

Presentation Meeting of Results for Fiscal Year 2008 (Ended March 31, 2009)
and Outlook for Fiscal Year 2009 (Ending March 31, 2010)
Questions and Answers

1. Time: May 8, 2009, 15:30~17:00hrs
2. Location: Ohtemachi Sankei Plaza 4th Floor Sankei Hall
3. Speakers: Masami Iijima, President and Chief Executive Officer
Junichi Matsumoto, Executive Vice President and Chief Financial Officer
Joji Okada, Managing Officer, Assistant to CFO and General Manager of Global
Controller Division
Katsurao Yoshimori, General Manager of Investor Relations Division
4. Question and Answers:

- Q.** *Can you give us an update on the situation of Novus?*
- A.** As you can see from the fact that Novus' earnings during the last three months of the fiscal year declined to ¥2.4 billion compared to their earnings of ¥9.1 billion during the first nine months of the same fiscal year, both demand and price of methionine (animal feed additive) weakened reflecting an intensification of the global slowdown. Their guidance for the new fiscal year is reflecting such weaker demand and price.
- Q.** *While total assets for the fiscal year ended March 31, 2009 shrunk compared to that as of March 31, 2008, you maintained a positive free cash flow for the year. Can you explain how you forecast the size of your balance sheet as well as free cash flow position for the coming fiscal year?*
- A.** We expect no significant change in both the shareholders' equity and interest bearing debt to be for the coming fiscal year. We were able to achieve a positive free cash flow for the year ended March 31, 2009 but we would like to basically further strengthen our cash position taking into consideration a possible further deterioration of the financial crisis. We believe that this strategy is also critical when we think about the potential new investments as the aggregate amount of the initial applications we received from operating segments for the new fiscal year were in the range of ¥900 billion showing that we still have a strong appetite for new investments while we cut down such amount to ¥360 billion for the business plan.

Q. *Please explain us your thoughts on how you intend to manage the non-resource businesses which have not generated adequate returns despite the relatively substantial investments you made in those businesses during the past years.*

A. During the past years, earnings generated by the resource businesses accounted for approximately 70% of the total earnings while resource related assets accounted only for approximately 40% of the total assets. However, we have been putting efforts into strengthening non-resource businesses so that we could have 50% earnings from the non-resource businesses. In other words, you can say that we have been funding the non-resource businesses which has a pay-back period of 5 years or so with cash generated by the booming resource businesses which has a pay-back period of 5 to 10 years. Following the banking crisis, we expect the pay-back period of both the resource business and non-resource business to become longer reflecting the demand destruction and price precipitation. We intend to carefully monitor all of our investments and take necessary steps to make them profitable.

Q. *Can you give us a break-down of your guidance on a quarterly basis as well as your view on the economic outlook for the new fiscal year?*

A. The guidance was made based on the economic outlook which was prevalent during the last three months of the previous fiscal year. Thus any change is possible depending on how the environment may be in the coming months. We feel that the first half of the new fiscal year would continue to be tight as destocking should continue while there may be some recovery in the second half of the new fiscal year depending on how the real economy recovers following the end of the destocking process.

Q. *Please elaborate more on the miscellaneous item for fiscal year ended March 31, 2009 as well as that for the new fiscal year.
(Presentation Material P.15 and P.21)*

A. Excluding all one-off events, earnings at all segments, in particular at segments in the Global Network Area such as Iron & Steel Products, Chemicals and Automotive declined by ▲¥21.0 billion more than the guidance we gave at our third quarter earnings meeting of ▲¥69.0 billion which we expected reflecting weaker demands as well as price reductions. For the new fiscal year, we expect the non-resource businesses to continue suffering with both demands and prices remaining weak reflecting the environment we saw in the last three months of the previous fiscal year.

Q. *Can we understand that your earnings excluding all one-off events were a mere ¥10.0 billion during the last three months of the previous fiscal year?*

A. Excluding all one-off events, earnings during the last three months of the previous fiscal year decelerated further by ▲¥21.0 billion. Since the total amount of one-off events was approximately ¥110.0 billion, you can say that our earnings excluding such one-off events were only ¥10.0 billion. However, we do not anticipate such a level to continue in the new fiscal year since the last three months of the previous fiscal year was extraordinary in a sense that an unprecedented destocking throughout almost every value chain took place all over the world.

- Q.** *Where do you expect to see some organic growth in the coming years?*
- A.** In the Mineral & Metal Resource and Energy area, the expansions we have been focusing on in the past years should contribute in increasing our competitive equity tonnages of all of our products. We also expect the environment related businesses to start bearing fruit in the coming years. In regards to the Global Network area, we anticipate further expansion in the processing and distribution businesses of Iron & Steel Products segment especially in the infrastructure related areas in emerging economies. We also expect new initiatives in resource rich countries as well as agriculture and environment related businesses in the Chemicals segment. As for the Consumer area, we will continue to investing in the upstream part of the food value chain seeking to secure stable supply of high quality food resources as well as distribution businesses in Asia. We also view the medical & healthcare business as a potential business that may bear fruit in the next 5 to 10 years. Finally, in the Infrastructure area, we will continue to focus on electric power generation, transportation, water, energy & natural resources, and social infrastructure as the core domain. Regionally, we identified the emerging economies including Asia as the key target area. We intend to continue seeking opportunities for creating highly value added businesses utilizing our core function anticipating a structural change in various industries following the financial crisis.
- Q.** *Can you explain the background of your expectation in reducing selling and general administration related expenses by ▲¥42.1 billion in the new fiscal year?*
- A.** Cost cutting initiatives are already taking place all over the company but in addition, we expect to see some cost savings due to the depreciation of foreign currencies against Japanese Yen.
- Q.** *You are anticipating a decline by ▲¥44.0 billion in coal business reflecting a lower coal annual contract price. With MCH generating only ¥28.7 billion of earnings in the previous fiscal year, do you expect MCH to be in red figures in the new fiscal year? If so, do you intend to recognize any impairment losses in the coming year?*
- A.** Acquisition value of our coal assets, whether invested in the past or recently, are relatively low and we do not anticipate any impairment losses to be recognized in the coming year. Even with a lower shipping volume, we expect our coal business to generate positive results.
- Q.** *You have announced that you will not pay any year-end dividends reflecting a lower than expected earnings mainly due to the increase in non-cash impairment losses and write-downs. However, your cash flow has improved substantially. What is your policy on cross-holding and/or relation building investments on listed securities?*
- A.** The so-called relation building investments on listed securities are prohibited except for special cases where we expect to create new added value together with our strategic partners.

