JX Holdings, Inc. (5020)
Q&A Session at Analysts Meeting (Conference Call)
on Fiscal 2010 3Q Financial Results

1. Date & time: Wednesday February 2, 2011, 17:00–18:10
2. Number of participants: 140
3. Principal questions:

This notice contains certain forward-looking statements.
A cautionary statement is contained in the endnote.

Q. The assumptions underlying your fiscal 2010 full-year forecast seem somewhat conservative. Four light oil and Petrochemical margins are currently high. Have you factored recent prices and refining margins into your forecast? Also, regarding crude oil prices, Dubai crude is currently above $90/bbl but your forecast assumes a price of $85/bbl in fiscal 4Q (Jun.-Mar.). How should we interpret this discrepancy?

A. We expect four light oil margins to be about ¥1/liter lower in fiscal 4Q (Jun.-Mar.) than in 3Q (Oct.-Dec.). Currently, they are on a par with their 3Q levels, but with crude oil prices recently rising, we expect margins to be slightly squeezed. For export products, however, we assume that the spread versus Dubai crude will average $14-15/bbl in 4Q. Given that it is currently $18-9/bbl, our assumption is somewhat conservative.

Regarding petrochemicals, we are assuming a paraxylene spread versus Dubai crude of $840/t, which we believe is fair value. Crude oil prices have been rising over the past week in response to events in Egypt, among other factors, but we have not factored this price jump into our forecast.

Q. Synergies from business integration appear to be tracking ahead of schedule. To what do you attribute this rapid progress? Also, applicants for your special early retirement program apparently exceeded your initial projections. Have you factored this increase in early retirees into your forecast?

A. Regarding the early retirement program, we factored in a ¥30.5 billion charge for special loss in 3Q. On the other hand, we are currently still calculating the cost reduction impact taking into account the various ages and positions of the individual applicants. Cost reduction impact is likely to be somewhat higher than our initial projection, but we have not yet factored the additional amount into our forecast.

Regarding our progress in realizing integration synergies, there are no special factors at play. The post-integration corporate culture is extremely harmonious, with a commitment to ‘Best Practices’ also reflected in our workplaces. We believe that such a management determination to realize the synergies ahead of plan has pervaded our workforce as a result.

Q. What is your outlook for refining margins? Kerosene margins are currently good, but gasoline margins have been shrinking somewhat.

A. We expect margins to contract somewhat in fiscal 4Q relative to 3Q, but we believe it is more important to stabilize these margins at current levels than to increase them further. If necessary, we will take action to do so. That is our basic policy. Gasoline inventories are a bit high on a year-on-year basis in comparison to kerosene and other products. From this standpoint, we consider gasoline spot prices to be somewhat low in comparison to middle distillates. Crude oil prices rose quite rapidly from October to January. One likely factor behind the recent contraction in gasoline margins is a delay in passing through crude oil price increases from the end of December through mid-January. If crude oil prices stabilize at current levels, I would expect margins to catch up with crude oil prices.

Q. You just raised your full-year outlook for the copper resource development. Did you do so in response to any new events in particular? Could you provide a little more detail on the factors behind the revision? And what is your outlook for fiscal 2011?

A. Rising copper prices were a major factor behind the upward revision of our full-year forecast from ¥35 billion to ¥41 billion. On the other hand, we reduced our copper concentrate sales forecast due to some shipments from Los Pelambres Mine being delayed beyond fiscal year-end. There were no new events in particular, except for a strike at Collahuasi Mine through December. But it did not have much impact on us because our equity stake is relatively small. Additionally, there were accidents with the cargo loading equipment at the port from which Collahuasi’s production was being shipped. Its production is consequently now being shipped from an alternative port. In terms of our copper price outlook, demand from China and other emerging market economies are strong and commodity prices are rising in response to global monetary accommodation. We accordingly expect copper prices to continue to hold firm.

Q. Now that you have raised your fiscal 2010 forecast, your fiscal 2012 ordinary income target of ¥330 billion in your medium-term management plan seems to be within reach. If there is a possibility of increased integration synergies, would it be possible to revise your earnings target?

A. We are now right in the middle of a detailed accounting of integration synergies, so I cannot comment about such a possibility. This fiscal year, all factors are working in our favor. It is better than our original plan. We will report our results of our synergy audit in May, after the Golden Week holidays.

Q. You have just lowered your production forecast for E&P of oil and gas operations. Do you expect production to remain in a downtrend? I would also like to hear your medium- to long-term outlook.

A. Although we plan to commence production in Indonesia, we regrettably expect production to remain in a gradual downtrend for the duration of the current medium-term management plan. We have other projects,,but their development is not scheduled to be completed until 2014 or 2015. We would consider making acquisitions if any good opportunities arise, but we currently have no acquisition prospects and have not factored any production growth from acquisitions into our forecasts.

Q. In your fiscal 2010 forecast, the content of special gain/loss seems to have changed. Could you explain what has changed?

