. We will continue to build up quality individual assets, while monitoring the proportion of investment assets in each field.

**Q. Other than expanding existing businesses such as SHARQ, METOR and ESSA, what plans does the Chemicals Group have going forward?**

A. The Chemicals Group is achieving the best results in the industry now thanks to business investments in resource countries such as SHARQ and METOR that began with trading activities. These business investments were designed to secure feedstocks. In terms of future development, in addition to trading, we are looking at third and fourth projects in resource countries we have already invested in to ensure stable earnings over the long term.

### **(3) Outlook for the Year Ending March 2013 and Beyond**

**Q. Do you think you can achieve your 500.0 billion yen net income goal in the year ending March 2013? Since you are behind schedule with new investments it seems you cannot count on them to contribute to earnings.**

A. We are steadily achieving our targets in accordance with our initial plan, and there has been no change to our target for the year ending March 2013. After the current medium-term management plan, we want MC to be able to consistently generate net income of at least 500.0 billion yen. We intend to make investments in quality assets and also generate more earnings from trading and other activities, without relying solely on financial policy.

**Q. Assuming net income in the year ending March 2013 declines, I think it will be difficult for you to maintain ROE of 12% to 15%. Have you given any thought to repurchasing your own shares to raise ROE?**

A. Our top priority is to achieve the goals of our midterm corporate strategy. We will think about our capital structure policy as part of this. While we haven't made cash outlays on investments in the resource field as expected, we have committed to investments representing a large amount of money. Because substantial funds will be required for investments going forward, we are taking a cautious stance on share buybacks, and will decide on that in the year ending March 2013 or thereafter.

**Q. Are you focusing on ROE as a management indicator?**

A. We consider ROE to be an important yardstick for managing the company and therefore place importance on it. Rather than raising ROE by reducing the size of the denominator (shareholders' equity) through share buybacks, we focus more on how we can control fluctuations in the denominator for ROE, to ensure that this yardstick remains meaningful. Accumulated other comprehensive income (loss) ("AOCI"), a component of shareholders' equity, changes depending on foreign currency translation adjustments, unrealized gains and losses on marketable securities available for sale and other factors. In order to control this fluctuation, we operate a system for managing listed shares, hedge foreign currency-denominated investments, and repatriate retained earnings of overseas business investments to Japan.