- Q.** *Please explain whether you introduced a new rule on recognizing impairment and write-down of listed securities, unlisted securities, goodwill and long lived assets or not?*
- A.** Effective from 4th quarter of the previous fiscal year, we have introduced a more stringent rule on listed securities of associated companies where we recognize losses if there is a 30% decline in fair value of a security or the duration of decline in market value exceeds 9 consecutive months. The previous rule was that we recognize losses if there is a 30% decline in fair value of a security and the duration of decline in market value exceeds 9 consecutive months. Based on the new rule, we recognized impairment losses on securities of Mikuni Coca-cola bottling (▲¥4.8 billion after tax), Nippon Steel Trading (▲¥3.4 billion, ditto) and Toyo Engineering (▲¥3.2 billion ditto).
- Q.** *Can you tell us the scope of your impairment test on unlisted securities, goodwill and long lived assets?*
- A.** We conduct impairment test on companies where fair market value of our equity shareholdings declined by more than 50% compared to the purchase price and/or the business environment changed dramatically. Impairment loss on securities of Recruit was determined through such methodology.
- Q.** *Can we understand that you are not anticipating any increase in expansion related costs for resource projects?*
- A.** Operating costs should increase due to a cutback in production reflecting the rapid demand destruction. On the other hand, it is also true that all suppliers are undergoing a major cost cutting initiative as well as reduction in expenses for new equipments, etc. Thus we expect the expansion related costs for our resource projects to be in line with those for the previous fiscal year.
- Q.** *In regards to iron ore, all suppliers are currently undergoing a cutback in production due to the drastic change in supply and demand balance. What is your view on the long-term supply and demand balance for the product?*
- A.** The slowdown of the global economy triggered a rapid demand destruction and unprecedented destocking throughout the steel industry globally. Accordingly, Vale, Rio Tinto and BHP Billiton are all cutting back on iron ore production. Having said so, despite the initial forecast of 450 million tones, actual crude steel production in China during January - March 2009 was at annual production level of around 500 million tones reflecting improved demand following the 4 trillion Renminbi massive stimulus package. In addition, it is also said that supply and demand balance of steel products in Europe may improve in 1Q of this fiscal year due to the drastic destocking which took place during this January – March period. In any case, we feel that supply and demand of iron ore shall continue to be tight in the mid- to long-term since there is no substantial alternative to steel products which is critical to the continued demand to upgrade infrastructure.

Q. *Please explain why you downwardly adjusted the equity tonnages for your major commodities?*

A. Main reason for the decrease in oil output is the impact of the hurricane last fall which damaged our facility of our MitEnergy operation in the U.S. Decreases in iron ore and coal outputs are due to the potential curtailment of offtake. There has been no change in the production capacities of all products.

Q. *Please update us on the current situation at Enfield, Vincent and Tui oil fields.*

A. Enfield and Tui oil fields are producing approximately 35,000 bpd and 30,000 bpd respectively. In regards to Vincent, our partner Woodside recently released a statement that the oilfield is currently closed down due to an accident. Details are not available yet.

Q. *Can you give us more details on the expansion related costs of your iron ore projects?*

A. We will need to get back to you on details but let me just say that orders on some proprietary equipment that required a long lead time were placed in advance, and therefore, will not lead to any cost savings. In addition, we are recently experiencing damages caused by cyclones, including damages to rail facilities of Hamersley and Robe River in January – March resulting in stoppage of production. In the past, we never anticipated any weather related problems but we will have to incorporate some contingency from now on.

Q. *Please tell us your exposure to real estate globally.*

A. Our exposures in the domestic and foreign commercial and residential real estate businesses are ¥55.0 billion and US\$400 million respectively.

Q. *Can you explain the reason of the disappointing results in your non-resource business in the last three months of the previous fiscal year?*

A. The banking crisis that erupted in mid-September 2008 triggered a rapid demand destruction and unprecedented destocking throughout almost every value chain and resulted in lower sales volume and a sharp drop in prices of all merchandises especially in Iron & Steel Products and Chemicals.

Q. *Do you intend to revise your Medium-term Management Outlook?*

A. Although the current Medium-term Management Outlook covers periods through March 31, 2011, we feel that we need to update a new grand design as the business environment changed dramatically. We would like to start studying it after seeing how the global economy may change in the second half of this fiscal year.

Ends