A. When we issued our previous forecast in November, we had forecasted a net special gain of ¥175 billion, but we have now lowered this to ¥140 billion. There were two major factors behind this revision. First, we initially anticipated that early retirement and expected to pay out an amount that is a few billion yen above the ¥20 billion mark in incentive severance payments. In actuality, however, over 1,300 employees applied for early retirement. We accordingly accrued a ¥30.5 billion charge in 3Q. Much of the remaining ¥30 billion difference was a provision for newly estimated one-time charges related to business integration such as consolidation of oil depots and terminals. We initially had around 70 such facilities, but we plan to steadily reduce their number through 2012 and again through 2015. We plan to set aside an adequate allowance for these losses. The amount will be ¥10 billion and more. Other extraordinary items that we newly factored into our forecast include charges for consolidation of card operations for gas station operations and demolition of the previous Nippon Oil Corporation headquarters building. In sum, the most notable change from our previous forecast is that we looked ahead and provisioned for future one-time charges, such as those for consolidation of oil depots, in advance.

Q. What is your view on energy cost?

A. We calculate the theoretical cost of refinery fueled by multiplying the price of crude oil by a 4% usage rate and then multiplying again by the quantity of crude processed. In reality, refineries' fuel efficiency differs depending on their setup, among other factors.

Q. Regarding special gain/loss, do you expect to incur more integration expenses next fiscal year?

A. We expect to incur some integration-related expenses in fiscal 2011 but not very much.

Q. Regarding your copper resource development, I assume that the equity earnings of affiliates with a December fiscal year-end have been incorporated into your fiscal-year forecast, but your 4Q forecast appears to be lower than 3Q earnings. Could you explain why?

A. The decrease from 3Q to 4Q is around ¥7 billion. The shipment delay at the Los Pelambres Mine accounts for some ¥5 billion of the decrease. The remaining ¥2 billion is attributable to a Chilean mining tax. We expense the entire annual amount of the tax in 4Q. Metal prices are rising. Their rise is an incremental profit factor, but we are projecting a quarter-on-quarter decrease in 4Q mining earnings due to the two factors I mentioned.

Q. You said you are increasing your annual dividend to ¥15.5 per share. Could you explain the rationale behind the increase and your future plans with respect to dividends?

A. We raised our dividend ¥0.5 per share because we project that earnings will substantially exceed our initial forecast in our first post-integration fiscal year. Our basic policy is that we redistribute profits by reflecting consolidated business results while striving to maintain stable dividends, taking into account dividend payout ratio, DOE, and other relevant factors. We will adhere to this policy in fiscal 2011 also. In fiscal 2010, the environment turned out to be better than we initially planned. In fiscal 2011, we will set our dividend level based on the earnings forecast we are now in the process of formulating.

Q. There have been media reports of smelters raising treatment and refining

charges (TC/RC) in recently renegotiated contracts. What do you expect the impact of higher TC/RC to be and what are your plans regarding production cutbacks in fiscal 2011?

A. A few year-end TC/RC negotiations have been concluded and TC/RC are definitely improving. However, TC/RC are set for two-year intervals. The TC/RC levels negotiated now will supersede those set two years ago. New TC/RC levels will not be much different from the existing ones, so the adjustment will not have a major impact. Regarding production cutbacks, we currently plan to maintain production at this year's level, so we expect production cutbacks to remain in effect. Although TC/RC have improved, we recognize that the fundamental ore supply-demand balance remains tight.

Q. This year, you are expanding your UBM (under bump metallurgy) plating capacity and production capacity for culture media for biomedical applications. You said you are doing so in anticipation of demand growth. Could you elaborate?

A. UBM enables semiconductor packages to be reduced in size by using a solder-like bonding technology instead of conventional bonding wire. UBM has promising demand growth prospects. We have been producing culture media for biomedical applications for a while, mainly in the US, but we are now starting production in Japan in anticipation of demand from pharmaceutical makers. We therefore expanded our production capacity.

Q. Paraxylene and other petrochemicals have been rising briskly in price. How long do you expect this trend to continue? And what is your outlook for petrochemical prices, if you have one?

A. Paraxylene prices turned upward from last August in response to flood damage to Pakistan's cotton crop. I believe that the supply-demand balance has subsequently been tightening in response to continued high capacity utilization among PTA (purified terephthalic acid) manufacturers and periodic maintenance and production cutbacks and disruptions at certain Asian and Middle Eastern paraxylene manufacturers. In fiscal 4Q, demand picked up ahead of the Lunar New Year holiday. We believe that current high prices are sustainable, although we may see some minor fluctuations.

I cannot make any predictions about next year, partly because prices of some products are extremely volatile. Basically, however, textile demand per capita in developing countries is around one-third or one-quarter of Japan's. Meanwhile, Asian gasoline demand also has been growing recently and we are seeing strong quotation activity for mixed xylenes. We accordingly expect prices to remain buoyant over the medium to long term, although they may dip at times in response to transitory factors. Benzene prices are highly volatile, but we expect propylene prices to hold firm, supported by solid automotive demand.

I explained that our fiscal 2010 forecast includes ¥27 billion in income from petrochemicals operations. Of this ¥27 billion, income from fine chemicals, including the culture media business, has grown to ¥6-7 billion. We plan to further develop these operations to absorb swings in profits from petrochemical products with highly volatile prices, such as paraxylene and benzene. The same applies to petroleum products also. We plan to strengthen petroleum businesses that are well insulated against market impacts and can profit from our technological capabilities, such as the lubricants and LNG businesses. Likewise, we aim to increase earnings from metal operations that leverage our technological capabilities.